Influences and outcomes of outsourcing: Insights from the telecommunications industry

Donna Marshalla,*, Ronan McIvorb, Richard Lammingc

aDepartment of Management, Quinn School of Business, University College Dublin, Dublin 4, Ireland
bSchool of International Business, University of Ulster, Magee Campus, Londonderry BT47 7JL, UK
cSchool of Management, University of Southampton, Southampton SO17 1BJ, UK

Received 29 May 2005; received in revised form 3 July 2007; accepted 5 July 2007

Abstract

This paper presents findings from an analysis of the experiences of three telecommunications companies that have embarked upon extensive outsourcing. Transaction cost economics and the resource-based view were used to derive a theoretical framework to determine the key influences on the outsourcing process and the outsourcing outcomes in the three case companies. The findings have shown that those companies that developed collaborative relationships with their suppliers achieved higher levels of success with outsourcing. The findings challenge some of the prescriptions of transaction cost economics in relation to outsourcing, particularly in the area of inter-organisational collaboration. The findings have also challenged the value of the core/non-core logic as a basis for outsourcing. Furthermore, the research has identified the influence of political motivations on outsourcing as an important area for further research.

Keywords: Outsourcing; Resource-based view; Transaction cost economics; Core competence; Telecommunications

1. Introduction

The drive for greater efficiencies and cost reductions has forced many organisations to increasingly specialise in a limited number of key areas. This has led organisations to outsource activities traditionally carried out in-house. Outsourcing has moved on from focusing primarily on the peripheral activities of the business such as cleaning, catering, and security, to encompass more critical areas of the business such as design, manufacture, marketing, distribution, and information systems. Kakabadse and Kakabadse (2002) have found that both US and European organisations consider outsourcing as a critical element of their organisational strategy. Indeed, there is evidence to suggest that well-defined outsourcing strategies can enhance the overall strategy of the organisation (McIvor, 2005; Feeny et al., 2005). Outsourcing is regarded as a powerful vehicle to reduce costs and improve performance. For example, Quinn (1999) has argued that specialists in supply markets can develop greater knowledge depth, invest more in software and training systems, be more efficient, and therefore offer higher salaries and attract more highly trained people than all but a few integrated companies. The rapid growth in the development of supply markets for product and service functions has also precipitated the trend towards increased outsourcing across a range of industries including automotive, computer assembly, financial services, airlines, and entertainment (Gottfredson et al., 2005).

One such industry that has experienced extensive outsourcing has been telecommunications. The research in this paper focuses on the telecommunications industry. The telecommunications industry was chosen for a number of reasons. Many of the studies of outsourcing in the telecommunications industry have focused primarily on the motives for outsourcing (Berggren and Bengtsson, 2004; Davies, 2004; McIvor, 2003; Sturgeon and Lee, 2001).