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ABSTRACT

This paper explores how outsourcing activities and decisions put the well-being of the remaining employees at risk, ultimately affecting productivity and creating further costs to the employer. It highlights four potential threats to remaining employees: trust, job satisfaction, motivation, and stress. The paper provides several suggestions for mitigating these impacts, including communication to retain trust, acting ethically to ensure satisfied employees, seeking an understanding of employee perspectives to build employee motivation, and providing good planning along with training and development to reduce employee stress.

INTRODUCTION

Globalization provides organizations with more options than ever before. Business leaders are continuously encouraged to adapt, reevaluate, and strategically improve processes and approaches. Best practices are reinvented rapidly in attempt to keep up with market trends. The quest to recognize new methods for increasing revenue has become the inspiration for exploring new management techniques and strategies. One such rising trend in the advent of global markets is that of outsourcing. Common purposes for outsourcing include improvements to performance, cycle time, cost-savings, market share, productivity, customer service, and quality (Elmuti & Kathawala, 2000) in industries such as information systems/technology, human resource, logistics and administrations, real estate, transportation, marketing, sales and finance (Logan, Faught, & Ganster, 2004). Outsourcing benefits are publicized and cited in business journals and among professional management circles, leading to the commonly held perception that outsourcing holds the key to cutting costs and maximizing productivity. What is less commonly understood, however, are the serious risks that accompany outsourcing.

Outsourcing is a strategy whereby companies decide to utilize outside resources for activities that were previously accomplished using internal staff and resources (Elmuti, 2003). As global supply markets have continued to increase, businesses now have the opportunity to reassess which functions are best to remain in-house and those that are suited for outsourcing (Barthélemy, 2003). Ideally, organizations who seek to outsource should focus on delegating

"major, non-core functions to specialized and efficient service providers" (Elmuti, 2003, p.33). Most often, the purpose of such a decision is a strategy to reduce cost, improve service, and allow management more time to commit to activities more directly tied to the firm's core strategic goals (Logan et al., 2004).

OUTSOURCING TRENDS AND OUTCOMES

Over the last 10-15 years, global outsourcing activities have continued to increase. Research suggests that this trend is expected to continue. Continued outsourcing growth presents a need for the development of expertise around successful outsourcing management and a comprehensive understanding of relevant trends and issues.

Based on anecdotal evidence and empirical research regarding the growing trend of outsourcing, the benefits tend to appear insurmountable. Outsourcing has the potential to decrease costs, increase focus, improve productivity, add flexibility and innovation, and simplify tasks and costs related to personnel management (Barthélemy, 2003; Elmuti, 2003; Logan et al., 2004; Walsh & Deery, 2006). Decreased costs may result from improved financial performance, increase in profitability, increase operating income, reduced risks and costs associated with innovation, and cheaper labor (Barthélemy, 2003; Elmuti, 2003; Logan et al., 2004). Outsourcing often increases an organization's ability to focus on their core competencies. Outcomes tied to increased focus include improved productivity, improved and increased capacity, and improved organizational effectiveness (Barthélemy, 2003; Elmuti, 2003). Further, companies may notice increased productivity in terms of access to new technologies, improved quality in work outcomes, increased speed of task and product completion, increased ability to respond to customer needs, and the ability to establish a smaller core workforce (Elmuti, 2003; Elmuti & Kathawala, 2000; Walsh & Deery, 2006). Outsourcing can also increase an organization's access to innovation and improve their flexibility. This is often accomplished through access to new skills of offsite personnel, increases in organizational competitiveness and the ability to gain in markets that might otherwise be inaccessible or uneconomical (Elmuti, 2003). Finally, through downsizing and simplifying the number of key personnel a company employs, outsourcing can save on time, energy, and resources spent toward personnel management in such areas as recruitment, screening and selection, training, managing, and even employment benefits and pensions (Walsh & Deery, 2006). From this data, the evidence would appear to clearly support a strong business case for the use of outsourcing to achieve a variety of positive results.

Outsourcing, however, is not without its challenges. In fact, 75% of U.S. managers admitted that "outsourcing initiatives do not necessarily fulfill all their expectations" (Barthélemy, 2003, p. 87). Further, 55% of outsourcing relationships fail with the first five years of implementation, and of the remaining 45%, 12% are unhappy and regret the decision to outsource in the first place (Elmuti, 2003). To add to these bleak statistics, it is often the case that customers express dissatisfaction with the outsourcing decisions as well. Inevitably, a host of factors play into the lack of success in outsourcing endeavors.

THE EMPLOYEE PERSPECTIVE: RISKS TO PERSONNEL

This paper intends to reveal important areas of employee well-being that may be hindered by outsourcing decisions. Four primary personnel risks must be considered when implementing outsourcing strategies: *trust*, *job satisfaction*, *motivation*, and *stress*. These four personnel risks may each lead to a variety of negative organizational outcomes if left unmanaged. However, businesses can attempt to mitigate these negative outcomes through taking the proper action when developing and planning outsourcing strategies.

In identifying the seven deadly sins of outsourcing, Barthélemy (2003) recognized the fourth most common outsourcing mistake is overlooking personnel issues that stem from outsourcing endeavors. Analysis showed that 38% of companies, who failed in outsourcing attempts, committed this mistake (Barthélemy, 2003). As outsourcing has grown, thousands of employees have become subject to drastic organizational change. Yet, strangely, management researchers have nearly ignored the employees' perspective on the matter (Logan et al., 2004). The attitudes, perceptions, and behaviors of employees influenced in outsourcing initiatives are vital aspects are that should be considered when outsourcing.

Employees who remain within an organization that has reduced its workforce experience real challenges. These challenges must be recognized, considered, and addressed if the organization wishes to maintain a healthy workforce that is able to function at its maximum capacity. The potential risks to employees are vast. For example, an older outplacement firm survey of companies that had downsized, reported that 74% of senior managers observed a reduction in morale, trust, and productivity (Cameron, 1994). Workers may also experience issues around occupational stress, job security, commitment, satisfaction, burnout, motivation, psychological contracts, confusion, job involvement, turnover intention, job embeddedness, loyalty, attitudes, and organization-based self-esteem (Brooks, 2006; Chattopadhyay & George, 2001; Elmuti & Kathawala, 1993; Logan et al., 2004). These risks to employees are not surprising as outsourcing is often initiated with major organizational change and restructuring with little regard for the effect on remaining personnel. Seemingly abrupt organizational change may lead to employees' resistance to change, low morale, reduced efficiency, a decrease in organizational citizenship behaviors (proactive behaviors performed out of goodwill), and malfunctions in corporate culture (Bruce & Martz, 2007; Chattopadhyay & George, 2001; Elmuti & Kathawala, 1993). Why should organizations care? The ultimate impact for the organization is reduced performance and productivity, and increased turnover. The following illustrates the importance of effectively monitoring turnover:

> Research studies have indicated that customer satisfaction and loyalty can be influenced by employees' perceptions of equity as well as job satisfaction and organizational commitment. High employee turnover has been correlated to high customer turnover. An inability to build a stable long-term workforce can deprive an organization of an accumulated knowledge of products, customers and work processes that are seen as crucial to the provision of high-quality service. (Walsh & Deery, 2006, p. 575)

If, for example, an original goal of outsourcing is to increase productivity, companies may be thwarting their own efforts by ineffective outsourcing processes.

Ample evidence suggests that employee job satisfaction is positively correlated with customer satisfaction in industries such as fast-food restaurants, insurance, software, and sales (Homburg & Stock, 2004). It is thus worthwhile to suggest further examining the effect of outsourcing on employees involved. The outsourcing process affects several varying subsets of employees such as those employees laid off due to downsizing, those employees acquired by the new vendor, those employees remaining within the company, and those employees working offshore for potential vendors.

This paper focuses on those employees remaining within the organization as these employees most directly affect organizational outcomes and performance. This paper explores how outsourcing activities and decisions put the well-being of withstanding employees at risk, ultimately affecting productivity and creating further costs to the employer. It highlights four potential threats to personnel: trust, job satisfaction, motivation, and stress, and explains why these also put the company at risk. Finally, this discussion provides several suggestions for mitigating these impacts. These include increasing communication, acting ethically, seeking an understanding of and providing training and development to employees, and developing a comprehensive strategic plan.

Trust

Trust in organizations is defined by "an employee's willingness to be vulnerable to the actions of the organization, whose behavior and actions he or she cannot control" (Tan & Lim, 2009, p.46). It is an exchange of confidence that represents the employee's belief that they will not be put at risk or in harm's way by the actions of the organization (Jones & George, 1998). Trust has been recognized to aid in soliciting important organizational outcomes such as leadership satisfaction, increased stability, decreased turnover, open communication and information sharing, cooperation, increased discretionary behaviors such as organizational citizenship behavior, perceived leader effectiveness, and organizational performance and success (Burke, Sims, Lazzara, & Salas 2007; Tan & Lim, 2009). For example, employee trust in an organization relieves the need to worry whether or not the organization will treat the employee unfairly or withhold basic support (Tan & Lim, 2009). Logically, it follows that "these conditions lessen organization-related woes and motivate employees to focus on work performance" (Tan & Lim, 2009, p.52). The decision to outsource may impact the level to which an employee continues to trust their employer where employees begin to question the extent to which the company will remain loyal to their workforce (Logan et al., 2004).

Job Satisfaction

Job satisfaction or "the pleasurable or positive emotional state resulting from the appraisal of one's job and job experience" (Locke, 1976, as cited in Valentine, Godkin, Fleischman, & Kidwell, 2010) is an important component of the employee's perception. A pivotal meta-analysis revealed that job satisfaction is correlated with job performance at .30, a rather significant figure (Judge, Thoresen, Bono, & Patton, 2001). Other studies have found job satisfaction to lead to

organizational citizenship behaviors (Latham, 2007). Overall job satisfaction has also been linked to profitability, turnover intentions, customer satisfaction, and productivity (Judge et al., 2001; Valentine et al., 2010). Further, increased organizational commitment is also an important outcome of job satisfaction as committed employees are more likely to accept and invest in organizational change (Farndale, van Ruiten, Kelliher, & Hope-Hailey, 2011). In essence, high morale leads to high productivity (Latham, 2007). Outsourcing options can certainly affect job satisfaction.

Motivation

Motivation is goal directed behavior that takes place with respect to an individual's self-regulatory function (Seo, Barrett, & Bartunek, 2004). Motivation contributes to the achievement of collective and individual goals (Ellemers, Gilder, & Haslam, 2004). In a meta-analysis of 259 studies involving 219,625 participants, Humphrey, Nahrgang, and Morgeson (2007) found that motivation explained 25% of the variance in subjective employee performance. Motivation is an important consideration as a company introduces outsourcing to its operations:

> As individuals perceive risk or challenges to their jobs, especially when the risks are associated with their continuance in a particular role, motivations change. It has been shown that change resulting from downsizing can impact the worker's motivation, which in turn impacts the productivity of the organization. (Brooks, 2006, p.48)

Organizations must consider the implications on employee motivation when making changes to the workflow and organizational structure during the outsourcing activities.

Stress

Occupational stress may likely occur in light of foreseen job insecurity. The adverse impact and side effects on employees, called *survivor sickness syndrome*, occur as a result of organizational change and downsizing and are more intense than those that occur from routine organizational change efforts (Størseth, 2006). Long-term perceived job insecurity predicts "both short-term stress reactions such as decreases in job satisfaction, and long-term stress reactions, such as increases in physical symptomatology" (Størseth, 2006, p. 542). Further, outsourcing and subsequent downsizing can often lead to burnout and stress for those employees who have received an increased work load, a work role stressor commonly referred to as *role overload* (Eatough, Chang, Miloslavic, & Johnson, 2011; Elmuti & Kathawala, 1993). Also, unclear definitions of the newly fused roles may lead to *role ambiguity*, where employees experience vague or unclear role expectations (Eatough et al., 2011). Role stressors such as role overload and role ambiguity can lead to anxiety, tension, and conflict which may ultimately hamper the employee's ability to focus on achieving their own personal and professional work goals. Such prolonged stress and hindrance is expected to decrease job satisfaction, organizational citizenship behaviors, and may also curb enthusiasm and friendliness ultimately impacting customer perception (Eatough et al., 2011; Elmuti & Kathawala, 1993). Long-term occupational stress leads to both mental and physical symptoms of poor health, eventually leading to absenteeism (Schaufeli, Bakker, & van Rhenen, 2009). The impact of outsourcing on employee occupational

stress has the potential to reduce productivity through burnout, work overload, and the long-term mental and physical symptoms of stress.

PRACTICAL IMPLICATIONS

Trust, job satisfaction, motivation, and stress issues not only put employees at risk, but may also have real consequences for the organization. Organizational-level outsourcing decision-making and implementation ultimately affects the capacity at which the employee operates therefore further affecting the company's bottom line. Fortunately there are strategies managers and executives can use to avoid these dangers and lessen the impact of choosing to outsource.

Communication to Retain Trust

Corporations who decide to introduce outsourcing should ensure that they use open and frequent *communication* with their employees. Managers who attempt to maintain secrecy may find that rumors leak due to failed silence, leading to counterproductive anxiety and premature resignation notices (Barthélemy, 2003). Communication must be present throughout the outsourcing process (Elmuti, Kathawala, & Monippallil, 1998). Employees should be privileged to information about the new outsourcing partnership and their human resources related concerns must be addressed. Vigilant communication should include issues such as the employee selection process, culture, policies and benefits of the new expected outsourcing partner (Elmuti, Kathawala, & Monippallil, 1998). Further, the commonly held fear of change and fear of job loss is cited as one of the most serious problems that successful firms face when attempting to begin global outsourcing (Elmuti & Kathawala, 2000). Two important techniques in managing this risk are communication and honesty. By curbing fear and allowing open communication, companies can retain trust. Another focus when building trust should include effective communication between cross-functional departments. This is expected to reduce the "negative effects of outsourcing projects on the morale and performance of the remaining employees" (Elmuti, 2003, p. 39). Effective communication is a vital piece of successful implementation of outsourcing by reducing fear and anxiety and *retaining trust* in management and coworkers.

Understanding the Employee Perspective Facilitates Job Satisfaction

Managers must pursue a true understanding of employee perceptions and fear around outsourcing and display acts of commitment to those remaining employees. Such an understanding will allow managers to address concerns as they arise throughout the transition process (Logan et al., 2004). Vigilant personnel management may be able to aid in shaping employee opinions of outsourcing implementation. Without this pledge to monitor employees' perceptions, companies are likely to experience a drop in productivity (Logan et al., 2004). Working toward realignment of company and employee goals, vision, and values may be a useful tool in this process, especially during the outsourcing process. Collins (2009) suggests taking innovative steps toward motivating purpose in your employees. Creating a higher purpose for employees, as opposed to numbers-driven accomplishments, provides employees with the opportunity to give meaning to their work and also unifies the organization (Collins, 2009). Organizations can also consider aligning the business strategy and goals with the employee

vision by measuring success through client satisfaction and service levels. Establishing a strong corporate culture with visible top management support is expected to assist in effectively restructuring the organization (Elmuti & Kathawala, 1993). Further, maintaining those key employees who remain within the organization after outsourcing occurs is important. Often, these employees hold "firm-specific knowledge" about how to make operations run smoothly (Barthélemy, 2003). Along with understanding their perspective and providing higher purpose, it may be necessary to offer higher salaries and benefits (Barthélemy, 2003). Continued development of employees will aid in rebuilding employee commitment. Training, retraining, and cross-training will aid in employee adaptation to downsizing (Cameron, 1994). Treat employees remaining within the organization as assets whose ideas and contributions are respected by encouraging and offering ongoing career development opportunities (Cameron, 1994). The extent to which employees feel like valued assets in the company's pursuit for change, largely determines the extent to which those employees remain satisfied of their role within a greater purpose.

Ethical Decisions Target Motivation

Research also suggests that companies must maintain ethical behavior throughout their decision-making and implementation process to retain motivated employees. Given the aforementioned plausible onset of decreased motivation, organizational citizenship behaviors, and performance, the following suggestions are ideal for outsourcing scenarios:

> Leaders with strong ethical commitments who regularly demonstrate ethically normative behavior can have an impact on the job characteristics model elements of task significance and autonomy, thereby affecting an employee's motivation (willingness to exert effort), which in turn will be evidenced by indication of enhanced task performance and organizational citizenship behaviors. (Piccolo, Greenbaum, den Hartog, & Folger, 2010, p. 259)

Ethical decision-making, according to Henderson (1997), can assist in circumventing a majority of personnel issues related to outsourcing (as cited in Barthélemy, 2003). Ethical behavior includes the involvement and support by top managers (Elmuti & Kathawala, 2000). It is unreasonable for organizations to expect acceptance for change on the part of the affected employees without support starting at the top. The entire organization needs to be on board with the expected changes—executive level managers are of no exception. Top management should aspire to "think of themselves as the standard bearers, mood setters, and moral leaders of their organizations" (Hunt et al., 1989, as cited in Valentine et al., 2010, p. 365). Throughout the process it is necessary to continue to treat employees with value. Employees who feel that they are valuable resources for the company as opposed to commodities that are easily purchased and discarded are likely to have more commitment toward the organization (Brooks, 2006). Acting ethically as a business includes investing in the well-being of your employees and making decisions for the long-term success of the organization. Outsourcing is not a short-term fix for unruly spending or poor financial planning; outsourcing is a long-term business strategy that seeks to re-evaluate the core of the business.

Thorough Planning Addresses Occupational Stress

It is essential that organizations commit to see through the change process step-by-step. This includes creating a *comprehensive plan* for change management, laying out the specific long-term *goals* of outsourcing, and *training and developing* the necessary skill sets to manage the outsourcing process and the personal issues that are likely to stem from its onset (Elmuti, 2003). Managers must ensure *strategic alignment* of company and employee visions and goals, seek to understand the employee perspective, and display commitment to continued employee development. Further, the company must prepare to *reevaluate* various job positions and workloads using job analysis as the organization experiences a major restructuring through implementation of outsourcing.

Insufficient planning for implementation is a commonly cited reason for failed attempts at outsourcing (Elmuti, 2003; Elmuti & Kathawala, 2000). Major change "is always stressful and painful for people, especially when it involves a prolonged transition period of adjustment, disruption, and dislocation" (Yukl, 2010, p. 317). When planning for the outsourcing transition, it is important to look at current change management literature. A few such pertinent concepts include: create a sense of urgency around the opportunities that outsourcing provides, communicate a clear vision about how these opportunities will benefit the company and its employees, and build an expansive alliance of change supporters (Elmuti et al., 1998; Yukl, 2010). Additional steps for preparing personnel involve explaining how the change process will affect employees, providing support for coping with the potential trauma of change, and ensure that employees will experience and/or see the success of the initiative in early stages of the transition (Yukl, 2010). Preparing employees for change is a vital piece of the planning process.

Comprehensive planning should also consider "detailed objectives, expectations, requirements and expected benefits of the projects, and management support for the project before the firm begins implementation" (Elmuti & Kathawala, 2000). The strategy for outsourcing should have a specific goal that can produce a measurable objective and quantifiable outcome (Elmuti 2003; Elmuti & Kathawala, 2003). Organizations must clarify their long-term business objectives before deciding to outsource portions of their labor. Companies that overemphasize the short-term benefits of outsourcing in their decision-making process put themselves at risk of failure (Elmuti et al., 1998). In addition, such a plan must provide for reevaluation throughout the transition and during maintenance of its implementation. The planning phase is an important tool that should include reevaluation of the plan's progress, its effects on the staff, and its effectiveness toward implementation. Further, as job positions are subject to change, reevaluation must consider that various positions might also need reassessment (Elmuti, 2003). This will help avoid the potential burnout and stress resulting from increased work load. The strategic plan should include performance of a thorough job analysis for those positions that have been affected by the decision to outsource. Job analysis will establish the knowledge, skills, and abilities needed to perform the job in addition to the duties and tasks that are expected of a person within this role (Cascio & Aguinis, 2011). This process will help determine to what extent individuals are working under fair expectations. The simple fact that employers take a vested interest in employee well-being and workload is expected to increase commitment to the

organization and job satisfaction through perceived organizational support (Eisenberger, Huntington, Hutchison, & Sowa, 1986).

CONCLUSION

Given that "the quality of the workforce is the key to customer satisfaction" (Thite, 2010, p. 7), consideration of the impact of outsourcing and restructuring upon employees is vital to the success of the change effort. Walsh and Deery (2006) succinctly highlighted "customers' perceptions of service quality are critically affected by the organizational commitment of employees. Moreover, high turnover rates of employees have been found to have a negative impact on customer sales in various service settings". If subcontracting leads to less committed employees and an increasingly unstable workforce, it will likely affect the quality of service provided and require firms to recalculate the net benefits of outsourcing. Outsourcing provides great benefits when implemented effectively, yet also exposes a host of risks to personnel and therefore the organization as a whole. To combat the risks of trust, job satisfaction, motivation, and stress, companies contemplating outsourcing must adhere to open communication with staff, ensure that decisions are made ethically, seek out the employee perspective and provide appropriate support in response, and outline a detailed and comprehensive plan that gives thought to each phase of the process.

Future research questions around outsourcing strategies are countless. In terms of addressing employee well-being and functionality, the following questions for further research are pertinent: 1a.) What types and frequencies of communication best facilitate the cultivation of trust once companies decide to outsource? 1b.) From whom within the organization is communication most essential? Direct manager? CEO? President? 2a.) To what extent should companies measure job satisfaction during the outsourcing process? Is this a variable that should be monitored at regular intervals? 2b.) What changes in job satisfaction metrics have occurred in companies who have undergone the outsourcing shift? What change processes were used in these companies? How was performance affected? 2c.) Aside from understanding the employee perspective, what other techniques can increase job satisfaction throughout the structure change? 3a.) What other variables can moderate a decrease in employee motivation during organizational change such as outsourcing? 3b.)What are the interventions that successful companies have used to keep employee motivation at an ideal level? 4a.) To what extent should employees be involved in job position reevaluation? 4b.) What is an appropriate timeline for preparing employees for the upcoming change to utilize outsourcing? 4c.) What techniques aid in reducing the stress associated with a perceived decrease in job security? 4d.) What specific measurable goals and outcomes of outsourcing lead to successful initiatives and what are those that have led to failed outcomes?

Given the increasing challenge and variety of potential complications, firms that use outsourcing might benefit from implementing a unique department that is devoted to providing outsourcing management expertise (Barthélemy, 2003). Outsourcing is on its way toward becoming a unique field with distinctive issues. Developing field-specific expertise of all aspects of outsourcing benefits, challenges, and best practices will be increasingly valuable given the vast array of common pitfalls. Many firms are unknowingly operating under experimental conditions without privilege to the existing research around outsourcing best practices. Ideally, as outsourcing continues to grow, the risks and issues associated will become more commonly acknowledged.

Until then, we must hope that business leaders take the initiative to seek out pertinent information useful for making decisions that are valuable for the affected employees and rational for the long-term sustainability of the company. Further research will help determine the impact that an outsourcing department has, on the outsourcing process overall, and on employee perspectives in particular.

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