

Guest editorial

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Outsourcing: value or vulnerability

Some consider outsourcing and indeed non-ownership business models in general as a mixed bag of both value and vulnerability, a two-sided coin, or even a two-edged sword, which can cut for or against you. However, one important side of the story which we highlight is that the side (head or tail) of the outsourcing “coin” that turns up for a firm is connected to the firm’s ability to manage this crucial relationship successfully. Outsourcing can indeed deliver immense value to both the principal and the agent, but there are downsides as well.

The main value proposition of non-ownership services is that it enables the principal firm to competitively access others’ resources and competences by hiring other firms to perform non-core business functions and focus their corporate resources and capabilities on their core activities (Ndubisi, 2011; Ndubisi *et al.*, 2016). The rapid growth of strategic relationships and collaborative economy is a clear indication that customers relish obtaining benefits without buying ownership titles for assets to produce these benefits. Firms using non-ownership contracts aim to transform customer uncertainties such as changes in value of that asset, unforeseen costs (such as repairs) or even black swan events into business opportunities for providers (Ndubisi *et al.*, 2016). Although there are many cases where non-ownership does not live up to the promised value propositions, as the struggles of companies that include BP, Benetton, Wal-Mart, Mango and El Corte Inglés (Rana Plaza Industrial Tenants) demonstrate, in other cases firms have been able to exploit the potential of non-ownership successfully.

Outsourcers and service providers sometimes face certain vulnerabilities. Outsourcer vulnerability may result from deployment of incompetent vendors, difficulty of monitoring performance, vendors not meeting contract specifications and perhaps even going out of business prematurely. There is also the issue of the outsourcing service provider not representing the outsourcer well through negligence or sheer opportunism. Vendor or service provider vulnerability could emanate from the outsourcer not disclosing all the information necessary to facilitate the work of the vendor, holding the vendor culpable for genuine mistakes, poor and/or untimely remuneration of service provider, market cannibalization through direct competition with the vendor or between vendors appointed by the outsourcer within close proximity of each other, among other factors.

Although outsourcing contracts try to take care of some of these shortcomings, there is always the difficulty of covering all aspects of the relationship in the document. Indeed, the principal limitations of contracts limit the value propositions of non-ownership in general and outsourcing in particular. Implicit in the economic theories (Arora *et al.*, 2014; Chesbrough, 2011) and espoused by Ndubisi *et al.* (2016), the shortcomings of non-ownership contracts manifest in three ways:

1. *Contractual uncertainties impede contracting efficiency*: Non-ownership services may entail the investments of resources for the exclusive use in the client–provider relationship that lose value outside this relationship.
2. *Resource uncertainties jeopardize management productivity*: Non-ownership services reside on both client and provider, specializing on particular domains of the value creation process.

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3. *Business uncertainties diminish complementary business opportunities:* Complementary business opportunities reside with the expectation of both the client and the provider that their business opportunities have mutual positive impact.

To stimulate further discussions on the subject of outsourcing value and vulnerability, we made a call for original research and review manuscripts with clear practical contributions. We requested prospective contributors to submit manuscripts offering new insights into strategic issues in outsourcing and non-ownership services on related topics, such as:

- underlying paradox of non-ownership's smart allocation of uncertainty upsides and downsides between providers and clients;
- potential of relational governance mechanisms to handle the uncertainty challenges apparent in non-ownership;
- contributions of relational governance in unfolding the economic benefits of non-ownership;
- dynamic capabilities through resources the firm can access versus what it owns or controls;
- domestic outsourcing, offshoring and global non-ownership services;
- franchising – single and multiple franchises;
- drivers of franchising, outsourcing and non-ownership initial decisions and later decisions to continue the contract/relationship;
- management control and management accounting systems' association with outsourcing and non-ownership relationships;
- trust and commitment in non-ownership services, outsourcing and franchising relationships;
- conflict management in non-ownership services, outsourcing and franchising relationships;
- ethical issues in outsourcing and non-ownership services relationships;
- green outsourcing and non-ownership services;
- partner selection in outsourcing and non-ownership services;
- value co/creation and delivery in outsourcing and non-ownership services relationships;
- the facilitating or inhibiting role of technology and the Internet in non-ownership services;
- outsourcing and non-ownership services in the oil and gas, education, research and development, information and communication technologies, logistics and other sectors; and
- not-for-profit outsourcing and non-ownership services.

Following a rigorous double-blind review process, six articles were finally selected from the submissions. We would like to congratulate all the authors who contributed to the special issue and also thank all the reviewers for their hard work and for meticulously reading and appraising the submissions and resubmissions. Unsurprisingly, the collection of articles in this issue address recent developments in the field or revisited some past questions/issues through a different theoretical or methodological lens leading to some fresh insights into the

subject matter. In the following sections, we present a summary of the findings of each article in this special issue. The current issue continues the journal's standard of publishing cutting-edge, relevant and rigorous materials for decision-makers.

In the first article, Ndubisi and Nygaard address the question of whether outsourcing is a "blessing" or a "lesson." Through the analyses of sourcing in two leading multinational companies – Benetton, in the fast fashion industry, and Nestlé, in the food industry – the authors illustrate the strategic vulnerability that arises from the international outsourcing of production. They argue that production costs are no longer a complete indication of performance, and that management control systems should be especially vigilant when outsourcing transfers social and environmental responsibility from one contract to another in a global business context. Monitoring costs cannot be outsourced when it comes to sustainable social responsibility and environmental aspects. They advise firms to leverage relationships with stakeholder groups, activists and non-governmental organizations to help them monitor their international operations, deploy institution-based trust to protect brands, and increase integration and control mechanisms.

In the second article, which is based on the review of existing studies and industry trends, Malhotra and Uslay point at the need to carefully differentiate between core and non-core functions when deciding on whether/what to outsource. Some outsourcing options may boost financial performance in the short run but undermine the long-term viability of the firm. The authors identify some relevant factors that may help in determining the optimal number of primary suppliers, such as the complexity and the maturity of the supply chain, industry lifecycle, regulation, and technology.

Next, Gazley and Simmonds investigate the effect of outsourcing and offshoring on brand loyalty in a service recovery context, and how consumer ethnocentrism moderates the relationship. Their research suggests the need to consider the delivery channel of service recovery in order to recover a service failure and retain customer loyalty. They argue that outsourcing within a local country may be effective but the risks associated with offshoring are much greater.

In their investigation of the unconscious aspects of information technology outsourcing decisions, Das and Grover identify vulnerabilities related to decision-making on outsourcing and propose mechanisms to address these vulnerabilities. The authors propose a multi-disciplinary approach to decision-making on outsourcing that integrates the psychological elements of decision-making with economic value-creation logic.

In the penultimate article, Ahmed examines the role of management accounting and accounting information in decisions to outsource and manage outsourcing relationships. Based on case studies, the paper unveils some of the roles of management accounting information and varying tasks assumed by accountants and finance staff in the outsourcing relationship management and evaluation.

In the concluding article, Ndubisi and Setiadi encourage practitioners to reap the fruit of outsourcing and try to contain its downside. They identify destructive conflict as a major bane of outsourcing relationships and other non-ownership business models. Drawing on existing literature and empirical evidence from their studies conducted across ten industries in three countries within the Asia-Pacific Rim and the Middle-East, the authors unveil interesting ex ante and ex post destructive conflict handling strategies. They recommend long-term orientation and ethical norms as robust ex ante (i.e. before the destructive conflict) handling strategies and integrative conflict handling strategy as the main ex-post strategy. Other ex post conflict strategies include accommodating and compromising conflict handling strategies; however, these are less effective and should be used sparingly. Forcing and avoidance conflict handling strategies can escalate destructive conflict and should be completely avoided by outsourcing partners at all times, according to the authors.

By allowing the outsourcer to hire other firms to perform routine noncore business functions, firms can access dynamic capabilities which they neither own nor control. In turn, the vendor can profit from its ownership of the asset or competency in use. However, for the full benefits of outsourcing and other non-ownership models to be consummated, parties must overcome the challenges of potential opportunism and high monitoring costs, ensure that parties are meeting contract terms/specifications and are promoting the values and goals of their partners. Minimizing outsourcing vulnerabilities enhances the value of the arrangement over time. The papers in this issue suggest several strategies to reap the gains of outsourcing (and non-ownership models in general) and to mitigate vulnerabilities.

In non-ownership arrangements, the principal may not have legal ownership of the resources used in service, and the agent may not have legal ownership of the outcome of the service. However, they can have psychological ownership of the resources and outcomes. In the absence of legal ownership incentives, promoting psychological ownership could make up for that missing motivation to not act opportunistically. Future research may therefore investigate the role of psychological ownership in mitigating outsourcing vulnerabilities.

It is our hope that the collection of articles in this issue will advance managerial practices and motivate further discussions on the topic.

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