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Performance management: outsourcing and behavioural dynamics

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Abstract: Empirical research captured information from a multinational EU leader in the financial services sector during the early stage of outsourcing IT services and an action inquiry methodology surfaced the embedded web of meanings relating to changes and effects on working relationships. The results identified the importance of addressing strategic performance issues and inter/intra relationships between parent company team members and their outsource counterparts. Conclusions indicate that behavioural issues such as psychological contracts within inter/intra work groups, power and trust are highly significant managerial performance issues when perceiving the success or failure of an outsourcing strategy, such that they potentially outweigh economic factors and corporate performance imperatives specified in the service level agreement.

Keywords: performance management; outsourcing; action inquiry; supply chains; intra-group relationships; group dynamics; exchange relationships.

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1 Introduction

This paper discusses empirical work undertaken to develop a conceptual framework to support an action inquiry (Ellis and Kiely, 2000) into organisational changes, resulting from the outsourcing of Information and Communication Technology Services (ICTS). The organisation is a UK Multinational Organisation (MNO) and a leader in the financial services sector, with brands in life insurance, and with branches throughout the European Union (EU). In December 2000 a Service Level Agreement (SLA) was signed to outsource ICTS: application software, processes development and infrastructure support services. As a result, the majority of the ICTS staff from the parent company became employees of the outsourcing organisation. The outsourced operation includes the largest financial services call centre in Europe, with approximately 800 staff.

Outsourcing has been somewhat idealistically described as an arrangement of cooperative interfirm relationships that should be based on mutual trust between partner organisations for improving overall performance (Smith *et al.*, 1998). However, whilst 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 actors, operating within a complex web of interactions and interdependencies between organisations 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* organisations pursue outsourcing strategies has explored *make-or-buy* decision processes (Collins and Bechler, 1999; Laios and Moschuris, 1999; Maltz and Ellram, 1999). It is recognised that supplier selection, beyond the economic considerations and the assessment criteria during outsourcing planning, is critical to the outcome (Kannan and Tan, 2002), and that organisations need to be aware of the organisational change implications (McIvor and McHugh, 2000); moreover risk implications should be considered (Zsidisin, 2003), and an appreciation that the balance of power in an exchange relationship can shift over time to favour the supplier (Beer *et al.*, 1994).

However, a research gap exists in the performance management literature on understanding the consequences of team inter/intra attitudinal and behavioural issues and relationships between *parent* company team members and their counterparts from the outsource-organisation. Consequently, this paper addresses a number of important issues that are relevant to the development of theory and practitioner application. To first conceptualise this construct, the next section reviews literature encompassing outsourcing, social exchange, intra group relationships, communication and trust, controls and processes, cooperation and power and psychological transition issues. Next, action research methods are described, and findings from the data collection phase discussed. The paper then moves to the development of an explanatory framework that draws inferences from the information/data. During the later phase of the work, polar diagrams facilitate 'sense-making' and conclude whether the propositions hold some truth. Finally, the significance of results is explored, and managerial implications for the practitioner are identified; whilst offering future research opportunities.

2   Development of conceptual framework

The purpose of the research was to gain understanding of the perceived attitudes and behaviour of individuals (idiographic), and the changes in organisational and group (nomothetic) relationships in the new commercial relationship. Generalised concepts were sought for indefinitely repeatable events and processes; whilst the ideographic aimed to understand the unique and non-recurrent (Nagel, 1961; Schalk *et al.*, 1998).

The underlying conceptual underpinning of this work relied upon *overt* phenomenological methodologies (Maxwell, 1998) to identify the embedded web of meanings related to human experiences: namely, the perceptions built on the social world via intuition and imagination. Layers of relations and meanings conceal these phenomena; these being 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).

The research design commenced by critically reviewing outsourcing literature within an eclectic body of knowledge that comprised supply chain management, strategic management, and organisational and behavioural science. The emergent review supported development of an explanatory research framework incorporating a range of propositions for testing their validity.

Social exchange and social capital, in contrast to economic exchange, is based on trust, personal obligation and gratitude, and not specific time-related transactions, which can be argued through an operant psychology approach (Homans, 1958) or alternatively using economic-based approaches (Blau, 1964). Blau's (1964) argument follows that history dictates social exchange behaviours and relationships between individuals and supports 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 to our work. In unfair exchange, one party is likely to become distressed, leading to conflict (Homans, 1958), whilst the other may feel guilty. Thibaut and Kelley (1976) argue that if expectations of a relationship exceed the outcomes and there are no alternatives, it becomes an unsatisfying relationship. Such reductionism, however, invariably attracts criticism for being simplistic (Emerson, 1992). Inter/intra group relationships comprises a belief that communication, trust, control, cooperation and power are important in explaining relationships between organisations and groups within them (Blau, 1964; Emerson, 1992; Sherif and Sherif, 1966).

A contrasting view has been based around the transaction-cost, economics paradigm (Williamson, 1985) that argues the two most important dimensions of business behaviour are the problems associated with imperfect information and the desire of *economic man* to act opportunistically.

2.1   Intragroup relationship issues

Whilst social categorisation, social cognition, deindividuation and social exchange theories can assist in our understanding of groups, they are predominantly individualistic in their approach. Our research endeavoured 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; also with a set of values and norms regulating group behaviour (Sharrifi and Pawar, 2002; Kakabadse and Kakabadse, 2000). Strategic changes to embrace outsourcing will impact on such

dynamics (Grover *et al.*, 1996). Kakabadse and Kakabadse (2000) also found that outsourcing could lead to disintegration of the culture of the groups. External change interventions can break down the complex set of interconnections in the organisation and changing individual and group value systems (Tajfel, 1981).

Sherif and Sherif (1966) argued that intergroup attitudes and behaviour would tend to reflect the objectives of the group, and argued that both negative and positive group attitudes are based on the individual interaction experiences and functional relations between the groups. Relationships *in* an organisation are likely to be different from those *outside* an interfirm type of relationship due to a contractual-based agreement separating the companies (Buckley and Chapman, 1997; Burnes, 1996; Dalton, 1959). However, the behavioural complexity within the context of outsourcing has been recognised and suitably acknowledged in the literature (Lonsdale, 2001).

We therefore contend the proposition that:

Proposition 1:   *Outsourcing will affect groups' exchange relationships in different ways.*

2.2   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) suggest that contact between members of different groups under appropriate conditions can lessen prejudice and hostility. Zineldin and Jonsson (2000) argue that communication, informal or formal was a vital part of establishing and managing a good relationship. Ring and van de Ven (1994) and Kanter (1994) identified communication as important in building trust in cooperative relationships, as it was found to be crucial in 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 it could enhance collaborative work.

A proposition for exploration is:

Proposition 2:   *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 whilst trust might diffuse uncertainty and complexity it can be misplaced. Emerson (1992) likewise concludes that it is inherent to an organisation's belief that the other company will perform actions that will result in positive outcomes for the firm and will not take unexpected actions that would result in negative outcomes for the (parent) firm. Zaheer *et al.* (1998) describe interorganisational trust as the extent to which there is a collectively held trust orientation by organisation members' towards the partner firm. Moreover, Ring and van de Ven (1994) suggested that individual trust is required for intercompany trust, as *organisations* do not trust, but *individuals* do. Hult *et al.*, (2000) found trust to be one of the key areas that significantly

affected relationships and is dependent on communication, honesty and the integrity or underlying motives of individuals; and is seen (Dwyer *et al.*, 1987) as central to explaining relational exchanges.

People in organisations produce *predictability*; this being a construct for inter/intra organisational trust (Grey and Garsten, 2001). Trust and goodwill are recognised as moral obligations to demonstrate a special concern for others' interest above their own; in contrast to competence-trust that 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:

Proposition 3:   *Trust is regarded as the predictability of an individual or group's behaviour and is inherent in organisational processes and values, but could be destroyed or greatly reduced if these were to change significantly during outsourcing.*

2.3   Controls and processes

Social or informal control is based on norms, shared values, internalisation and beliefs (Eisenhardt, 1985), as distinct from regulatory control, by which elements of a system are more predictable through the establishment of procedures (Das and Teng, 2001a). In an outsourcing agreement, procedures cannot be exhaustive, and the ambiguities have to be threshed out. Invariably intercompany relationships cannot be controlled by formal systems and processes alone, but require interpersonal and informal infrastructures that enhance learning (Kanter, 1994). This need not be detrimental to the relationship, but (couched as a proposition):

Proposition 4:   *The potential effects of the change to outsourcing needs consideration during the management of transition as the change process is directly associated with perceived quality of relationships.*

Possible reasons for the negative perception of control can be based on imposed regulatory procedures (Das and Teng, 2001a). An alternative view is that control can increase trust, as it provides specific management objectives (*c.f.* Das and Teng, 2001b). Long-term business relations are usually embedded in social relations where trust is central (Seal and Vincent-Jones, 1997). Disruptions to previous long-term relations can force relationships on to a more market-based footing in which accountability, contracts and fiscal determinants are more relevant and prominent.

In an outsourcing context, control is used to ensure the supplier does not behave opportunistically, and that the supplier has effective measures in place to enable payment for completed work. We suggest that:

Proposition 5:   *Outsourcing, therefore, inevitably results in greater formal controls, at least initially, and as such could affect trust and the working relationships between the teams'.*

Where reforms of an outsourcing nature had taken place too quickly a low trust environment could evolve and conflict would be resolved through formal contracts (Seal and Vincent-Jones, 1997). Thus, conflict could escalate due to new working practices.

2.4 Cooperation and power issues

Cooperation is regarded as a mutual interrelationship between the objectives of separate parties leading to greater efficiency and social behaviour (Blau, 1964); where individuals seek to reconcile self-interest in personal relationships (Das and Teng, 2001b). We explore this notion further by separating this organisational level view from an action level of cooperation, and as a goal-directed, process-related joint activity. Ring and van de Ven (1994) signify cooperation as being closely linked to the social embeddedness of the personal relationships involved. Other writers have found a strong link between an individual's willingness to cooperate and the presence of trust (Bachmann, 2001; Das and Teng, 2001b). The *context setting* is therefore important for a successful cooperative relationship, to support communication and to cooperate with interdependence, open debate and mutual positive expectation; leading to another aspect of cooperation, namely: *adaptation* (Zineldin and Jonsson, 2000). Whilst some adaptations are formal 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, and compliance, with any lack of it associated with mistrust and opportunistic behaviour (Smith *et al.*, 1998). The *levels* of cooperation are therefore deemed to be of significance for working relationships; and we explore this with the proposition:

Proposition 6:   *Assessing the cooperative interfirm relationship based on mutual trust between partner organisations can identify cooperation for an outsourcing arrangement.*

The position of power is also a key component of working relationships (Blau, 1964; Thibaut and Kelley, 1976). Alternatively, power might come from having resources that others need, and the controlling of alternative sources (Emerson, 1992); with inequitable power causing conflict (Blau, 1964; Luhmann, 1979; Anderson and Narus, 1997). Consequently, if one party is perceived to feel restricted by the other, with no alternative source, and with a resultant dependency, a proposition for exploration is:

Proposition 7:   *If the power base is perceived to be inequitable after outsourcing, there ispotentially a cause for conflict.*

2.5 Psychological transition issues

Group and individual attitudes and behaviour make their own sense of change in the *status quo* (Bridges, 1992). Such transition is based on how individuals internalise change (Bennett and Durkin, 2000; Tannenbaum *et al.*, 1985; Tannenbaum and Hanna, 1985). Other explanations of the stages of change processes include Lewin's (1951), Hughes (1991) and Bridges (1992). Spencer and Adams (1990) defined the most exhaustive list of stages based on alternative scenarios and cases of individuals and how they coped with change. *Group dynamics* suggests that the concentration should be on work groups rather than individuals (Schein, 1980) and change leadership (Pettigrew and Whipp, 1986).

At the individual level, Schlesinger (1986) identified four drivers for individuals' resistance to change, with the most relevant for our work being: lack of trust and misunderstanding and differing perceptions of the benefits from the change. These are

based on an individual's history, emotions and perceived *fact*, underpinned by appropriate communication, preparation, involvement, training, optimism and readiness to move on (Stuart, 1995). The importance of appropriate and timely communication (Miller, 1992; Sharrifi and Pawar, 2002) is explored with the proposition:

Proposition 8:   *When moving to outsourcing, managers should communicate what they do not know...being honest and truthful... and should share what they can... and be clear about what they cannot discuss'.*

In our work, as with others (Alexander, 1997; Hudson, 1999) respondents repeatedly identified the importance of communication as being the *vital factor* in reducing unpredictability.

Whilst psychological contracts typically describe relationships and agreements between employers and employees, they can relate to buyer-suppliers (Blancero and Ellram, 1997; Makin *et al.*, 1996; Rousseau, 1989). Contracts are unique to each relationship and based on reciprocity; and both parties have perceived expectations (Rousseau, 1989). Change in the psychological contract leads to change in attitudes, which leads to changes in behaviour (Schalk *et al.*, 1998). We can envisage, therefore, that organisational change when outsourcing can have a significant impact on individuals' perception to inter/intra relationships. We therefore propose:

Proposition 9:   *Where the psychological contract between the groups has changed after outsourcing from an internal, informal, relationship to a buyer-supplier formal relationship, attitudes and behaviours between employee and employer and between groups of individuals will be affected.*

2.6   Key themes underpinning the conceptual framework

Making sense of the generic themes surfaced in this work has been facilitated by a two-dimensional framework (Figure 1). For example, trust was an element associated to several themes; and whilst 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 of another's attitude and behaviour in a new or changing relationship. Controls and processes, especially when discussing regulatory controls, are also linked to trust.

A range of components are identified within a generic term entitled 'Social Cohesion Maintenance' that reflects the importance of inter/intra relationships. Individuals will usually act out of their own interest and are concerned with fair rewards; and if these are not achieved they can feel that the relationship is not satisfactory. Outsourcing can affect group perception of belonging, established norms, values and the organisational culture. This may lead to measurable changes in intergroup attitudes and behaviour, as individuals act differently to external group members. Whilst these notions primarily address group behaviour, the extent to which this can change the relationships on a one-to-one basis is apparent.

Figure 1 Conceptual framework
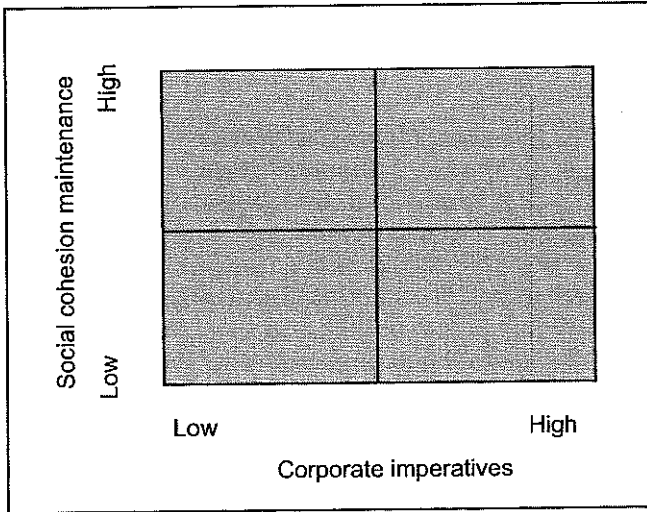
Along the alternative axis we have termed the phrase 'Corporate Imperatives' that captures the notion of controls and processes that are required to support the outsourcing strategy. Communication was identified as a crucial factor if the quality, frequency or type deviated from the norm. Outsourcing situations will, in the main, lead to a change from an informal, internally based, relationship to a more market and contract based external relationship (*i.e.,* SLV). Cooperation and power have been identified as factors affecting uncertainty. An individual's transition during organisational change is addressed through the concept of psychological contracts. Appropriate and timely communication was identified as critical; otherwise any changes in psychological contracts are unlikely to be successful. Failure to recognise the importance of communication could contribute to problems with relationships between members of groups and inter-group relationships.

3　Action research methodology and inquiry design

The action inquiry focused on two teams, comprising a total 30 people. One team represented staff that had been transferred to the outsource organisation, whilst the other team remained with the parent company.

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

- What are the key areas of change that had occurred within or between the teams as a result of the outsourcing agreement?

- What were the effects that these changes had on individual and group attitudes, behaviours and perceptions?

- How were these changes dealt with at a personal level?

- What was the overall feeling about the situation?

Analysis (using Winmax software (Kuckartz, 1998)) of the focus groups' transcripts, facilitated further discussions, and supported the development of a structured questionnaire (Oppenheim, 1996) that was ultimately administered to all 30 staff. The design of the research instrument included open-ended questions to elicit extensive content of perception (Secord and Backman, 1974). Additionally, the ordering and phrasing of questions was considered (Schuman and Presser, 1996); and a Likert scale metric was administered (0 – disagree/5 – strongly agree). Finally, the questionnaire was piloted and tested against Fowler's (1998) checklist. Pilot testing was completed with managers to ensure that perceptions of the questions were not widely different. Consistency and a lack of ambiguity were considered crucial to this primary data collection (Easterby-Smith *et al.*, 1991). To explore in greater detail the findings from the questionnaires, each participant was interviewed during an approximate one hour-long meeting. To promote validity (Reason, 1988), discrepant data was specifically searched for. A criticism of such a qualitative methodology is that it can skew information due to the researcher's perception of the data, the survey method and general interview questions. Not withstanding these points, due diligence was taken, with interviews taking place midweek at agreed times, that were non-problematic and non-controversial.

To ensure maximum reliability, 'equivalence reliability' was adopted (Easterby-Smith *et al.*, 1991). This was established in the pre-test/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. Glaser and Strauss (1967) suggest that results should be analytical enable generalisation, but should enable people to relate the various themes to their own situations; and to support the notion of 'transferability'. We would also argue that the results of this work provide sufficient evidence to generate theory (Zineldin and Jonsson, 2000) due to the nature of the *components* analysed.

3.1   Data collection

Winmax output was classified into four categories: processes; trust issues; communication and controls, and subgroups: increased bureaucracy; less cooperation and helpfulness; implicit communication; less trust and more taking advantage; less approachability; different levels of confidence; and greater formality.

The completed questionnaires were analysed by adopting the methodology of Miles and Huberman (1984), involving a matrix of questions against respondents' data, and subsequently used to identify categories and themes within and across teams.

4   Findings and discussion

The parent company team believed cooperation, communication, approachability and trust had decreased due to the more formal processes. Moreover, there was a perceived lack of communication and awareness of procedural updates. The parent company team perceived that there remained too much bureaucracy, 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. Whilst they agreed there was greater formality in the relationship, they believed that this had improved accountability, documentation, and quality. The parent company team felt that cooperation,

communication and trust had decreased as a result of relationships based upon a financial premise, with most believing that this had affected approachability. Cost issues were considered by the parent company team to have given them greater power in their relationship.

4.1 Communication and controls

The parent company team believed that the frequency of information supply had decreased, with communication restricted to more formal channels. This resulted in the team perceiving that they no longer had the opportunity to discuss work issues; and that resulted in feelings of resentment. The outsource team felt that there was little communication, which consequently led to mistrust and confrontational behaviour. The team, however, felt that there had been a decrease in the frequency of communication and that whilst it was more formal, this had made it *professional*. In addition, increased documentation and confirmation of requirements had resulted in more planned work. The type and mode of communication was felt by both teams to have changed from friendly and informal to *buyer-supplier*, with more formal communications. When the processes, procedures and working practices were introduced immediately following the agreement, there was felt to be a great deal of confusion, leading to conflict between the teams. Some members of the outsource team indicated that they would favour *increased* controls to eliminate ambiguities.

4.2 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 due to new processes and protocols. The new formal agreement encouraged greater fiscal consideration to gain corporate efficiencies, which meant that informal requests for informal work were no longer tolerated. When questioned on the overall change in *relationships*, the teams believed that a marked deterioration had occurred. The consensus view was the lack of communication, especially at a face-to-face level.

The parent company team felt that there was poor management of the transition, including communication of changes in operational methods, processes and procedures. There was felt to be confusion of 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. Both teams perceived that the outsourcing agreement had led to a reduction in cooperation, approachability, fairness, communication and helpfulness.

5 Development of an explanatory framework

The nature of action inquiry (Ellis and Kiely, 2000) encourages reflection, followed by the grounding of primary information within the literature. Consequently, this 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; the aspect of managing change and psychological contracts.

Locating Propositions 1 to 9 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 have been shown in Figure 2.

Figure 2   Location and scatter of responses
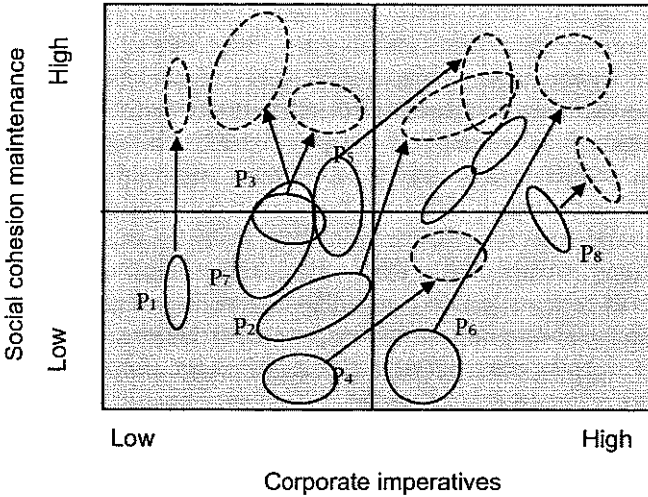
Each *proposition* supported a bank of questions whose responses were used to develop polar diagrams to quantify the *shape and range* of plot (see Figure 3). The solid-line plots within the framework represent participants' responses; whilst the broken-line plots represent participants' desired location.

Figure 3   Polar diagram: Proposition 1
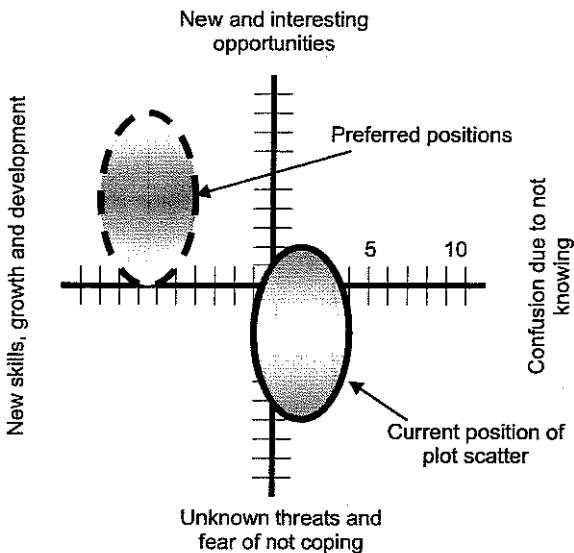
Considerable changes in mode, type and frequency of communication were perceived to have affected the relationship (more from the parent company team's perspective): confirming the views of both Argyle (1991) and Pettigrew and Whipp (1986) regarding the importance of specific targeted strategies for communications in an intergroup relationship. There was a perceived marked difference in the change in frequency of communications, confirming the Zineldin and Jonsson (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 behaviour: processes, knowledge of costs; communication and controls, were linked to a perception of mistrust from the teams (Blau, 1964; Emerson, 1992; Luhmann, 1979), and 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). These views confirm the findings from the case study from Hult *et al.* (2000), showing that the belief of hidden agendas or opportunistic behaviour was one of the reasons why there is a reduction of trust. The cessation of 'free assistance' 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 Garsten, 2001; Sako, 1992; Zaheer *et al.*, 1998). Excessive formalisation and monitoring of interorganisational relationships can lead to conflict and distrust between parties (Seal and Vincent-Jones, 1997); and the increase in controls and processes and reduction of social controls could be viewed as inevitable. Individuals in both teams initially perceived that the other team had increased their power base; and this is potentially a factor for conflict rather than compliance (Anderson and Narus, 1997). For parent-company staff there was little motivation and commitment to the new working practices. Such expectations will also influence future decision-making processes; and 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) identified that the impact of outsourcing on social structures is not yet fully appreciated. In this research the changes in the psychological contract as a different set of mutual obligations was created; and this manifested in changes in predictability, processes and control procedures. Prior expectation would have encompassed levels of cooperation, formality, communication, roles and how business should be conducted (Makin *et al.*, 1996). This aspect was identified by Schalk *et al.* (1998), who found that communication and greater understanding can lead to acceptance of the change and a rebuilding of the psychological contract between the teams based on new mutual obligations.

6 Reflection, conclusions and managerial implications

These research findings have several organisational performance implications. There was significant reaction by all staff related to processes and procedural controls. This resulted in a perception of a decrease in cooperation, approachability, communication, fairness and helpfulness between teams. Senior managers therefore need to recognise that 'self-interests' need managing and can be used as leverage. The perceived reduction of cooperation and power and increased controls resulted in a reduction in trust. This can be

intrinsically associated to the lack of understanding of new processes, procedures and controls. Of concern to performance management was the perceived poor communication in the initial months of the outsourcing agreement that had caused confusion, frustration and annoyance in the teams. The importance of appropriate communication, particularly its frequency, quality and mode is well recognised. The time interval for implementation was short, (a commercial imperative), passing speedily through the *change-transition phases*, causing dissonance and little opportunity for reflection.

To lessen such effects, management should promote communication, informal or formal, as a vehicle for fostering sound relationships. The frequency and quality of the communication is a significant factor when looking at a mutual understanding of goals and efforts when building trust. Planned opportunities for social interaction in the workplace increases and extends the creation and emergence of shared meanings, and shared understanding of goals and objectives. Such activities will engender trust in relationships, a fundamental component in explaining relational exchanges, such as long-term buyer-seller relationships. Managers need to establish clear methods of control, which will result in confidence for a more predictable outcome; conversely, the lack of them could mean confusion and reduced confidence in getting the best results. There is a requirement for clear responsibilities, clear decision processes and procedures, combined with the formal regulatory controls and the more informal social controls. Imposed regulatory procedures are often seen as a use of power and a demonstration of a lack of trust; however, alternatively, such control can increase trust as it provides specific and clear management objectives. Such control needs to be measured so that it increases trust through shared values, norms and mutual understanding; as groups are influencing each other's behaviour through meetings and communication. Moreover, this is likely to discourage opportunistic behaviour.

Changes in the psychological contract leads to changes in attitudes which leads to changes in behaviour. Managements' 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 organisational culture. Management's interventions, in the form of active reinforcement to bolster the new environment, are vitally important. Such interventions might include organisational bonding and leadership development activities

Whilst the study is limited to one UK multinational organisation within the EU financial sector, industrial sectors with comparable structural characteristics and environmental circumstances may draw inferences from our work. However, this study does provide a contribution for practitioners, specifically senior managers contemplating or initiating outsourcing. Clearly, cognisance of the intervention implications on organisation performance when pursuing an outsourcing strategy is of paramount importance. However, teams were highly critical of *transition change management*. Whilst extant research on outsourcing exists, the lack of emphasis on performance and behavioural issues has been a shortfall.

Acknowledgment

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