ICSIM

The Implementation of Outsourcing Procedure in the light of Organizational Reality

Anthi Vaxevanou, Nikolaos Konstantopoulos

University of Aegean, Business Administration Department, 8 Mihalon 8 str, Chios, 82100 Greece

Abstract

This study aims to examine the outsourcing concept by maritime companies in the light of the organizational reality. With the contribution of authors personal experience and knowledge, together with the extensive qualitative and quantitative research that was carried out, we were able to establish whether the organizational reality of shipping companies indicates the implementation of the strategic choice of outsourcing.

Keywords: Outsourcing, Organizational Reality, Organizational Figures, Maritime Company

1. Organisational Theories on Outsourcing

With regard to the company’s organisational reality and the way in which its structure and operations influence and are influenced by outsourcing in various levels, it should be noted that a series of factors and procedures involved in the company’s operation may be identified as the main parameters that influence or are being influenced by the process of outsourcing.

In the context of outsourcing, according to experts on the matter (Ndumisi, 2009), effective communication within the company is of vital importance for every organisation functioning through specific structures and having staff-members in different positions with different information needs.

* Corresponding author. Tel.: +306944381441.
E-mail address: anthivaxev@gmail.com
2. Research Methodology

Research was based on an extensive review of international literature on the basis of the assumption that primary research would only produce results in relation to the Greek reality, thus not revealing the full picture.

After the end of the secondary research, the sample of the primary research was selected.

The issues to be discussed during the qualitative research were based on the literature review. After the end of the qualitative research process the recorded interviews were transcribed and structured in a common form.

The issues arising from the interview were noted and, based on the literature, a short questionnaire was drawn up for the purposes of quantitative research. The quantitative questionnaire used the Likert 5-degree scale.

The opinion of highly experienced executives of the maritime industry played an important part in interpreting questionnaire findings.

3. Resource Based View

The main hypothesis upon which the Resource-Based View is founded is that resources and skills differ significantly among organisations and that these differences tend to remain unchanged (Barney & Hesterly, 1996).

If a company’s resources and skills are combined and used in the right manner they are most likely to generate a competitive advantage for the company. From this point of view, outsourcing procedures start when an organisation lacking resources and skills which are valuable, rare and hard to develop seeks a vendor in order to address this shortage.

Therefore, this specific theory applies to the preparatory phase of outsourcing, in order to identify the operations that need to be outsourced, as well as to the stage of vendor selection in order to identify the vendor with the most appropriate resources. This theory has also been used to interpret organisational decisions taken at the stage of Relationship Management and Reconsideration.

A research conducted in 2010 (Alvarez-Suescun, 2010) proposed a combined model on the basis of the Resource-Based View and the Transaction Cost Theory, for the creation of a model that could interpret the procedures of IT task outsourcing. The model examines mainly the transitional stage and proposes the implementation of the Resource-Based View as more appropriate for its interpretation.

The research conducted by Roy and Aubert (2001) used the Resource-Based View in order to establish a model aiming to highlight the factors that determine the success or failure of an outsourcing procedure at the stage of Preparation. The research of Barthelemy and Quelin (2006) proposed a model founded mainly on the Resource-Based View and to a lesser extent on the Transaction Cost Theory, in order to interpret the stages of Preparation, Vendor Selection, Relationship Management and Reconsideration. The Resource-Based View was also used by the two research projects of Gottschalk and Solli-Sæther (2005;2006), which, as noted earlier, are based on a variety of theories.

4. Theory of capabilities

The Theory of Capabilities is actually an evolution of the Resource-Based View. Prahalad and Hamel (1990) have defined capabilities as the collective learning in the organisation, and especially the ways to coordinate diverse production skills and incorporate multiple technology streams.

The Theory of Capabilities has become increasingly popular among researchers in the field of Outsourcing. This concept has been used mainly for the development and testing of a series of decision-making models with regard to outsourcing, which are based on the common assumption that the organisation’s key functions must be outsourced.

The analysis of the vendor’s capabilities is, according to the Theory of Capabilities, the main factor that determines the successful outcome of an agreement. The Theory of Capabilities has also been used to study the stages of Relationship Management and Reconsideration.

The Theory of Capabilities is the second most frequently used approach in the field of academic research on outsourcing. Pinnington and Woolcock (1995) were based on the Theory of Capabilities in order to determine whether outsourcing of IT business activities may lead to the improvement of Organisational Capabilities. Their research focused on the stages of Relationship Management and Reconsideration.
In the same year, Willcocks, Fitzgerald and Feeny (1995) investigated the strategic implications of Outsourcing. Starting from the Theory of Capabilities those researchers sought to identify factors that may substantiate the decisions related to outsourcing, especially during the stage of preparation.

Baden-Fuller, Targett and Hunt (2000) proposed a decision-making model for the stage of preparation based on the Theory of Capabilities, aiming to improve the organisation’s competitiveness. In the same year, a research conducted by Arnold (2000) was published, focusing on the Transaction Cost Theory, which is worth mentioning at this point since its second theoretical pillar, on which the research is equally based, is the Theory of Capabilities.

The research conducted by Pati and Desai (2005) proposed a decision-making framework for outsourcing, focusing on the stage of Preparation.

As is the case for the Transaction Cost Theory, the Theory of Capabilities has been used in conjunction with other theories such as the Knowledge-based theory (Lee, 2001) and in research projects that use multiple theories to substantiate their models (Gottschalk & Solli-Sæther, 2005; 2006).

It is worth mentioning that the research conducted by Gottschalk & Solli-Sæther (2005), examining the stages of Preparation, Relationship Management and Reconsideration, has shown that the Theory of Capabilities is one of the two theories that best interpret the success factors of outsourcing.

5. Knowledge-based Theory

The Knowledge-based Theory allows for an understanding of the ways in which individuals cooperate in order to produce goods and services. The Knowledge-based Theory identifies two ways of knowledge dissemination between company members.

The first way is knowledge creation and the second is knowledge application. The Knowledge-based theory is applied to outsourcing in order to demonstrate that the exchange of knowledge at the management stage of the outsourcing relationship is a factor that contributes to the success of the outsourcing agreement.

The Knowledge-based Theory is the main foundation of the model proposed by Lee (2001), aiming to interpret Relationship Management among the two contracting parties of the outsourcing procedure. The model, which also comprises part of the Theory of Capabilities, concludes that the dissemination of knowledge is one of the key factors that contribute to the success of an outsourcing procedure.

A research project conducted in 2011 (Thatcher et al., 2011), investigates the extent to which knowledge management skills, both on the part of the organisation and the vendor, may influence the success of an outsourcing procedure at the stages of Vendor Selection, Transition, Relationship Maintenance and Reconsideration.

6. Agency Theory

The Agency Theory has often been studied in relation to the transport sector, contributing to the interpretation and substantiation of a variety of strategic goals, such as quality management (Xingxing Zu et al, 2012).

Shipbroking is a common agency practice of the maritime industry. Shipbrokers are agents that undertake the management of all operational activities on the basis of their knowledge on the market and prevailing conditions. The Agency Theory focuses on the preparation of the most effective contract able to regulate the financial aspects and obligations of the shipping company and the agent.

Agency costs usually depend on the differences of objectives between the principal and the agents. The agency cost for a shipping company is equal to the sum of the cost of identification, cost of monitoring, cost of contracting and cost of potential loss of the agent.

According to the Agency Theory, in order to create a successful outsourcing activity or relationship, the organisation must be able to gain easy and low-cost insight into the supplier’s activities (Perunovic et al., 2006; Perunovic, 2007). A more complete approach would create new agency cost factors since it would take into account both result-oriented and behaviour-oriented incentive costs. This complementary aspect must be studied in order to avoid the emergence of opportunistic behaviours.
7. Theory of Social Exchange

The Theory of Social Exchange interprets the interpersonal exchange relationships using the financial theory of cost-benefit analysis as a prerequisite for social participation and social exchange. The theory assumes that resource exchange (tangible or social-intangible) is a main form of human interaction.

Thus, Social Exchange is a constant mutual process in the context of which the actions of individuals or organisations depend on the reward reactions caused (Gottschalk and Solli-Sæther, 2005). This theory has been used in combination with the Transaction Cost Theory in order to interpret the behaviour of organisations at the stage of Reconsideration.

The research conducted by Whitten και Wakefield (2006) was based on the Theory of Social Exchange, and to a lesser extent on Transaction Cost Theory, in order to create a model for the interpretation of the stage of Revision within the context of the outsourcing procedure. The approach of Social Exchange is also used in the multi-theoretical research of Gottschalk and Solli-Sæther (2005;2006).

8. Factor Analysis

In this particular case, the following variables were used for the factor analysis and the determination of the ideal number of factors:

- How long has the company been operating?
- How many vessels does your company own in total?
- Existence of offices abroad
- Average age of vessels owned by your company
- Previous experience of the Chief Executive Officer in the field of shipping
- How many employees does the company employ permanently at its offices in Greece (apart from vessel crews)?
- The reduction of chartering has obliged the company to sell part of its fleet and downsize its operations
- The company decided to sell vessels and develop similar or other type of activities
- In the past years the company has been operating in an “aggressive” manner
- The company has an increasing growth rate which, however, is different for individual operations
- The company is in a period of downsizing
- The company’s course is steady without high growth rates or downsizing
- In recent years, the company does not show a steady course and its financials tend to fluctuate
- Your company outsources part or an entire sector of activities – operations to other companies
- The extension of your company’s financial activities has been an important factor that made you realise the advantages of outsourcing
- The form of organisation of your company has been an important factor that made you realise the need for outsourcing
- The strategy used to address significant issues of the company has been an important factor that made you realise the need for outsourcing
- Outsourcing has improved the functionality of your company
• Outsourcing has improved the flexibility of your company’s structure
• Outsourcing has improved the effectiveness of your company’s organisational framework
• Outsourcing has improved the cooperation between the company’s remaining departments
• Outsourcing has increased the company’s flexibility as to its roles and effectiveness
• Outsourcing has improved the company’s technological development and its effective management
• Many problems have come up during the transitional period to outsourcing
• Outsourcing has caused various issues with regard to cooperation between the remaining departments of the company
• Outsourcing has caused cooperation issues between company departments and vendors
• Outsourcing has caused issues related to the field of technological adjustment which have affected the operation of the company
• Outsourcing has led to a readjustment of the company’s hierarchical structure
• Outsourcing has changed the way your company manages its executives-employees

Initially, as in every analysis of that short, the Transaction Cost Analysis and Bartlett’s test were performed producing the values 0.867 and <0.001, respectively, demonstrating that data are appropriate for factor analysis as there are strong interrelations among variables.

In continuation, the appropriate number of factors was determined and confirmed not only through the software but also by the relevant scree plot. In particular, 72.0% of total variation appears to be interpreted with the help of the 7 factors. As seen in the following graph, from the seventh factor onwards the curve slope does not present any alterations showing that the two first factors best fit this particular case, as any additional factors would not make any substantial contribution to the analysis.

![Scree Plot](image)

Fig. 1: Scree Plot
It should be noted that the Varimax rotation was selected to achieve better correlations, which, however, does not affect the number of factors, the rate of variation interpreted or suitability controls.

The following table illustrates the results of each variable for the two selected variables, i.e. it reflects the relationship of each variable with each of the factors:

Table 1: Rotated Component Matrix

<table>
<thead>
<tr>
<th>Rotated Component Matrix</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>How long has the company been operating?</td>
<td>0.045</td>
</tr>
<tr>
<td>How many vessels does your company own in total?</td>
<td>-0.284</td>
</tr>
<tr>
<td>Existence of offices abroad</td>
<td>0.121</td>
</tr>
<tr>
<td>Average age of vessels owned by your company</td>
<td>0.143</td>
</tr>
<tr>
<td>Previous experience of the Chief Executive Officer in the field of shipping</td>
<td>-0.156</td>
</tr>
<tr>
<td>How many employees does the company employ permanently at its offices in Greece (apart from vessel crews)?</td>
<td>-0.135</td>
</tr>
<tr>
<td>The reduction of chartering has obliged the company to sell part of its fleet and downsize its operations</td>
<td>-0.047</td>
</tr>
<tr>
<td>The company decided to sell vessels and develop similar or other type of activities</td>
<td>0.137</td>
</tr>
<tr>
<td>In the past years the company has been operating in an “aggressive” manner</td>
<td>0.277</td>
</tr>
<tr>
<td>The company has an increasing growth rate which, however, is different for individual operations</td>
<td>0.219</td>
</tr>
<tr>
<td>The company is in a period of downsizing</td>
<td>0.178</td>
</tr>
<tr>
<td>The company’s course is steady without high growth rates or downsizing</td>
<td>0.137</td>
</tr>
<tr>
<td>In recent years, the company does not show a steady course and its financials tend to fluctuate</td>
<td>0.123</td>
</tr>
<tr>
<td>Your company outsources part or an entire sector of activities – operations to other companies</td>
<td>0.42</td>
</tr>
<tr>
<td>The extension of your company’s financial activities has been an important factor that made you realise the advantages of outsourcing</td>
<td>0.291</td>
</tr>
<tr>
<td>The form of organisation of your company has been an important factor that made you realise the need for outsourcing</td>
<td>0.359</td>
</tr>
<tr>
<td>The strategy used to address significant issues of the company has been an important factor that made you realise the need for outsourcing</td>
<td>0.234</td>
</tr>
<tr>
<td>Outsourcing has improved the functionality of your company</td>
<td>0.86</td>
</tr>
<tr>
<td>Outsourcing has improved the flexibility of your company’s structure</td>
<td>0.868</td>
</tr>
<tr>
<td>Outsourcing has improved the effectiveness of your company’s organisational framework</td>
<td><strong>0.827</strong></td>
</tr>
</tbody>
</table>
Outsourcing has improved the cooperation between the company’s remaining departments  0.764 -0.032  0.136  0.151  0.16  0.008 -0.109
Outsourcing has increased the company’s flexibility as to its roles and effectiveness  0.775  0.282 -0.003  0.15  0.04  0.068  0.142
Outsourcing has improved the company’s technological development and its effective management  0.826  0.038  0.19  0.047  0.111 -0.036 -0.065
Many problems have come up during the transitional period to outsourcing  0.781  0.162  0.02  0.18 -0.005  0.094 -0.084
Outsourcing has caused various issues with regard to cooperation between the remaining departments of the company  0.797  0.037  0.183  0.165  0.143 -0.12  0.011
Outsourcing has caused cooperation issues between company departments and vendors  0.735  0.273  0.108  0.285  0.086 -0.04  0.083
Outsourcing has caused issues related to the field of technological adjustment which have affected the operation of the company  0.739 -0.042  0.211  0.242  0.28 -0.035 -0.141
Outsourcing has led to a readjustment of the company’s hierarchical structure  0.672  0.44 -0.028  0.165 -0.011 -0.124 -0.068
Outsourcing has changed the way your company manages its executives-employees  0.779  0.05  0.152  0.139  0.3 -0.107 -0.087

On the basis of this table, factors may be interpreted as follows:

The first factor mainly relates to the company’s functionality, whereas the second factor is related to financial issues of the company. The third and fourth factor concern mainly the company’s dynamics and its need to outsource some of its operations and the fifth factor is mainly related to the growth potential of the company. The sixth factor relates to the company’s dynamics abroad and the seventh factor relates to the company’s dynamics from the point of view of duration and years of operation.

References