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Models referring to outsourcing theory

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Abstract

This study presents various theories and models of outsourcing. This presentation was based on an extensive literature review, which led to the identification of ten different outsourcing theories and related models.

All these models have their own advantages and disadvantages, thus a critical analysis is required in order to achieve useful conclusions for the organizations who intend to implement such theories.

The review of the Outsourcing models is based on five phases: the preparation phase, the phase of selecting an external service provider, the transition phase, the management of the relationship phase and the review phase.

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Keywords : Outsourcing Theories, Outsourcing Models, Implementation of Outsourcing Theory, Preparation Phase, Transition Phase, Relationship Management, Review Phase, Service Provider.

1. Introduction

The business practice of outsourcing enjoys the ever-increasing attention of the scientific community, as its practical implementation is constantly spreading. Due to the high research volume, many different approaches on the interpretation, analysis and study of this phenomenon have come to the fore.

This paper provides a thorough presentation of the most important, diverse theoretical approaches provided by the international literature, in order to interpret and explore the business phenomenon of outsourcing during the past three decades.

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2. Outsourcing Theories

Outsourcing has a very complex structure, which consists of numerous activities and functions giving rise to series of administrative and managerial dilemmas. A number of theories have been used to help scientists understand the nature of these operations and activities, as well as to help the managers of enterprises and organisations handle these processes in an effective manner.

It is commonly accepted that any phenomenon can be described through a series of theoretical frameworks based on the corresponding approaches. Naturally enough, outsourcing has been approached applying a series of different theories, which can often lead to confusion among researchers (Busi & McIvor, 2008). This presentation will focus, with a few exceptions, on the models published during the past 25 years as they contain the solid knowledge of previous researchers and they ensure the minimum required timeliness.

2.1 Transaction Cost Economics

The Transaction Cost Economics (TCE) theory has traditionally been the most widely-used outsourcing theory. It is considered that the TCE theory provides the best decision-making tools in order to assist organisations in deciding which of their operations should be outsourced and, thereafter, to prepare themselves in order to implement the necessary organisational changes arising from outsourcing.

The characteristics of this model allow for its implementation both at the relationship management phase and at the reconsideration phase. Another extremely useful feature of the TCE theory is that it can be used for the analysis and selection of outsourcing contracts, which are often of great complexity.

A number of researchers have approached the phenomenon of outsourcing using the TCE theory. Firstly, in their research on decision-making with regard to the outsourcing of IT operations, researchers Lacity and Willcocks (1995) explored the phases of preparation, vendor selection, relationship management and reconsideration, from the viewpoint of the TCE theory.

Aubert, Rivard and Patry (1996) also proposed a model which combines the TCE theory with the theory of Incomplete Contracts, in order to formulate a model that explains the phases of Preparation and Relationship Management. Eight years later, the same researchers (Aubert et al., 2004) returned with a new model, which combines again the two theories in order to interpret exclusively the preparation phase of outsourcing.

Ulset (1996) explored the role of research and development in the process of outsourcing on the basis of the TCE theory, emphasising on the need of organisations to safeguard the intellectual property of their patents. His model analyses the phases of preparation, vendor selection and relationship management.

In another research effort, Brandes, Lilliecreutz and Brege (1997) explored the factors that determine the success of an outsourcing effort. Their model was based on the TCE theory and examined the phases of preparation, relationship management and reconsideration. The researchers reached the conclusion that when the decision to outsource is based on the TCE theory the outcome is better, as is the case when the vendor manages to develop a strong manufacturing basis.

2.2. Core Competencies Theory

The Core Competencies Theory is based on the Theory of Resources and is an evolution thereof. Researchers Prahalad and Hamel (1990) defined Core Competencies as the collective knowledge of an organisation, especially with regard to the ways of combining different productive skills and the integration methods of various different technologies.

An analysis of the vendor's competencies is, according to the Core Competencies Theory, the main factor that determines the success of an agreement. The Core Competencies Theory has also been used to study the phases of relationship management and reconsideration.

The Core Competencies Theory is the second most popular approach in the academic research related to outsourcing. Pinnington and Woolcock (1995) were based on the Core Competencies Theory in order to investigate whether the outsourcing of business operations related to the IT system of an organisation may improve its organisational skills. Their research focused on the phases of preparation and reconsideration.