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From the shadows into the light: Let's get real about outsourcing

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ABSTRACT

Despite the continued popularity of outsourcing amongst managers and management researchers alike, significant questions arguably remain as to the adequacy of the typical framing of the outsourcing decision. An extensive review of the literature revealed a skewed, partial and fragmented conceptualisation of the option, further exacerbated by a concerning tendency effectively to rank quantitative outcomes over qualitative outcomes, even ex post. In this article it is argued that a critical analysis of the theoretical frameworks that underlie this body of work suggests a more realistic conceptualisation of outsourcing, both for management researchers and management decision makers.

Keywords: outsourcing, contracting, complexity, decision making, cost economising, core versus non-core, flexibility, psychological contract, individual performance equation

INTRODUCTION

Gulati (2007, p. 775) alluded to the 'long-standing debate amongst management scholars concerning the rigour and/or methodological soundness of [management] research versus its relevance to managers'. Outsourcing seems to be a good example.

Outsourcing remains an integral part of the contemporary management lexicon, a popular management intervention, and recurrent topic of study by management researchers. Managers seem transfixed by the allure and promise of utopian solutions to complex organisational problems, while researchers continue to engage in a debate that seeks to either validate its adoption on sound empirical evidence (e.g. Beaumont & Sohal, 2004; Clegg, Burdon, & Nikolova, 2005) or, alternatively, propose reasons why concerns persist about its adoption despite the empirical tick of approval (e.g. Hunter & Cooksey, 2004; Hunter & Gates, 1998).

Worryingly, the prospects for reversing managerial ignorance (Rothery & Robertson, 1995) and high failure rates (Doig et al. 2001) associated with outsourcing decisions seem distant when cautionary warnings (e.g. ABC Radio National, 1998; Kochan, Wells, & Smith, 1992; Meredith, 1998), criticisms (e.g. Savas, 1993; Walker & Walker, 2000) and calls for a more holistic and critical approach to such decisions (e.g. Anderson & Anderson, 2000; Hunter & Gates, 1998; McCray & Clark, 1999) appear to be ignored.

This paper seeks to re-conceptualise the outsourcing decision to take account of the concerns expressed above. Theoretical perspectives that inform the contemplation of outsourcing are critically examined to (a) better understand the basis upon which these decisions have been made, and (b) propose a theoretical framework that more accurately reflects the real world contexts within which such decisions are made and pursued.

Theoretical perspectives on outsourcing decisions

The purpose of this section is to review the literature that pertains to make-or-buy decisions that underlie outsourcing by presenting and commenting on the important theoretical foundations and research output for outsourcing processes from economic, strategic, human resource and behavioural perspectives.

The first three of these disciplinary dimensions (the economic, strategic and human resource perspectives) represent the mainstream frameworks that have informed the rational and prescriptive approach to outsourcing decisions that Lacity and Hirschheim (1993) observe, while the fourth (the behavioural perspective) utilises knowledge drawn from the psychological and organisational behaviour (OB) literature.

Economic perspective

Consideration of the outsourcing option has been largely driven by economic and financial issues that have harnessed the principles of competitive tendering and contracting (CTC), or the process of identifying a preferred supplier (contractor) by evaluating offers (tenders) in order to determine whether goods and services are best sourced internally or externally (Aulich & Reynolds, 1993; Domberger & Hall, 1995; Domberger & Hensher, 1993; Hodge, 1996; Wisniewski, 1992).

The theoretical foundation for CTC emerged from a strand of economics known as transaction cost economics (Daityari & Saini, 2008; Lonsdale & Cox, 2000). The genesis of transaction cost economics can be traced back to Coase (1937) who sought to explain why different institutions, namely the market and the firm, essentially performed the same basic function of organising economic activity. He concluded that markets and firms coexist because there are instances where the costs associated with the use of the market promote the use of the firm in order to economise on these costs, and vice-versa.

Based on Coase, Oliver Williamson developed transaction cost theory (Williamson, 1975, 1979). The primary theoretical construct that lies behind transaction cost theory is cost efficiency. To this end, Williamson draws heavily upon Herbert Simon's work on the concept of bounded rationality, assumed shared organisational goals and his three-stage decision model that suggests managers would (a) generate the alternatives; (b) assess the costs; and (c) choose the least costly alternative (Williamson, 1975).

The vast majority of the studies into the cost effects of an outsourcing initiative suggest that, while not a certainty, outsourcing can lead to cost savings, although the extent of those savings vary widely (Brown & Wilson, 2005; Clegg, Burdon, & Nikolova, 2005; Hodge, 1996; Industry Commission, 1996; Young, 2000; Yourdon, 2005). The wide variability in cost savings reported by this research suggests that some contextual factors are conditioning the outcomes of outsourcing and that an understanding of their role may be central to reliable analysis of the outsourcing option. That is, the cost advantages truly available from outsourcing would seem to rely on proper specification of qualitative contextual factors. One such was indicated by Borland (1994) to be the specificity of human capital required for a task.

Strategic perspective

While much outsourcing research has tended to analyse and subsequently justify the outsourcing decision by utilising and extending the economic perspective described above, there has also emerged a parallel and complementary exploration from within the strategic management discipline that has sought to extend the concept of cost economisation to encompass the broader concept of competitive advantage. In essence, the transaction cost literature promoted the concept of cost economising as the means of organising transactions. This represents but one of the myriad factors underlying strategic management decisions. The strategic management literature, with its focus on the study of the efficacious integration of business functions within an organisation, effectively subsumes the economic criterion of cost economising into the contemplation of broader strategic motivations and imperatives to do with improving an organisation's competitive advantages; improving an organisation's overall performance; and securing an organisation's survival in the long term (Bonn, 1996; Porter, 1980; Steiner & Miner, 1977; Thompson, Strickland, & Gamble, 2007). The role of cost economising varies with strategic orientation, being most prominent under cost leadership strategies (Porter, 1980).

Despite the promotion of a more holistic outlook, the strategic management perspective of outsourcing decisions is nevertheless strongly attached to the proposition that organisations must concentrate, if they have not already done so, on their main purpose and then move to divest themselves, by outsourcing, of unimportant activities (Barthelemy, 2003; Corbett, 1996; Harris, 1995; Heikkila & Cordon, 2002; Quinn & Hilmer, 1994; Rajabzadeh, Rostamy, & Hosseini, 2008; Reilly & Tamkin, 1996).

In other words, it is suggested that core activities, or those activities based on resources and capabilities that are valuable, rare, difficult to imitate/substitute and which lead to superior performance (Barney, 1991; Hoecht & Trott, 2006; Teece, Pisano, & Shuen, 1997), should not be outsourced because organisations risk losing competitive advantage and becoming 'hollow corporations' (Bettis, Bradley, & Hamel, 1992). Conversely, it is suggested that non-core activities may be considered for outsourcing because few if any organisations possess the resources and capabilities required to achieve and sustain superiority in all activities (Hitt, Ireland, & Hoskisson, 1996), and there is a likelihood that such a move would free an organisation's management to concentrate on those areas that could create value (Prahalad & Hamel, 1990; Quinn & Hilmer, 1994).

However, the process of defining what represents core and non-core activities is problematic (Heikkila & Cordon, 2002; Hunter & Gates, 1998; Lankford & Parsa, 1999; Lonsdale & Cox, 1997; McIvor, 2000). The concept of core is extremely rubbery in defining both what a core activity is at a given point in time and what its status might be in the future. This in turn has led to considerable confusion about the topic amongst managers (Quinn & Hilmer, 1994; Reilly & Tamkin, 1996).

Responding to this confusion, Reilly and Tamkin (1996) attempt to shed some light on the matter by distinguishing between those organisations moulded by the application of some implicit criteria or notion of what represents core business and those organisations that are driven by context and explicit judgment. The distinction, at least at first glance, appears to be well-made since implicit criteria, such as Peters and Waterman's (1982) concept of 'sticking to the knitting' or Harris's (1995) obsession with the virtues of 'smaller business', appear to fail to take account of the individuality of different organisations and the contexts within which they operate. Such theoretical generalisations, Reilly and Tamkin (1996) argue, stand in stark contrast to those organisations applying practical techniques, like value chain analysis, to better understand their unique resources and capabilities that ultimately create value to customers (Porter, 1985, 1994; Quinn & Hilmer, 1994).

However, applying such a framework to real world situations brings into sharp focus the practical difficulties associated with capturing and analysing the relevant costs (Gilley & Rasheed, 2000; Lacity & Hirschheim, 1993; McIvor, 2000; Williamson, 1979). There is also a tendency for such frameworks to promote a preoccupation with costs to the exclusion of other important operational and behavioural factors (Chalos, 1995; Devinney & Perm-Ajchariyawong, 2007; Hodge, 1996; Hunter & Cooksey, 2003; Hunter & Gates, 1998).

Indeed, the situation is further complicated when a systems perspective is adopted. By definition, an organisation that is looking to add value to its operation will effectively restrict the outsourcing of its non-core activities to those organisations possessing a core competency in that area. This bounding of the decision set has some interesting and potentially far-reaching implications for organisations and their management. For instance, an organisation needs not only to accurately define its own core competencies but those of the provider as well. These difficulties are further compounded when an organisation attempts to identify those providers with both desirable core competencies and competencies that will persist through time. Altogether, these considerations become extremely problematic when it is recognised that the accurate definition of a competency requires information that is often proprietary and, in any event, may be subject to rapid change in a complex and chaotic world.

The adequacy of a service provider's competence may also be eroded by their success when this involves growth in client numbers to be serviced. The potential instability of provider competence has to be taken into account when entering into long-term contracts (e.g. Lacity, Willcocks, & Feeny, 1995).

To complicate matters still further, Hitt, Ireland, and Hoskisson (1996, p. 97) counsel against absolute adherence to this strategic framework because of a recognition that certain non-core activities are still critical to the organisation's ongoing success.

> When evaluating resources and capabilities, firms must be careful not to decide to outsource activities in which they can create and capture value. Additionally, companies should not outsource primary and support activities that are used to neutralise environmental threats or complete necessary ongoing organizational tasks. Called a 'nonstrategic team of resources', firms must verify that they do not outsource capabilities that are critical to their success, even though the capabilities are not actual sources of competitive advantage.

Finally, any worthwhile contemplation of what constitutes a core competence must be grounded in the organisation's human capital, as the knowledge and memory that resides in that capital underpins the creation of those competencies and the organisation's competitive advantage. The importance of human capital stems from a belief that an organisation learns, at least in part, through a continuous and integrated sharing of employee experiences arising from performing both core and non-core activities which, in turn, enables an organisation to thoroughly evaluate the ongoing validity of its assumptions about the nature and future of its business operations (Hitt, Ireland, & Hoskisson, 1996). The concern is that the process of outsourcing would seem to jeopardise an organisation's capacity to continuously evaluate its key assumptions, learn and create new capabilities and competencies (Wishart, Elam, & Robey, 1996). Ultimately, this puts at risk the attainment of competitive advantage, which has been argued to be at the core of strategic management decision making (Pfeffer, 1994).

Despite these concerns about the capacity of this strategic decision framework to account adequately for the nuances of outsourcing interventions and the complexities of real world situations, the approach appears to persist as a prominent means of determining contemporary outsourcing decisions (Hunter & Cooksey, 2004). However, these concerns, and the associated sense of unease, are further heightened by the tendency in the strategy literature, as in relevant economic literature, to report the outcomes of outsourcing decisions without contemplation of other contextual factors that may contribute to varying levels of success (e.g. Beaumont & Sohal, 2004; Kakabadse & Kakabadse, 2000; Young, 2000).

While the potential advantages and disadvantages of outsourcing interventions are widely debated, a thorough understanding of the process remains elusive (Hunter & Cooksey, 2004; Hunter & Gates, 1998; McIvor, 2000). The multidimensional, complex and highly context-specific nature of outsourcing decisions would suggest that such phenomena are ill suited to broad generalisations about their relative merits. In recognition of this fact, some researchers utilise the techniques embedded in system dynamics to construct models that provide an insight to the complexities inherent in such a decision. McCray and Clark's (1999) research, for instance, indicates that, while outsourcing may offer potential cost savings, it is accompanied by a decreased ability to respond to unexpected change in the competitive market place. Anderson and Anderson (2000) similarly find that organisations may experience short-term gains followed by devastating, and unexpected, long-term consequences arising from (a) a loss of market position due to the diffusion of proprietary technology amongst competitors; (b) an over-reliance on a single supplier that reduces negotiating potential over time; and (c) a tendency to encounter higher expenses and reduced functionality when putting the final product together.

Despite the insights offered by the system dynamics research, the vast majority of the strategy literature simply moves the contemplation of outsourcing initiatives from a market-based cost efficiency assessment (as proposed by the economics literature) to a competency-based assessment of the situation. It promotes a rational and prescriptive treatment of outsourcing decisions that largely ignores any meaningful consideration of the dynamism of relationships and the array of behavioural complications that underlie such decisions (Long & Newton, 1997). This sanitised conception of outsourcing is all the more problematic when the importance of the human resource to an organisation's competitive advantage is recognised (Hitt, Ireland, & Hoskisson, 1996; Pfeffer, 1994).

In any event, the treatment of outsourcing decisions in the strategy literature once again indicates the clear need for other important issues to be brought into the decision frame in order to improve understanding of, and decisions about, outsourcing processes in diverse organisational contexts.

Human resource perspective

All outsourcing modifies the roles, in aggregate, of staff within the focal organisation. The possible importance of human capital differences to the success of outsourcing has been suggested above. The way managers contemplate factors related to staff, with regard to outsourcing, can be expected to be indicated by the features of existing human resource management (HRM) perspectives within the organisation.

The contemporary, western view of HRM is that:

> human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change inappropriate) organisational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the 'adaptive organisation's pursuit of excellence'. (Legge, 1995, p. 66)

Embedded in such a characterisation of HRM are two quite distinct emphases, commonly referred to as the 'hard' and 'soft' models of HRM (Bowers & Akhlaghi, 1999; Hendry & Pettigrew, 1990; Legge, 1995).

The hard model emphasises HRM's need to focus upon the close integration of human resource policies and systems with business strategy. This suggests that personnel policies, systems and practice not only be logically consistent with and supportive of business objectives, but achieve this effect by their own coherence (Hendry & Pettigrew, 1986). In this light, Tyson and Fell (1986) believe the human resource is reduced to little more than a factor of production (along with land and capital) to be 'rationally' managed as an expense of doing business, rather than the only resource capable of turning inanimate factors of production into wealth.

On the other hand, the soft model of HRM, while still emphasising the importance of integrating HRM policies with business strategy, treats the human resource as a valuable asset and a source of competitive advantage through its commitment, adaptability and high quality (Barney, 1986; Bowers & Akhlaghi, 1999; Legge, 1995; Pfeffer, 1994). At the core of the soft HRM model is a belief that commitment will naturally flow from communication, motivation and leadership, together with the recognition that better economic performance may be related to greater attention to human development (Indridason & Wang, 2008; Maguire, Paterson, & Hakim, 2007; Walton, 1985).

Clearly these different emphases are not necessarily incompatible as is evidenced by normative statements of HRM that contain elements of both hard and soft perspectives. However, what is equally apparent in practice is the predominance of hard policies that reflect the rational, strategically-planned end of the spectrum (Australian Centre for Industrial Relations Research and Training, 1999; Hendry & Pettigrew, 1990; Legge, 1995). It seems plausible that an organisation whose human resource is merely viewed as a factor of production would be more alive to the possibility of pursuing outsourcing interventions than an organisation that embraced a more developmental-humanist, or soft, HRM orientation.

Indeed, the tendency for HRM theory and practice to lie towards the hard end of the spectrum is perhaps most clearly evident, at least with respect to outsourcing decisions, in the rhetoric about the importance of human resource flexibility.

Flexibility was widely promoted in the 1980s (e.g. Drucker, 1988; Kanter, 1984, 1989; Peters, 1987; Peters & Waterman, 1982) as necessary to respond rapidly to customer needs while retaining effective cost control. It was language quickly adopted, and extended, by the HRM literature as it moved to embrace strategic management as a cornerstone of its ethos (Guest, 1987; Harrison & Kelley, 1993; Hartmann & Patrickson, 2000; Kramar, 1998; Legge, 1995; Purcell, Hogarth, & Simm, 1999).

This move towards a more strategic approach to employment relations was accompanied by a strong belief that international competitiveness and improved organisational performance would be achieved through greater flexibility in work practices. These flexible work practices include broader job structures, a range of employment contracts rather than permanent employment, and greater variety in both working hours and work location (Kramar, 1998).

Clearly, outsourcing was seen as an important means by which organisations could reform work practices to promote efficiency and productivity, particularly following the conception of Atkinson's *flexible firm model* that promoted a theoretical justification for the serious contemplation of outsourcing initiatives (Atkinson, 1984; Atkinson & Meager, 1986). In summary, the *flexible firm model's* power with respect to decisions about outsourcing interventions lies in its simplicity of formulation and the neat conceptual dovetailing between the contemplation and classification of human resource issues (into core and peripheral work groups) with the contemplation and classification of strategic issues (into core and non-core activities). In other words, the model effectively provides a rational framework for contemplating HRM issues in a manner that both complements and reinforces the prescription and rationality embedded in the strategic management framework.

It should not be surprising, therefore, that many of the criticisms previously raised about the economic and strategic treatments of outsourcing are echoed in HRM's conceptualisation of the process, namely (a) the sloppiness of conceptual specification and of defining exactly what is meant by 'core' and 'peripheral'; (b) the lack of empirical support for the model as description; and (c) the notion that the flexible firm represents an appropriate employment strategy that organisations should pursue for the sake of their bottom line (Legge, 1995).

Furthermore, the model also suffers from the recurrent HRM problem of assuming that an organisation's human resource will somehow behave in a uniform and predictable fashion (Cooksey & Gates, 1995). This assumption is particularly tenuous when the model divides employees into two classes of labour (core and peripheral) and effectively creates the grounds for differential practices and treatment by management (Byrne, 2001). Indeed, the spectre of discriminatory practices would appear, potentially, to raise significant tensions between management, employees and unions generally and amongst different classes of employee groups within the workplace (Kochan, Wells, & Smith, 1992).

While the growing importance within the literature of human resource flexibility can be partially attributed to efforts within the HRM discipline to enhance its credibility by aligning itself with the strategic management discipline, it is also a reflection of major shifts in Australian workplaces by virtue of the introduction of the Workplace Relations Act (1996). This legislation was passed to promote flexibility by (a) decentralising industrial relations to the workplace or enterprise level; (b) 'decollectivising' the employment relationship; and (c) providing employers and employees with greater choice about their employment terms and conditions.

The preceding discussion reflects the orientation predominating in the HRM discipline. While of itself problematic for the development of the level of sensitivity and understanding argued necessary for the effective management of human ecologies generally (Cooksey & Gates, 1995), the treatment of outsourcing interventions in the HRM literature would also appear to suffer from a simplistic conception and a tendency to focus upon the description and analysis of change, without due regard given to the implications of such initiatives for an organisation's HRM function (Hartmann & Patrickson, 2000; Kochan et al. 1994).

Overall, it would appear that the HRM literature does little to advance our understanding of the complexities of an organisation's human resource generally, and in respect of outsourcing interventions specifically. There is compelling evidence to suggest that these matters are given a very low priority when considering their appropriateness to a given organisational context (Jenster & Sterner Pedersen, 1999; Laribee & Michaels-Barr, 1994; Pfeffer, 1994). Indeed, Cooksey and Gates (1995) believe that the bulk of HRM research oversimplifies the process of human behaviour at work in order to operationalise a few key concepts and variables that make the research manageable. This phenomenon, they argue, has had the unfortunate effect of underpinning the failure of HRM to account for the basic premise that human beings are themselves open systems that can learn, adapt, create and manipulate the environments they inhabit.

The implication of the eclectic incorporation of knowledge about human behaviour into HRM is that, contrary to what lay observers may expect, the predominant HRM models of the human side of enterprise, and perspectives on any specific change such as outsourcing, is insufficient to comprehensive analysis. An additional perspective is required.

Behavioural perspective

The line of argument developed above suggests that the failure to account for human diversity and complexity by the economic, strategic and, somewhat surprisingly, human resource perspectives on outsourcing is likely to limit an organisation's capacity to effectively evaluate and identify appropriate courses of action.

Rather than adopting simplifying assumptions about human beings and their behaviour, such as concepts of rationality and the implied homogeneity of individuals responding to change, the behavioural perspective recognises the diversity inherent in human beings and attempts to take account of it when examining organisational issues. It is a perspective that has its genesis in a body of work drawn from the OB and psychology disciplines.

A fundamental focus of this literature is on people and how they cope with change in organisational contexts. It recognises that people are the basic building blocks for sound organisational performance and thus challenges managers to design workplaces that maximise human potential, achieving sustained high levels of performance while maintaining high levels of employee job satisfaction and commitment (Barney, 1986; Cooksey, 2006; Indridason & Wang, 2008; Kelly & Noonan, 2008).

The behavioural perspective on outsourcing is notable for its lack of any specific conceptual framework that has been used to assist managers adequately account for the behavioural complexities of the context within which these decisions are considered, and the consequences that could reasonably be expected to flow from those decisions. Despite this void, we note the existence of conceptual frameworks that could potentially engender a far deeper level of understanding about the complexities inherent in outsourcing processes. These include, amongst others, the attitudinal and behavioural implications of workplace change suggested by conceptual work into (a) the *psychological contract*, and (b) the *individual performance equation*.

We have singled out the psychological contract as a worthy contributor to the contemplation of outsourcing decisions because of its broad-based popularity in the behavioural literature on account of its high face validity among employers and employees (Anderson & Schalk, 1998). It offers a powerful insight into how changes are perceived by those most affected and an indication of the effects such change may have on their attitudes and behaviour (Hallier & James, 1997; McDonald & Makin, 2000; O'Donohue et al. 2007; O'Neill & Adya, 2007; Pate, Martin, & McGoldrick, 2003).

Rousseau's (1990) model of the psychological contract proposes that the relationship between an employer and employee has dimensions beyond the legal or written contract. Rather, the psychological contract is defined as the employee's perception of the reciprocal obligations that exist between themselves and their employer.

Accordingly, it creates an enduring mental model of the employment relationship, provides a stable understanding of what to expect in the future, and recognises that, in reality, the rights and duties between employers and employees emerge through the interpersonal relationships formed in the work place over time (O'Donohue et al. 2007). While such contracts are by definition voluntary, subjective, dynamic and informal, there are two quite distinct obligations common to all contracts, namely obligations of a transactional and a relational nature (Hiltrop, 1996; Rousseau, 1990).

Transactional psychological contracts are those specific, mainly economic, exchanges which serve the short-term needs of the employer and are often characterised by competitive wage rates and an absence of long-term commitment. Relational psychological contracts, on the other hand, are characterised by less specific agreements that seek to create and sustain a long-term relationship, invoking obligations of loyalty and commitment from employees in exchange for obligations to provide training, career opportunities and job security from the employer (Hallier & James, 1997; McDonald & Makin, 2000; Morrison, 1994; Rousseau, 1990).

Worryingly, Moskal (1993) argues that employees in contemporary work settings no longer acknowledge the existence of a supportive, implicit relational contract with their employers, suggesting that current organisational climates have led to an erosion of employee commitment.

The model of the psychological contract suggests that employers will experience problems with employees if they deliberately or inadvertently breach the conditions of the contract. However, the significance of any change to the psychological contract is often difficult to determine given the highly subjective and idiosyncratic nature of the obligations involved (Hallier & James, 1997; Hiltrop, 1996; Kakabadse & Kakabadse, 2000). Rousseau and McLean Parks (1993) argue that employer breaches will not always result in a felt violation if an alternative but equally valued obligation is offered. But if no such alternative is forthcoming, and employees perceive that their employer has failed adequately to maintain the psychological contract, the ensuing response is likely to be more intense because respect and codes of conduct are called into question (O'Neill

& Adya, 2007; Rousseau, 1989). Pate, Martin, and McGoldrick (2003) observe that, in these circumstances, employee responses range from disappointment, a sense of wrongdoing, frustration and distress to more intense and overt emotions of anger, resentment, bitterness, indignation and behavioural changes that include an increased cynicism, and decreased commitment, satisfaction and trust.

The perceived violation of the psychological contract will change the nature of the employment relationship as employees who have experienced a violation are more likely to report a transactional contract and less likely to feel any compulsion to fulfil relational obligations to their employer (Betts et al. 2010; Clanchy, 1997; McDonald & Makin, 2000; Pate & Malone, 2000; Pate, Martin, & McGoldrick, 2003; Robinson, Kratz, & Rousseau, 1994).

Under these circumstances, a permanent employee's psychological contract would be likely to shift progressively from the relational to transactional end of the relationship continuum, while the psychological contract of a non-permanent employee (such as a contract worker) would be likely to remain relatively unaffected given the predominantly transactional nature of the existing relationship (McDonald & Makin, 2000; McLean Parkes, Kidder, & Gallagher, 1998; Rousseau, 1990, 1995).

In any event, the implications of any perceived contract violation could prove quite detrimental to the organisation as employees increasingly adopt a more calculated transactional approach to their employment relationship, only doing what is absolutely necessary, and no more. Such an organisational climate would not appear conducive to fostering organisational citizenship or the innovativeness and responsiveness so highly valued by organisations seeking to economise on costs and/or struggling to create, and sustain, a competitive advantage in a highly competitive and dynamic operating environment (Barney & Hansen, 1994; Pfeffer, 1994; Pfeffer, Salancik & Leblebici, 1976).

The warning for any organisation considering an outsourcing intervention is clear: approach with extreme caution as the employees' perceptions of such an intervention will ultimately shape their attitudes and behaviours that become the clay that managers have to work with into the future. Indeed, as indicated by the array of violation responses noted above, the clay that managers are left to work with is often difficult to mould and likely to result in an extremely brittle finished product.

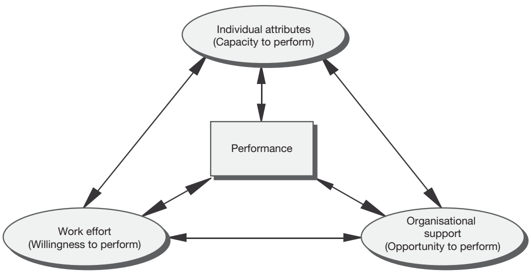
While the outline of the psychological contract has provided useful insights into the behavioural context in which outsourcing decisions are made, and the possible behavioural consequences of making such decisions, ultimately these insights need to be considered in terms of the impact of outsourcing on individual and organisational performance.

Reflecting Brunswik's (1952) view that human behaviour and experience must be first understood at the idiographic level before aggregating what is learned into nomothetic statements, the individual performance equation can be argued to be a useful heuristic device for developing a better understanding of the dimensions of an individual's performance and, when aggregated, that of the organisation (Wood et al. 2001).

The individual performance equation was the result of work by Blumberg and Pringle (1982) that was undertaken to address the apparent failure of empirical research to uncover strong and consistent predictors of performance, and the absence of any attempt, within this body of work, to investigate the appropriateness of synthesising existing evidence in such a way as to improve the predictability of performance. The equation they propose conceptualises performance as a complex multiplicative function of an individual's physiological and cognitive attributes (capacity), the psychological and emotional characteristics that influence the effort they make (willingness), and the organisational support they receive (opportunity). Table 1 brings into sharper focus the complex interactivity of these three domains, and the

TABLE 1: DOMAINS OF INDIVIDUAL PERFORMANCE

Interaction of performance domains



Variables embedded in each domain

Individual attributes

- Demographic characteristics (e.g. gender, age, ethnic background)
- Competency characteristics (e.g. aptitude, ability, or what a person can do)
- Personality characteristics (e.g. traits reflecting what a person is like)
- Values, attitudes and perceptions (i.e. how people interpret the world)

Work effort

- Level of motivation (e.g. satisfaction, status, anxiety, legitimacy, involvement, perceived experience)

Organisational support

- Lack of time
- Inadequate budget
- Inadequate equipment, tools and/or supplies
- Unclear instructions
- Lack of required services and help from others
- Inflexibility of process
- Poorly designed work environment

Adapted from Blumberg and Pringle (1982, p. 565) and Wood et al. (2001, pp. 91–92).

variables embedded within each, as contributors to an individual's general level of performance.

Importantly, the performance equation has a non-compensatory structure. This means that achieving high levels in one or more domains will generally not compensate for a deficiency in another. In such circumstances, the equation suggests that the predicted outcome will be a significant reduction in an individual's overall performance.

Such a conceptualisation of performance suggests that managers must assiduously work on all three domains and represents an insight that would seem to contradict the pragmatism shown typically to underpin outsourcing decisions which denies behavioural complexities, particularly in respect of motivation and support.

While the psychological contract and individual performance frameworks describe conceptual approaches that could improve management's appreciation for, and understanding of, the way employees might interpret (give meaning) and behave when confronted by management interventions generally, the literature also offers some specific insights into outsourcing processes that are of a predominantly behavioural nature.

First, issues of commitment, trust and loyalty previously highlighted by the literature relating to the psychological contract have been reinforced by the behavioural research focusing on outsourcing processes. While not voluminous, this research suggests that an organisation's treatment of non-standard (peripheral) workers has implications for the perceptions, trust and commitment of standard (core) employees (Davis-Blake & Uzzi, 1993; Geary, 1992; Krishnan, Martin, & Noorderhaven, 2006) and will also influence the level of commitment extended to both the employing organisation and the contracting agency (Benson, 1996, 1999; Indridason & Wang, 2008; McKeown, 2003). Importantly, workforce blending (i.e. using standard and non-standard workers for the same job) was also found to undermine relationships between managers and employees, reduce the loyalty of standard employees, and increase the likelihood of employees exercising voice through unionisation and/or leaving their organisations (Davis-Blake & Broschak, 2003; Hirschman, 1970; Rousseau, 1995).

Second, Kakabadse and Kakabadse (2000, p. 697) highlight the potentially destructive impact an outsourcing intervention can have on an organisation's culture:

> Research suggests that the quality of an organisation's culture has the potential to either enhance or inhibit individual, group and organisational functioning … A culture that nurtures positive feelings of self-esteem, participation, encouragement and effectiveness, produces the sense of security and confidence among employees which enables them to assume personal responsibility and perceive change as opportunity. The opposite occurs when organisations de-skill and alienate their members. Members feel misled, suspicious and helpless and when faced with internal and external problems that require change, they experience anxiety.

According to Kakabadse and Kakabadse, an outsourcing intervention will likely alienate employees as it effectively signals an intention to pursue a course of action that will in all probability result in redundancies and lay-offs, the transfer of personnel to service providers and/or the redeployment of staff within the organisation. Under such circumstances it would be easy to see how an organisation's culture could splinter into any number of sub-cultures, each of which reflects the shared experience and understanding of its constituency, that only serves to further complicate management of operations, undermine the credibility of management, and jeopardise future managerially-inspired change initiatives (Brockner, 1988; Howard-Grenville & Hoffman, 2003; Isaacs, 1993).

Finally, Barthelemy (2003) argues that open communication is the key to managing personnel issues in outsourcing interventions as secrecy in outsourcing feasibility and decision making is difficult to maintain and, when it fails, unleashes rumours that are counterproductive to individual, group and organisational interests. Indeed, it is a sentiment supported by Brown and Duguid (1991) when they highlight the critical role that communication and information play in building trust, and Harshman and Harshman (1999) who believe that effective communication only comes about when employees perceive it has integrity and when the behaviour of their managers is consistent with organisational values.

The importance of communication processes to outsourcing interventions is further crystallised by Liu and McMurray (2004) when they report on their research findings concerning two separate outsourcing interventions within a case study components plant. The first of these interventions was characterised by management secrecy, a lack of any formal communication process, an absence of any consultation, and a hypersensitive workforce that relied on the rumour mill for information, which, in turn, created a 'them and us' culture that was suspicious and negative towards plant management. It was an organisational environment that provided the context for a 5-day strike as a result of three cleaning jobs being outsourced. The second intervention took place some two and a half years later and involved far greater managerial transparency and a clear commitment to formal and ongoing communication processes that engaged all affected parties in working through the issues. By comparison, this organisational environment was associated with a major organisational restructure in which 330 jobs were outsourced in the absence of any industrial action.

Integrated analysis of complex innovations

Our review of outsourcing leads to a number of observations. First, outsourcing is often unsuccessful. Second, the reason for this may rest in the narrow analysis of the likely challenges and pay-offs associated with specific outsourcing initiatives. Third, success in outsourcing can probably be enhanced by expanding the perspectives employed to evaluate initiatives to behavioural perspectives beyond the limited, and arguably shallow, form of these manifest in mainstream HRM.

The narrowness of evaluations arguably springs from the source of the drivers for outsourcing: economic and strategic analysis. In situations where third party providers can deliver the work more efficiently, shedding non-core work to free resources for attention to core activity has obvious benefits. Scoping the benefits, however, relies on careful assessment of the interdependencies involved within the organisation and their satisfaction if outsourcing proceeds (Boardman & Sauser, 2006; Gandhi, Gorod, & Sauser, 2009; Keating et al. 2003). These are most subtle and defining of performance when the people of the organisation are central to them (Hunter, 2005; Jones, 2009).

So evaluating possible outsourcing initiatives arguably involves, too often, careful identification of appropriate tasks to target but much too little consideration of the reality of the possible costs, to overall task performance, of disturbing the behavioural subsystem in which the tasks are embedded currently. The result is undue optimism about the feasibility of, and returns to, outsourcing.

We submit that the relatively poor prior analyses of outsourcing outcomes indicates that a prism through which these are assessed that is composed of economic, strategic and/or HRM perspectives is inevitably insufficient. Comprehensive analysis requires a further perspective that sweeps into the prism the additional salient features of organisations as open social systems. This we have called the 'behavioural perspective'.

Conclusion

Lewin (1945, p. 129) argued that 'nothing is as practical as a good theory'. Equally importantly, according to Ghoshal (2005, pp. 76–77), there is nothing as dangerous as a bad theory, a proposition that he submits is clearly illustrated by the management theorising currently informing management practice:

> over the last 50 years business school research has increasingly adopted the 'scientific' model – an approach that Hayek (1989) described as 'the pretence of knowledge'. This pretence has demanded theorizing based on partialization of analysis, the exclusion of any role for human intentionality or choice, and the use of sharp assumptions and deductive reasoning.

Outsourcing represents only one of many managerial practices in contemporary organisational contexts that would appear to bear out Ghoshal's concern.

The purpose of the above literature review is to flesh out the disciplinary landscape that sometimes informs management decisions about outsourcing processes. By delving into disciplinary areas that have sought to explore outsourcing as a topic of investigation, we have been able to present each discipline's theoretical foundation for, and research findings about, outsourcing processes. What is notable in this landscape is the importance of the human dimension to performance.

The presentation of the literature in this way highlights the partial and extremely fragmented nature of outsourcing research. The preceding investigation of the economic, strategic and human resource disciplinary treatments of outsourcing initiatives paints a limited conceptualisation of the process by focusing on outcomes as a meaningful heuristic for understanding and informing managerial decisions. It overlooks important contextual factors that could profoundly impact those outcomes and neglects the diversity and complexity inherent in human beings and human systems. Such shortcomings arguably misrepresent and constrain an organisation's capacity to evaluate and determine appropriate courses of action in an increasingly dynamic and complex operating environment.

Outsourcing is best viewed as a complex process introduced into a complex environment, the consequences of which cut across many social, cultural and economic factors. The diversity of interactions within, and outcomes derived from, a given organisational context, by definition, requires a broadly-based multi-disciplinary perspective be utilised instead of the skewed, fragmented and discipline-specific perspectives currently employed. It is argued that such a re-conceptualisation will move its contemplation by managers and management researchers alike towards the systems holism argued to be so lacking and needed in real world situations.

By drawing upon the multi-disciplinary landscape proposed, we have identified four important imperatives that we believe should be used to inform both future research into outsourcing and the pursuit of such processes in contemporary organisational contexts.

First, if management researchers are ever to develop a level of understanding to cope with the complexity of organisations generally, and outsourcing processes particularly, they will need to enrich their narrow, discipline-specific and largely quantitatively-based understanding of outsourcing processes by pursuing interpretative studies that recognise and take account of an array of important behaviourally-based and contextually-specific factors.

Second, researchers also need to be alive to the possibility that the extant research into outsourcing may be promoting a self-fulfilling prophesy whereby the focus of the research effort elicits responses and views predominantly from decision makers immediately involved in a decision to outsource, with their very rational and prescriptive approach to the decision, that reveal little or no contemplation of the richer and more turbulent picture that lies beneath such decisions.

Third, while each perspective is acknowledged to offer important insights into outsourcing processes, considering any one of these perspectives in isolation is likely to completely misrepresent the inherent complexities of the process and is likely to result in uninformed, and potentially damaging, management decisions.

Finally, the success of any outsourcing intervention will ultimately be determined by the nature of the interplay between the contracting organisation and the third party service provider. The disciplinary dimensions identified in this article are equally valid and informative for both parties to a contract and should be considered as a useful backdrop to guide the due diligence conducted in considering such relationships.

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