Topography of Outsourcing

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Abstract

Outsourcing has become well established business phenomenon with a raising annual value. Its scope has undergone a journey from manufacturing outsourcing, over business process and information technology outsourcing, all the way to innovation outsourcing. However, viciously emerging number of backsourcing events indicate that there is something wrong in how outsourcing is managed. Our assumption is that outsourcing is far too complex phenomenon than anticipated and that it has to be understood holistically. We depict and explain basic elements of outsourcing, show their relative positions to each other, and present them in a framework called the topography of outsourcing. The framework suggests that understanding each of the elements and their possible combinations will help practitioners to understand the outsourcing phenomenon and manage the outsourcing arrangements successfully.

Key words: holistic view of outsourcing, outsourcing process, theories of outsourcing, types of outsourcing, vendor's perspective

Introduction

Common to numerous definitions, an outsourcing arrangement is a process executed by an outsourcer that has been performing a service or process internally before outsourcing it to an independent vendor. Very often, but incorrectly, some other business arrangements are considered to be outsourcing. For example, a start-up's decision to find a catering company should be perceived as *sourcing* because they didn't have any catering facilities previously. Similarly, a General Motors' decision to open its first European assembly plant in Copenhagen in 1923 should be perceived as *in-house offshoring* because GM retained full ownership over the facility.

The origins of outsourcing could be set anywhere on the time scale. Therefore, it is perhaps harder to trace the history of outsourcing than the history of the Mayan civilization. If one looks back into the secrets gone-by times and finds an organization that had performed an activity, and then decided to let someone or something else do it, that would be the origin of outsourcing. Would that have been a Stone Age matriarchal woman that outsourced hunting to the subservient male of the species; or Roman emperors outsourcing the watchtowers of the Northern Italian frontier to Noricans; or actors of Victorian England outsourcing the memorization of the text to theatre prompters; or …?

Whatsoever, the term outsourcing was first adopted in the 1960s and 1970s, predominantly around manufacturing activities, when Original Equipment Manufacturers (OEMs) started to outsource their production to contract manufacturers. Over a short period of time, information technology (IT) replaced manufacturing on the "What to outsource" hit-list. IT outsourcing started in the 1970s with the client/server phase due to the expensive processing power, continued with the milestone when Kodak Eastman outsourced its IT activities to IBM, Businessland and DEC in the beginning of the 1990s, followed by the internet-phase of the late 1990s (Lacity and Willcocks, 1995; Heywood, 2001; Pati & Desai, 2005). Nowadays, innovation outsourcing is perceived as a new engine of corporate growth (Quinn, 2000; Linder et al., 2003). The value of the outsourcing industry is rising with figures now in excess of nine zeros (Corbett, 2004).

Organizations set various goals and expect to achieve some of them by deploying the outsourcing strategy. Typical reasons for outsourcing are to reduce costs, concentrate on core activities, focus on achieving key strategic objectives, get access to knowledge and new markets, and decrease the product/process design cycle time (the list could be virtually indefinite). Unfortunately, achieving those goals is not an easy endeavor because outsourcing is frequently followed by many inconveniences. For example, outsourcers may become dependent on vendor, lose control over critical functions, lower the morale of employees, lose critical skills or develop the wrong skills, fail to gain innovation, increase complexity of communication, and increase travel and administration costs (again, the list doesn't end here). This can make companies bring back previously outsourced activities. Backsourcing has happened with many mega deals in IT outsourcing. For instance, JP Morgan Chase backsourced its 5 billion US$ deal with IBM only 2 years after the roll-out (Veltri et al., 2008). Backsourcing is also a trend in many national economies. For example, 10% of more than 3500 outsourcers in Denmark have reported backsourcing activities (Økonomi-og Erhvervsministeriet, 2008).

Apparently, practitioners are struggling to manage outsourcing successfully. In order to have more positive than negative outcomes generated out of an outsourcing arrangement, an outsourcer has to make sure that the goals are realistic and achievable by outsourcing. One has to remember that outsourcing is just one of many business strategies and that other options have to be also evaluated. If, however, outsourcing is a chosen strategy, a company should have control over the critical success and failure factors. Those factors can be many and various and embedded in different processes. Vendor’s capabilities, delivery performance, good contract management, strong relationships, mutual understanding of outsourcer and vendor needs, flexibility, good communication, and technical expertise are some of the important critical success factors. On the other hand, cultural differences, inflexibility of outsourcing agreements, inadequate specification and/or metrics of the service level agreement, inadequate governance, lack of goal alignment, and lack of IT integration are some of the main failure factors.

In their pursues to analyze the phenomenon and advise organizations on how to manage it rightly, academics have focused on understanding the determinants (37 % of publications), the process (43 % of publications) and the outcomes (20 %) of outsourcing (Jiang and Qureshi, 2006). Still, outsourcing is a far more complex phenomenon than usually anticipated and its various elements need to be taken holistically into consideration. Over the years outsourcing had spread through corporate blood vessels, crisscrossing the value chains, embracing many different activities. It has become a universal business practice applied by public organizations and private companies in all industries. Even though outsourcing of manufacturing, facility management, IT or innovation could have some idiosyncratic characteristics, the practice of outsourcing is driven and conducted by general principles. For all those reasons we believe that it is important to understand outsourcing as a generic business phenomenon.

Without having an aspiration to develop an ultimate guide for outsourcing, we take an effort to capture basic elements of outsourcing, show their relative positions to each other, and present them in a form that is easy to comprehend and apply in practice and research. We call that form the topography of outsourcing. The framework suggests that understanding each of the elements and their possible combinations will help practitioners to understand the outsourcing phenomenon and manage the outsourcing arrangements successfully.

Outsourcing process

The most intricate element of the outsourcing phenomenon is the outsourcing process, a framework meant to guide an outsourcer throughout the outsourcing arrangement, from its inception and design, all the way to the performance and determination. Several frameworks have been developed over the time (Greaver, 1999; Momme, 2002; Cullen and Willcocks, 2003; Franceschini et al., 2003; Corbett, 2004; Click and Duening, 2005; McIvor, 2005). They differ among each other, some even significantly, hence leaving the practitioners in doubt about their applicability in specific situations. We have examined the content of the stages of each of the proposed outsourcing process frameworks and unified them into a generic framework. In this way it was possible to systematize the knowledge about the process and provide readers with a simpler and more operational model for successful outsourcing consisting of 5 stages: preparation, vendor(s) selection, transition, managing relationship and reconsideration (Figure 1). Its cyclical nature provides a good opportunity for managers to reflect on past experiences and use these experiences in new initiatives, leading to more successful outsourcing outcomes in the longer run. This could also work as a tool for companies, who might have made several errors earlier, to improve past performance rather than just leave the field with baggage of failure. Each of the stages has to provide an answer to various questions, thus emphasizing the complexity of the outsourcing process and arguing for a need that it has to be managed carefully throughout its life cycle.

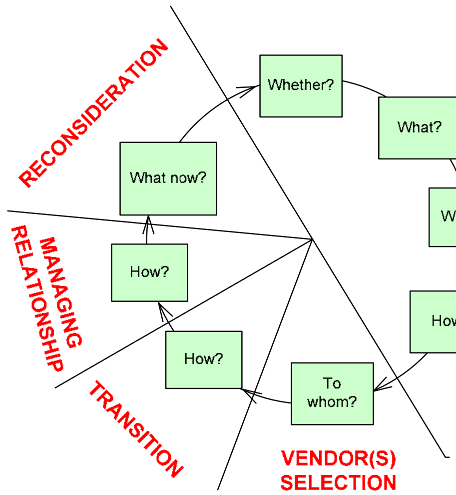

Figure 1 –The outsourcing circle

Preparation

The first phase of the outsourcing process should reflect the underlying philosophy of an outsourcing agreement. The philosophy consists of the objectives of the principal architects of the agreement, along with the set of beliefs that led them to conclude that outsourcing would be an effective and appropriate way to proceed (Shepherd, 1999). The major task in this phase is to explore strategic sourcing options and number of decision making tools is available to assist managers in making the right sourcing decision. Some of the tools may be utilized to recognize the appropriateness of various sourcing options in different contextual situations in the market (Baden-Fuller et al., 2000; Willcocks et al., 1995). On the other hand, some tools are appropriate in determining the right sourcing options in specific industries like software development (Willcocks and Plant, 2003) and manufacturing (McIvor, 2005) or for specific processes like innovation (Linder et al., 2003).

Defining the outsourcing approach is the next step in the preparation phase. The outsourcing approach reflects the outsourcing philosophy and determines the basic shape of the outsourcing agreements that are concluded (Shepherd, 1999). There are several approaches discussed in literature (Willcocks et al., 1995; Cullen and Willcocks, 2003). *Incremental* outsourcing involves starting with small portions with discrete contracts, evolving over time into larger contracts. *Hard-way* outsourcing happens when an organization is pressed to go into a large-scale outsourcing arrangement without having the experience and clear picture of how to manage the process. *Big-bang* approach is when significant portions of all activities are outsourced at one time. *Piecemeal* outsourcing occurs when each activity is outsourced independently over time combining a variety of vendors.

The next step in the preparation phase is to explore and determine organization’s relational preference i.e., what type of relationship with vendors would be the most suitable for it. In essence, an outsourcer will seek either a short-term transactional (contractual) or a long-term relational (collaborative) relationship. While still in the preparation phase, a responsible outsourcer will scan the market for available and potential vendors, both within domestic and international markets.

The preparation phase should provide the answers on ***Whether***, ***What***, ***Where*** and ***How*** questions. This phase is critical because an organization may commit itself to outsourcing, which, if not prepared well, can incur significant financial and strategic consequences.

Vendor(s) selection

If vendor scanning activities from the preparation phase haven’t revealed the final candidate for entering the negotiation process, then vendor selection shall be carefully designed. It shall follow a more or less pre-determined path, consisting of writing the request for proposals (RFP), determining evaluation criteria, evaluating and selecting the vendor, negotiating and finalizing the contract. Outsourcer shall choose partner(s) that it will be tied to for a period of time, sharing good and bad, or as Vice President of F.L. Smidth said "When your partner experiences difficulties, you experience difficulties. Outsourcing is like a marriage with a well-defined point of divorce"

RFP is not the only way to seek vendors. Actually, with the growth of more collaborative outsourcing arrangements, a more collaborative approach in seeking and selecting the vendor is emerging. However, in transactional outsourcing arrangements RFP is still the prevailing way to find an appropriate partner. Before RFP is sent out, the evaluation criteria should be established. Even in the case of collaborative outsourcing, there should be evaluation criteria that will help judging the vendor in the forthcoming phases of the process. An outsourcer must be sure that there is a fit between vendor's capabilities and its own strategic intent.

The vendor(s) selection phase shall provide the major output, the contract. Outsourcing contracts may be developed as a single term (fixed one-term), rollover (extendable) or evergreen contracts (Cullen and Willcocks, 2003). It may comprise standard elements, although each outsourcing arrangement shall take into account specificities of parties involved and characteristics of the work that is about to be outsourced. Flexibility of contracts is an emerging characteristic of outsourcing deals. Flexible contracts are usually created through the mechanisms of incomplete contracting such as price flexibility, renegotiation options, flexible contract length, and early termination options. Incomplete contracting can ensure that the outsourcer is not locked into a relationship with an inadequate partner.

The vendor(s) selection phase should provide an answer on the question: ***To whom*** to outsource.

Transition

The transition phase makes all planned activities start happening. The transition phase is typically focused around transferring assets, people, contracts, hardware and software, information, and projects that the vendor will have responsibility for in the future. Essentially, this process embraces the change management. The performance of the transition phase may be measured by the ability to implement the change process (Momme, 2002). During the transition phase it will be necessary to establish information exchange and data interface protocols that mesh the existing standards and information management architectures of each firm (Click and Duening, 2005). A very sensitive topic is how to handle employees who need to move to the vendor, or those whose employment is going to be terminated. Therefore, internal protocols and procedures need to be specified.

The transition phase imposes another ***How*** question to be added to our list of outsourcing process questions.

Managing relationship

The success of outsourcing is being gradually connected to the success of the buyer-supplier relationship (Lee and Kim, 1999; Sabherwal, 1999; Lee, 2001). The success of the buyer-supplier relationship will be very much determined by how it is managed at the operational level. It has been emphasized that the strict implementation of the legal outsourcing contracts doesn’t necessarily lead towards the success in outsourcing (Kern and Blois, 2002), and that the outsourcer and the vendor should complement that contract with the psychological contract. The combination of these two should enable more successful outsourcing arrangements (McFarlan and Nolan, 1995; Klepper, 1995; Sabherwal, 1999). Figure 2 depicts key constructs of the successful outsourcer-vendor relationship. The relational view argues that more successful partnerships are based on *commitment*, *coordination*, *interdependence* and *trust*, supported by the application of conflict resolution techniques and communication behaviour (Mohr and Spekman, 1994; Click and Duening, 2005). Lee and Kim (1999) found that partnership quality is positively influenced by factors such as *participation*, *communication*, *information sharing*, and *top management support*, and negatively affected by age of relationship and mutual dependency. A high quality relationship allowing the *flow of knowledge* shall enable the partners to create a successful outsourcing outcome (Lee, 2001). These nine elements act as "relational electrolytes", a form of the outsourcing relationship conductive medium. The outsourcer and the vendor have to build and maintain these elements across various corporate levels, from top management to project team members and users (Lander et al., 2004).

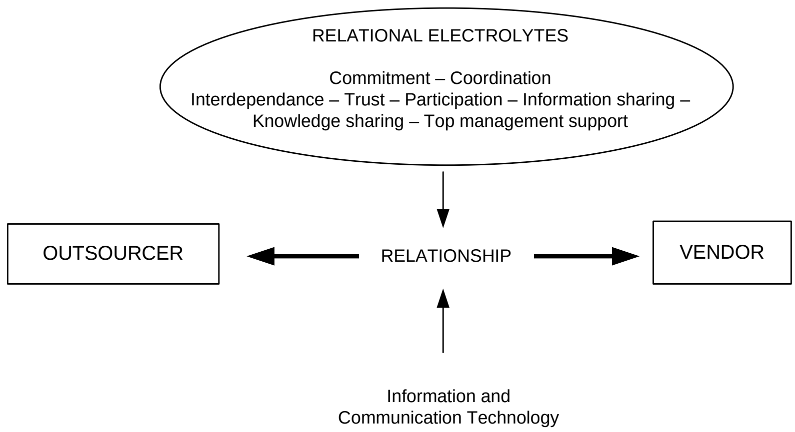

Figure 2 – Key constructs of the outsourcer-vendor relationship

Information and communication technology (ICT) should help outsourcers and vendors to engage in successful outsourcing arrangements. It serves as a facilitator in diminishing geographical, cultural, economical and technological distances, through enhanced flow of information, transaction and distribution, and quality of decision making (Hultman and Axelsson, 2005).

Again, another ***How***.

Reconsideration

In this phase companies are challenged to provide the answer to the question of ***what now?*** The contract is approaching its planned termination or an outsourcer is considering an early and unplanned termination. The latter is usually the result of excessive costs, poor service, loss of control, know-how mismatch, offence, or breach (Cullen and Willcocks, 2003, Veltri et al., 2008). In this phase outsourcers should use the time to put together two and two and see whether they have achieved success or they have failed, and to decide what they shall do now. In principle they can choose among three options: continue with outsourcing with the same partner; continue with outsourcing with re-tendering the supplier(s); or backsource. The first option may be conducted by retaining, decreasing or increasing the level and scope of the outsourcing arrangement. Changing the supplier is threatened with high potential switching costs like uncertainty costs, post-switching behavioral costs, hiring and retraining costs, management system upgrade costs, lost benefit costs, search and evaluation costs, etc. (Whitten and Wakefield, 2006).

Vendor's perspective

The vendor(s) selection and managing relationship phases of the outsourcing process imply that vendors should be an equally important element of the outsourcing phenomenon for the success of an outsourcing arrangement as an outsourcer is. Vendors are expected to carefully plan how to get the first contracts, how to manage them, and how to retain their customers. Although vendors share similar characteristics, predominantly centered on the profit motive, they rarely have the same approach to their customers, contracts and relationships (Cullen and Willcocks, 2003).

As in the case of an outsourcer, the process is in the core a vendor’s involvement in an outsourcing arrangement. One of the first efforts to map a vendor’s generic process in outsourcing was made in Jenster et al. (2005). They defined the process to consist of three phases: identifying a need for additional competences; managing the entry phase (assessing the potential outsourcer and the preparation of the bid); and running the contract. Similarly, in a study of software developers, Perunovic and Christoffersen (2007) suggest that the vendor’s process in outsourcing should be considered to be cyclical, as vendors strive to win new customers, to satisfy their expectations by running the process satisfactorily, and to therefore keep existing customers in the loop with new projects or extended outsourcing contracts (Figure 3).

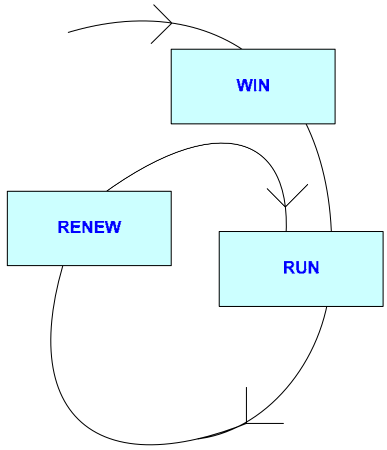

Figure 3 – Vendor's circle in outsourcing

The most dangerous situation for both a vendor and an outsourcer is when a vendor makes unrealistic bidding promises to ensure they win the contracts, but already know, or subsequently discover, that they are unable to recover their tendering, business, and operational costs for the near future. This is a so called "winner's curse" situation (Kern et al., 2003). It causes problems in later phases of the outsourcing process, particularly in the Managing relationship and Reconsideration phases.

Levina and Ross (2003) showed that a vendor's capabilities are the most important factors for success of outsourcing. In their study of vendors in IT outsourcing, *relationship management*, *technical competence* and *understanding the customer's business* were identified as capabilities contributing to that success. Another study of vendors in IT outsourcing (Feeny et al., 2005) proposed that vendors should be selected based on their *delivery, relationship management* and *transformation* capabilities. With respect to outsourcing of manufacturing, it is reasonable to believe that vendors are selected based upon traditional manufacturing capabilities such as *cost, quality, delivery*, and *flexibility* (Boyer and Lewis, 2002).

Vendors and outsourcers engage in a relationship. They must be aware of the managerial mechanisms in each of them. Ideally, a vendor and an outsourcer should create a win-win situation. Pinnington and Woolcock (1997) identified four types of power-based outsourcer-vendor relationships. Reciprocal relationship appears when there is an open, competitive market environment including evenly balanced power relationships between clients and vendor organization. Client dominant relationship occurs when the client organization dominates the relationship with vendors. Vendor dominant relationship occurs when the vendor dominates the relationship by utilizing relational strategies. An alternative strategic approach which is also vendor dominant is making a large profit in a short time scale by exploiting a client until termination of contract becomes inevitable. Preferred vendor relationship is characterized by a preferential relationship between the chosen vendor and client. Stability of an outsourcing relationship tends to be achieved through pushing the vendor-client relationship in the direction of strategic partnership. In order to promote the chances of upgrading outsourcing relationships to strategic partnerships, vendors should be perceived as *trustworthy* as well as *technically competent* (Zviran et al., 2001).

Theories

A number of theories that underline the developments in outsourcing have been identified (Gotttschalk and Solli-Sæther, 2005; McIvor, 2005). They should serve as guidelines for researchers to study the phenomenon and as a philosophical inspiration for practitioners when managing the outsourcing-related activities. We present those that have been the most utilized in explaining outsourcing by briefly describing their key features and applicability in the outsourcing process.

Transaction cost economics

The unit of analysis in the transaction cost economics (TCE) is the transaction between two or more organizational systems. These transactions create additional costs that are typically not included in the price of service or product. These costs could be the cost of organizing information, coordinating behavior, safeguarding the interests of the transacting parties, monitoring the transactions, inducing appropriate behavior adjustments, re-contracting, etc. The core proposition of TCE is that the attributes of the transaction influence the choice of governance mode. The main attributes of a transaction are asset specificity (the degree of customization of the transaction type), uncertainty and measurement problems, and frequency (the number of times the buyer seeks to initiate the transaction). The governance mode is associated with three generic forms of economic organization: market, hybrid and hierarchy (Williamson, 1991). TCE has been the most applied theory in studying outsourcing. It is being used in the preparation phase to explain when an organization shall choose outsourcing rather than some other governance mode (Lacity and Willcocks, 1995; Aubert et al., 1996; Mahnke, 2001) and in the vendor(s) selection and the reconsideration phases to define what contractual safeguards should be included into the outsourcing contract (Oxley, 1997; Reuer and Arino, 2007).

Social exchange theory

The social exchange theory explains interpersonal relationships by positing economical cost-benefit analysis as a precondition for social engagement and exchange. The theory presupposes that the exchange of resources (material or social) is a basic form of human interaction. An individual will choose whether to enter or exit a relationship with another individual based on the rational calculations of cost and benefits of such a relationship. The theory has been used in combination with TCE for specifying switching behavior in the reconsideration phase (Whitten and Wakefield, 2006) and it can be also applied in the vendor(s) selection phase.

Knowledge-based view

The knowledge-based view provides insight into understanding how individuals co-operate to produce goods and services. The knowledge-based view distinguishes two ways of how knowledge is shared among partners. These are knowledge generation and knowledge application. The knowledge-based view has been utilized in outsourcing research to prove that knowledge sharing in the managing relationship phase is positively related to the success of an outsourcing arrangement (Lee, 2001). A well prepared outsourcer should consider applying premises of the knowledge-based view in the preparation phase as well.

Agency theory

The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen and Meckling, 1976), but it has spread over time to include explaining the relationship between two inter-firm subjects. In that context we associate the agency theory with understanding the relationship between the outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection (Arrow, 1985) should be resolved by monitoring and bonding (Barney and Hesterly, 1996). Consequently, the application of the theory in outsourcing process research was in the preparation phase i.e., when screening for vendors and defining the outsourcer's own attitude towards the type of the relationship (Barthélemy, 2003). Naturally, the theory is also applicable in the managing relationship and reconsideration phases.

Evolutionary economics

Although mentioned for the first time in the XIX century, evolutionary economics experienced a revival after Nelson and Winter's work in 1982. The theory was developed from Darwinism and includes some assumptions transposed to the economic "species" like complex interdependencies, competition, growth, structural change, and resource constraints. Outsourcers and vendors learn from experience and interactions and evolve into new cycles of outsourcing with changed attitudes and improved processes. The theory is very useful for depicting outsourcer's and vendor's cyclical process frameworks. Within the phases of the outsourcing process, evolutionary economics has been applied in the managing relationship and reconsideration phases (Mahnke, 2001; Mirani, 2006).

Resource-based view

The core premise of the resource-based view is that resources are a source of the firm's competitive advantage (Barney, 1991). The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the Preparation phase (Roy and Aubert, 2001; McIvor, 2005) for defining the decision making framework and in the Vendor(s) selection phase (Barthélemy and Quelin, 2006) for selecting an appropriate vendor. The concept of core competences was developed on the basis of the resource-based view. The concept has been predominantly used in the preparation phase to develop and test various outsourcing decision frameworks arguing that the core activities should remain in house (Pinnington and Woolcock, 1995; Brandes et al., 1997; Baden-Fuller et al., 2000; Pati and Desai, 2005). RBV is also applicable in the vendor(s) selection, managing relationship and reconsideration phases.

Relational view

Relational view explains how firms gain and sustain competitive advantage within inter-organizational relationships (McIvor, 2005). Its key premise – the concept of relational rents (Dyer and Sing, 1998) has been explored to explain how firms choose their future outsourcing partners and preferred type of the relationship. For extensive description of the relational view's applicability in outsourcing please refer to the Managing relationship phase in the Outsourcing process section. The relational view has been used for studying each of the phases of the outsourcing process.

Types

Outsourcing terminology has developed significantly over the past decade. Literature has recognized many different types of outsourcing. Unfortunately, their number and unsystematic use has often been creating confusion, rather than help, to practitioners and researchers. Herein, an effort to group the types of outsourcing around several criteria is given (Figure 4).

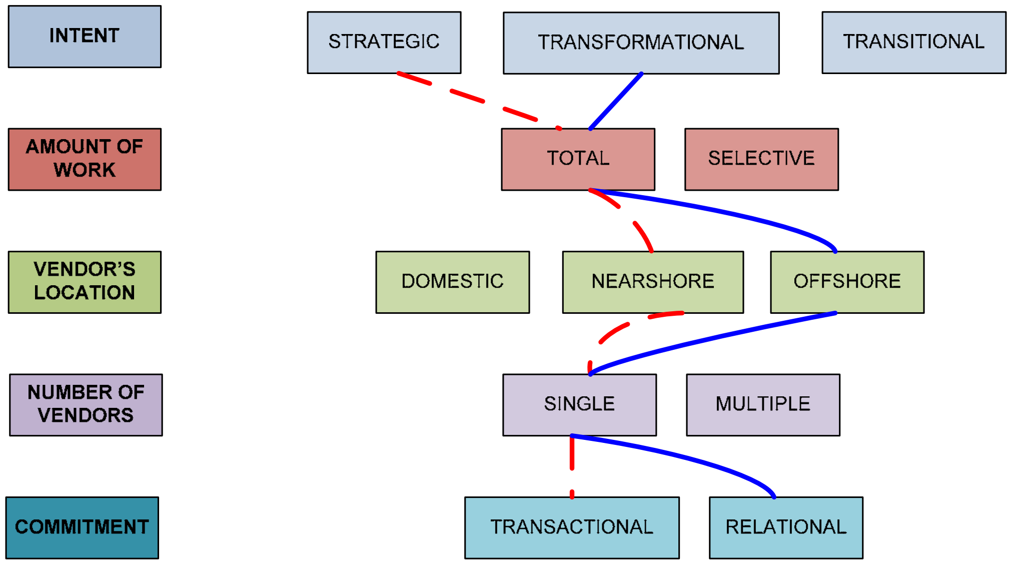

Figure 4 – Types of outsourcing

Whenever decision to outsource is made, it has been based on an organization's strategic intent. Strategic intent depicts management's reasons to outsource. Several types of outsourcing can be distinguished according to the strategic intent criterion. *Strategic* outsourcing refers on whether the company has a strategic policy concerning outsourcing and whether it is prepared to consider the outsourcing of core activities (Quinn and Hilmer 1994; Alexander and Young, 1996). *Transformational* outsourcing is defined as a long term relationship through which a vendor assists the outsourcer in stimulating continuous business change while also achieving operational effectiveness (Click and Duening, 2005; Linder, 2004). An outsourcer brings in a vendor to completely re-engineer business processes of the function. At the end of the project the outsourcer regains full control and responsibility (Heywood, 2001). *Transitional outsourcing* is the act of handling over legacy systems to enable in-house focus on building the new IT systems (Heywood, 2001; Cullen and Willcocks, 2003).

In terms of the amount of work outsourced, we can distinguish two types: *total* and *selective* outsourcing. Total outsourcing is taken to be where 80 per cent or more of an organization's function or process budget is spent on third party management of assets, people, and activities to achieve required or agreed results (Willcocks & Choi, 1995). Companies that use the total outsourcing strategy are more likely to be focusing on the core competences (Pinnington and Woolcock, 1995), while companies using the selective outsourcing tend to outsource commodity type activities (Willcocks et al., 1995a).

From the geographical point of view, a company can outsource to its own country (*domestic* outsourcing) or to another country, which is called *off-shore* outsourcing (Smith et al., 1996). Another similar distinction relates to *on-shore* outsourcing, indicating the domestic location of the vendor, *near-shore* outsourcing indicating the geographical and cultural proximity of the vendor, and finally *offshore* outsourcing indicating a vendor located in a far-a-way country, with, most probably, distinctive cultural differences (Click and Duening, 2005).

Regarding the number of vendors we distinguish between s*ingle vendor* and *multiple vendors* outsourcing. Sometimes outsourcers are trying to mitigate the risk of outsourcing by splitting the business process in several sub-processes and outsource each of them to multiple vendors.

The kind of outsourcing agreement a company enters into will depend on the kind of relationship it has with the vendor. There are two approaches, which are almost polar opposites: transactional and relational. In transactional outsourcing an outsourcer can keep a vendor as long as vendor provides agreed level of service. Switching costs are usually low, outsourced activities are non-core, and outsourcer can easily substitute its vendors. In relational outsourcing, an outsourcer engages in a close strategic relationship with its vendor.

The given typology enables application of different combined types of outsourcing. Two examples are given in Figure 4. For instance, an organization can decide to outsource most of activities within the human resource management which has been vital to managing large and globally dispersed working force to a single vendor. The reason is to cut the costs down, and there are many potential vendors who have the know-how and technology. Therefore the outsourcer chooses to use the transactional type of outsourcing. Still, in order to diminish cultural distance, management has chosen a single vendor based in a neighboring country. In the second example, a European outsourcer and its vendor from Southeast Asia engage in a long term relationship to transform outsourcer's manufacturing department.

Map of the outsourcing phenomenon

Outsourcer and vendor processes are in the center of outsourcing topographical map (Figure 5). Cyclical and recurrent models describe the true nature of the outsourcing phenomenon. Everything is happening in the processes; before, during and after an outsourcer and vendor have been engaged in a relationship. Idiosyncratic characteristics of the outsourcing partners and the relationships created between them are the main contributing factor to the outcomes of outsourcing. These characteristics which are emphasized in the managing relationship and run phases of an outsourcer's and a vendor's perspectives are major source of critical success and failure factors. If something goes well or wrong in outsourcing it will happen in these phases. The risk of failure can be mitigated and the likelihood of success can be propagated if appropriate decisions and actions are taken the precedent phases of the outsourcing process. On the other hand, critical success and failure factors shape the content of the phases and justify decisions taken in the process, thus also influencing outcomes of outsourcing arrangements. The next element of the topography is theories. The whole outsourcing event has been explored and explained by various economic, organizational and social theories and concepts. Recursively, the real-life outsourcing interactions help scholars to improve existing and develop new theories. The topography of outsourcing is a complex environment consisting of many elements and their combinations which create numerous possibilities for detecting the types of outsourcing. The types are an important element of the topography because it helps in establishing a common language among practitioners and academicians, since outsourcing terminology has been quite confusing.

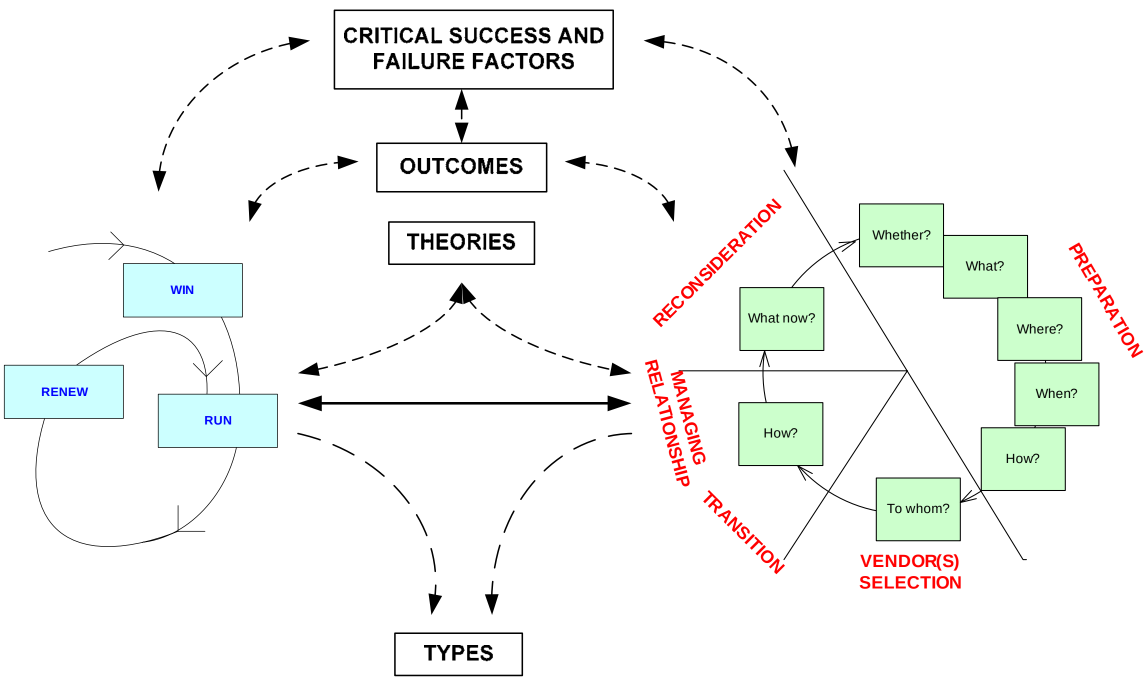

Figure 5 – Topography of outsourcing

Understanding each of the elements and their possible combinations is the only way to understand the outsourcing phenomenon. This is valid for both the industry and the academy. Outsourcing strategists and operatives need to understand that in order to achieve positive outcomes. Scholars, on the other hand, need to understand this topography in order to continue with unveiling still existing mysteries within and around the elements of outsourcing.

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