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Outsourcing decision – motives, risks and decision factors

Juha Hietalahti
Suvi Kuoppala

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1. INTRODUCTION

Outsourcing has been a global trend in business for several years. Some managers even consider it as a panacea for every company. Some might say that outsourcing has been invented in the last few decades, but that is not the case. As long as there have been companies, there has been some form of outsourcing too. However, to this day the practice of outsourcing has become more popular than ever before.

The concept of core competence has received a plenty of attention within the literature and business management. Many believe that concentrating on core competencies and outsourcing the rest is a recipe for success. Outsourcing plays an essential role in this development. There is no doubt that outsourcing can provide major benefits. Hardly anyone denies that outsourcing facilities management, catering or call center is advantageous in most cases. Neither anyone claims that outsourcing those activities incorporates an unacceptable amount of risk. However, when it comes to outsourcing production, IT, marketing, product development or logistics the question of benefits and risks are far more debatable. In fact, in most of the outsourcing cases, anticipated benefits have not been materialized. What are the motives and risks of outsourcing and which are the key factors that affect outsourcing decision? Those are the questions which this study seeks to answer.

Aim of this study is to identify main motives and risks of outsourcing and to create a framework for outsourcing decision. At first, background of outsourcing will be discussed, after that main motives and risks, and then the key factors of the outsourcing decision will be under discussion. Finally, outsourcing decision framework will be developed. Thus, a purpose of this study is threefold and the study contains three parts. First part concerns motives, second concerns risks and third part concerns outsourcing decision. The study is based on literature. Outsourcing cases found from the literature will also be discussed.

In this study, outsourcing is discussed at general level, without going into details of any particular activities or field of industries. Implementation of outsourcing will be as well beyond the scope of this study.

2. BEHIND OUTSOURCING

2.1. Definition of outsourcing

There is not only one specific definition in literature for outsourcing. Definitions are different depending on the source. According to a broadest interpretation of outsourcing, it can be considered just a reliance on external resources (Mol, 2007). If this definition is accepted, the outsourcing refers to those activities that are undertaken by outside suppliers, no matter have those activities never been made in-house (Ibid). In this study the concept of outsourcing refers to transferring activities previously conducted in-house to an outside supplier. Lonsdale and Cox (1998) provide the definition for outsourcing, which is accepted in this study. They define outsourcing as the process of transferring an existing business activity, including the relevant assets, to a third party (Lonsdale & Cox, 1998). Consequently, according to this definition, outsourcing always incorporates a shift in company's boundaries. However, outsourcing is not the only way of adjusting the boundaries of the company (Lonsdale & Cox, 2000). Just to clarify the concept of outsourcing to the reader, it is worth stressing, that just re-locating facilities or founding a new production plant to other country is not outsourcing if the boundaries of business remain the same. This kind of relocation of activities is sometimes confused with outsourcing.

2.2. From vertical integration to outsourcing

In the post-war period companies were either conglomerated, horizontally integrated or vertically integrated (Lonsdale & Cox, 2000). In the absence of developed external markets organizations, of necessity, sourced a wide range of activities in-house (Jennings, 2002). According to Lonsdale & Cox (2000) there were as well four main motives behind these strategies. First, companies were able to achieve economies of scale. Second, due to horizontal integration, companies had an opportunity to exercise greater market power. Third, conglomeration strategy gave firms a potential for greater security through an increased product range. And fourth, vertical integration potentially offered greater control for the companies (Lonsdale & Cox, 2000).

However, by the 1970s it was becoming increasingly recognized that many of these large and diverse companies were under-performing the market (Ibid). The large vertically structured companies were not sufficiently efficient to meet ever greater cost discipline demands and academic studies pointed disappointing rates of return (Kakabadse & Kakabadse, 2002; Lonsdale & Cox, 2000). In the early 1980s, with the onset of a global recession, this under-performance became even more pronounced (Lonsdale & Cox, 2000). That led companies re-evaluating their strategies and focusing on fewer activities (Ibid). The idea of core became dominant and managers were re-evaluating the idea that they needed to be vertically integrated and self-sufficient (Ibid). Over the past 20 years, one of the most notable trends in the world of business has been the move away from high levels of vertical integration toward outsourcing (Leavy, 2001).

2.3. What companies outsource

Outsourcing started with companies outsourcing physical parts (Quinn, 2009). Now the big shift has been to outsource intellectually-based service activities, like logistics, marketing or research (Ibid). According to study conducted by Outsourcing Institute in 1997, outsourcing is focused on things like information technology (30%), human resources (16%), marketing and sales (14%), finance (11%) and administration (9%) (Porter, 2000). Call centers, medical diagnosis, financial services, tax preparation and software development services are also prime candidates for outsourcing (Kumar & Eickhoff, 2005).

There is a distinction between core and non-core activities. Some activities are clearly core activities and some activities are clearly peripherals. Lonsdale & Cox (2000) divide activities as primary supply chain activities and supporting activities, which is demonstrated in figure 1. (Lonsdale & Cox, 2000)

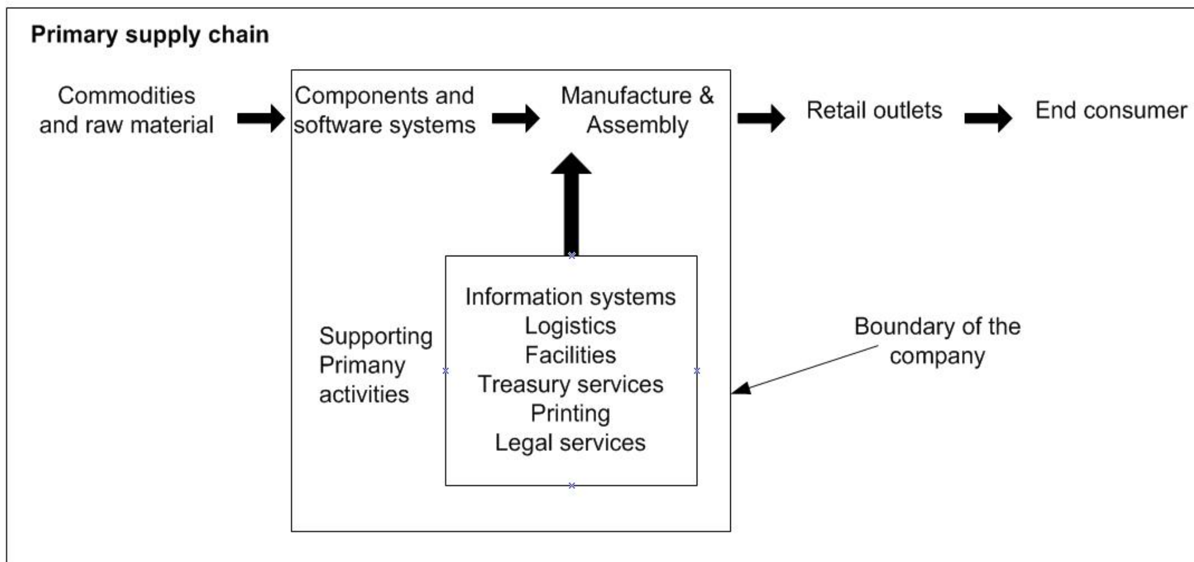

Figure 1. Distinction between primary supply chain and support activities (Lonsdale & Cox, 2000)

Today a vast majority of firms outsource some of their peripheral activities (Lonsdale & Cox, 1998). According to Quelin & Duhamel (2003) activities which are partially or completely outsourced in a large number of companies are: office information technology, industrial maintenance, waste management, logistics and telecommunication. Most of them are complex processes, but are not considered, by most industrial companies, to be their primary supply chain activities (Quelin & Duhamel, 2003; Lonsdale & Cox, 2000). According to survey conducted by Lonsdale & Cox in the UK in 1997, as much as 75 percent of firms were only involved in outsourcing support activities (Lonsdale & Cox, 2000). As well, Quelin & Duhamel (2003) have noticed that the functions which are more central to many companies' critical activities, such as marketing, finance, accounting and sales, remain the least affected by outsourcing.

Even thought, these more central activities have only been outsourced by much smaller proportion of firms, is this proportion growing (Lonsdale & Cox, 1998). The major reason why companies have outsourced a number of their primary supply chain activities is that the costs of remaining up to date in a multitude of supply chain activities has become financially onerous (Lonsdale & Cox, 2000). The faster the technology develops, the more serious is the problem. That is why the numbers of the pioneering outsourcers have been in the IT sector (Ibid).

For a good reason, there are many studies concentrating merely on IT outsourcing. IT is fast developing and complicated field of research and IT is nowadays often a target for outsourcing practices. IT has its own special characteristics which are beyond the scope of this study.

2.4. Core competencies and activities

Concept of core competence is closely related to outsourcing. Within the last two decades, there has been much discussion about core competences. There are many proponents for the idea of concentrating on core competences and outsourcing the rest. For this reason, it is necessary to clarify the term core competence.

The concept of core competence was originally developed by Prahalad & Hamel (1990). According to them, core competences are the collective learning in organization. Core competences have three features. First, they provide potential access to a wide variety of markets. Second, they make a significant contribution to the perceived customer benefits. Third, they should be difficult to imitate. Core competencies are used to create core products, which are not directly sold to customers. Instead, core products are used to create a wide array of end products. For example, Hondas core competence is said to be engine technology and engines are core products. (Prahalad & Hamel, 1990)

This concept has a strong reputation and it is widely used. However, the interpretation of the term differs quite a lot depending on the source. Actually, the concept is often misunderstood. For some managers it means the same as “what the company does best”, which is not what Prahalad and Hamel meant for. If the original definition is accepted, it can be argued that there are many companies, even successful ones, which do not even have a core competence (Mol, 2007). (Lonsdale & Cox, 1998)

There is a debate within the literature over what the concepts of core competency, core activity, core capabilities or just core actually stand for. Lonsdale & Cox (1998) use the term core activity in similar way as the term core competence is often used. Core activity is something that gives competitive advantage and is critical for business and therefore should never outsourced (Lonsdale & Cox, 1998).

2.5. Strategic outsourcing

In strategic outsourcing, the idea of concentrating on core competencies or activities and outsourcing the rest is a key element. Perhaps the most famous proponents of strategic outsourcing are James Quinn and Frederick Hilmer. They suggest that companies should concentrate on their core competencies and strategically outsource most of the other activities. According to this logic, companies can achieve best possible success by concentrating on what they do best. The idea is simple in theory but not in practice. There are no easy answers for the questions what exactly is a core and whether all non-core activities should be outsourced or not. (Quinn & Hilmer, 1995)

Alexander & Young (1996b) divide outsourcing into two categories: strategic and non-strategic. Strategic outsourcing has two main criteria. Outsourcing is considered strategic if a company has a strategic policy for outsourcing and it is prepared to consider outsourcing also activities which are traditionally considered core activities. They see outsourcing as strategy and a source of competitiveness in itself. Moreover, they challenge the traditional way of thinking that all core activities should be made internally. The point is that what is core depends on the company and companies should consider what activities to develop internally and what to outsource. Activities that provide competitive advantage are most likely to stay in-house. Consequently, such strategic outsourcing decisions not just involve operational managers, but top management as well (Quelin & Duhamel, 2003). (Alexander & Young, 1996b)

3. OUTSOURCING MOTIVES

One of the key questions of outsourcing is why companies outsource. It is worth stressing that, there is often a difference between why companies *should* outsource and why they actually *do* outsource (Lonsdale & Cox, 1998). According to Price Waterhouse Coopers (1999) and Deloitte´s (2005) surveys most western companies outsource primarily for short-term cost savings (Kakabadse & Kakabadse, 2002; Deloitte, 2005). The reasons why companies outsource depend on many factors. Motives for outsourcing peripheral activities are in most cases different than they are for activities closer to the core of business. In addition, different organizations in different circumstances will expect different benefits (Kremic et al, 2006).

In literature many potential benefits of outsourcing have been identified. Different researchers emphasize motives in different way. However, within the literature, there seems to be a wide acceptance of the most common motives for outsourcing. The review of literature reveals that many motives for outsourcing are overlapped. Moreover, each research is done from very different perspective varying from pure operational to strategic.

Lonsdale & Cox (1998) categorize five main reasons why companies outsource; focus resources on core activities, cost reduction, convert fixed costs to variable, benefit from supplier's investment and innovation and improve time to market. On the other hand, according to Quelin & Duhamel (2003) the most important criteria of outsourcing decision is to lower operational costs, the second important is to focus on core activities and the third is to gain flexibility.

According to Lacity et al (1994) the motives of outsourcing fall into four categories: financial, business, technical and political. Other similar categorization can also be found from different sources. However, none of them provide a suitable framework for this study. Instead, in this study the motives are, based on the review of literature, divided into three rough categories: financial, strategic and others. Financial motives are such motives in which outsourcing is driven mainly or merely by cost-savings. If outsourcing is based on strategic motive, there are more profound reasons for outsourcing than mere cost-cutting. The last group contains reasons to outsource that are not reasonably justified by the success of the company. Categorization and the most important motives and their references are illustrated in table 1 overleaf.

	Motives	References
Financial	Cost reduction	Belcourt, 2006 Gilley & Rasheed, 2000 Jennings, 2002 Kakabadse & Kakabadse, 2000, 2002 Kremic et al, 2006 Kumar & Eickhoff, 2005 Lacity et al, 1994 Leavy, 2001,2004 Lonsdale & Cox, 1998 Quelin & Duhamel, 2003 Zhu et al, 2001
	Improved cost control	Alexander & Young, 1996b Belcourt, 2006 Quelin & Duhamel, 2003 Lacity & Hirschheim, 1994
	Convert fixed costs to variable	Alexander & Young, 1996a Gilley & Rasheed, 2000 Kakabadse & Kakabadse, 2000, 2002 Kumar & Eickhoff, 2005 Lonsdale & Cox, 1998
Strategic	Focus resources on core	Belcourt, 2006 Gilley & Rasheed, 2000 Heikkilä & Cordon, 2002 Jennings, 2002 Kakabadse & Kakabadse, 2000, 2002 Kremic et al, 2006 Kumar & Eickhoff, 2005 Lacity et al, 1994 Leavy, 2001,2004 Lonsdale & Cox, 1998 Prahalad & Hamel,1990 Quelin & Duhamel, 2003 Quinn, 1999 Quinn & Hilmer, 1995 Zhu et al, 2001
	Gain flexibility	Gilley & Rasheed, 2000 Heikkilä & Cordon, 2002 Jennings, 2002 Kremic et al, 2006 Quelin & Duhamel, 2003 Quinn & Hilmer, 1995
	Improve service and quality	Belcourt, 2006 Gilley & Rasheed, 2000 Jennings, 2002 Lacity et al, 1994 Quinn, 1999 Quinn & Hilmer, 1995
	Improve time to market	Jennings, 2002 Kumar & Eickhoff, 2005 Lonsdale & Cox, 1998 Quinn & Hilmer, 1995
	Access to technical talent and to new technologies	Belcourt, 2006 Gilley & Rasheed, 2000 Jennings, 2002 Kakabadse & Kakabadse, 2000,2002 Kumar & Eickhoff, 2005 Lacity et al, 1994 Leavy, 2001, 2004 Lonsdale & Cox, 1998 Quinn, 1999 Quinn & Hilmer, 1995 Zhu et al, 2001
	Spread risk	Kremic et al, 2006 Quinn & Hilmer, 1995
Other	Get rid of problem functions	Belcourt, 2006 Kremic et al, 2006 Lacity et al, 1994
	Copy competitors	Kremic et al, 2006 Lacity et al, 1994

Table 1. Outsourcing motives and their main references.

3.1. Financial motives

Cost reduction

Traditionally a predominant motive for outsourcing has been a short-term cost reduction (Jennings, 2002; Kakabadse & Kakabadse, 2000; Quelin & Duhamel, 2003; Zhu et al, 2001). According to Lonsdale & Cox (1998) outsource can be an effective way to reduce costs in the short term, and there is nothing inherently wrong with having that objective. Indeed, pursuing a cost strategy may well be appropriate for companies operating within a highly competitive market, with no significant differentiating capabilities (Ibid). But, there are not many companies in this position and problems occur when they are concentrating only on cost savings (Ibid).

One of the key areas where savings are expected is labor (Lonsdale & Cox, 1998). Intensifying global competition has created pressures of cost reduction typically by moving low-skilled, labor-intensive activities to Asia and other low cost locations (Leavy, 2004; Kumar & Eickhoff, 2005). Labor cost reductions in other markets can be significant (Kumar & Eickhoff, 2005). It is worth noting that outsourcing is not the only way to take an advantage of low labor costs (Chen, 2004). Another way is to invest directly in production abroad (Ibid). However, the burden of managing abroad production makes that option less desirable and companies often end up outsourcing in order to exploit low production costs (Ibid).

The second area of potential cost reduction is through the third party offering greater responsiveness through new technologies which have undermined the need for the vertical integration and have also helped achieve economies of scale (Kakabadse & Kakabadse, 2000; Lonsdale & Cox, 1998). Cost reductions can be gained, when suppliers´ costs are low enough and even with added overhead, profit and transaction costs supplier can deliver a service or product for lower price (Kremic et al, 2006). Because of mass production efficiencies and labor specialization, specialized suppliers´ unit costs are less expensive (Lacity et al, 1994). According to Belcourt (2006) specialized suppliers are more efficient because they divide the costs of training personnel and undertaking research and development across more users. An example of successful outsourcing case, where buyer achieved significant cost reductions through outsourcing is highlighted below.

Case Rank Xerox

Rank Xerox develops and manufactures document processing products. In 1994 the company outsourced its facilities management (e.g. security, catering, cleaning and gardening) to CBX Ltd. Rank Xerox and CBX made a large five year agreement and facilities management staff transferred to CBX Ltd. Outsourcing was a part of the large restructuring program, which aim was to simplify company's processes. Rank Xerox and its new supplier set a common goal to reduce costs and improve quality. To help achieve this goal, they created in the contract an incentive for CBX to reduce costs. In addition, cost savings were passed to Rank Xerox. To improve quality, Rank Xerox consulted its end users on a regular basis. (Houston et al, 1996)

Outsourcing strategy turned out to be a success. Rank Xerox gained cost savings from 5 % to 62 % depending on the activity. CBX could generate cost saving because of economies of scale. According to Rank Xerox, they would never been able to achieve such cost savings without outsourcing. Outsourcing arrangement also freed managers to focus on their core business. In addition, quality improved and parties had a mutual trust. In summary, the outsourcing was a huge success at all aspects. But, the success did not come by itself. Instead, both parties worked hard with commitment and they had a common goal to reach for. (Houston et al, 1996)

Improved cost control

Another financial motive for outsourcing is cost control (Lacity et al, 1994). When an activity or service is outsourced, supplier charges for each use of the service. For this reason use of the service may be more cautious compared to in-house service (Belcourt, 2006). In other words, outsourcing makes costs more visible (Ibid). Belcourt (2006) mentions training as a good example. If the in-house training is free, and training provided by supplier cost 1000€, then managers are surely more stringent about the necessity of the training and they also expect some measurable benefits (Ibid). Moreover, outsourcing enables more direct and precise cost allocation (Lacity et al, 1994). Consequently, hidden costs will be avoided (Ibid).

Convert fixed cost to variable

The third financial motive for outsourcing is a potential to convert fixed costs into variable costs. For example, a company may manufacture components for its production machinery in-house, but it is not necessary to produce those components consistently throughout the year, instead few times annually. Those components may not be complicated in any way and could easily be sourced from outside. Even though the usage is occasional, maintaining capacity causes costs throughout the year. Outsourcing is a one way to solve this problem. (Lonsdale & Cox, 1998)

By outsourcing manufacturing costs decline and investments in plant and equipment can be reduced (Gilley & Rasheed, 2000). This reduced investment in manufacturing capacity lowers fixed costs and convert them into variable costs (Ibid; Kakabadse & Kakabadse, 2000). Converting fixed costs into variable have a direct effect on companies' business indications, for example a return on assets (ROA) and a net profit can be improved (Kumar & Eickhoff, 2005). Transferring fixed cost into variable entails short-run cost improvements and encourages companies to outsource (Alexander & Young, 1996a, Gilley & Rasheed, 2000).

3.2. Strategic motives

Focus resources on core

During the 1990s many large companies abandoned their diversification strategies and concentrate their scarce resources on what are considered to be the core of the business (Lacity et al, 1994; Lonsdale & Cox, 1998). Behind this way of thinking was the idea that the most important sustainable competitive advantage is strategic focus (Lacity et al, 1994). According to this logic companies should concentrate on what they do better than anyone else and consider outsourcing everything else to "best in class" suppliers (Belcourt, 2006; Leavy, 2001). Case Nike demonstrates this kind of strategy.

According to Lonsdale & Cox (1998) companies can increase their focus on core activities in two different ways. First, outsourcing support activities, which do not provide competitive advantage, frees up valuable management time. Consequently, managers can

concentrate on core business activities. Another way, how outsourcing allows companies to concentrate their resources on core activities, is the fact that outsourcing enables reducing capital investment requirements. Because companies only have a limited amount of capital, it is essential to target those limited resources on those activities which contribute to competitiveness. (Lonsdale & Cox 1998)

According to Leavy (2004), in order to concentrate on core competencies, it is necessary for companies to know in which three main value drivers - customer intimacy, product leadership or operational excellence, they concentrate on. They all contribute value to customers, but capabilities and cultures that promote them differ depending on the company. For example Nike has focused on product leadership, whilst Dell on operational excellence and customer relationship management. (Leavy, 2004)

Case Nike

Nike started as a small company that imported Japanese shoes to athletes. By the end of its first decade in 1972 sales has reached just $2 million. Even though the growth was relatively slow of those early years, the founders continued to experiment with new prototypes and performance designs. By the end of the first decade Nike had already developed the core competencies in brand building and design, which was the basis for its forthcoming rapid growth.

Nike decided to focus primarily on its core competencies and outsourced most of its production and much of its sales, distribution and advertising. Nike created maximum value by concentrating on the production of what was unique to them, such as research and development. This strategy led to huge, $700 million, growth of sales by the end of its second decade. What is worth noting is the fact that Nike successfully applied this focus strategy before its potential was generally recognized. (Leavy, 2004; Quinn & Hilmer, 1995)

Gain flexibility

In today´s hectic business world companies need to react more and more quickly to customers requirements (Kremic et al, 2006). Companies need to be more flexible and outsourcing is a one way to achieve that target (Jennings, 2002). By outsourcing

companies can increase flexibility in a many different ways. Basically, the flexibility can manifest itself in two ways. First, flexibility refers to an ability to adapt capacity to demand shifts in short-term (Ali-Yrkkö, 2007). When the demand peak occurs, outside suppliers capacity can be used to level these peaks (Jennings, 2002). Second, the flexibility refers to an ability to adapt to changing business environment in the long-run (Ali-Yrkkö, 2007). This includes for example an ability to develop new products (Jennings, 2002). Flexibility is interlinked with other outsourcing motives. Other motives, like improved time to market, access to new technology, transforming fixed costs into variable and focus on core, all create flexibility. (Gilley & Rasheed, 2000; Quinn & Hilmer, 1995)

Improve service and quality

Many companies outsource to increase the level of the consistency of their service (Perkins, 2004). For example outsourcing all of the help desks to a single supplier will standardize service and guarantee appropriate service level (Perkins, 2004).

Quality improvements can also be achieved by outsourcing, because companies can in most cases choose the supplier whose quality is superb (Gilley & Rasheed, 2000). Because suppliers have concentrated on their specific area and they have specialized equipment and personnel, they can provide higher quality than a company could ever achieve alone (Quinn & Hilmer, 1995). In addition, suppliers have better flexibility in hiring and rewarding employees (Belcourt, 2006).

Improve time to market

By outsourcing companies can considerably improve a time at which it can launch its products to market (Lonsdale & Cox, 1998). When best-in-class suppliers work simultaneously on individual components of a system, it enables to reduce design-cycle time (Quinn & Hilmer, 1995). An ability to improve time to market is particularly important in a market where capabilities and requirements are permanently and rapidly changing (Lonsdale & Cox, 1998). By improving the time to market, a company is able to satisfy its customer’s needs more efficiently and as a consequence it could become more competitive and highly profitable (Lonsdale & Cox, 1998).

Access to technical talent and new technologies

One of the greatest advantages of outsourcing is the full utilization of external suppliers´ innovation, investments and specialized professional capabilities (Kakabadse & Kakabadse, 2000; Kumar & Eickhoff, 2005). By using outside suppliers, companies are able to take an advantage of emerging technology that would be prohibitively expensive or even impossible to duplicate internally (Gilley & Rasheed, 2000). Outsourcing enables companies to adapt to rapidly changing business environment (Ibid).

One technical motive for outsourcing is gaining access to such technical talents, which are not available in house. Managers think that it is difficult to find or retain staff whose technical skills are at high level and by outsourcing they could access to this kind of technical talent. According to study made by Lacity et al (1994), such talent is not easy to gain. Often companies' technical talent remained the same after outsourcing, because their internal staff simply transferred to the supplier. (Lacity et al, 1994)

Other technical motive for outsourcing is to gain access to new technologies. This is the case especially in the areas, where technology develops fast, like IT (Lonsdale & Cox, 1998). Case Apple is a demonstration of this issue. However, according to Lacity et al (1994), outsourcing does not always automatically provide access to new technologies. It is possible only if the issue is written into the contract. Lacity et al (1994) list four ways how companies could gain access to new technologies by outsourcing:

- Company can make a specific contract with a supplier, in which supplier makes a commitment to manage, develop and implement the new technology.
- Company can manage and develop the new technology by itself and only contracts in a supplier's technical expertise.
- Company can make specific contracts to outsource old systems while focusing internal resources to develop new technologies itself.
- Company can develop a strategic partnership with supplier, where mutual commitment to share risks and rewards is written into contract.

Case Apple

When Apple Computer developed Apple 2, it decided to outsource 70 percent of its components and manufacturing. Apple knew that it could not be the best at making everything themselves, for example chips, boxes, monitors and keyboards. It decided to focus on its own operating system and supporting software and outsourced critical items, where it had no unique skills, like design, printers and marketing.

Outsourcing enabled Apple to benefit from its suppliers´ R&D and technical expertise, to avoid unnecessary investments and also to keep itself flexible to adopt new technologies as they became available. In addition its leverage of invested capital improved dramatically. (Quinn & Hilmer, 1995)

Spread risk

Outsourcing can also be seen as a way to reduce a company's risk by sharing it with suppliers (Kremic et al. 2006). Investment, that company makes, always incorporates a great deal of risks (Outsourcing Institute, 2009). Markets, competition, government regulations, financial conditions and technologies all change extremely quickly and keeping up with these changes is risky, especially when it requires a significant investment (Ibid). By outsourcing company can spread the risks of technology development across a number of suppliers (Quinn & Hilmer, 1995). That was the case with Argyle Diamonds.

Case Argyle Diamond

Argyle Diamond is one of the world's largest diamond producers. It decided to outsource almost all of its operations, except the critical steps of separation and sorting diamonds. All huge earth-moving operations were outsourced to avoid capital and labor risks, housing and food services for workers were outsourced to avoid confrontations with non-operating issues and much of the distribution were outsourced to finance inventories and to avoid the complications of worldwide distribution. By outsourcing to best-in-class suppliers in each case, Argyle Diamond was able to spread the risk and to ensure the further quality and image of its operations. (Quinn & Hilmer, 1995)

3.3. Other motives

Final group of motives includes such reasons to outsource that are within the literature often considered as non-recommendable or at least doubtful. Companies do outsource because of these reasons despite the fact that it may not be a wise thing to do. These two motives are the two most common motives of this kind.

Get rid of problem activities

Sometimes managers may consider outsourcing activities which are difficult to manage or out of control (Lacity et al, 1994). Companies think that outsourcing is an easy way to get rid of troublesome activities, such as one where employees are underperforming (Belcourt, 2006). That is because of outsourced activities is not as visible as an in-house department performing the same task (Ibid).

Despite the fact that it might be tempting to let suppliers worry about burdensome activities, this type of outsourcing decision is often doomed to fail (Lacity et al, 1994). When an activity seems to be out of control or difficult to manage, the company needs to examine the underlying reasons (Outsourcing Institute, 2009). If managers do not fully understand what is required to operate the activity, outsourcing does not make the situation any better; it may in fact make it worse (Ibid). In order to be able to communicate its own requirements to an outside supplier, company needs to understand them itself (Ibid). Like Lacity et al (1994) say: "you cannot successfully outsource a problem".

Imitate success

When one company proves to be successful with outsourcing strategy, like Nike does, it attracts other companies to imitate this success. Companies end up outsourcing after hearing success stories from other companies or just because it is fashionable. What they might not recognize is the fact that companies tend to give too optimistic reports soon after outsourcing decision, before the real outcome is known. For this reason companies that try to imitate success, make their decisions based on unrealistic assumptions. In addition they ignore the fact that each company has their own recipe for success and by copying they may never achieve the same success. (Lacity et al 1994)

3.4. Potential of outsourcing

Within the literature the focus seems to be more in direct benefits of outsourcing instead of the strategic potential of outsourcing. Strategic outsourcing was under discussion earlier in this study. The main element of the strategic outsourcing is a concentration on core competencies and outsourcing much of the rest (Quinn & Hilmer, 1995). This strategy is said to provide many benefits like barriers against competition, increased returns of internal resources, more effective leverage of suppliers and decreased risk (Ibid). However, according to Leavy (2004) there is further strategic potential in outsourcing than just focusing on core. He presents four business strategies where outsourcing plays a crucial role: focus on core, scaling without mass, disruptive innovation and strategic repositioning. Focus strategy does not have additional features comparing to Quinn & Hilmer´s proposal, but the three others have. First, outsourcing can enable companies to grow rapidly without correspondingly expanding a size of an organization. Relying on external resources, huge investments are not needed in order to scale up the business. Second, outsourcing is an essential enabler in disruptive innovation strategies. In such strategy the aim is to develop a whole new segment at lower price compared to existing competitors. Third, outsourcing enables strategic repositioning. If a field of industry is mature and the focus is shifting more into the services from physical products, outsourcing production and concentrating on service business may be a successful strategy. In summary, Leavy (2004) has pointed out that outsourcing has a great deal of potential. (Leavy, 2004)

4. RISKS OF OUTSOURCING

Outsourcing can provide many benefits and some managers even regard it as risk-free (Lonsdale & Cox, 1997). However, there is always the other side of the coin and many risks are related to outsourcing. In an ideal world, markets would operate effectively without any friction or transaction costs (Quinn & Hilmer, 1995). However, in real world most supply markets are imperfect and encompass great deal of risks (Quinn & Hilmer, 1995).

A wide array of outsourcing risks has been indentified in literature and risks range from minor setbacks to catastrophic consequences. The risks may result from supplier, from business environment or from the outsourcing organization itself (Aron et al, 2005). Drawbacks can emerge right after implementation of outsourcing or as well after several years (Ibid).

Different authors emphasize risks in different way, but there seems to be a broad acceptance of the most important risks. A vast majority of the authors agree that the most relevant risks of outsourcing are: loss of critical knowledge and competence and the risk of dependency (Hoecht & Trott, 2006; Quinn & Hilmer, 1995; Lysons et al, 2006; Lonsdale, 1999; Lonsdale & Cox, 1998). Each author has their own way of categorizing risks. The discussion in this study is based on the risk categorization of Lonsdale & Cox (1998). Risk categorization and their main references are illustrated in table 2 overleaf. Left column contains risks according to Lonsdale & Cox and some other risks. In right column, there are main references. It is worth stressing that even though the risks are categorized for the sake of clarity, in reality they are often overlapped.

Main risk categories (Lonsdale & Cox, 1998)	Main references (in addition to Lonsdale & Cox, 1998)
Loss of core activities	Aron et al, 2005 (Risk of atrophy) Belcourt, 2006 (Risk of reduced value) Kremic et al, 2006 (Risk of loss of core knowledge) Leavy, 2001, 2004 (Risk of losing skills key to competition) Lonsdale, 1999 (Risk of outsourcing critical activities) Lonsdale & Cox, 1998 (Risk of losing core activities) Quelin & Duhamel, 2003 (Risk of loss of competencies) Quinn & Hilmer, 1995 (Risk of loss of critical skills)
Being leveraged by supplier • Risk of dependency • Risk of opportunism	Aron et al, 2005 (Risk of opportunism) Heikkilä & Cordon, 2002 (Risk of dependency and opportunism) Hoecht & Trott, 2006 (Risk of dependency) Leavy, 2001 (Risk of opportunism) Lonsdale, 1999, 2001 (Risk of dependency) Mol, 2007 (Opportunistic behavior) Quelin & Duhamel, 2003 (Risk of dependency)
Loss of strategic flexibility	Chesbrough & Teece, 1996
Interruptions to supply	Aron et al, 2005 (Operational risks) Quelin & Duhamel, 2003 (Risk of suppliers deficient capabilities)
Poor quality of supply	Aron et al, 2005 (Operational risks) Belcourt, 2006 (Service risk) Quelin & Duhamel, 2003 (Risk of suppliers deficient capabilities)
A fall in employee morale	Belcourt, 2006 (Risk of lower employee morale)
A loss of internal coherence	Leavy, 2001 (Risk of losing learning opportunities) Hoecht & Trott, 2006 (Risk of losing innovativeness) Quinn & Hilmer, 1995 (Loss of cross functional skills)
Confidentiality leaks	Beasley et al, 2004 (Risk of revealing confidential information) Hoecht & Trott, 2006 (Risk of losing innovativeness)
Loss of intellectual property rights	Desouza et al, 2004 (Risk of intellectual property theft) Kumar & Eickhoff, 2005 (Intellectual property risk) Power et al, 2004 (Intellectual property risk)
Other risks	**Main references**
Unexpected costs	Belcourt, 2006 (Projected benefits vs. actual benefits) Kumar & Eickhoff, 2005 (Risks of unexpected costs) Olsztynski, 2005 (Hidden cost of outsourcing)
Risk of offshoring	Kumar & Eickhoff, 2005 (Additional risks of offshoring) Olsztynski, 2005 (Hidden cost of outsourcing) Power et al, 2004 (Offshoring risks)
Reputation risks	Beasley et al, 2004 (Reputation risks)

Table 2. Outsourcing risks and their main references.

4.1. Risk categories

Loss of core activities and critical knowledge

Like many researchers, Lonsdale & Cox (1998) argue that losing core activities is the most important risk of outsourcing. Basically, there are two ways of losing core activities. First one is the case that management unintentionally outsources a core activity (Lonsdale & Cox, 1998). This raises the question of how a company ends up outsourcing an activity which is critical for its business. The answer is inappropriate motives for outsourcing and poor management (Ibid). If the primary target for outsourcing is short-term cost-cutting or headcount reduction, managers can be blinded to the real consequences of outsourcing (Leavy, 2004; Lonsdale & Cox, 1998). In addition, suppliers may at first offer over-optimistic cost savings which can misguide managers (Lonsdale & Cox, 1998).

Second is the case where outsourced activity did not seem to be a core at the moment of outsourcing decision, but later on turned out to be such one (Lonsdale & Cox, 1998). Managers fail to recognize the sources of competitiveness in the future and long-term competitive advantage is traded off for short-term advantage (Leavy, 2004). The activities which are core for business change over time, activity which is or appears to be non-core at the moment may become a core in the future (Ibid).

If a company outsources an activity, it loses inevitably some knowledge and skills (Aron et al, 2005). It is intrinsic by-product of the process of outsourcing (Ibid). When a company ceases to conduct an activity, knowledge and skills related to it fade away (Ibid). However, losing knowhow does not happen overnight. Instead it may happen over the years (Chen, 2004). If a company outsources too much a company can turn into a hollow company (Belcourt, 2006). When an activity once minor for the business becomes someday important, the company does not any more possess the needed skills conducting that activity (Aron et al, 2005; Belcourt, 2006; Leavy, 2004). Case of IBM is one of the most notorious examples of losing core activities.

Losing core activities can have an additional feature of supplier becoming a competitor for buyer (Heikkilä & Cordon, 2002; Quinn & Hilmer, 1995). That can happen if a company outsources an activity that is considered as a non-core and teaches supplier how to do that and later supplier refuses to supply as required and begins to sell products directly to

customers or competitors (Quinn & Hilmer, 1995). At this point, the buyer has lost the know-how that it would need to take the activity back in-house (Ibid). In other words, buyer gives unintentionally to supplier an opportunity to learn making quality products and supplier takes the advantage of it (Leavy, 2004). The risk of supplier becoming a competitor is especially high when production is outsourced (Aron et al, 2005). Cases of Schwinn and GE illustrate this kind of risk.

If the supplier tries to sell products directly relying with its own trademark, there is, according to Chen (2004), one pivotal factor that holds back the supplier. That is customer loyalty and the power of the brand. For example companies like Nike or Apple have a powerful brand. If Nike´s or Apple´s suppliers would try to sell products directly with their own trade mark, customers might not buy them because they are not labeled as Nike or Apple, even though the products were the same. What Chen (2004) suggests is that such outsourcing strategy is possible only if the brand is powerful enough. (Chen, 2004)

Case IBM 1/2

IBM is a famous example of outsourcing. When IBM launched its first PC in 1981, the company decided to outsource the production of all the major components. It purchased microprocessors from Intel and operating systems from Microsoft. At the time both Microsoft and Intel were small suppliers. The main reason to outsource was IBM´s willingness to beat its main rival Apple in time to market. At first IBM´s strategy was a success. By 1985, its market share had grown to 41 %. However, soon IBM was in the face of difficulties and its outsourcing decision set the destiny of the entire industry. IBM had developed PC architecture, but it could not prevent its suppliers to create IBM-compatible PC component markets. At first, its competitors had difficulties to achieve compatibility, but eventually compatibility was widespread. Other PC manufacturers could buy microprocessors from Intel and operating system from Microsoft. Consequently, a competitive PC markets had evolved. By 1995 IBM´s market share haf fallen to just 7,3 %. In summary, IBM gave a possibility for Microsoft and Intel to grow the one of the largest and most successful companies in the world. (Chesbrough & Teece, 1996)

Leavy, 2004 argues that IBM outsourced too early. At the time of outsourcing PC market was still evolving (Leavy, 2004). Later on when PC market has commoditized such an outsourcing strategy might have been more successful (Ibid). Case IBM will be under further discussion later in this chapter.

Case Schwinn

Case of bicycle manufacturer Schwinn is well known example of outsourcing risks. In 1981 Schwinn decided to outsource its manufacture of bicycle frames to Taiwan supplier Giant. After six years, Giant was able to introduce first mass-produced carbon fiber bicycle frame. In 2001, Giant developed new resonance free suspension system. Nowadays Giant sells successfully products under its own brand. Giant absorbed critical knowhow and advantaged technology from Schwinn. In summary, Schwinn outsourced activities just to see Giant emerge as one of its toughest competitors. (Chen, 2004)

Case GE

Case of GE illustrates how supplier can obtain critical learning opportunities. Its decision to outsource turned out to be fatal. In the early 1980`s GE outsourced the production of some of its microwave oven models to Samsung. At the time Samsung was small and unknown company. However, GE became soon deeply dependent on Samsung. Samsung was able to scale up its production and engineering to levels that would not otherwise been possible. As a result, Samsung became one of the largest consumer appliance manufacturers. (Quinn & Hilmer, 1995)

Being leveraged by supplier

A second major risk of outsourcing is the risk being leveraged by a supplier (Lonsdale & Cox, 1998). Leverage can emerge in different ways and is closely related to dependency (Ibid). Many authors consider the risk of dependency as one of the greatest risk of outsourcing (Aron et al, 2005; Heikkilä & Cordon, 2002; Lonsdale, 1999, 2001; Quelin & Duhamel, 2003). In addition, many authors discuss about the risks of opportunism which refers to behavior in which supplier pursues its self-interest with guile (Lonsdale, 1999).

Supplier leverage can occur in many ways. Supplier may decrease the quality or restrain buyer’s access to the newest technology. However, the most common way of leverage is price increases. It can be argued that the supplier will do these things if it believes it can do so without negative consequences. Leverage by supplier is fueled by the combination

of dependency and opportunism. Furthermore, a great deal of dependency and opportunism make things far more severe. (Lonsdale & Cox, 1998)

Quelin & Duhamel (2003) argue that the risk of dependency is the first concern in outsourcing. In their point of view the risk of dependency refers mainly to risks of interruptions to supply without having a safety net of backup suppliers. They are also concerned with the inability of controlling quality. The main drivers for the risk of dependency are the difficulty of switching supplier or bringing the activity back in-house. Quelin & Duhamel (2003) also point out that, the more time goes past, the more buyer loses knowhow and thereby dependency increases. (Quelin & Duhamel, 2003)

Lonsdale (1999; 2001) has taken the view that dependency is indisputably the most important concern when it comes to outsourcing and that dependency can manifest itself in many ways and levels. If the buyer is dependent on supplier, it is easy for supplier to leverage its customer (Lonsdale & Cox, 1998). A key factor that determines the risk of dependency is asset specific investments related to outsourcing. In other words, asset specific investments in specific supplier relationship are sunk costs (Lonsdale & Cox, 1998). When a company conducts an outsourcing deal, for example IT service, in implementation phase a buyer needs to make investments to align its business with the new system (Lonsdale & Cox, 1998). In addition, supplier needs to learn its customer's processes (Ibid). At the time when the new system is fully implemented, switching the supplier would be costly (Ibid). Switching supplier always incorporates costs, for example searching or contracting costs (Quinn & Hilmer, 1995). At the time of outsourcing decision, companies can often choose a supplier from competitive markets, but after implementation, an ability to switch the supplier is limited (Lonsdale, 1999). Transaction specific investments are often mutual and both parties are locked in to the relationship and both parties are equally dependent (Lonsdale, 2001). In this case, the risk is not that serious concern. But if the level of asset specificity is high, finding a new supplier may be difficult and expensive (Ibid).

In addition to asset specific investments, limitedness of supply market is also essential factor of dependency (Lonsdale & Cox, 1998). Outsourcing into a limited supply market means that there are only one or few suppliers capable of providing required good or services (Lonsdale, 1999). It is a well known fact that monopolistic position gives a strong bargaining power to supplier and enables exploitation. If there are no alternative suppliers

it is likely for buyer being leveraged by a supplier (Ibid). Poor contracting and poor internal alignment are also causing companies to be leveraged by suppliers. If the contract is made in the absence of sufficient attention, there is a risk that the contract favors supplier. If this is the case, supplier may leverage the buyer. (Lonsdale, 2001; Lonsdale & Cox, 1998)

As was argued earlier, many companies are opportunistic, at least at some level (Lonsdale, 1999; Mol, 2007). According to Power et al (2004) many suppliers are masters in maximizing their position with clients. Supplier can create barriers of exit for their clients and abandon non-profitable clients (Power et al, 2004). According to Aron et al (2005) opportunistic re-negotiation occurs very often. They suggest that it happens every time when the supplier discovers its client´s weakened bargaining power (Aron et al, 2005). If this logic is followed, suppliers are opportunistic whenever they can. If there are not any alternative suppliers available what can buyer do in the face of opportunism? Probably nothing but to accept suppliers demands. In summary, the more the buyer is dependent on supplier and the more the supplier is opportunistic, the higher is the risk of being leveraged by supplier.

Loss of strategic flexibility and innovativeness

Greater flexibility is one motive for outsourcing and indeed flexibility is often increased. On the other hand, outsourcing does not always lead to greater flexibility (Lonsdale & Cox, 1998). Instead, Chesbrough & Teece (1996) argue that, in some occasions, outsourcing can lead to loss of strategic flexibility. What they mean by this is that complex networks of suppliers can be difficult to coordinate (Ibid). In addition, existence of dependency does not make things any easier (Lonsdale & Cox, 1998). Chesbrough & Teece (1996) suggest that virtual organization can suffer from the lack of flexibility. This statement needs to be specified in more detail, because the common opinion seems to be quite opposite.

According to Chesbrough & Teece (1996), innovations fall into two categories, which are autonomous innovations and systemic innovations. Autonomous innovation can occur independently from other innovations. They can be applied without completely redesigning the whole product or supply chain. On the other hand systemic innovation can be developed only with the total redesign of product and supply chain. They argue that due to

the more complicated nature of information needed for systemic innovation virtual organization has limited ability to handle such innovations. Thus, they have come to the conclusion, that outsourcing may decrease innovativeness. (Chesbrough & Teece, 1996)

Hoecht & Trott (2006) have also come to similar conclusion. They argue that the capability to innovate and make success is linked to company´s position in value networks. Key to success is, according to them, to be in the central in valuable networks. Outsourcing may threaten that position, and thus, weaken the company´s innovativeness. If critical activities are outsourced, the important knowledge flows may be interrupted. (Hoecht & Trott, 2006)

Case IBM 2/2

Case of the IBM was discussed previously in this chapter. Here, the discussion is continued with a potential reason to IBM´s failure. According to the theory of Chesbrough & Teece (1996), IBM failed to be virtual because it was sourcing systemic innovation from competitive market. After outsourcing, IBM was organized virtually. It failed to pursue any new systemic innovation because its suppliers did not want to act in the way IBM wanted. (Chesbrough & Teece, 1996)

Interruptions to supply

There is always an opportunity that supplier ceases supplying. Dependency issue is related to the risk of supply interruptions (Lonsdale & Cox, 1998). Dependency and the lack of alternative suppliers are the key factors which determine the level of the risk. However, shortage of supply can occur without the dependency (Ibid). Supplier may have difficulties of its own, like technical problems or supplier can go into liquidation (Ibid). Interruption may, of course, happen because of an accident or other reasons not caused by supplier. Whatever the reason is, sudden interruption to supply may cause serious difficulties (Aron et al, 2005; Kumar & Eickhoff, 2005). It is not to say that, outsourcing always entails greater risk of interruption of supply. Risk of accident etc. exists no matter who carries out the activity. Rather it is to say, that the risk of interruption should be taken into account. One way to assess this risk is to think what would happen if supply of goods suddenly stops (Power et al, 2004).

If supplier goes into bankruptcy, the buyer may also be one to blame. That would be the case, if the buyer squeezes supply prices too hard and supplier´s business becomes unprofitable (Lonsdale & Cox, 1997). It should be remembered that supplier needs its margins too (Ibid).

Poor quality of supply

Poor quality of supply can manifest itself in many ways. Again, issue of dependency plays a role with this risk (Lonsdale & Cox, 1998). In the case of high dependency, supplier may take an advantage of it and supply only at that level of quality, which only just satisfies the buyer (Ibid). Deliberate underperformance by supplier is called shirking by Aron et al (2005). Aron et al (2005) base their thinking on the limitedness of resources. They argue that shirking occurs because the supplier may have alternative use for its limited resources (Ibid).

Of course, it is possible that supplier´s quality does not satisfy, no matter how hard it tries (Lonsdale & Cox, 1998). One factor that may cause suppliers underperformance, is misaligned objectives (Aron et al, 2005). Supplier's incentives should be aligned with those of the buyer (Ibid). Sometimes companies find it surprisingly difficult to document their needs to their supplier, because some of the knowledge is tacit knowledge (Kumar & Eickhoff, 2005). For this reason, insufficient quality may sometimes be due to the buyer´s incapability to transfers appropriate information to supplier.

As it is important that supplier provides products with sufficient quality, perhaps, it is more important that supplier possesses capabilities to develop in the future. If a supplier lacks these capabilities, according to Quelin & Duhamel (2003), many problems may occur. These capabilities are the ability to adapt in a changing business context and a capacity to make necessary reinvestments (Quelin & Duhamel, 2003). It is a risk if supplier does not have these capabilities. Lonsdale & Cox (1998) and Hoecht & Trott (2006) point out the same issue. A buyer can suffer from an insufficient quality if supplier cannot stay up to date with technological development (Lonsdale & Cox, 1998). Case Mattel illustrates, what can happen if supplier fails to provide adequate quality.

Case Mattel

Mattel is the world´s largest manufacturer of toys. Outsourcing was a central tool in its value chain management. The company has outsourced production to China. However, in 2007, the company was in the face of a major quality problem. Its Chinese suppliers failed to meet its quality expectations. Products which Chinese suppliers had produced contained too high levels of lead. As a result, Mattel had to recall over 4 million toys that were manufactured in China. Yet, this was not even the worst part. In addition to those 4 million toys, Mattel had to recall 20 million toys just in the span of two weeks. Probably, the costs from this scandal outweighed plainly the cost savings the company had gained from outsourcing. This all happened, even though, the company had in place an appropriate audition and inspection systems. The lesson to be learned from this case is that risks of poor quality are never fully under control if production is carried out by suppliers. (Ravi et al, 2008)

A fall in employee morale

Belcourt et al (2006) consider the effect on employee morale as one of the primary risks of outsourcing. Outsourcing always results in displaced employees (Belcourt et al, 2006; Power et al, 2004). Basically, there are three options for the employees that previously carried out the outsourced activity: they are either transferred to the outsourcing company, transferred internally to other functions or they are laid off (Belcourt et al, 2006). Probably, most of the employees are not happy with any of those options (Ibid). Furthermore, the morale of the remaining employees can be affected too (Kumar & Eickhoff, 2005; Lonsdale & Cox, 1998). They may feel that nobody is safe in the company and that managers do not care about their well-being. Particularly, if there is not a clear pattern for outsourcing, a feeling of insecure may dominate (Ibid). Low morale may affect productivity of the company and it can lead skilled workers seeking a new job (Ibid). Outsourcing always incorporates changes. Most people have a natural tendency to resist changes (Kumar & Eichhoff, 2005). Consequently, in outsourcing, managers will always encounter a wall of resistance (Ibid). Fortunately, most of these problems can be avoided with proper management (Lonsdale & Cox, 1998).

A loss of internal coherence

According to Quinn & Hilmer (1995) and Lonsdale & Cox (1998), one essential risk of outsourcing is the loss of cross-functional skills. New insights and solutions often develop in interaction between people in different functions (Quinn & Hilmer, 1995). Lonsdale & Cox (1998) also argue that, interaction between people from different divisions is one of the main sources of innovation. There is a risk that those important cross-functional interactions may diminish (Quinn & Hilmer, 1995). Supplier´s employees often do not have same commitment to the company and they have their own interests (Lonsdale & Cox, 1998). On the other hand, innovativeness may be even higher if effective communication with supplier's experts is ensured (Ibid). However, if activities are outsourced at different locations, effective interaction may be difficult (Ibid).

One form of organizational learning is learning-by-doing. If the company does not perform the activity, it cannot learn from it either. It is possible that supplier learns from doing the activity and provides that tacit knowledge to the buyer. But, it is unsure whether this scenario is going to happen. Transferring tacit knowledge is not the easiest task to do. In summary, if an activity is outsourced, learning-by-doing will decrease. (Mol, 2007)

Company´s internal coherence may be weakened because of outsourcing, making the company more difficult to manage. Case Thornton equipment demonstrates this risk (it demonstrates as well the risk of unexpected costs, which is discussed later). (Lonsdale & Cox, 1998)

Case Thornton Equipment

Thornton equipment is a large specialty equipment manufacturer. In 1980´s it was facing pressures to cut costs in order to increase its margins. The company decided to make an easy solution: lower its overhead cost structure. As a result, the company outsourced a part of its production. Anticipated cost saving were around $3 million. However, a reality turned out to be far from that. (Blaxill & Hout, 1991)

Six months after outsourcing, it was realized that overheads were not decreasing as was expected, but actually rising. There were several reasons for that situation. First, most of the outsourced components went through the same processes as the components that

remained in-house and with fewer staff maintenance and work scheduling began to suffer. Some laid off workers had to be re-hired. Second, because of outsourcing, manager paid less attention to improving core process technologies. They postponed some important technological updates. Moreover, management of outsourced activities incorporated new logistical activities, such as billing and shipment. Supplier network required more personnel. The company also suffered from excess capacity, which had negative impact on overhead costs. As a result, the company´s production processes fragmented, productivity decreased and overhead costs were higher than before outsourcing. The lesson to be learned from this case is that, if outsourcing is used as a quick fix tool to cut costs, the outcome may be something totally different than was expected. (Blaxill & Hout, 1991)

Confidentiality leaks and loss of intellectual property rights

Risk of losing confidential information is always incorporated in outsourcing and more the company outsources, the greater the risk will be (Lonsdale & Cox, 1998). The risks are especially inherent in IT outsourcing (Desouza et al, 2004).

Intellectual property (IP) rights comprise at great deal of the companies value. Thus, protecting IPR is an essential concern. Those include for instance, trade secrets, copyrights, trademarks and patents (Power et al, 2004). If supplier is involved in product development, revealing of some confidential information to supplier is necessary (Lonsdale & Cox, 1998). How much and what information to share is an issue that ought to be carefully assessed (Ibid). Confidential information may end up to competitors through supplier. Hoecht & Trott (2006), in fact, argue that there is a trade of between access to supplier´s new technology and knowledge and the risk of losing commercially sensitive knowledge. Besides, according to them, this risk cannot be controlled by traditional management or by legal contracting (Hoecht & Trott, 2006). To manage this risk, it calls for high level of mutual trust (Ibid).

Lonsdale & Cox (1998) point out another risk concerning IPR. The risk occurs if IPR relating to outsourced activity are not properly protected. There may be a debate who has rights for the co-developed or co-produced products. Disagreement may emerge especially when the contract is under re-evaluation. (Lonsdale & Cox, 1998)

Unexpected costs

In most cases, cost saving is the main reason for outsourcing. Ironically, unexpected costs are one of the most common drawbacks of outsourcing (Deloitte, 2005). Too often, managers overestimate the cost savings and underestimate the costs (Belcourt, 2006; Kumar & Eickhoff, 2005; Kremic et al, 2006). According to Jennings (2002) by outsourcing companies commonly seek cost saving around 15-25 percent. However, materialized cost savings are often lower, on average 9 percent (Ibid). Similar result was found in the survey of Deloitte Consulting. They discovered that anticipated benefits often do not materialize (Deloitte, 2005). For example, 38 % of the respondents said they have paid additional cost, despite the fact that cost savings was their primary motive for outsourcing (Deloitte, 2005). There are no guarantees that expected cost savings can be achieved (Kremic et al, 2006).

Many managers forget that outsourcing is a complex process (Power et al, 2004). If the outsourcing is implemented without sufficient resources and planning, the additional costs may surprise. All possible effects of outsourcing should be taken into account. There are many possible reasons for unexpected costs, for example, layoffs, language and cultural differences, additional quality control, decreased warehouse turnover, increased transportation and incompatibilities (Belcourt, 2006; Kumar & Eickhoff, 2005; Olsztynski, 2005). However, sometimes not even the most painstaking planning is enough to avoid being surprised by unexpected costs. As Heikkilä & Cordon (2002) put it: even when outsourcing is strategically appropriate, the devil is in the detail. Case Thomas Medical Systems illustrates such risk.

Case Thomas Medical Systems (disguised name)

Thomas Medical System is a supplier of diagnostic imaging systems. Apollo B was their newest product series. In development of Apollo B, the company relied more on outsourcing. Their strategy was to purchase complete modules, instead of assembling those themselves from components. Outsourced assembly was expected to be more cost effective and another objective was to turn fixed costs into variable. However, outsourcing did not provide anticipated cost savings. Neither Thomas Medical System, nor the suppliers fully understood the changes they should have made in their processes to

successfully cope with the new division of work. For example, their CAD/CAM systems were incompatible and they had different approaches to engineering. In addition, the buyer had overestimated the supplier´s performance in some areas. Difficulties were mostly due to the lack of a clear outsourcing policy. Another reason was the fact that they simultaneously developed a new product and a new way of working. That proved to be a mistake. The simple matter of fact is that Thomas Medical Systems did not take into account all aspects of outsourcing process. (Heikkilä & Corcon 2002)

Risks of offshoring

Because globalization goes on deepening, most companies are seeking suppliers throughout the world. The concept of offshoring (offshore outsourcing) refers to outsourcing activities to a third party abroad (Slepniov & Waehrens, 2008). Many researchers have identified the additional risks of offshoring and consider them as a separate risk group (Kumar & Eickhoff, 2005; Power et al, 2004). It is not to say, that the risks discussed so far in this study concerns only domestic outsourcing. Rather, it is to say that outsourcing abroad can entail additional risks that need to be considered. This is the case especially if supplier comes from the developing countries.

If a company outsources abroad, it needs to encounter for example cultural differences, language barrier, piracy and currency risk (Kumar & Eickhoff, 2005, Power et al, 2004). Politically and economically unstable environment may also be a significant risk (Ibid). Many companies seem to underestimate the risks regarding cultural differences which can cause many kinds of difficulties, for example gaps between communication and misunderstandings (Olsztynski, 2005; Power et al, 2004). Of course, outsourcing process is more complicated in all aspects if the supplier is abroad (Power et al, 2004). Reputation risk is highly involved in offshoring, which is discussed overleaf (Beasley et al, 2004).

Case Goodyear

Goodyear is a major tire and rubber product manufacturer. In order to reduce labor and transportation costs, the company decided to outsource its hose operations to Mexican supplier. But, Goodyear was faced with a language barrier. Another concern was the fact

that, Mexican government had a tendency to change business rules and laws at short notice. However, the biggest threat was a constant fluctuation in currency exchange rates. Fluctuation was constant and it had severe impact on the company´s calculations. Apparently, the company knew these dangers prior to outsourcing and had considered the risks. Thus, in this case, the point is not in illustration of unsuccessful outsourcing, rather, in demonstration of the risks that might be ahead when outsourcing to abroad. (International outsourcing, 2005)

Reputation risks and customer satisfaction

Outsourcing may affect a company´s reputation. Reputation risk is a risk that only few have noticed, and even fewer have considered as a notable risk. Should the fact that so little has been written about this risk lead to a conclusion that the risk is not worth concern? At least Beasley et al (2004) do not think so. Although, the impact on reputation is difficult to measure, that is not an excuse to ignore the risk. Company´s reputation is a valuable asset that should be protected. An impact on reputation is far greater concern if a company outsources abroad. Outsourcing decisions that cause layoffs tend to catch the attention of the media and public. If jobs are lost due to outsourcing, some negative publicity is likely to emerge. For some people even the word outsourcing associate negative thoughts. Outsourcing news is rarely taken as positive news. Moreover, if public opinion shifts toward strong opposition to outsourcing, the companies that have already outsourced activities may find themselves in a new very difficult situation. (Beasley et al, 2004)

Outsourcing may have a negative impact on customer perception of value. This is the case, especially if customer services are outsourced. Whitaker et al (2008) conducted a study concerning customer satisfaction before and after outsourcing customer service activities. The results were clear: In most cases outsourcing had a negative impact on customer satisfaction. Unexpectedly, the effects did not depend on whether the company outsourced domestically or abroad. (Whitaker et al, 2008)

5. OUTSOURCING DECISION

So outsourcing motives and risks has been discussed. Many benefits and risks of outsourcing have been identified. However, without knowing the factors behind benefits and risks, there is not much use of those pieces of information. For this reason, in this part of the study, the outsourcing decision framework is developed, see figure 4 on page 45. The Framework is based on the factors, found from this study, that affect outsourcing decision. These factors are key issues that need to be considered when making outsourcing decisions. Outsourcing decision is a set of activities, thus it can be described as a process. Lonsdale & Cox (1998) illustrate outsourcing as a six step process, which can be seen from figure 2.

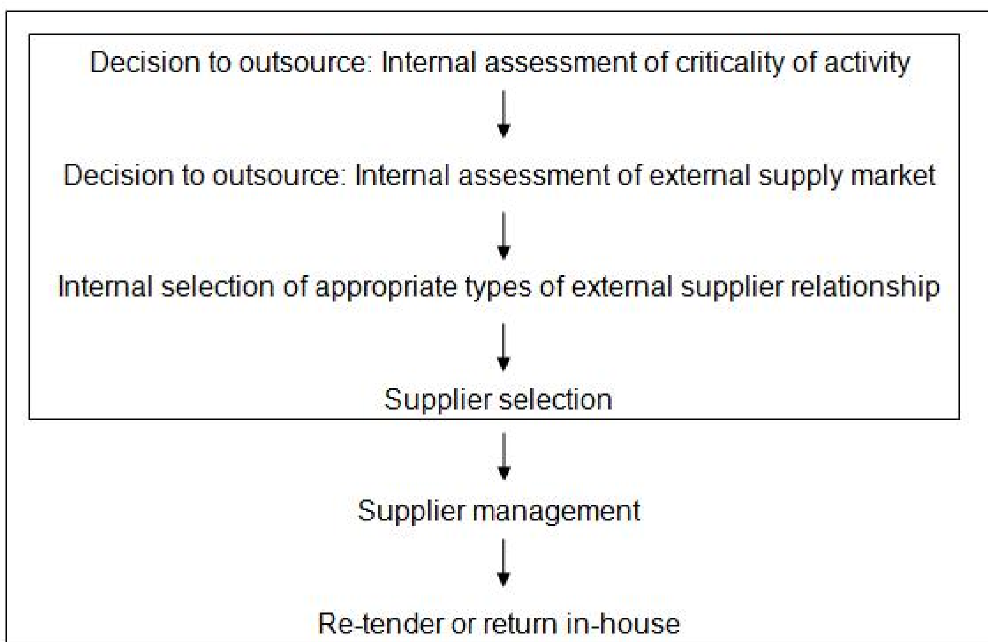

Figure 2. Outsourcing process. (Lonsdale & Cox, 1998)

However, in this study the main focus is not in analyzing the outsourcing process, nor in implementation of outsourcing, but to identify key factors that affect outsourcing decision. In other words factors, that determine whether a company outsources or not, are identified. Putting the outsourcing decision in practice is a whole different story and is beyond the scope of this study. For this reason the framework developed here has similar issues than the first four in the model of Lonsdale & Cox (1998). In figure 2, the inner quadrangle outlines the corresponding issues that are under discussion in this study.

Lonsdale & Cox (1998) divide the process in two main stages: internal assessment and external assessment. This logic is followed in this framework as well. Thus, the decision framework contains two main parts, internal analysis and external analysis. In addition, third part is an analysis of the type of appropriate relationship between a buyer and a supplier.

5.1. Internal assessment

Objectives

Whenever companies are considering outsourcing a first issue of interest is presumably the possible benefits that can be gained. Despite the fact that many benefits may be expected, one practice of outsourcing will not likely provide all the possible benefits.

A great amount of arguments can be found from literature that supports the fact that outsourcing rarely fulfills all expectations. According to PA Consulting Group´s survey only 5 % of the respondents said they had “high” level of benefits from outsourcing while suffering only minor drawbacks (Lonsdale & Cox, 1997). Thus, it should be realized that there is often a major gap between expected benefits and materialized outcomes. Moreover, it should be carefully assessed whether the benefits will really materialize as anticipated.

Management literature widely supports the argument that many problems arise when wrong objectives are sought (Lonsdale & Cox, 1998; Quelin & Duhamel, 2003). Wrong objective is not something that should never be sought. Rather, it is an objective that is inappropriate under particular circumstances. Perhaps the most common inappropriate objective is a short term cost-cutting. Under certain circumstances it may be appropriate objective, but often it is just short-sighted decision. If the short term cost-cutting is a motive for outsourcing, the long term effects should be kept in mind too (Quelin & Duhamel, 2003). Regardless of the outsourcing motives, it should be clear whether the outsourcing is a short-term or a long-term decision and whether it is a strategic or an operative decision. Outsourcing decisions that contribute value in the long-term make more sense in most cases (McIvor, 2000). According to Zhu et al (2001) successful outsourcing contracts

happen when the company knows exactly what it is trying to accomplish. Thus, companies should fully comprehend the objectives that are sought from outsourcing.

Cost assessment

When assessing cost savings expected from outsourcing, there is one trap to fall into. If cost savings are sought, it is essential that all direct and indirect costs that carrying out the activity currently in-house entails, are well known (McIvor, 2000). If costs are not properly assessed, there is no way of correctly comparing current costs to prices that the forthcoming supplier is offering. Adequate costing system is needed for outsourcing decision, especially if outsourcing is cost driven (McIvor, 2000). In the worst case, if costs are assessed too optimistically, outsourcing may even increase total costs. (Lacity & Hirschheim; Zhu et al, 2001)

Furthermore, the price that supplier offers does not equal the total costs of outsourcing (Kakabadse & Kakabadse, 2000). In order to avoid hidden costs, it is essential to assess all cost that outsourcing might entail. What make a difference, as far as costs are concerned, are the total costs of the company before and after the outsourcing (McIvor, 2000). Proper evaluation of current internal costs and outsourcing costs is a premise for outsourcing decision. (Zhu et al, 2001)

Criticality of activity

Criticality of activity refers to how much the activity is responsible for competitive advantage, in other words, is it core activity. One key motive for outsourcing is concentration on core competencies. However, the question remains, what are core activities (Heikkilä & Cordon, 2002). As was argued earlier, what exactly is a core is a debatable question. One feature of core activity is that it provides competitive advantage (Lonsdale & Cox, 1998). Core activity is essential for the business. Losing core activities is considered one of the most important risks of outsourcing. This is why, this issue need a serious concern.

Risks of outsourcing critical activity are different than they are if the activity is a purely peripheral. If outsourcing a support activity fails, the worst case scenario is additional

costs. The core business hardly will be endangered. However, if the outsourced activity is critical, in the worst case scenario, the whole business is on the line.

A key to successful outsourcing is to indentify how critical the activity is. There are two important questions. First, is the activity responsible for competitive advantage at the moment? Second, will the activity provide competitive advantage in the future? When outsourcing, it is critical to ensure that competitive position is secured in the short run as well as in the long run (Hoecht & Trott, 2006; Lonsdale, 1999).

Business processes are complex and just dividing activities into core and non-core may lead to dangerous oversimplification (Heikkilä & Cordon, 2002). The fact is that the activity that is not a core for some company may be a core for another (Heikkilä & Cordon, 2002; Mol, 2007). Moreover, inside a company each business unit may have they own set of core activities (Heikkilä & Cordon, 2002). If this matter of fact is ignored when defining outsourcing policy concerning the whole company, confusion may occur (Heikkilä & Cordon, 2002). Many activities are clearly neither non-core nor core activities (Heikkilä & Cordon, 2002). Most activities fall into the gray category (Ibid). Thus the criticality of activity can be seen as a continuum between core and non-core (Mol, 2007). This is illustrated in figure 3.

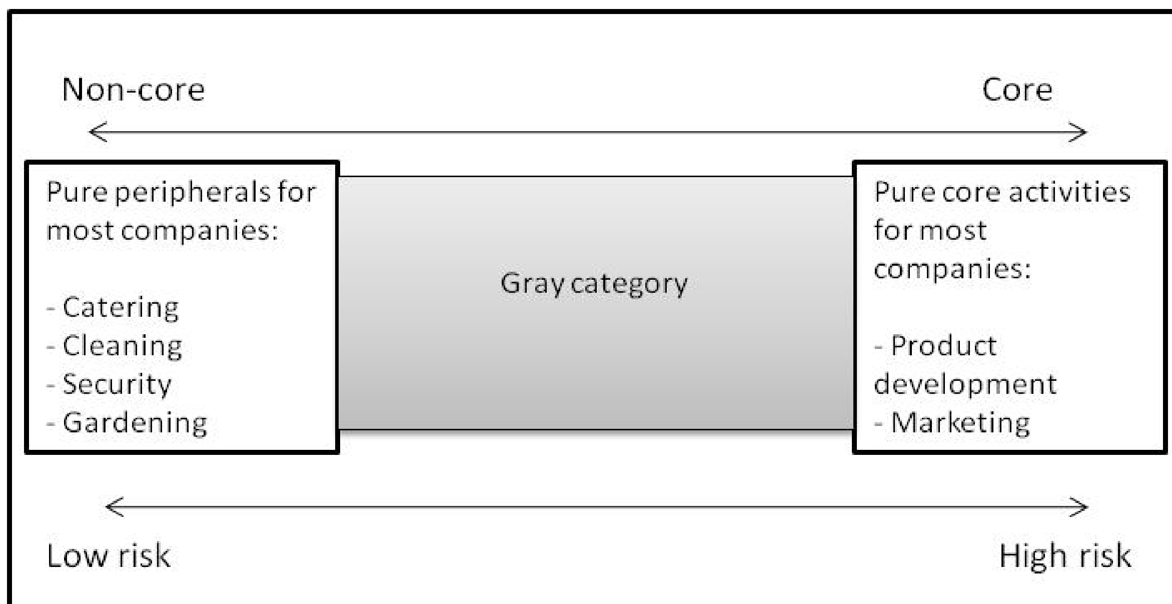

Figure 3. Illustration of the criticality of the activity.

It may be easy to identify few clearly non-core and few clearly core activities, but for most activities the task is not that simple. Different activities interact with each other and

activities that seem to be non-core may actually have some unforeseen link to core activities (Mol, 2007).

If it is difficult to define what is core at the moment, identifying what provides competitive advantage in the future will not be any easier. Sources of competitive advantages change over time (Leavy, 2004). To predict what provides competitive advantage in the future is essential, yet not an easy task. For this reason outsourcing an activity that provides competitive advantage in the future may be a biggest pitfall of outsourcing.

Complexity of activity

The activity that is a candidate for outsourcing may be a simple activity or it may be a complex one, for example one call center vs. whole IT operations. Outsourcing a complex and extensive activity makes the outsourcing complex as well and the decision has more far-reaching effects. Risks are higher as well. Outsourcing simple activity is a decision that local operational managers can make, but outsourcing a complex activity involves more top management and stakeholders. Furthermore, decision making is far more detailed and more complicated. Contracts are more sophisticated in all aspects and implementation is complex process as well. (Quelin & Duhamel, 2003)

Asset specificity

As was argued earlier, dependency issues are major concerns related to outsourcing. Asset specificity is a key factor that determines the level of dependency. According to Oliver Williamson´s asset specificity refers to resources, used in a given transaction, that have a higher value to that transaction than they could have if they were deployed for any other purpose (Lonsdale & Cox, 1998). In practice, asset specific investments made in a specific supplier relationship are sunk costs. The more there are sunk costs the more costly and difficult it will be to switch supplier (Ibid). Furthermore, the more there are asset specific investments, the more likely the buyer will find itself being dependent on supplier (Ibid). A careful assessment is needed to determine how much outsourcing requires asset specific investments and whether the asset specificity is mutual or not. What needs to be

aware of is the situation where the buyer is highly dependent but the supplier is not. (Leavy, 2001)

Impact on employees

As was stated earlier, outsourcing has an impact on employees. That is the fact that needs to be taken into consideration (Zhu et al, 2001). In worst case, employees are layed off. Employee morale and productivity may suffer. However, the problem is solvable in many respects. It all comes down to proper management (Lonsdale & Cox, 1998). The point is that the effect on employees should not be overlooked (Belcourt, 2006). If it is, the outcome of outsourcing may be unpleasant.

5.2. External assessment

Business environment

Assessment of business environment includes three issues. First is an evolution phase of the industry. Leavy, 2004 took the view that one key to avoid losing critical skills is in understanding an evolution phase of the market. Companies should be aware of outsourcing at the wrong development phase. This is especially important in technology led industries. When new innovative product is launched to the market, customers desire more functionality and are willing to pay premium price. If market is in this stage outsourcing is not a good option. An ability to develop new technology is a key to success. Customer perception of value is based mainly on technology. However, as time goes on, there will be a point when product becomes a commodity. In commoditized market the main basis of competition shifts from innovative new functionalities to price, speed, convenience and customization. At this phase, outsourcing may be an effective strategy. When considering outsourcing, it is important to recognize the phase in which the industry currently is and in which direction it is evolving. The faster the technology changes, the more appropriate strategy outsourcing might be (Quelin &Duhamel, 2003). Other factors to consider are an uncertainty and seasonal fluctuations of demand (Ibid). (Leavy, 2004)

Second is a company´s position in value networks. Hoecht & Trott (2006) argue that a position in a value network is one key to innovativeness. Thus, one factor to consider is the possible shifts of company's position in networks.

Third issue is the power of brand. Chen (2004) argues that one essential safeguard against the suppliers which try to take over the buyers business is the customer loyalty and the power of the brand. If the company considers carrying out a major outsourcing, the question to be asked is whether the brand is powerful enough to keep the customers loyal to the brand if similar products would be offered at lower price (Ibid).

Limitedness of supply market

Limitedness of supply market refers to how many alternative suppliers are available. If there is only one possible supplier, the market is monopolistic. On the other hand, if there are plenty of suppliers which are competing, the market is contested. Most market lie somewhere between the two extremes. Limitedness of supply market is a critical factor, because outsourcing into a limited supply market can be very risky. The less there are alternative supplier, the more the buyer will be dependent on supplier. Market should be analyzed and there should be at least few alternatives. For most peripheral activities, there is a well contested market. This being the case, outsourcing is relatively easy and risk free. However, if the outsourced activity is not a standard product, there may be only few possible suppliers and managers should be careful about outsourcing. (Lonsdale, 1999)

Selecting the right supplier

As have been seen throughout this study, supplier plays a crucial role in outsourcing success of failure (Beasley et al, 2004). Because, switching supplier afterwards can be difficult and costly, it is important to select the right supplier from the beginning. In order to qualify, the supplier should possess the necessary processes, quality, technology, employees and equipment (Kumar & Eichhoff, 2005).

Lonsdale & Cox (1998) suggest that supplier selection must be carried out by a cross-functional team. That ensures that all aspects are taken into account. There are no universal selections criteria for supplier (Lonsdale & Cox, 1998). Instead factors depend on

the objectives that are sought for. However, there is one exception. The supplier should be willing to act in a cooperative manner.

Supplier’s previous achievements are one way to evaluate its performance. However, more important is the suppliers future capabilities (Hoecht & Trott, 2006; Quelin & Duhamel, 2003). Assessing the supplier’s future capabilities is not an easy task, because the supplier’s excellent track record is not a guarantee of great performance in the future (Lonsdale & Cox, 1998).

Furthermore, it is important that the buyer´s and the supplier´s objectives are aligned (Aron et al, 2005). Many suppliers have a tendency to act opportunistic whenever they can and maximize their own position (Aron et al, 2005; Power et al, 2004). For this reason, supplier´s real motives should be known. It may be the case that the supplier enters into supply relationship only to later exploit the buyer (Aron et al, 2005). Some suppliers actively seek opportunities to ruthlessly take an advantage of their clients to scale up their own business (Ibid).

Recognizing opportunistic behavior prior outsourcing may be difficult. If supplier´s offer appears too good to be true, it probably is not true. That is, if the supplier has designs on the buyer, it may offer very low prices at the beginning (Lonsdale & Cox, 1998). Most world-class suppliers have their own reputation to protect. Thus, outsourcing to a supplier with a strong reputation reduces the risks of opportunism (Leavy, 2001).

One essential factor in supplier selection is a geographical location. As was argued earlier outsourcing abroad incorporates additional risks and costs. Lower labor costs attract to outsource in to the developing countries, but over-optimistic cost savings should be forgotten. (Kumar & Eichhoff, 2005; Power et al, 2004)

Impact on customers

Outsourcing may impact on customer service and customer perception of value (McIvor, 2000; Zhu, 2001). In addition, outsourcing decision may harm company´s reputation (Beasley et al, 2004). No company affords to ignore these factors. Customers do not care whether a company considers an activity as a core or non-core (Mol, 2007). It should be

considered what effects outsourcing may have on customers (Whitaker et al, 2008). This is the case especially if customer service activities are outsourced (Ibid).

5.3. Type of relationship

Final factor that affects outsourcing decision is the type of supplier relationship. Relationship with supplier can have many forms. In literature the relationship basically has two opposite options: adversarial and partnership (Kakabadse & Kakabadse, 2000; Leavy, 2001). Besides, between the two extremes lie intermediate forms. In adversarial relationship supplier is kept in arm´s length and suppliers compete with each other and the focus is on price. Whereas in partnership relationship parties seek a long-term commitment, share information and work closely together. It is worth stressing that partnership requires deep mutual commitment and for that reason it is not always a feasible option, even when it seems desirable. (Leavy, 2001)

Within the literature, there is a debate over a question whether companies should use adversarial or partnership relationships. However, some guidance is provided by Leavy (2001). He points out that having the right mix of relationships seems to be most successful strategy. However, the question remains what type of relationship should be used for each outsourced activity. Selecting the right relationship is a decision that depends on many factors, like company's competitive positioning, value proposition, flexibility needs, needs of control, supplier capabilities, criticality of activity, asset specificity and number of available suppliers (Kakabadse & Kakabadse, 2000; Leavy, 2001; Lonsdale & Cox, 1998; McIvor, 2000; Quinn & Hilmer, 1995). If outsourced activity is critical, partnership relationship may be more advisable (McIvor, 2000). On the other hand, for peripherals adversarial relationship may be more appropriate (Ibid). If the main motive for outsourcing is an access to supplier's technology, partnership might be preferable in this case too (Ibid).

In addition for the adversarial vs. partnership decision at least two other dimensions can be identified, which are partial ownership of supplier vs. no ownership and single vs. multi sourcing (Kakabadse & Kakabadse, 2000; Lonsdale & Cox, 1998). Quinn & Hilmer (1995) suggest that partial ownership makes sense when control over supplier is important. In

single sourcing arrangement one supplier takes full responsibility of supply. Whereas in multi sourcing two or more suppliers supply the same product.

5.4. Decision making

So far the decision factors have been discussed, which have summarized in figure 4. The purpose of this decision framework is to point out the key factors that affect outsourcing decision, not to answer whether to outsource or not. That is the case, because every company operates under different circumstances and has their own unique set of factors. It can be used as a checklist of outsourcing decision. Moreover the decision is not just a simple outsource or not decision. Rather, by using this framework outsourcing decision process should help generate some alternative options. An activity can for example be outsourced only partially at first and later outsourcing can be more extensive (Quinn & Hilmer, 1995). Other dimensions are for example relationship type and geographical location.

Basically, outsourcing decision is about weighting up the risks and the benefits. It is up to the decision makers on which factors the decision is based. When it comes to costs, the total costs of different alternatives are relevant and the best choice is that which provides the lowest total costs (McIvor, 2000). Likewise, when risks are concerned, the decision should be based on total risk portfolio (Beasley et al, 2004). In other words, total risks prior to outsourcing should be compared to total risks of different outsourcing options (Ibid). Some existing risks may diminish or grow and in the other hand new risks may emerge. Total risks are what matter (Ibid).

Heikkilä & Cordon (2002) point out that when making decision, both strategic as well as operational issues should be taken into account. McIvor (2000) also points out that outsourcing should be carried out from strategic perspective and integrated into overall strategy of the organization. According to Lonsdale & Cox (1998) outsourcing should not be considered as a short-term decision. Rather, all aspects of outsourcing decision should be taken into account (Ibid). In summary, there seems to be a strong recommendation within the literature that outsourcing decision should be seen as a strategic decision.

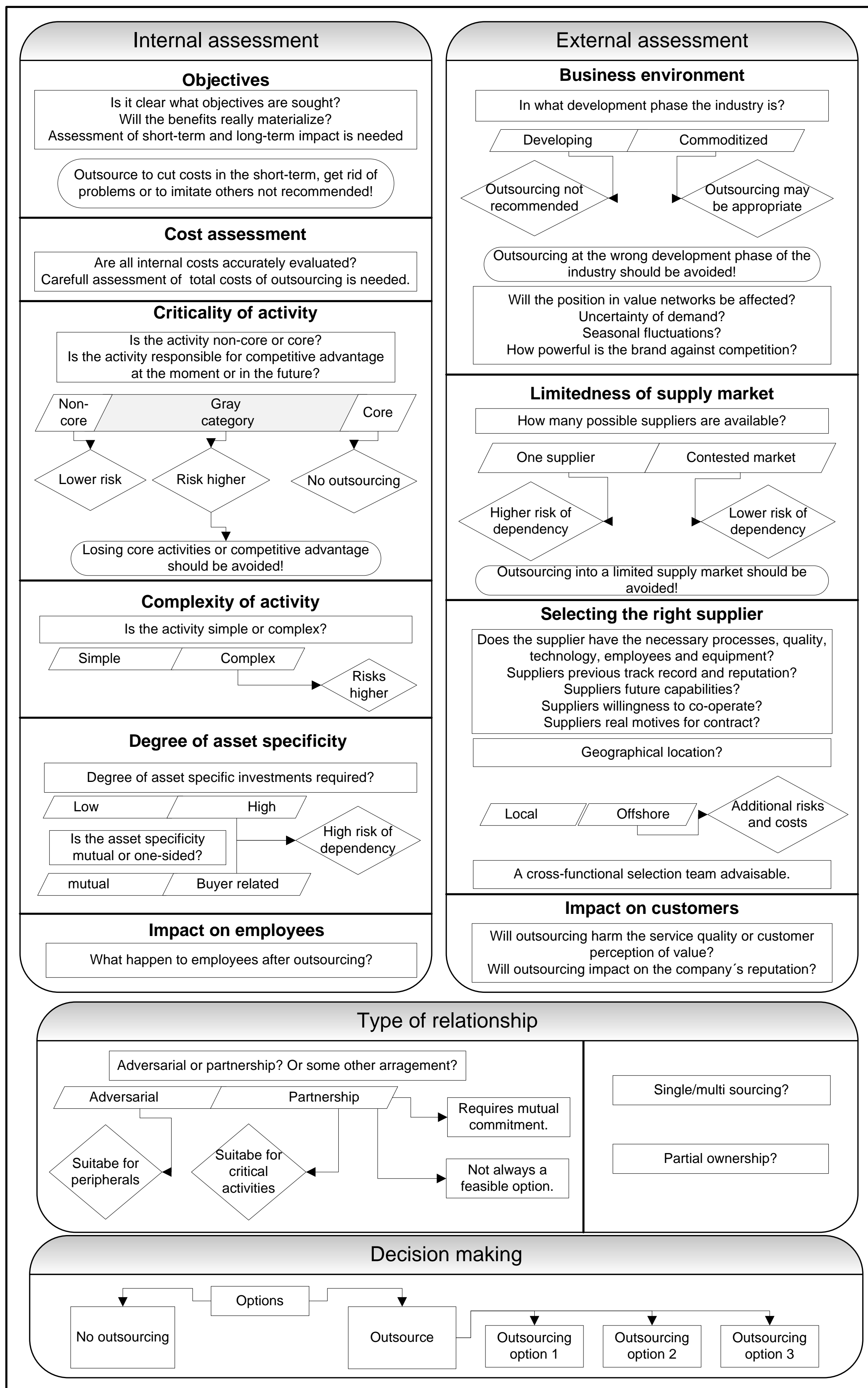

Figure 4. Outsourcing decision framework

6. DISCUSSION AND CONCLUSIONS

Throughout this study many motives for outsourcing have been identified. Furthermore, this study has proved that outsourcing incorporates a wide variety of risks. A vast majority of companies report that anticipated benefits of outsourcing have not fully materialized. However, at the same time many companies keep on outsourcing. Thus, there seems to be something wrong. That leads to a conclusion that, there is either something inherently wrong with a practice of outsourcing or there is something wrong with the use of the practice. In all likelihood the latter option is correct. If this is the case, in many cases companies either decide to outsource when they should not or implementation or management is poor. In either way, there seems to be a lot to learn for many companies about outsourcing.

In a great deal of studies the discussion about the motives for outsourcing has mainly based on the data gathered up from a questionnaire survey. There is nothing wrong with that, but two interesting questions raise. Many companies say they outsource because they are concentrating on core competencies, but the fact is that each managers seem to have their own meaning for the concept of core competence. Moreover, there is similar confusion within the literature. Why exactly these companies outsource if they all mean something different by the core competence? Another question that rises is: would these companies have ended up outsourcing anyway, no matter what others have done? How many of those companies outsource actually because they are imitating others intentionally or unconsciously? For a good reason some proposes that outsourcing may be just a fad. There is no way of knowing how many companies outsource because outsourcing truly is the most appropriate decision for them and not because they actually are imitating others?

Throughout this study several outsourcing cases have demonstrated that for some companies outsourcing has been a successful decision and for others more or less unsuccessful. However, the argument to be made is that successful outsourcing cases do not prove that the same strategy would guarantee a success to any other company. Correspondingly, if some company appears to be failed because of outsourcing, it does not prove that the same would happen again. There are many factors that affect outsourcing decision and every company operates under different circumstances. There is no way of giving the tool that tells what, when or how a company should outsource. One

conclusion that can be drawn from this study is the fact that outsourcing decisions, like all business decisions, are context dependent.

In literature, the discussion is often based on few well known cases, like Nike or IBM. Nike is one example of successful outsourcing whereas IBM is considered one of the most fatal outsourcing decisions of history. Nike´s strategy is indeed successful, but only few have recognized the fact that such a strategy may not be possible without a powerful brand that Nike enjoys. Thus, following Nike´s example may not work for other companies.

Case of IBM is often referred and for that reason some criticism is justified. For the first few years, IBM´s decision to outsource was a success before things eventually began to go wrong. Afterwards it is easy to say that IBM set its destiny with outsourcing but there is an alternative scenario too. Given the fact that IBM was at the time operating in technologically fast developing field of industry and new competitors was emerging all the time and seeking their opportunities, there is a good reason to ask what would have happened if IBM had not outsourced and continued to be vertically integrated? Maybe things for IBM would have gone even worse. At the time outsourcing enabled IBM to beat its worst rival Apple and maybe without outsourcing Apple would have taken over the whole market. If this scenario was correct, the reason for IBM´s decline was not after all outsourcing.

Another conclusion is that if the research is based on studying existing cases, all potential of outsourcing may not be recognized, nor all the possible risks may not be identified. This leads to next conclusion, that it would be interesting to see more studies about the potential of outsourcing and about what may be achieved by outsourcing.

One conclusion is the fact that a vast majority of literature focuses on internal factors of outsourcing. Customer's point of view seems to be often forgotten. Only few researches recommend putting a question how customers will take the outsourcing and what happens to customer perceived value. Another ignored issue is that for many customers it makes a difference whether the product is made in western countries or in Asia. Despite the fact that Chinese suppliers may well be able to meet high quality standards, convincing customers may be difficult, because China is often associated with poor quality.

The final conclusion is that outsourcing is not a simple and easy solution for every situation. In fact outsourcing is a complex process and companies should think twice about

their outsourcing decisions. Too often companies seem to outsource without the adequate consideration. In addition, outsourcing should not be seen just as an operational tool. Rather, it should be considered as a strategic decision that involves not just operational manager, but top the managers as well.

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