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Role of absorptive capabilities in outsourcing the headquarters selling task in the United States☆

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ABSTRACT

Manufacturers often outsource headquarters selling task to sales and marketing agencies. Headquarters selling task is one of the most outsourced sales and marketing functions and it entails all the activities that a manufacturer conducts in order to sell its product line to the headquarters of a retailer. Thus, effective management of headquarters selling task has a strategic importance for the manufacturer. This study examines the role of absorptive capabilities in outsourcing headquarters selling task. Using resource-advantage theory, this study proposes a theoretical model to link the resources and absorptive capabilities of the outsourcer (manufacturer) and the outsourcee (sales and marketing agency) to performance outcomes. Using data from field interviews of managers an empirical model was tested. The results showed that resources of both the outsourcer and the outsourcee are important in turning potential complementarities into higher outsourcing performance. Contrary to the common belief that outsourcing is a one-sided transaction where only the outsourcee is responsible from the performance outcomes, this study suggests that both parties involved need to combine their resource assortments in the accomplishment of the task.

1. Introduction

Outsourcing has long been considered for the functions that can be more efficiently performed outside (Stigler, 1951). Gilbert (1993, p.7) defines outsourcing as "the process by which a corporation, a governmental agency or another business entity subcontracts to a third party". Ukidwe and Bakshi (2005) use the term outsourcee for the third party to whom the outsourcer outsources the task. *Subcontractor* is another term that can be used interchangeably with outsourcee. Generally, transaction-cost analysis forms the theoretical basis for the efficiency arguments (Williamson, 1975, 1985). However, recently the arguments that are based on effectiveness perspective such as resource-based view (Barney, 1991) gained eminence in the strategic outsourcing decisions (Sanders, Locke, Moore, & Autry, 2007).

Resource-based theories suggest that outsourcing helps the company to focus on the tasks that it is competent, thus increasing effectiveness (Barney, 1991, 1999). Among the resource-based theories, resource-based view (e.g., Barney, 1991) categorizes firm's resources and resource-advantage theory (e.g., Hunt & Morgan, 1995) considers dynamic capabilities as well as resources. According to the resource-based view, resources are categorized as human, physical and organizational (Barney, 1991), whereas the resource-advantage theory categorizes resources as human, physical, financial, legal, organizational, informational and relational (Hunt, 1997). According to Barney (1991) resources act as a source of competitive advantage as long as they are valuable, rare, inimitable and not substitutable. On the other hand, the resource-advantage theory posits that both routes to processes, renewal competencies such as dynamic capabilities and resources are sources of competitive advantage (Hunt, 1997). Therefore, the resource-based view takes a static perspective whereas the resource-advantage theory considers the processes and changing environmental conditions.

Studies that explore the concept of outsourcing usually focus on the antecedents such as decision to outsource or not, based on the transaction-cost analysis or agency theories. This article is distinct from those prior studies due to the fact that it explores the underlying dynamics of an already formed outsourcing relationship. Such that resources, processes, coordination and performance outcomes are the focus of the study. Taking the resource-advantage theory as the basis, this article proposes a theoretical model where the resources and social capital of both parties – the outsourcer and the outsourcee – contribute to the potential complementarities and absorptive capabilities, respectively. Higher performance outcomes are the result of both potential complementarities and absorptive capabilities. Therefore, this study incorporates both resources and processes aspects as well as relational

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factors which are often neglected in outsourcing relationships. In practice, manufacturers often outsource headquarters selling task and expect that all the resources are provided and all the activities are performed by the outsourcee. However, due to the nature of headquarters selling task, the outsourcee is dependent on the resources and inputs supplied by the outsourcer. Hence, this study questions the long-held assumption that the performance is solely dependent on the performance of the outsourcee in an outsourcing relationship.

2. Theoretical background

Outsourcing has been defined in many ways in the literature: some take a transaction-cost analysis perspective by defining outsourcing as a make or buy decision (Harrigan, 1985) while some others take a resource-based competency perspective and suggested to outsource all the activities that the firm does not have competency (Quinn & Hilmer, 1994). Transaction-cost analysis takes the efficiency considerations into account in outsourcing a task (Rindfleisch & Heide, 1997). Transaction-cost analysis suggests choosing the outsourcing option if it minimizes the sum of production and transaction costs (Rindfleisch & Heide, 1997). On the other hand, resource-based theories take an effectiveness perspective and consider resources and capabilities as the providers of competitive advantage (Barney, 1991).

Several studies in the literature used resource-based theories in explaining outsourcing relationships. To name a few, Gilley, Greer, and Rasheed (2004) found that outsourcing of human resource activities has a positive effect on performance; Wang, Gwebu, Wang, and Zhu (2008) found that outsourcing enhances the value of the IT firms, and Lai, Li, Wang, and Zhao (2008) found a positive relationship between technology capability and competitive advantage.

Barney (1991) categorizes resources as human, physical and organizational. Later on, Barney (1997) in his VRIO framework proposed a reframed resource-based view where organizational processes were considered. Newbert (2007) stated that early works of resource-based view took a static perspective where only the resources of the firm were considered as the sole source of competitive advantage. However, processes' aspect where the resources are exploited should not be neglected (Mahoney & Pandain, 1992).

Teece, Pisano, and Shuen (1997) considered the processes aspect and defined the dynamic capability concept as “firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments” (p.516). According to the dynamic capability view, hard to imitate performance outcomes are generated through the combination of unique resources and processes (Teece et al., 1997). Wang and Ahmed (2007) in their review of dynamic capabilities identified three components of dynamic capabilities as *adaptive capability*, *absorptive capability* and *innovative capability*. Wang and Ahmed (2007, p.37) defined adaptive capability as “firm's ability to identify and capitalize on emerging market opportunities”. Absorptive capacity was defined as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply to commercial ends” (Cohen & Levinthal, 1990, p.128). Innovative capability was defined as “the firm's ability to develop new products, and/or markets, through aligning strategic innovative orientation with innovative behaviors and processes” (Wang & Ahmed, 2007, p.38). Hence, dynamic capabilities have a profound effect on higher performance outcomes.

Resource-advantage theory is an integrative model that incorporates several perspectives such as resource-based view, dynamic capabilities, competitive-advantage theory and competency arguments (Hunt, Lambe, & Wittmann, 2002). Overall, resource-advantage theory can be considered as a well-grounded theoretical model that can be applied to partnership relationships such as alliances, joint ventures and outsourcing. According to this view, firms collaborate in order to achieve goals that are difficult to achieve on their own (Lambe, Spekman, & Hunt, 2002). Thus, superior performance can be attained by joining resources with firms that complement one's resource assortments (Teece, 1988). In addition, Hunt and Arnett (2003) considered renewal competencies in other words dynamic capabilities as the heart of proactive innovation and performance outcomes. According to Hunt et al. (2002), relational factors such as trust, shared values and communication are also important in the success of partnerships. Thus, premises of the social capital theory also coincide with the resource-advantage theory (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998). Social capital is composed of three dimensions; structural, relational and cognitive (Nahapiet & Ghoshal, 1998). Structural component explains how the actors are connected to each other; relational component explores the norms, identification issues and trust and cognitive component explore the communication, information sharing and learning routes such as the shared values, codes, languages and narratives (Nahapiet & Ghoshal, 1998).

3. Model development and hypotheses

Resource-advantage theory posits that resources are heterogeneous across firms and they are immobile (Hunt, 1997). Thus, firms should seek for the other firm's that can complement their resource needs. Resources are categorized as financial, physical, legal, human, organizational, informational and relational by the resource-advantage theory (Hunt, 1997, p.64). Thus, the first six resources are directly related to the task-specific characteristics whereas the last one considers the relations between actors. When two parties such in an outsourcing relationship come together, the pure existing task-specific resources of both parties complement each other to a certain degree. In our conceptualization, we introduce potential complementarities construct and define it as the combination of task-specific resources of both the outsourcee and the outsourcer. Hence, potential complementarities construct is the mere collection of those resources combined.

Thus, we hypothesize:

H1. *Task-specific resources of the outsourcer are positively related to potential complementarities.*

H2. *Task-specific resources of the outsourcee are positively related to potential complementarities.*

Task-specific resources of both parties are related to the transactional aspect of exchange and free from relational issues. Thus, incorporating relational resources of exchange such as trust, cooperation, shared values, learning routes is essential for understanding dyadic relationships (Hunt et al., 2002). Social capital is a relational resource that is comprised of three dimensions: structural, cognitive, and relational (Nahapiet & Ghoshal, 1998). Cognitive social capital explains the communication and learning routes through shared values, shared codes, shared language and narratives (Nahapiet & Ghoshal, 1998). Blyler and Coff (2003) argued that social capital is an antecedent to dynamic capabilities construct and capabilities are not realized in the absence of social capital. Dynamic capabilities construct is comprised of three dimensions: adaptive, absorptive and innovative (Wang & Ahmed, 2007). Wang and Ahmed (2007) posit that firms learn from each other, transform and embed the external knowledge through their absorptive capabilities. Thus, in order for firms to learn from each other, transform and embed the external knowledge gained from their partners, these firms should have cognitive social capital referring to shared goals, values and understanding. Thus, we hypothesize:

H3. *Cognitive social capital of the outsourcer is positively related to absorptive capabilities.*

H4. *Cognitive social capital of the outsourcee is positively related to absorptive capabilities.*

Outsourcing is one of the kinds of partnerships where parties join forces to complete a task in hand. As stated by competitive advantage theory and complementarity theory, combining resources with other

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