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This article analyzes the outsourcing of information technology services, using an action inquiry methodology. Research spanned the disengagement and beginning of IT service functions transferred from work groups in the parent company to outsource teams. Results identified the importance of addressing strategic issues and inter/intra relationships between parent company team members and their outsource-counterparts. Conclusions indicate that behavioral issues such as psychological contracts within inter/intra work groups, power and trust are highly significant managerial issues in the success or failure of an outsourcing strategy.

Module 3

INTRODUCTION

This article discusses empirical work undertaken to develop and then apply a conceptual framework to support an action inquiry (Ellis and Kiely 2000) into changes resulting from the outsourcing of information and communication technology services. The organization researched is a multinational organization (MNO) in the financial services sector with leading brands in life insurance throughout the European Union (EU). A service level agreement (SLA) was signed to outsource information and communication technology services (ICTS), including application software, processes development and infrastructure support services. As a result of this operational agreement, the majority of ICTS staff from the parent financial services company became employees of the outsourcing organization. The outsourced operations include the largest financial services call center in the EU, with approximately 800 staff, which manages current and new customers along with a marketing database comprising 6 million records of information on customers, products and potential customers.

Outsourcing has been somewhat ideally described as an arrangement of cooperative inter-firm relationships based on mutual trust between partner organizations, for improving performance of the inter-firm transactions (Smith, Trawick, Rink and Roberts 1998). However, while cooperative relationships between functional operations are crucial to the effective working of outsourcing agreements, it is acknowledged that there has been little previous research on this crucial aspect (Kakabadse and Kakabadse 2000). Exchange is facilitated by supply chain management, operating within a complex web of interactions and interdependencies between organizations and other actors involved in the wider area of the creation of value (Ford 1998). In such a network, value manifests itself finally as an offering to final consumers (Parolini 1999). Extant literature of the motivational drivers behind why organizations pursue outsourcing strategies has explored make or buy decision processes with the purpose of developing models and frameworks that could support organizations during

their deliberations (Collins and Bechler 1999; Laios and Moschuris 1999; Maltz and Ellram 1999). It is recognized that supplier selection, beyond the economic consideration, and the assessment criteria during outsourcing planning are critical to the outcome (Kannan and Tan 2002), and that organizations need to be aware of the organizational change implications (McIvor and McHugh 2000). Moreover, risk implications should be considered (Zsidisin 2003), along with the fact that the balance of power in an exchange relationship can shift over time to favor the supplier (Beer, Berger, Sikora and Berger 1994).

However, a research gap exists in the literature on outsourcing of the supply chain, especially in understanding the consequences of team inter/intra attitudinal and behavioral issues and relationships between parent company team members and their counterparts from the outsourced organization. Consequently, this article addresses a number of important issues that are relevant to the development of theory and practitioner application. In an attempt first to conceptualize this construct, a review of literature was conducted that encompassed outsourcing, social exchange, intra-group relationships, communication and trust, controls and processes, cooperation and power and psychological transition issues. This review of current knowledge allowed several propositions to be developed for subsequent testing in the organization.

This article describes the action research method used and discusses findings from the data collection phase. The article then develops an explanatory framework that draws inferences from the information/data. During this phase, polar diagrams facilitate this "sense making" and help to conclude whether the propositions were accurate. Finally, we reflect on the significance of results and managerial implications for the practitioner and discuss possible future research opportunities.

DEVELOPMENT OF A CONCEPTUAL FRAMEWORK

The underpinning purpose of the research was to gain understanding of the perceived attitudes and behavior of individuals (idiographic) and the changes in organizational and group (nomothetic) relationships in the new commercial relationship. The objective was both to establish abstract, generalized concepts for indefinitely repeatable events and processes and, for the ideographic, to understand the unique and nonrecurrent (Nagel 1961). The research design commenced by critically reviewing outsourcing literature within an eclectic body of knowledge that comprised supply chain management, strategic management and organizational and behavioral science. The emergent review supported development of an explanatory research framework incorporating a range of propositions. Subsequent interview transcripts and focus group dialogues were

analyzed with Winmax software (Kuckartz 1998), with results that offered possible insight for the development of a research design framework. This software was used because it provides opportunities for detailed analysis by predetermined classifications and subsequent categorical analyses.

The conceptual underpinning of this work relies upon overt phenomenological methodologies (Maxwell 1998) to identify the embedded web of meanings related to human experiences, namely, the perceptions built of the social world via intuition and imagination. Layers of relations and meanings conceal these phenomena, problematic to quantitative methodologies that are based on ontological and epistemological assumptions of objectivism that consequently lack the world of consciousness and humanly created meanings (Ellis and Kiely 2000).

Social exchange and social capital, in contrast to economic exchange, are based on trust, personal obligation and gratitude, and not on specific time-related transactions, which can be argued through an operant psychology approach (Homans 1958) or alternatively by using economic-based approaches (Blau 1964). The work of Blau is particularly pertinent to this research, as the argument follows that history both dictates social exchange behaviors and relationships between individuals and supports social norms. The principal argument holds that expectations influence decisions and, in particular, that reward from people is based on an anticipation that they will behave according to social norms. The notion that individuals act in self-interest and will behave in the manner which will profit them personally (Thibaut and Kelley 1976), has an intrinsic appeal in the current research. In unfair exchange, one party is likely to become distressed, leading to conflict (Homans 1958), while the other may feel guilty but can usually rationalize the feeling. Thibaut and Kelley (1976) argued that if expectations of a relationship exceed the outcomes and there are no alternatives, the relationship becomes unsatisfying. Such reductionism, however, invariably attracts criticism for being simplistic (Emerson 1992). The decisions that individuals make depend on time, domains, values, the environment and opportunities (Sharafifi and Pawar 2002). Inter/intra group relationships comprise a belief that communication, trust, control, cooperation and power are important in explaining relationships between organizations and groups (Blau 1964; Emerson 1992).

A counter-view has been based on the transaction cost economics paradigm (Williamson 1985), which argues that the two most important dimensions of business behavior are the problems associated with imperfect information and the desire of "economic man" to act opportunistically. Such views are bounded by rationality and are identified in service level agreements.

Intra-Group Relationship Issues

While social categorization, social cognition, de-individuation and social exchange theories can assist in understanding groups, they are predominantly individualistic in their approach. This research endeavors to understand how groups interact (Tranfield and Smith 2002) as entities rather than solely at an individual level. A group can be a number of individuals with interdependence, status and role relationships, as well as a set of values and norms regulating group behavior (Sherif and Sherif 1966). Organizations provide groups with an identification and belonging, enabling norms and values by which individuals and teams can communicate and interact with each other. They generate safety and support and are supplemented with power, control, status and a certain amount of inbuilt trust (Kakabadse and Kakabadse 2000). Strategic changes to embrace outsourcing will effect such dynamics (Grover, Cheon and Teng 1996). Kakabadse and Kakabadse (2000) also found that outsourcing could lead to disintegration of the culture of the groups. External change interventions, such as outsourcing, can leave people feeling suspicious and anxious, breaking down the complex set of interconnections in the organization and changing individual and group value systems (Tajfel 1981).

Sherif and Sherif (1966) argued that inter-group attitudes and behavior would tend to reflect the objectives of the group. Moreover, if these objectives conflict with another group's objective, then competition, prejudice, hostile behavior and discrimination may ensue. Therefore, when members of a group perceive a threat or feel unfairly treated, this perception can be transmitted to other members of the group. Sherif and Sherif argued that both negative and positive group attitudes are based on the individual interaction experiences and functional relations between the groups. Relationships in an organization are likely to be different from those outside the organization in an inter-firm type relationship, due, in part, to a contractual-based agreement separating the companies (Buckley and Chapman 1997; Burnes 1996; Dalton 1959). Such change in relationships can be seen as a managerial risk and, as such, may be dealt with accordingly. Such behavioral complexity within the context of outsourcing has been recognized and suitably acknowledged in the supply chain literature (Lonsdale 2001).

Proposition 1 is an outgrowth of the above literature.

> **P1:** Outsourcing will affect groups' relationships in different ways.

Communication and Trust Issues

Argyle (1991) argued that face-to-face communication was best for promoting attraction, cooperation and trust between groups. Similarly, Pettigrew and Whipp (1986) suggested that contact between members of different groups under appropriate conditions can lessen prejudice

and hostility, with the proviso that contact does need to be carefully designed to encourage favorable attitudes and not to increase anxiety or other negative attitudes. Zineldin and Jonsson (2000) argued that communication, informal or formal, was a vital part of establishing and managing a good relationship, with the frequency and quality of the communication being considered significant to mutual understanding of goals and efforts in building trust. Ring and van de Ven (1994) and Kanter (1994) identified communication as important in building trust in cooperative relationships, resolving disagreements, speeding decision making, gaining a shared understanding of goals and objectives and maintaining norms and values. Schmitz and Fulk (1991) also found that social interaction in the workplace increases and extends the creation and emergence of shared meanings. McGrath and Hollingshead (1994), looking more specifically at electronic communications, explored how they could enhance collaborative work; albeit, such channels could also have some negative consequences when the individuals feel anonymous, causing them to communicate in a more negative manner.

To encapsulate these factors, the following proposition is proposed:

> **P2:** Frequency, quality and type of communication during outsourcing negotiations can affect individual and group relationships, both positively and negatively.

Luhmann (1979) identified the role of trust in relationships as a risky engagement and, while trust might diffuse uncertainty and complexity, it can be misplaced. Emerson (1992) likewise concludes that trust is inherent to an organization's belief that the other company will perform actions that result in positive outcomes for the firm and will not take unexpected actions that result in negative outcomes for the (parent) firm. Zaheer, Mcevily and Perrone (1998) described inter-organizational trust as the extent to which there is a collectively held trust orientation by organization members toward the partner firm. Moreover, Ring and Van de Ven (1994) suggested that individual trust is required for inter-company trust, as organizations do not trust, but individuals do. Hult, Stafford, Walker and Reingen (2000) found trust to be one of the key areas that significantly affect relationships and that it is dependent on communication, honesty and the integrity or underlying motives of individuals. Trust in relationships is seen as central to explaining relational exchanges, such as long-term buyer-seller relationships (Dwyer, Schurr and Oh 1987).

People in organizations produce predictability. Thus, it is a key construct for inter/intra-organizational trust, which is essential in bureaucratic organizations (Grey and Garston 2001). Trust is likely to be determined by institutionalized practices and routines surrounding inter-firm exchange. Consequently, performance

becomes a reinforcer of trust among individuals. Trust in and goodwill toward a person imply that the person (or group) recognizes moral obligations to demonstrate a special concern for others' interests above his or her own, in contrast to competence-trust, which is based on the expectation that individuals or groups will be technically competent for the role (Ring and van de Ven 1994).

Thus, a further proposition for exploration is:

P3: Trust is regarded as the predictability of an individual's or group's behavior and is inherent in organizational processes and values, but could be destroyed or greatly reduced if these were to change significantly during outsourcing.

Controls and Processes

Social or informal control is based on norms, shared values, internalization and beliefs (Eisenhardt 1985). This is distinct from regulatory control, such as policies and standard processes by which elements of a system are made more predictable through the establishment of procedures in the pursuit of some desired objective or state (Das and Teng 2001). Methods of control should result in confidence in a more predictable outcome; lack of them could mean confusion and reduced confidence in getting the best results. In an outsourcing agreement, the legal documents and procedures that establish the relationship and specify boundaries cannot be exhaustive, and the ambiguities have to be resolved by the boundary personnel giving details of personal as well as formal role relationships. Invariably inter-company relationships cannot be controlled by formal systems and processes alone, but require interpersonal and informal infrastructures that enhance learning (Kanter 1994). Characteristics of inter-company relationships are related to established personal relationships (at all levels), clear responsibilities and clear decision processes and procedures, combined with the formal, regulatory controls and the more informal social controls. When two groups change from working in the same organization to working for two separate companies, processes are likely to become more formal. While formality need not be detrimental to the relationship, it does lead to the next proposition.

P4: The potential effects of the change to outsourcing need consideration during the management of transition, as the change process is directly associated with perceived quality of relationships.

The negative perception of control may arise from imposed regulatory procedures, which are often seen as a use of power and as demonstrating lack of trust (Das and Teng 2001b). An alternative view is that control can increase trust, as it provides specific management objectives (Das and Teng 2001a). Such control is believed to increase trust through shared values and

norms and mutual understanding, as groups influence each other's behavior through meetings and communication. This generates shared bonds and understanding so that opportunistic behavior would be unlikely. Long-term business relations are usually embedded in social relations in which trust is central (Seal and Vincent-Jones 1997). Major disruptions to previous long-term relations can force relationships toward a more market-based footing in which accountability, contracts and fiscal determinants are more relevant and prominent. This has the potential to create mistrust, which can destroy or adversely affect previously adequate social and political systems (Seal and Vincent-Jones 1997).

In an outsourcing context, control is used to ensure that the supplier does not behave opportunistically and that the supplier has effective measures in place to enable payment for completed work. While invariably this control is contract based, remaining issues have to become part of an informal, unspecified working agreement or a psychological contract, developed over time and based on repeated interactions and the development of norms and values. It is suggested that:

P5: Outsourcing, therefore, inevitably results in greater formal controls, at least initially, and as such could affect trust and the working relationships between the teams.

Intuitively, it is proffered that individuals and groups have to alter their behavior to adapt to the new situation and act willingly and in a flexible manner, otherwise the change could be detrimental to the relationships. Where reforms of an outsourcing nature take place too quickly, a low trust environment is created and conflict can be resolved only through formal contracts (Seal and Vincent-Jones 1997). Thus, conflict could escalate due to new working practices, methods of problem solving, lines and methods of communication and a general "them and us" mentality, as well as, ultimately, a lower level of commitment. This breakdown in trust results in an over-reliance on formal, planned procedures, monitoring and opportunistic use of contract provisions.

Cooperation and Power Issues

Cooperation is regarded as a mutual interrelationship between the objectives of separate parties leading to greater efficiency and social behavior (Blau 1964), where individuals seek to reconcile self-interest in personal relationships (Das and Teng 2001). For this research, cooperation is taken as the willingness of the partner firm to pursue mutually compatible interests in the alliance rather than to act opportunistically. This notion may be explored further by separating the organization-level view from an action-level of cooperation and by viewing cooperation as a goal-directed, process-related joint activity. Ring and van de Ven (1994) signified cooperation as being closely linked to trust, and

they specifically highlighted the social embeddedness of the personal relationships involved. Other researchers have found a strong link between an individual's willingness to cooperate and the presence of trust; moreover, the existence of trust, it is argued, assumes the presence of cooperation (Bachmann 2001). Cooperation is associated with uncertainty, hence to increase confidence in cooperation, uncertainty needs to be reduced or removed, and predictability increased, leading to control and trust (Das and Teng 2001). The context setting is therefore important for a successful cooperative relationship between partners: it should support communication and permit the partners to cooperate with interdependence, open debate and mutual positive expectation. The result is adaptation (Zineldin and Jonsson 2000). Although some adaptations are formalized in the contract, demonstrating a willingness to adapt outside the contract indicates commitment and increases trust between the parties. Overall, cooperation is invariably linked to fair play, commitment, trust and compliance, and any lack of cooperation is associated with mistrust and opportunistic behavior (Smith, Trawick, Rink and Roberts 1998). The levels of cooperation are therefore of significance for working relationships. This is explored with the proposition:

> P6: Assessing the cooperative inter-firm relationship based on mutual trust between partner organizations can identify cooperation for an outsourcing arrangement.

The position of power is also a key component of working relationships. Other social exchange theories indicate dependence or distribution and access to resources as sources of power (Blau 1964; Thibaut and Kelley 1976). Alternatively, power might come from having resources that others need and controlling alternative sources (Emerson 1992). Inequitable power causes conflict (Blau 1964). Consequently, to explore situations where one party perceives that it is restricted by using solely the other, with no alternative source, with a resultant dependency, a proposition is:

> P7: If the power base is perceived to be inequitable after outsourcing, there is a potential source of conflict.

An alternative perspective is that power, as well as trust, can reduce uncertainty, allowing parties to be confident in their expectations (Luhmann 1979). It has also been argued that there are links between dependence and the influence of the other company (Anderson and Narus 1990) and that the party with less dependence can exert power for its own benefit by requesting changes from the other company.

Psychological Transition Issues

Group and individual attitudes and behavior are explored in this section. As actors, individuals create their own sense of change in the status quo (Bridges 1992). Such a transition is based on how individuals internalize change (Bennett and Durkin 2000). Moreover, in an organizational context, management and change agents invariably focus on the areas that will be most affected by change, but they may neglect the fact that change will also affect interdependent parts of the organization (Tannenbaum and Hanna 1985). Other explanations of the stages of change processes include Lewin's (1951) three-stage approach of unfreezing, changing and re-freezing, and Hughes' (1991) theory of exit, transit and entry. Alternatively, Bridges (1992) offers the stages of endings, neutral zone and new beginnings, and Tannenbaum and Hanna (1985) introduce the four stages of holding on, dying and letting go, rebirth and moving on. Spencer and Adams (1990) perhaps defined the most exhaustive list of stages, based on alternative scenarios and cases of individuals and how they cope with change; they described a transition curve and loss of focus, minimization of impact, descending into the pit, letting go of the past, testing the limits, searching for meaning, and then integration and moving on. Group dynamics emphasizes the importance of groups in organizational change, suggesting that the primary focus should be on work groups rather than individuals (Schein 1980). There are no universal positions with regard to change leadership; rather, it involves linking actions by people at all levels of the organization (Pettigrew and Whipp 1986).

At the individual level, Schlesinger (1986) identified four drivers for individuals' resistance to change, with the most relevant for this work being, first, lack of trust and, second, misunderstanding and holding differing perceptions of the benefits from the change. These drivers are based on an individual's history, emotions and perceived fact. They may be overcome by appropriate communication, preparation, involvement, training, optimism and readiness to move on (Stuart 1995). The importance of appropriate and timely communication (Miller 1992) is explored further with the proposition:

> P8: When moving to outsourcing, managers should communicate what they do not know — being honest and truthful — and should share what they can, while being clear about what they can't discuss.

In this work, as with others' (Alexander 1997; Hudson 1999), respondents repeatedly identified communication as the vital factor in reducing unpredictability.

While typically psychological contracts describe relationships and agreements between employers and employees, they can relate to other relationships, such as buyer-supplier (Blancero and Ellram 1997; Makin, Cooper and Cox 1996; Rousseau 1989). Contracts are unique to each relationship and are based on reciprocity. Both parties have perceived expectations regarding the obligations of the other party; based on their perception of their own obligations (Rousseau 1989). Change in the

psychological contract leads to change in attitudes, which leads to changes in behavior (Schalk, Campbell and Freese 1998). It is envisaged, therefore, that organizational change during outsourcing can have a significant impact on individuals' perception of inter/intra relationships. It is therefore proposed:

P9: Where the psychological contract between the groups has changed after outsourcing from an internal, informal relationship to a buyer-supplier formal relationship, attitudes and behaviors between employee and employer and between groups of individuals will be affected.

Key Themes Underpinning the Conceptual Framework

"Making sense" of the generic themes that describe the relationship dynamics in the outsourcing arrangement has been facilitated by the development of a two-dimensional framework (Figure 1).

For example, trust was an element associated with several themes, and, while central to buyer-seller relationships, it can be entrenched in bureaucratic processes and procedures. If these processes were to change, trust could be reduced. The emergent importance of trust was linked to uncertainty about another's attitude and behavior in a new or changing relationship. In outsourcing, changes in processes and procedures may lead to reduced levels of trust. Controls and processes, especially in discussions of regulatory controls, are also linked to trust. To base a relationship solely on formal controls could result in a lack of trust. These controls are often founded in non-specific contracts, which may be problematic if not communicated effectively.

Figure 1 identifies a range of components within the generic term "Social Cohesion Maintenance," which reflects the importance of inter/intra relationships. Individuals will usually act in their own interest and are concerned with fair rewards; if these are not achieved, they can feel the relationship is not satisfactory. To avoid dissatisfaction, each party must view any change in relationship to be equitable. Outsourcing can affect group perceptions of belonging, established norms, values and the organizational culture. This may lead to measurable changes in inter-group attitudes and behavior, as individuals act differently toward external group members. While these notions primarily address group behavior, the extent to which they may apply on a one-to-one basis is apparent.

Along the alternative axis in Figure 1, the phrase "Corporate Imperatives" is used to capture the notion of controls and processes that are required to support the outsourcing strategy. Communication was a dominant theme in the literature relating to relationships, identified as a crucial factor if the quality, frequency or type deviated from the norm. Deviation can often occur

following outsourcing agreements as new rules and methods are introduced, and it can lead to other relationship issues. Outsourcing situations will, in the main, lead to a change from an informal, internally based relationship to a more market- and contract-based external relationship. Cooperation and power have been identified as factors affecting uncertainty, with greater predictability leading to increased cooperation and less (or perceived reduced) cooperation or power linked to mistrust and opportunistic behavior. An individual's transition during organizational change is addressed through the concept of psychological contracts. This concept applies to all directly and indirectly affected individuals, ensuring that they are committed, involved, prepared and fully aware of the potential effects of the changes. Appropriate and timely communication was identified as critical; without it, any changes in psychological contracts are unlikely to be successful. Failure to recognize the importance of communication could contribute to problems with relationships between employer and employee, between members of groups and between groups.

Positioning Propositions Within the Conceptual Framework

Propositions P1 to P9 supported a bank of questions that were administered using a questionnaire instrument and through a "directed" focus groups inquiry that was subsequently evaluated with Winmax. Initially, propositions P1 to P9 were located within the polar grid (Figure 1) depending on participants' perception of where they desired to be. These expectations were derived from Winmax analysis of focus group outputs. Using the categorical scales of Social Cohesion Maintenance (y) and Corporate Imperatives (x), each proposition was assigned
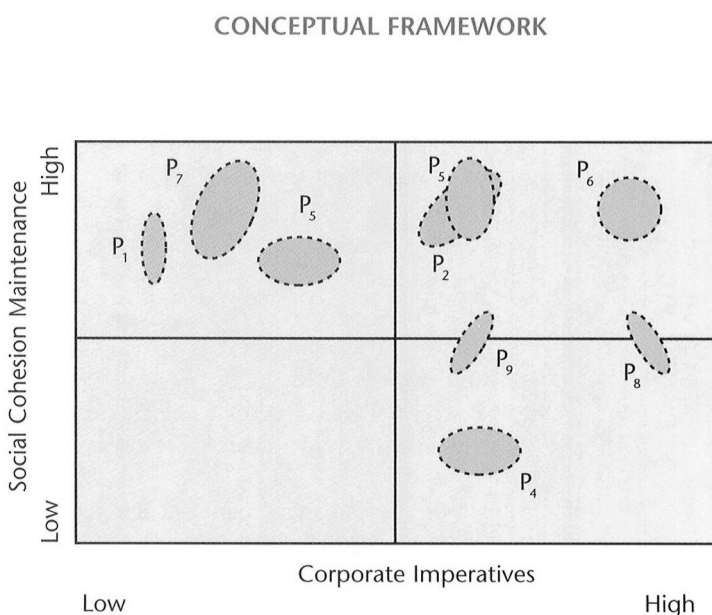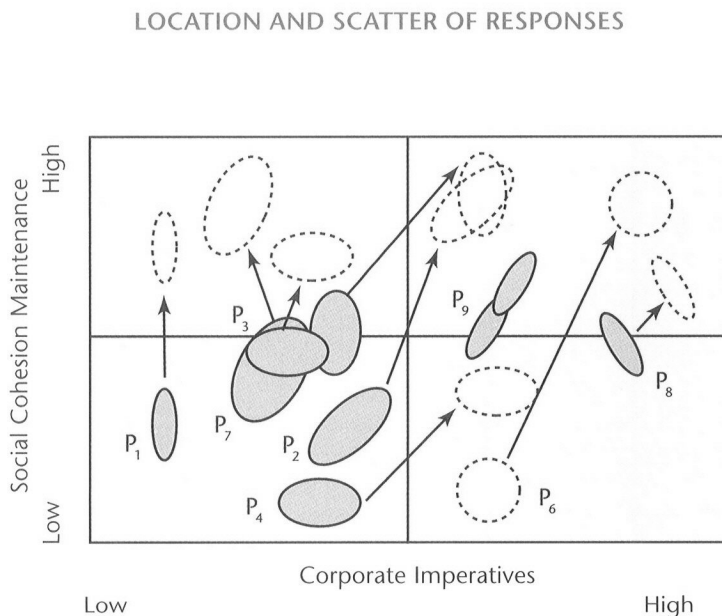
Figure 1

CONCEPTUAL FRAMEWORK

Figure 2

LOCATION AND SCATTER OF RESPONSES

an elliptical boundary to capture 95 percent of responses (outliers were arbitrarily removed). P1, for example, has a tight cluster and is located in the upper left segment, as might be expected. The largest disparity of expectations (portrayed by the large boundary ring) was for P7, also located in the upper left segment. The application of the polar diagram, while identifying each proposition with its supportive conceptual underpinning, also locates responses with regard to their current perceptions See Figure 2 for details.

ACTION RESEARCH METHODOLOGY AND INQUIRY DESIGN

The action inquiry focused on two teams, comprising a total of 30 people. One team included staff who had been transferred to the outsource organization, while the members of the other team remained with the parent company. Within each team there was a cross-section of job roles, rank and responsibility, experience and gender. It is estimated that the total number of individuals from both organizations affected by the new outsource operations, across all sites, was approximately 3,000.

Exploratory focus groups, comprising nine staff, were conducted with each team to audio record responses to the following questions:

1. What are the key areas of change that occurred within or between the teams as a result of the outsourcing agreement?
2. What were the effects of these changes on individual and group attitudes, behaviors and perceptions?
3. How were these changes managed at a personal level?
4. What was the overall feeling about the situation?

Analysis (using Winmax software) of the focus groups' transcripts facilitated further discussions and supported the development of a structured questionnaire that was ultimately administered to all 30 staff (Oppenheim 1996). The research instrument used open-ended questions to elicit extensive content of perception (Secord and Backman 1974). Additionally, the ordering and phrasing of questions was considered to reduce confusion (Schuman and Presser 1996). A five-point Likert scale was administered to complement the research objectives. Finally, the questionnaire was piloted and results tested against Fowler's (1998) checklist. Pilot testing was completed with a senior manager, one middle manager and one person external to the research, to ensure that perceptions of meaning of the questions were not widely different. Consistency and lack of ambiguity were considered crucial to this primary data collection (Easterby-Smith, Thorpe and Low 1991). To explore in greater detail the findings from the questionnaires, each participant was interviewed during an approximately one-hour meeting. To promote validity (Reason 1988) in this phase of the research, discrepant data was specifically searched for to ensure that the beliefs were properly justified and other findings were not more relevant.

A criticism of such a qualitative methodology is that the researcher's perception of the data, the survey method and general interview questions can skew information. Notwithstanding these points, due diligence was taken, with interviews taking place mid-week at agreed times that were nonproblematic and noncontroversial. To ensure maximum reliability, "equivalence reliability" was adopted (Easterby-Smith, Thorpe and Low 1991). This was established in the pilot-testing phase of the research, where individual responses and perceptions of questions were checked to ensure that their meaning and interpretation were the same to all participants.

Glaeser and Strauss (1967) suggested that the results should be analytical enough to enable some generalization but should enable people to relate the various themes to their own situations. Glaeser and Strauss used the term "transferability" to describe this type of generalization. While it is recognized that all studies have limited generalizability or transferability, the results of this work provide sufficient evidence to generate theory (Zineldin and Jonsson 2000) that should be applicable to other companies, due to the nature of the components analyzed.

Data Collection

Winmax output using the initial workshops' data was classified into four categories: processes, trust issues, communication and controls. The follow-up workshops pursued the perceived effect changes had on individuals and the operational aspects of their teams. The results were grouped into increased bureaucracy, less cooperation and helpfulness, implicit communication, less trust

and more taking advantage, less approachability, different levels of confidence, and greater formality. This phase of the work supported development of the final questionnaires and structures for interviews.

The completed questionnaires were analyzed by adopting the methodology of Miles and Huberman (1984), involving a matrix of questions against respondents' data, and were subsequently used to identify categories and themes within and across teams. When themes and issues had been identified, the interview data were explored in greater detail to focus on points needing greater understanding or clarification. Additional interviews took place where necessary, with subsequent transcripts also being analyzed.

FINDINGS AND DISCUSSION

The parent company team believed cooperation, communication, approachability and trust had decreased due to the more formal processes adopted under the outsourcing agreement. This team perceived a lack of communication and awareness of procedural updates along with too much bureaucracy that remained, causing delays and a lack of confidence in the work being produced. Members of the outsource team were much more positive overall, especially regarding the new processes. While they agreed that the relationship had become more formal, they believed accountability, documentation and quality had improved. Both teams agreed they preferred the new levels of formality in the working practices. The difference in the relationship, all agreed, was that it was more on the level of buyer-supplier. The parent company team felt cooperation, communication and trust had decreased as a result of relationships based on a financial premise, with most believing that this had affected approachability. This concept of cost was a new notion in the relationship of the teams. The parent company team felt that cost issues had given them greater power in the relationship.

Communication and Controls

All respondents perceived that communication methods had changed; the parent company team believed the frequency of information supply had decreased, with communication restricted to more formal channels. This resulted in the team perceiving they no longer had the opportunity to discuss work issues, which resulted in feelings of resentment. The outsource team felt there was little communication, which led to mistrust and confrontational behavior. This team, however, while agreeing there had been a decrease in frequency of communication, felt that its increased formality had made it more professional. In addition, increased documentation and confirmation of requirements had resulted in better planned work. Both teams felt the type and mode of communication had changed from friendly and informal to buyer-supplier, with more formal communications. Both teams perceived

controls to be a significant aspect of the change. When the processes, procedures and working practices were introduced immediately following the agreement, a great deal of confusion was perceived, leading to conflict between the teams. Some members of the outsource team indicated they would favor increased controls to eliminate ambiguities.

Effects on Teams

Both teams believed that the level of trust, cooperation, approachability and fairness had decreased, not necessarily because of individual team members but as the result of new processes and protocols. The new formal agreement encouraged greater fiscal consideration to gain corporate efficiencies, which meant that informal requests for work were no longer tolerated. Both teams felt that the procedures and formality resulted in barriers to discussion. When questioned on the overall change in relationships, the teams believed that a marked deterioration had occurred. The majority felt there was a lack of communication, especially at the face-to-face level. Emotive views were held on aspects of processes and procedures, communication, formality, controls, trust and relationships. Winmax outputs identified a high level of connectivity between these category attributes.

The parent company team felt the transition, including communication of changes in operational methods, processes and procedures had been managed poorly. They felt much confusion over working practices, cost structures, charging levels and functional responsibilities. When any communication did take place, it was perceived that the new processes and rules were difficult to understand, with the general opinion being that communication was not effective. In sum, both teams perceived that the outsourcing agreement had led to a reduction in cooperation, approachability, fairness, communication and helpfulness.

DEVELOPMENT OF AN EXPLANATORY FRAMEWORK

The nature of action inquiry (Ellis and Kiely 2000) encourages reflection, followed by the grounding of primary information within extant literature. This process has allowed the development of an explanatory framework (Siegal et al. 1996) to give some understanding of relationships and issues of communication, trust, processes and controls, cooperation, power, managing change and psychological contracts. Locating propositions P1 to P9 within the conceptual framework allows the scatter of responses from participants to be referenced against specified metrics. Results from the questionnaires and evaluation of transcripts are shown in Figure 2.

Each proposition supported a bank of questions whose responses were used to develop individual polar diagrams quantifying the shape and range of plot. Figure 3 shows the polar plot for P1 only; such plots have been

Figure 3

POLAR DIAGRAM: PROPOSITION P1 (ONLY)
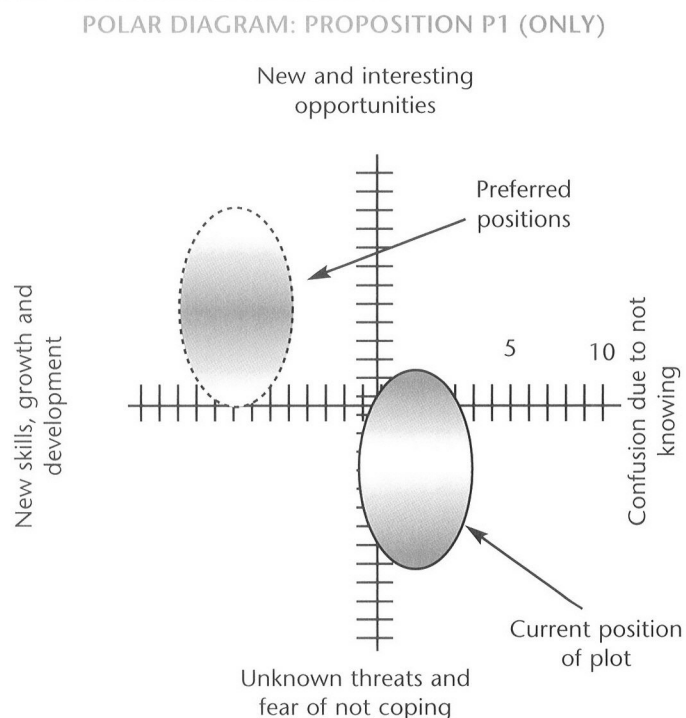
developed for all propositions. The solid-line plots within the framework represent participants' responses, while the broken-line plots represent participants' desired location.

In Figure 3, the four high-level categorical outputs from the Winmax software are shown as: (1) New skills, growth and development, (2) New and interesting opportunities, (3) Confusion due to not knowing and (4) Unknown threats and fear of not coping. The other propositions had their own four unique high-level categorical outputs for each polar diagram axis.

The Winmax high-level output categories for each proposition were drawn from the underpinning literature. For example, considerable changes in mode, type and frequency of communication were perceived to have affected the relationship (more from the parent company team's perspective), confirming the views of both Argyle (1991) and Pettigrew and Whipp (1986) regarding the importance of specific targeted strategies for communication in an inter-group relationship. There was a perceived marked change in the frequency of communication, confirming Zineldin and Jonsson's (2000) argument that communication needs to be targeted to the needs of individuals. The mode of communication was now seen to be formal and regulated due to new process requirements.

Four key causes of changing behavior — processes, knowledge of costs, communication and controls — were linked to a perception of mistrust among the teams (Blau 1964; Emerson 1992; Luhmann 1979).

One party's confidence that the other party in the exchange relationship will not exploit its vulnerabilities is based on reliability, fairness and goodwill, and not necessarily on contracts (Sako 1992). The outsource team members were less confident that they would not be exploited, and they felt the other team was less reliable as a result of the formal agreement and the perception of "hidden agendas." These views confirm the findings from the case study by Hult, Stafford, Walker and Reingen (2000), showing that the belief of hidden agendas or opportunistic behavior was one of the reasons for a reduction of trust.

The cessation of "free assistance" by organizations has been identified in previous research (Peled 2000). When a company routinely offers free assistance to another, this is likely to be interpreted as a manifestation of commitment and may be the basis of trust (Grey and Garston 2001; Sako 1992; Zaheer 1998). A view that trust is intrinsic within the fabric of bureaucratic companies suggests that a change, such as outsourcing, would cause both teams to feel much lower levels of trust. When one of the teams changed from the parent company to the outsourced company, it developed and embraced a different set of rules and values — and engaged in a new psychological contract. This made the team less predictable in the eyes of the parent company team, and as trust, especially goodwill trust, depends on predictability, the result was a reduction in trust in the outsource team by members of the parent company team.

The processes, procedures and controls adopted under the outsourcing agreement were perceived to be changes that significantly affected the relationship between the teams. These changes encompassed working practices, cost structures and charging, communication and operational procedures. Increased procedures and controls are assumed to increase predictability. However, excessive formalization and monitoring of inter-organizational relationships can lead to conflict and distrust between parties. Such relationships are well recognized as becoming more market based (Seal and Vincent Jones 1997) following an outsourcing agreement, and the increase in controls and processes and reduction of social controls could be viewed as inevitable. In this instance, the greater formal controls had the effect of reducing social controls, norms and routines, and they were perceived by the parent company team to result in a deterioration of trust between the teams. Individuals in both teams initially perceived that the other team had increased its power base. This was potentially a factor of conflict rather than compliance (Anderson and Narus 1990).

For employees who became members of the outsourced organization, their perceptions of the change mechanisms concur with the work of Schlesinger (1986). Among parent-company staff there was little

motivation and commitment to the new working practices. Such expectations will also influence future decision-making processes, and they themselves will be influenced by norms, values and beliefs, history and opportunity (Blau 1964; Emerson 1992; Homans 1958; Thibaut and Kelley 1976). Kakabadse and Kakabadse (2000) held that the impact of outsourcing on social structures is not yet fully appreciated. Many outsourcing initiatives have been unsuccessful because organizational and staff issues were neglected and it was perceived that the psychological contract between employee and employer was not fulfilled. In this research, the changes that occurred in the psychological contract as a different set of mutual obligations was created, which in turn led to changes in predictability, processes and control procedures. Prior expectations would have encompassed levels of cooperation, formality, communication, roles and ways of conducting business (Makin, Cooper and Cox 1996). Subsequent changes were perceived as unfair and were resisted, leading to feelings of mistrust and changing attitudes, which negatively affected behavior. This aspect was identified by Schalk, Campbell and Freese (1998), who found that communication and greater understanding can lead to acceptance of changes and a rebuilding of the psychological contract between the teams based on new mutual obligations.

MANAGERIAL IMPLICATIONS

These research findings have several supply chain management implications. All staff reacted significantly to processes, procedures and procedural controls. This resulted in a perception of a decrease in cooperation, approachability, communication, fairness and helpfulness between teams, which ultimately could result in less trust. New controls and processes were perceived as excessive. These perceptions are associated with "corporate imperatives," that is, the desire to achieve fiscal goals effectively and efficiently.

Social exchange theories suggest that individuals will look after their own self-interest first and will need relationships to be equitable. It should be recognized that "self-interests" need managing and can ultimately be used as positive leverage. Initially the teams did not perceive the changes in the relationship to be equitable and believed that the changes (primarily fiscal-based) were solely in the interest of the parent company team. The perceived reduction of cooperation and power and increased controls resulted in a reduction in trust. This can be intrinsically associated with the lack of understanding of new processes, procedures and controls. Of significant concern was the perceived poor communication in the initial months of the outsourcing agreement, which caused confusion, frustration and annoyance in the teams. The importance of appropriate communication, particularly its frequency, quality and mode, is well recognized; with often negative implications for associated organizational functions. Because the time interval for implementation was short, the teams passed speedily through the change-transition phases, resulting in dissonance and little opportunity for reflection. This action inquiry has underlined the importance of carrying out an impact evaluation on individuals and groups likely to be affected by a change, whether they are directly or indirectly associated. These ranges of factors are associated with "social structure maintenance" and, arguably, have management's least support during change.

The managerial drivers behind why organizations pursue outsourcing strategies have primarily focused on make or buy decision processes. When managers engage in supplier selection, it is imperative that among the noneconomic considerations they recognize the organization change implications. Moreover, they must be aware of the risk implications of changes in the balance of power in an exchange relationship and how power can shift over time to favor the supplier. In cases where staff members are transferred to the outsourced organization, important supply chain managerial considerations arise and supportive strategies are needed at operational and strategic levels of the organization.

Strategic supply chain changes to embrace outsourcing could lead to disintegration of the culture of the groups and leave people feeling suspicious and anxious, breaking down the complex set of interconnections in the organization and changing individual and group value systems. To lessen such effects, management should initiate face-to-face communication to engender inter-team cooperation and trust. This includes carefully designed contact between members to promote communication, informal or formal, as a vehicle in managing good relationships. The frequency and quality of the communication are significant factors in the development of mutual understanding of goals and the building of trust. Planned opportunities for social interaction in the workplace increase and extend the creation of shared meanings and shared understanding of goals and objectives. Such activities will engender trust in relationships, a fundamental component in relational exchanges such as long-term buyer-seller relationships. Again, this inter-team trust contrasts to competence-trust, which is based on the expectation that individuals or groups will be technically competent for a role.

Managers need to establish clear methods of control, which will result in confidence in a more predictable outcome. Conversely, a lack of methods of control could mean confusion and reduced confidence in attaining the best results. Clear responsibilities and clear decision processes and procedures, along with formal regulatory controls and more informal social controls, are all necessary. Although imposed regulatory procedures are often seen as a use of power and evidence of a lack of trust, such controls may in fact increase trust by providing specific and clear management objectives.

Such control needs to be measured so that it increases trust through shared values, norms and mutual understanding, since groups are influencing each other's behavior through meetings and communication. Moreover, this control is likely to discourage opportunistic behavior.

Strategic supply chain managers and change agents invariably focus on the areas that will be most affected by change, but they can neglect to consider that change will also affect interdependent parts of the organization. On the periphery of the loci of change, individuals will have perceived fact, underpinned by appropriate communication, preparation, involvement, training, group optimism and readiness to move on. Once again, the importance of appropriate and timely communication seen as a key management requirement is clear. Change in the psychological contract leads to change in attitudes, which leads to changes in behavior.

Management's role during this phase is therefore one of confirming expectations regarding the obligations of the other party based on their perception of their own obligations. Outsourcing will impact group perception of belonging, undermine established norms, unravel values and modify the organizational culture. These effects will lead to measurable changes in inter-group attitudes and behavior, as individuals act differently toward external group members. Management's interventions, in the form of active reinforcement to bolster the new environment, are vital. Such interventions might include organizational bonding and leadership development activities.

Limitations and Future Research Opportunities

This action research had two limitations: first, the study was limited to one multinational organization within the financial sector. Therefore, attempts to extend the conclusions to other research contexts may be misleading. Nevertheless, industrial sectors with comparable structural characteristics and environmental circumstances may draw inferences from this work. Second, the research is static in nature and lacks the benefits of a longitudinal analysis over time. The opportunity exists, therefore, to establish an ongoing longitudinal investigation to evaluate staff perception over time.

However, this study does provide important insights for practitioners, specifically senior managers who are contemplating or who have responsibility for initiating outsourcing. It is of paramount importance that they recognize the intervention implications under their control when pursuing an outsourcing strategy. Recognition and strategies need to be developed to accommodate the importance of cooperation, frequency and type of communication, approachability and trust. The perception that initial planning was thorough had once been widely held; over time a revised culture, new procedures and practices evolved. Teams, however, were highly critical of the transition change management.

Opportunities exist for future research in outsourcing, especially with regard to trust and power, transparency and transition-change management. The existing research on outsourcing (make-buy) considerations lacks emphasis on developing theoretical frameworks of outsourcing orientation and strategic positioning as a sub-discipline of supply chain management.

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