Journal of Business Research 65 (2012) 1195–1201

Contents lists available at ScienceDirect

Journal of Business Research

Aligning organizational control practices with competitive outsourcing performance

Mingu Kang [a], Xiaobo Wu [a], Paul Hong [b,*], Youngwon Park [c]

[a] School of Management, Zhejiang University, PR China
[b] Information Operations and Technology Management, College of Business and Innovation University of Toledo, USA
[c] Manufacturing Management Research Center, University of Tokyo, Japan

ARTICLE INFO

Article history:
Received 15 October 2010
Accepted 13 July 2011
Available online 8 September 2011

Keywords:
Outsourcing strategy
Organizational control
Outsourcing performance
MNCs in China

ABSTRACT

The aim of this article is to present a research model that defines how different outsourcing strategies influence organizational control mechanisms that impact outsourcing outcomes. This research study consists of five case studies, each focusing on a foreign multi-national corporation (MNC) that has outsourcing experience in China. The results of these case studies examine the relationships among outsourcing strategies, organizational control, and outsourcing performance outcomes. In addition, the findings explain how trust competence and in-house knowledge of outsourced tasks have moderating effects between outsourcing strategies and process control. This article provides practical insight into the ways that business executives exercise organizational control in order to achieve effective outsourcing outcomes within China's evolving economic context.

1. Introduction

In the current globally networked economy, outsourcing has increasingly become a strategic weapon (Gottfredson, Puryear, & Phillips, 2005; Kremic, Tukel, & Rom, 2006). According to Rigby and Bilodeau (2009), the latest trend in outsourcing is clear. These authors have reported that 63% of firms in 2000, 77% of firms in 2006 and 63% of firms in 2008 regarded outsourcing as a primary strategic management tool. On the other hand, the overall level of satisfaction with outsourcing among these firms has remained below 50%. Many firms have adopted outsourcing practices in order to obtain cost efficiencies and strategic competitiveness, yet more than half of the firms are disappointed with their outsourcing outcomes. Such alarming results call for critical examinations of effective outsourcing practices. Previous research has explored the drivers, processes, and outcomes of outsourcing (Hatonen & Eriksson, 2009; Jiang & Qureshi, 2006), yet this research has provided inconsistent results regarding the effects of outsourcing (Bengtsson, Von Haartman, & Dabhilkar, 2009; Leiblein, Reuer, & Dalsace, 2002). These results suggest that the contextual differences associated with strategic outsourcing practices, such as "the individual transaction and the contracting environment" (Leiblein et al., 2002, p. 818) as well as firms' differing specific strategic intentions for outsourcing (Bengtsson et al., 2009), require further investigation.

China has undoubtedly become a very attractive FDI destination and the manufacturing center for foreign MNCs. According to the National Bureau of Statistics of China, 63.6% of the total FDI from 1997 to 2007 belonged to the manufacturing sector. Since the mid-1990s, China has successfully attracted foreign direct investment (FDI) from multi-national corporations (MNCs) that focus primarily on offshore manufacturing (Qu & Brocklehurst, 2003). As MNCs continue to locate their manufacturing sites in emerging economies (e.g., China and India), their subsidiaries will naturally continue to engage in extensive outsourcing activities.

The majority of research literature on offshore or global outsourcing has focused on the activities of MNCs' headquarters (Bozarth, Handfield, & Das, 1998; Monczka & Trent, 1991; Trent & Monczka, 2003). However, little research has been conducted on the outsourcing practices of MNCs' subsidiaries within host countries. These subsidiaries experience enormous business challenges related to legal, political, cultural, and financial obstacles (Kang, Wu, & Hong, 2009; Kotabe & Murray, 2004). Thus, obtaining effective outsourcing outcomes for these subsidiaries requires the use of appropriate organizational control mechanisms. Research literature related to strategy and control theory has focused on international joint ventures (Chen, Park, & Newburry, 2009), strategic alliances (Das & Teng, 2001), and the influence of parent firms on their subsidiaries (Egelhoff, 1984). However, in spite of the importance of control mechanisms that govern outsourcing practices, few empirical studies have been conducted on this topic. Particularly, it is unclear how MNCs' subsidiaries adopt organizational control mechanisms to implement outsourcing strategies. In response to this research deficit, the aim of this article is to examine outsourcing strategies and corresponding organizational control mechanisms that impact outsourcing performance outcomes and create competitive advantage.

* Corresponding author. Tel.: +1 419 531 2054.
E-mail addresses: zhedamingu@gmail.com (M. Kang), xbwu@zju.edu.cn (X. Wu), Paul.Hong@Utoledo.edu (P. Hong), ywpark@mmrc.e.u-tokyo.ac.jp (Y. Park).

0148-2963/$ – see front matter
doi:10.1016/j.jbusres.2011.07.004

2. Research model

A good research model should be credible (i.e., scientific and objective in explaining phenomena in particular contexts) and relevant (i.e., the principles and implications should be applicable in broader contexts) (Palmer, Dick, & Freiburger, 2009; Suddaby, 2010). Fig. 1 presents a research model that defines the key dimensions of outsourcing (i.e., outsourcing strategy, organizational control, outsourcing performance). Outsourcing strategy patterns and organizational control mechanisms may be somewhat distinct within different business contexts (e.g., advanced countries and emerging global economies) (Li, Liu, Li, & Wu, 2008). Therefore, this paper focuses specifically on outsourcing practices of foreign MNCs that operate in China.

2.1. Outsourcing strategy

Outsourcing strategy is a business approach that views outsourcing as an important organization-wide and long-term strategic initiative designed to achieve a sustainable competitive advantage (Jennings, 2002). Researchers have classified outsourcing strategies according to a variety of different schema. For example, Gilley and Rasheed (2000) have classified outsourcing strategies into two types (i.e., peripheral and core outsourcing) based on strategic values. Kremic et al. (2006) have suggested that cost-driven outcomes and strategy-driven outcomes are important drivers of outsourcing. In contrast, Power, Desouza, and Bonifazi (2006) have divided outsourcing activities according to whether they are process-oriented or project-oriented activities based on the characteristics of each task. Bengtsson et al. (2009) introduced the idea of low-cost-oriented outsourcing and innovation-oriented outsourcing. These authors have argued that the strategic intent of outsourcing affects the outsourcing outcomes. All of these approaches represent legitimate and valuable perspectives on outsourcing.

As an extension of the research by Wu, Chen, and Wu (2009), this study, however, considers two specific types of outsourcing: efficiency-seeking and innovation-seeking outsourcing. Efficiency-seeking outsourcing transfers routine and non-core activities to external expert organizations in order to achieve cost reductions and enhance productivity. Firms adopt this type of outsourcing to decrease their investment in fixed assets and instead increase their return on equity and overall efficiency (Kotabe, Mol, & Murray, 2008; Mouzas, 2006). In this context, efficiency-seeking outsourcing is characterized by routine activities, predictable demand, and products with long life cycles. On the other hand, innovation-seeking outsourcing strives to develop and upgrade innovative capabilities with knowledgeable resources from external markets. In a rapidly changing market environment, few, if any, firms are able to generate continuous streams of innovative products through their internal R&D resources alone. Effective R&D strategies require that firms use their external capabilities, including those of their key suppliers (Arnold, 2000; Johnsen, Phillips, Caldwell, & Lewis, 2006). Thus, the role of outsourcing becomes more critical in newer technology-based businesses (Bengtsson et al., 2009), and, as a result, an increasing number of firms have begun to outsource complex core activities in addition to simple, repetitive non-core activities (Bengtsson et al., 2009). In fact, innovation-seeking outsourcing attempts to achieve competitive advantage by capitalizing on new technologies, a more technologically competent workforce, and increased learning opportunities provided by outside entities (Weigelt, 2009).

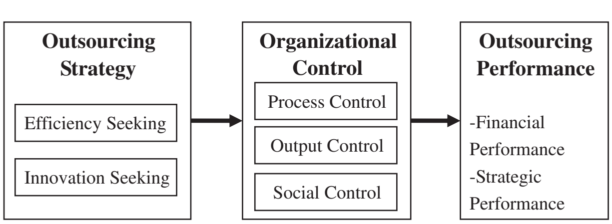

Fig. 1. A conceptual model of outsourcing strategy, organizational control and outsourcing performance.

2.2. Organizational control

Organizational control refers to the business process by which organizational entities impact and motivate other entities to carry out collaborative plans to ensure that specific organizational goals are met (Kirsch, Sambamurthy, Ko, & Purvis, 2002; Rooney & Cuganesan, 2009). Two primary types of organizational control include formal and informal control (Jaworski, 1988; Kirsch et al., 2002). Formal control can be further divided into process control (or behavior/action-based control) and output control (or results-driven control). Informal control refers to social control (or clan-involved control) and emphasizes rich interactions. This study employs three types of organizational control (i.e., process control, output control, and social control) using a framework that has been well accepted by control researchers (Chen et al., 2009; Das & Teng, 2001; Groot & Merchant, 2000).

Process control refers to all activities related to supervision, regular inspection, and non-regular inspection. Firms that implement effective process control clarify due process details, including pre-specified procedures, formalized roles and job descriptions, training, rigorous reporting and approval processes for managing organizational routines, problem solving, and goal-directed activities (Cardinal, Sitkin, & Long, 2004; Chen et al., 2009; Das & Teng, 2001; Groot & Merchant, 2000).

While process control focuses on the methods by which suppliers achieve specific outcome requirements (Kirsch et al., 2002), output control focuses on defining the specific performance outcome goals that suppliers should achieve. Output control focuses primarily on outsourcing outcomes and requires clear goals, specification of outsourcing activities, adequate incentives, and corrective measures (Kirsch et al., 2002). Upon completion of a deliverable product or service, final outcomes can be compared to the original plans. To the extent that noticeable discrepancies arise between planned and actual outcomes, firms can take corrective action. Due to technological and market uncertainty, task complexity often requires firms to revise their final outsourcing goals. Therefore, when undertaking any outsourcing enterprise, firms should consider (a) the process of post-outsourcing goal revision and (b) the factors that may influence collaboration with their outsourcing partners based on the revised goals. Such effective output control activities remove or reduce potential conflicts as well as decrease opportunistic behaviors (Das & Teng, 2001). As a result, firms are able to focus more on problem-solving activities and goal-completion efforts.

Social control refers to the distribution and expression of shared values, beliefs, and goals through formal and non-formal communication channels, such as meetings and other forms of social communication. Social control is applied when task-related behaviors and outputs are ambiguous and not clearly specified (Das & Teng, 2001). In such circumstances, firms may focus on shared values, beliefs, and goals through social interaction and communication that further enhances suppliers' motivation and commitment, thus accomplishing the firms' intended goals (Chen et al., 2009; Das & Teng, 2001).

2.3. Relationships between outsourcing strategy and organizational control

Organizational control plays a key role in strategy implementation (Chen et al., 2009). Prior research on outsourcing has indicated that outsourcing strategies are linked with organizational practices, such as failure-prevention practices and performance-enhancing practices (Hartmann, Trautmann, & Jahns, 2008; Narasimhan, Narayanan, & Srinivasan, 2010). In discussing outsourcing alliances in China, Li et al. (2008) emphasized the point that the strategic acquisition of tacit knowledge through inter-firm cooperation has an impact on the use of