

Outsourcing: What's On the Other Side of the Coin?*

Tansu Barker**

Abstract

There has been an extraordinary growth in the use of offshore outsourcing in the last two decades. The essence of the evolving logic behind outsourcing has been to push overseas those activities that did not “create value” for the firm (Reilly and Tamkin 1996; Quinn and Hilmer 1994). Often the single biggest consideration used by multi-nationals (MNCs) in making outsourcing decisions was cost-related. Notwithstanding some issues, such as quality and loss of critical skills related to outsourcing, both the US and European companies report higher than expected levels of satisfaction with outsourcing (Kakabadse and Kakabadse, 2002). On the other hand, research undertaken by Dunn and Bradstreet (cited in Doig et al. 2001) reported that 20 to 25 percent of all outsourcing relationships (manufacturing, finance, information technology, and so forth) failed within two years and that 50 percent fail within five. Nearly 70 percent of the companies responding to a Dunn & Bradstreet survey asserted that suppliers 'didn't understand what they were supposed to do' and that 'the cost was too high and they provided poor service'. In spite of the conflicting research findings, even from the perspective of the MNCs, in the political front the adverse effects of offshore sourcing on employment and current account balances have been the source of much heated debate. Benefits and problems of outsourcing such as gaining economies of scale (Kakabadse and Kakabadse, 2002); vendor selection and hidden costs have almost exclusively been researched from the perspective of MNCs in developed countries. With the exception of India, very little has been written about outsourcers and its impact on these firms and their countries.

The key to understanding outsourcing is the concept of interdependency between the outsourcer and the outsourcee where each member performs a different function and has its own distinct goals (Rosmimah and Melewar, 2001). When the frequency, intensity and importance of the differences are extensive, they cause conflict, which refers to the tension among departments arising from the incompatibility of actual or desired responses (Gaski 1984; Raven and Kruglanski 1970). Where the rewards associated with the relationship outweigh the anxiety caused by it, the partnership continues. Otherwise, the relationship is eventually dissolved

**Professor of Marketing and International Business, Faculty of Business, Brock University, St.Catharines, Ontario L2S 3A1,Canada, tbarker@brocku.ca, Fax: (905) 378-5716

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Inter-organizational trust has been discussed and documented in various theories and it is regarded as a major determinant of inter-organizational cooperation (Glaser-Segura, 1998). Rousseau et al. (1998) defined trust as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another." Firms that expect to work cooperatively over prolonged periods of time must be concerned with the trustworthiness of their partners (Ring and Van de Ven, 1992; Morgan and Hunt, 1994).

This manuscript seeks to establish the need and the conceptual basis for investigating outsourcing and its implications from the perspective of the recipients, also referred to as providers and outsourcees in the literature and the popular press. Specifically, it explores the constructs of trust and conflict and their potential consequences from the perspective of outsourcees in developing countries.

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