

## Thematic Review for Modeling of Outsourcing Theories

**Kashif Latif**\*

University of Malaya

**Mohd Nazari Ismail**

University of Malaya

**Mohammad Nazri**

University of Malaya

**Mohd Roslan Mohd Nor**

University of Malaya

**Muhammad Imran Qureshi**

Malaysian Institute of Industrial Technology, Universiti Kuala Lumpur, Malaya

### Abstract

This study explained various theories by comparing their phases for modeling of outsourcing theories. This research is based on extensive literature reviews, which direct to the classification of different outsourcing theories for its modeling. All these models, theories with respect to its outsourcing phases have their own advantages and disadvantages, thus a critical analysis is required in order to achieve useful conclusions for the organizations who intend to implement such theories. The review of the Outsourcing theories is based on preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases.

**Keywords:** Outsourcing theories; Preparation phase; Vendor(s) selection phase; Transition phase; Management of relationship phase; Reconsideration phase.



CC BY: [Creative Commons Attribution License 4.0](https://creativecommons.org/licenses/by/4.0/)

### 1. Introduction

Increasing globalization, technological advancements, and increased customer expectations crafted complex market structures and tighten competition in the marketplace. These factors have made the sustenance of organizations more challenging than ever. Organizations that endure, adapt the best practices in order to capitalize on the usage of their existing resource base. However, more often than not, this proves to be insufficient, as organizations cannot possibly obtain all the resources they require. One way around this problem is to share peripheral resources (Hessels and Terjesen, 2010).

Collaboration between organizations augments their particular competitiveness and develops their resource bases, which can be in the shape of strategic alliances, mergers, partnerships or outsourcing (Al-Natour and Cavusoglu, 2009). It is crucial that any form of collaboration depends on the strength of the members' relationship beyond conventional purchasing. In this perspective, outsourcing has been identified as a business strategy that is proficient of achieving both operational and strategic objectives for sustainable development and to create value in modern business settings (Faisal and Raza, 2016); (Jain and Khurana, 2016); (Mukherjee *et al.*, 2013).

#### 1.1. Outsourcing

Outsourcing is defined as the transmission of task of performing internal business activities and processes to an external party (Donada and Nogatchewsky, 2009); (Kotabe and Mol, 2009); (Kroes and Ghosh, 2010); (Lee, 2001); (Li and Choi, 2009). Outsourcing, in general, is assert as a strategic tool that augment organizational performance (Cusmano *et al.*, 2009); (Domberger *et al.*, 2002); (Espino-Rodríguez and Padrón-Robaina, 2005); (Espino-Rodríguez and Padrón-Robaina, 2004); (Fixler and Siegel, 1999); (Kakabadse and Kakabadse, 2003); (Lacity *et al.*, 2009); (Lee, 2001); (Li and Choi, 2009); (Zhang *et al.*, 2009).

The term "outsourcing" might be quite new, the actual practice is not. Because no organization can do everything itself, each one must want a division of labor in every enterprise, defining its own roles and ceding any left duties to other parties. The key questions are which activities and to what extent (Tsay, 2014). There are numerous different definitions of outsourcing. In all cases, outsourcing requires third party participation (Klaas and van, 2007). "Outsourcing imply the delivery of products or services by an external provider – that is, one outside the boundaries of the firm" (Stephan and Silvia, 2008). Whether to outsource or not is a strategic choice, that is, to buy in products or services or make inside the company (Edvardsson *et al.*, 2011). For more than three-quarters of the respondents, operational effectiveness (cost reduction, greater scalability of operations, and process standardization) was the main impetus for outsourcing. The three key reasons why organizations in Europe are outsourcing are cost

reduction, efficiency improvement and reduction in headcount. This has been the tendency over the past years. Numerous researches have previously identified cost savings and strong financial base as leading drivers of outsourcing . (Ghodeswar and Vaidyanathan, 2008); (Hsiao *et al.*, 2010); (Jiang *et al.*, 2006); (Kroes and Ghosh, 2010); (Quélin and Duhamel, 2003); (van, 2014).

Although at times maligned, outsourcing continues to amplify across a wide range of business functions. Industry surveys frequently confirm this (Tsay, 2014). For instance, a survey had been published by KPMG early in 2013 examined outsourcing practices for 12 diverse process categories. For every process category only single-digit percentages of respondent’s uttered wish to decrease their outsourcing, while 47% or more proposed to uphold or increase their level of outsourcing. The processes for which the most percentage of respondents would be mounting their outsourcing were “application development and maintenance” (48%) and “finance and accounting” (40%). The enormous majority of the outsourcing parties (88%) was contented with the cost reduction and standard delivery from service providers, but many point out that the service providers fell short in certain strategic areas, such as improving analytical capabilities, access to talent, and achieving innovation. The KPMG survey was consisted of 1,355 senior leaders from major global enterprises, outsourcing service providers, management consulting firms, sourcing advisory firms, and other key industry influencers (Fersht and Snowdon, 2013). In a modern business context, outsourcing has been acknowledged as a value creation strategy that enhances organizational competitiveness and business performance (Byramjee *et al.*, 2010); (Faisal and Raza, 2016); (Jain and Khurana, 2016); (Mukherjee *et al.*, 2013); (Petersen *et al.*, 2005); (Rajabzadeh *et al.*, 2008). In coherence with value creation, it had been depicted that a considerable paradigm of modern marketing has been taking place from a consumer-centric to a value driven era (Kotler *et al.*, 2010). Below table depicts business over the years with its situation and respective processes.

**Table-1.1.** Business eras from perspectives of business process management (Seethamraju, 2012)

Period	Perspective	Focus	Now
1900s	Scientific management	Reorganization of work processes and their content to simplify the work	JIT, Kanban, TQM
1940s	Operations Research Systems thinking	Optimization of resources and facilities Holistic view of interactions of functions and processes and their environment, including feedback and control	Optimization tools in software solutions Systems dynamics and learning organization
1960s	Process Simulation, Data Processing, Digitization of routine transactions, Information systems, Systems Modeling	Simulating processes and activities, ERP systems, Computerized support of non-routine activities and processes, Models and tools to represent information systems and processes	Simulation, Knowledge management, Various (UML, BPM, SODA, etc.) methods and Languages
1980s	Quality Management processes, reengineering, E-commerce	Process control and improvements through tools, systems, standards and excellence frameworks, Process performance improvement through aggressive redesign and new design of processes, Digitization of activities and transactions across the supply chain, End-to-end seamless customer interactions across channels	Six Sigma/lean, BPR and redesign, Process mapping and Modeling
2000s	Enterprise Systems, Supply chain Management, Business process outsourcing, Service oriented computing	Enterprise modeling and integrated transactional Processes, Inter-enterprise processes customer and supplier side, Execution of business processes by external Providers, Web services, SOA and IT-enabled services as Processes, Orchestration, configuration and business activity Monitoring, Process intelligence through event monitoring	Enterprise systems, business process management, service process management, process intelligence, Process agility, Business activity monitoring

The outsourcing phenomenon has been ever more getting concentration both from academic and practitioners communities. The result of the research has escort towards the emergence of numerous process frameworks illustrating the phases of the outsourcing process. It is generally accepted that the outsourcing process consists of the preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases. Each of the phases has been wrecked down in the series of activities that an outsourcing company performs (Perunović and Pedersen, 2007). At the same time, the phases were subject to a stream of theoretical explanations. The studying of the outsourcing phenomenon has been stranded in many theories. Some of them are harmonizing, the other are incongruous. Outsourcing is the process of institute and managing a contractual relationship with peripheral vendor and supplier for the stipulation of capacity that has previously been provided in-house (Momme, 2001). In spite of an inspiring research concentration of the outsourcing process, there are only few frameworks depicting the actual stages and the layout of the overall process of outsourcing (Perunović and Pedersen, 2007).

## 2. Literature Review

### 2.1. Theories of Outsourcing

The outsourcing process is a multifaceted structure consisting of several activities and sub activities, carrying many managerial dilemmas. It is no conjecture that many theories have been utilized to help the academics to comprehend the nature of those activities, and to help practitioners successfully manage the process. It is a common acquaintance that each phenomenon can be explained by several frameworks that are entrenched in various theoretical approaches. From its happening, the outsourcing has been approached by different theories. This creates confusion among the researchers of the outsourcing phenomenon. Several authors acknowledged considerable number of theories that could explain the outsourcing phenomenon (Gottschalk and Solli-Sæther, 2005); (McIvor, 2005).

From our analysis we figured out that at the beginning of an outsourcing arrangement a cost stage occur, which is grounded in TCE and agency theory. After several years of having outsourcing the focal point of the outsourcer shifts into the resource stage, where resource based view and core competences are the imperative explanatory theories. At the end, the stage of partnership may crop up with the elucidation sought in relational view, social exchange theory.

### 2.2. Transaction Cost Economics

Transaction cost economics (TCE) has been the most employed theory of outsourcing. TCE is alleged to give the decision making tools to help organizations to make a decision to outsource and to organize themselves for forthcoming outsourcing arrangements. The ascendancy features of the theory predisposed that it has been applied in studying the managing relationship phase, at the same time as the concept of switching costs made the theory applicable in the reconsideration phase. TCE explain relationships among firms (Williamson, 1975). Williamson (1975) identifies hierarchies and markets as two methods to put in order. According to TCE, the decision to use either vertical integration/hierarchies or market mechanisms depends on the comparative monitoring costs that arise from circumscribed rationality and from uncertainties due to partners' self-interest and opportunism (Kaufman *et al.*, 2000).

Another functional issue for outsourcing provided by TCE is elucidation of contractual complexity. Though TCE has not been employed overtly for studying the Vendor selection phase, its sub-theory (if we may say so), the theory of curtailed contracting, has been applied in studying the structure and contents of outsourcing contracts, and associated preparation and contract management activities (Perunović and Pedersen, 2007). Transaction cost economics posit that "transactions costs" (e.g., costs of exploration, contracting, negotiating, monitoring, and dealing with changes/disagreements) are pertinent determinant of an organization's scope of vertical integration (Coase, 1937); (Williamson, 1975); (Williamson, 2008).

The main inference of this literature is that firms outsource (thereby relying on outside "markets") when those transactions costs are acceptable, and in-source (using internal "hierarchies") as a way to avoid outsized transactions costs (Tsay, 2014). Even though it has been exercised broadly in outsourcing applications, the TCE has several indulgencies. Willcocks and Choi (1995) found that the original mapping to the TCE framework only explicate few IT sourcing decisions and create much more incongruity in their sample. Another critique is that, TCE relies on a single transaction as a unit of analysis, neglecting the modern-day industrial collaborative arrangements. Finally, TCE is static, which doesn't communicate to dynamism of current business environment (Perunović and Pedersen, 2007).

### 2.3. Relational Theory

Relational view develops and explains how firms achieve and sustain competitive advantage within inter-organizational relationships. Its key premise – the concept of relational rents has been investigate to explain how firms choose their future outsourcing partners and preferred type of the relationship. It has been also employed in studying the Transition, Managing relationship and Reconsideration phases. This constructs the relational view to be the only theory that has been applied in the research of all the outsourcing process' phases. The Relational Theory gives explanations on how enterprises may obtain and uphold a competitive advantage with regard to their relationships with other organizations (McIvor, 2005).

The relational view (RV) complements the RBV by arguing that vital resources may extend firm boundaries (Dyer and Singh, 1998). Firms will not only be able to earn internal rents (i.e., Ricardian rents from scarcity of resources and quasi-rents from added value) but also relational rents. A relational rent is defined as a supernormal profit mutually generated in an exchange relationship that cannot be created by either firm in separation and can only be created through the joint aid of the collaborative (Dyer and Singh, 1998); (Lavie, 2006). Relational rents are plausible when collaborative partners combine and exchange idiosyncratic assets, knowledge, and capabilities through relation-specific investments, inter-firm knowledge-sharing routines, harmonizing resource endowments, and effective governance mechanisms. Collaborative benefit is based on the relational view, which elaborates on the mechanisms of joint value creation (i.e., inter-firm rent generation). It argues relational rents accumulate at the collaboration level for communal benefits. Unlike studies that recognize the role of both private and common benefits (Hamel, 1991); (Khanna *et al.*, 1998).

It discovered the possibilities of laying the groundwork, through appropriate planning, for turning the outsourcing process from a simple partnership into a strategic alliance (Willcocks and Choi, 1995). Using the relational theory, they scrutinize the factors that may be used to make decisions at the phases of preparation and

relationship maintenance, intend to make choices that will contribute to the creation of strategic alliances. A model had been recommended aiming to analyze the effects of an organization's capability to develop a relationship with the vendor at the phases of vendor selection and relationship maintenance for the development of competitive advantage, based on technology (Giannakopoulos *et al.*, 2014). A model based on the Relational Theory, aiming to construe the phases of Preparation, Vendor Selection and Relationship Maintenance had been illustrated by (Yanhong, 2011). The research reached the conclusion that the benefits of the outsourcing process are determined by the quality of the relationship at its enterprise and by the care given by contracting parties to the development of the relationship.

## 2.4. Core Competencies Theory

The concept of core competency has been developed on the foundation of the resource-based theory. It had been depicted, core competencies as the communal learning in the organization, especially how to harmonize varied production skills and integrate multiple streams technologies (Hamel and Prahalad, 1990). The use of concept of core competencies in outsourcing became very popular among researchers. The concept has been primarily used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house.

Learning and communication grounds of the concept made it also applicable in the managing relationship and reconsideration phases. Vendor's competences are tacit to be one of the important factors that persuade success of an outsourcing arrangement (Levina and Ross, 2003). An analysis of the vendor's competencies is, according to the core competencies theory, the key factor that determines the success of an agreement. The core competencies theory has also been employed to study the phases of relationship management and reconsideration. The core competencies theory is the accepted approach in the academic research related to outsourcing (Vaxevanou and Konstantopoulos, 2015).

The research depicted as set out in the TCE, was published and is worth talk about at this point, given that the second theoretical pillar of the research is the core competencies theory (Arnold, 2000). It must be noted that examining the phases of preparation, relationship maintenance and reconsideration, concluded that the core competency theory is one of the two approaches that better demonstrate outsourcing process (Gottschalk and Solli-Sæther, 2005).

## 2.5. Resource Based View

The core principle of the resource-based view is that resources and capabilities can differ significantly across firms, and that these differences can be stable (Barney *et al.*, 1996). If resources and ability of a firm are mixed and deployed in a proper way they can make competitive advantage for the firm. The resource-based view in outsourcing construct from an intention that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall look for an external provider in order to overcome that weakness. Therefore the most well-known use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting a suitable vendor.

Resource Based View instigate its name from the seminal piece by Wernerfelt (1984). The main concepts of RBV are resources, capabilities, and strategic assets (Barney *et al.*, 1996). RBV suggest that variance in firm performance can be explained by strategic resources, such as core competence (Hamel and Prahalad, 1990), vibrant capability (Teece *et al.*, 1997), and absorptive capacity (Cohen and Levinthal, 1990). Firms that mingle resources in a unique way may achieve an advantage over competing firms who are unable to do so (Dyer and Singh, 1998). By owning limited resources, assets and excelling in core competencies and capabilities, firms can reach a sustained market advantage (Foss and Knudsen, 2003). RBV claims that investing in relation-specific assets enables partnering firms to erect competitive advantage because of their rare, valuable, non-substitutable, and difficult-to-imitate nature (Barney *et al.*, 1996).

One of the key conceptual frameworks in the study of strategic management, RBV builds upon numerous of the same works that influenced TCE. In RBV, the firm is an aggregation of resources that can craft competitive advantage if deployed appropriately. The RBV posits that resources that make contribution to competitive advantage should be internalized within the organization instead of being put at risk by outsourcing. Harmonizing capabilities can be taken from external providers. The theory has been also utilized to elucidate some of the key issues of the Managing relationship and Reconsideration phases (Perunović and Pedersen, 2007).

## 2.6. Evolutionary Economics

Although mentioned for the first time in the 19th century, the evolutionary economics experienced resumption after work of Nelson and Winter (1982). The theory develops from Darwinism and contains some postulations transposed to the economic "species". These assumptions include (Andersen, 1994):

- The agents (individuals and organizations) can by no means be entirely informed and they have to optimize locally rather than globally.
- The decision-making of agents is usually vault to rules, norms and institutions.
- Agents are to some degree capable to emulate the rules of other agents, to learn for themselves and to create novelty,
- The processes of imitation and innovation are characterized by important degrees of cumulateness and path dependency but they may be intermittent by occasional discontinuities.

- The communication between the agents is characteristically made in disequilibrium situations and the result is success and failures of commodity variants and method variants as well as agents.

- The processes of change taking place in a framework explain by the above assumptions and characteristics are non-deterministic, open-ended and unalterable.

This formulates the theory highly applicable in outsourcing. However, the actual research has been very reticent studying issues primarily within the Managing relationship phase. The other phases of the outsourcing process (expect the transition) have been also search through the evolutionary economics but very scarcely.

## 2.7. Agency Theory

The focus of the agency theory initially was on the relationship between managers and stakeholders, but had broaden over the time on illumination the relationship between two inter-firm subjects (Jensen and Meckling, 1976). In that framework we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and unfavorable selection are should be resolute by monitoring and bonding (Barney *et al.*, 1996).

This theory focuses on relationships in which one party (the principal) delegates work to another (the agent), has been used to evaluate diverse types of transactions costs, called “agency costs” in this framework (Bahli and Rivard, 2003); (Logan, 2000); (Narayanan and Raman, 2000); (Zsidisin and Ellram, 2003). This framework highlights the “moral hazard” innate in any relationship in which the principal’s goals diverge with the agent’s goals, and the principal has obscurity verifying the agent’s actions (i.e., asymmetric information, specifically incomplete information on the principal’s part). “Adverse selection” is a result of asymmetric information, such as when a principal’s focus on cost disproportionately attracts agents with low standard work ethic or higher-than-desired tendencies to take risks.

Principal-Agent theory emphasizes incentives, and seeks contracts/monitoring mechanisms/compensation schemes that can lessen the brunt of incentive conflicts and information asymmetry. Although the agent in the classical setting is an individual, nothing in the framework prohibits imagining a service provider firm in that role. Therefore, the application of the theory in the outsourcing process research was in the Grounding Phase when screening for vendors and defining its own attitude towards the kind of the relationship. Naturally, the Managing Relationship Phase has been also investigated, and to a very small extent the reconsideration phase.

## 2.8. Knowledge Based View

The knowledge-based view provides imminent in understanding how individuals co-operate to produce goods and services. The knowledge-based view differentiates two ways how knowledge is shared among partners. They are knowledge creation and knowledge application. KBV of the firm can be viewed as an annex of RBV that considers knowledge as the resource with the most impact on a firm’s competitive advantage (Grant, 1996); (Kogut and Zander, 1992). In KBV main driver of in-sourcing is the existence of imperative implicit knowledge that must be shared between activities (one residing within the firm and another being considered for outsourcing).

The knowledge-based view has been employed by utilizing in the outsourcing research to establish that knowledge sharing in the managing relationship stage is positively related to the success of an outsourcing arrangement (Perunović and Pedersen, 2007). The Knowledge-based view ascertains two methods for knowledge-sharing among partners (Dimitrios *et al.*, 2014). These are knowledge generation and knowledge appliance. The Knowledge-based view applies to outsourcing in order to exhibit that knowledge-sharing at the relationship management phase of the outsourcing process is positively related to the success of the outsourcing agreement (Kutsikos and Mentzas, 2012); (Kutsikos and Sakas, 2014).

The Knowledge-based view is the underpinning of the model proposed by Lee (2001). This attempts to explicate the management of the relationship between the two contracting parties of the outsourcing process. The model, which also employed the Core competencies theory, reached the conclusion that knowledge-sharing is one of the key success factors of an outsourcing process (Vaxevanou and Konstantopoulos, 2015).

## 2.9. Neoclassical Economic Theory

The key distinctiveness of the neoclassical economic theory are Hodgson (1994):

- Assumption of lucid, maximizing behavior by agents with given predilection function.
- Focus on accomplished, or movement towards, equilibrium states.
- Nonappearance of chronic information problem.

The neoclassical theory explicates the preliminary motives for outsourcing established by some pioneering companies like Kodak. However, the theory has received a considerable critique for not being able to explain contemporary business processes. Especially, the concepts of prudence and absence of chronic information problem have been criticized. However it had been depicted that the neoclassical economic theory explicate critical success factors of outsourcing that are being appraise in the Reconsideration phase (Gottschalk and Solli-Sæther, 2005).

This theory has been profoundly criticized due to its inability to explain modern business operations. In particular, the assumptions of rationalism and the absence of the chronic problem of lack of information have been censure as unrealistic and outdated. However, this had been established that the neoclassical economic theory may be applied to explain critical success factors of the outsourcing process during the Reconsideration phase.

## 2.10. Social Exchange Theory

The social exchange theory elucidates interpersonal relationships by positing the economical cost benefit analysis as prerequisite for social engagement and exchange. The theory presumes that the exchange of resources (material or social) is a fundamental form of human interaction. Social exchange is an ongoing mutual process in which actions are reliant on rewarding reactions from others (Gottschalk and Solli-Sæther, 2005). Social Exchange Theory serves as a general paradigm for social and anthropology research domain (Zafirovski, 2005). It can be identified as one of the most applicable theories to explain the social network structures and relational norms. Social exchange theory describes the formation and subsistence of shared responsibilities and mutual benefits in exchange (Lawler, 2001). As social exchange theory is rooted by utilitarianism, the exchange processes are outcomes of the actors efforts on the attempt to satisfy their needs (Cook, 2000).

Social exchange theory posits that all human relationships are formed by the use of a subjective cost-benefit analysis, efficiency and the comparison of alternatives (Homans and Merton, 1961). The Social Exchange Theory construe interpersonal transactional relationships by using the economic cost benefit analysis and efficiency as a requisite for social participation and social exchange. The theory assumes that the sharing of resources (material or social-intangible) is a fundamental form of human interaction. Therefore, Social Exchange is a continuing reciprocal process in which the actions of individuals or organizations depend on the rewarding reactions they receive from others (Gottschalk and Solli-Sæther, 2005). The research depicted that the Social Exchange theory recommend a model that interprets the phase of reconsideration during the outsourcing process (Whitten and Wakefield, 2006). The Social Exchange approach has also been employed in the highly theoretical work of (Gottschalk and Solli-Sæther, 2005); (Gottschalk and Solli-Sæther, 2006).

## 2.11. Economy of Information

It has been divulge that the information is not ideal and new economical models come out to elucidate situations where two parties possess unequal or none quantity of information. One of the first works in the area was advancement of the search theory (Stigler, 1961). The classification of sellers and the discovery of their prices are only one sample of the enormous role of the search for information in economic.

Another key notion of the economy of information is the concept of signaling developed by Spence (1973). His essay is about markets in which signaling takes place and in which the main signalers are comparatively several and in the market adequately occasionally that they are not expected to invest in acquiring signaling reputation. Application of the economy of information in outsourcing is connected to activities of searching, selecting, and contracting the vendor. However, the economics of information hasn't been employed explicitly in the studies of the outsourcing process.

## 3. Methodology

The outsourcing phenomenon has been ever more getting concentration both from academic and practitioners communities. The result of the research has escort towards the emergence of numerous process frameworks illustrating the phases of the outsourcing process. It is generally accepted that the outsourcing process consists of the preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases. Each of the phases has been wrecked down in the series of activities that an outsourcing company performs (Perunović and Pedersen, 2007). At the same time, the phases were subject to a stream of theoretical explanations. The studying of the outsourcing phenomenon has been stranded in many theories. Some of them are harmonizing, the other are incongruous. In spite of an inspiring research concentration of the outsourcing process, there are only few frameworks depicting the actual stages and the layout of the overall process of outsourcing (Perunović and Pedersen, 2007). Thus this study used interpretive paradigm by pursuing extensive literature review from 1950 to 2015, by analyzing different theories of outsourcing with respect to their phases and come up with the conclusion which theory is more appropriate for current competitive business world for modeling.

## 4. Results and Findings

The application of most theories in the field of outsourcing focus on exploring explicit phases of the process and/or specific issues take place within the context of these phases. This review demonstrates the primacy of the social exchange theory over other theories, which has attracted the interest of researchers in the field of outsourcing as expressed through the ability to attain cost reduction, efficiency for value creation in the shape of outsourcing success by having repeated interactions, formation and subsistence of shared responsibilities and mutual benefits in exchanges between two or more organizations. This theory has the ability to address modern issues in outsourcing to create value which can come from the realm of partnership between two organizations which is lacking in other theories. In addition, as shown from the analysis conducted so far, the majority of the models investigate the preparation phase of outsourcing which involves the crucial decision on whether the organization will finally outsource any of its operations. In the future, building on the aforementioned theoretical foundations, scholars should provide empirical evidence about the critical factors of the outsourcing success.

## 5. Conclusion

These theories are extremely helpful in framing the discussion of outsourcing. At the same time, a small number of caveats merit mention. These theories are conceptual and explanatory vehicles that do not by themselves propose any new methodology for quantification. The theories are diverse but not alternatives, as they have many ideas in

common and share many influences. They can frustrate when taken as a set, because they can escort to different conclusions (McIvor, 2009); (Tiwana and Bush, 2007); (Zack and Singh, 2010). This is not essentially because any of them directly contradict the logic of the others, but because they all diverge in the relative weight assigned to the salient factors.

The application of most theories in the field of outsourcing focus on exploring explicit phases of the process and/or specific issues take place within the context of these phases. This review demonstrates the primacy of the social exchange theory over other theories, which has attracted the interest of researchers in the field of outsourcing as expressed through the ability to attain cost reduction, efficiency for value creation in the shape of outsourcing success by having repeated interactions, formation and subsistence of shared responsibilities and mutual benefits in exchanges between two or more organizations. In the future, building on the aforementioned theoretical foundations, scholars should provide empirical evidence about the critical factors of the outsourcing success.

## References

- Al-Natour, S. and Cavusoglu, H. (2009). The strategic knowledge-based dependency diagrams, A tool for analyzing strategic knowledge dependencies for the purposes of understanding and communicating. *Information Technology and Management*, 10(2-3): 103-21.
- Andersen, E. S. (1994). *Evolutionary economics, Post-schumpeterian contributions*. London: Pinter. 2.
- Arnold, U. (2000). New dimensions of outsourcing, A combination of transaction cost economics and the core competencies concept. *European Journal of Purchasing & Supply Management*, 6(1): 23-29.
- Bahli, B. and Rivard, S. (2003). The information technology outsourcing risk, A transaction cost and agency theory-based perspective. *Journal of Information Technology*, 18(3): 211-21.
- Barney, J., Hesterly, W., Clegg, S., Hardy, C. and Nord, W. (1996). *Handbook of organization studies*. Handbook of organization studies.
- Byramjee, F., Bhagat, P. and Klein, A. (2010). The moderating role of relationship quality in determining total value orientation. *Global Journal of Business Research*, 4(2): 49-62.
- Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16): 386-405.
- Cohen, W. M. and Levinthal, D. A. (1990). Absorptive capacity, A new perspective on learning and innovation. *Administrative Science Quarterly*: 128-52.
- Cook, K. (2000). Charting futures for sociology, Structure and action. *Contemporary Sociology*, 29(5): 685-92.
- Cusmano, L., Mancusi, M. L. and Morrison, A. (2009). Innovation and the geographical and organisational dimensions of outsourcing, Evidence from italian firm-level data. *Structural Change and Economic Dynamics*, 20(3): 183-95.
- Dimitrios, N. K., Sakas, D. P. and Vlachos, D., 2014. "Modeling the scientific dimension of academic conferences." In *Procedia-Social and Behavioral Sciences*. pp. 576-85.
- Domberger, S., Jensen, P. H. and Stonecash, R. E. (2002). Examining the magnitude and sources of cost savings associated with outsourcing. *Public Performance & Management Review*, 26(2): 148-68.
- Donada, C. and Nogatchewsky, G. (2009). Emotions in outsourcing. An empirical study in the hotel industry. *International Journal of Hospitality Management*, 28(3): 367-73.
- Dyer, J. H. and Singh, H. (1998). The relational view, Cooperative strategy and sources of interorganizational competitive advantage. *Academy Of Management Review*, 23(4): 660-79.
- Edvardsson, I. R., Oskarsson, G. K. and Vestreisdottir, S. (2011). Enhancing customer services and core competencies, Outsourcing in icelandic service SMEs. *International Journal of Entrepreneurship and Small Business*, 14(3): 313-33.
- Espino-Rodríguez, T. F. and Padrón-Robaina, V. (2005). A resource-based view of outsourcing and its implications for organizational performance in the hotel sector. *Tourism Management*, 26(5): 707-21.
- Espino-Rodríguez, T. F. and Padrón-Robaina, V. c. (2004). Outsourcing and its impact on operational objectives and performance, A study of hotels in the canary islands. *International Journal of Hospitality Management*, 23(3): 287-306.
- Faisal, M. N. and Raza, S. A. (2016). It outsourcing intent in academic institutions in gcc countries, An empirical investigation and multi-criteria decision model for vendor selection. *Journal of Enterprise Information Management*, 29(3): 432-53.
- Fersht, P. and Snowdon, J. (2013). State of the outsourcing industry 2013.
- Fixler, D. J. and Siegel, D. (1999). Outsourcing and productivity growth in services. *Structural Change and Economic Dynamics*, 10(2): 177-94.
- Foss, N. J. and Knudsen, T. (2003). The resource-based tangle, Towards a sustainable explanation of competitive advantage. *Managerial And Decision Economics*, 24(4): 291-307.
- Ghodeswar, B. and Vaidyanathan, J. (2008). Business process outsourcing, An approach to gain access to world-class capabilities. *Business Process Management Journal*, 14(1): 23-38.
- Giannakopoulos, G., Professor, D. S. P., Sakas, D., Vlachos, D. and Nasiopoulos, D. (2014). Modelling strategic management for the development of competitive advantage, based on technology. *Journal of Systems and Information Technology*, 16(3): 187-209.
- Gottschalk, P. and Solli-Sæther, H. (2005). Critical success factors from it outsourcing theories, An empirical study. *Industrial Management & Data Systems*, 105(6): 685-702.
- Gottschalk, P. and Solli-Sæther, H. (2006). Maturity model for it outsourcing relationships. *Industrial Management & Data Systems*, 106(2): 200-12.

- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17(S2): 109-22.
- Hamel, G. (1991). Competition for competence and interpartner learning within international strategic alliances. *Strategic Management Journal*, 12(S1): 83-103.
- Hamel, G. and Prahalad, C. K. (1990). The core competence of the corporation. *Harvard Business Review*, 68(3): 79-91.
- Hessels, J. and Terjesen, S. (2010). Resource dependency and institutional theory perspectives on direct and indirect export choices. *Small Business Economics*, 34(2): 203-20.
- Hodgson, G. M. (1994). Critique of neoclassical microeconomic theory. *The Elgar Companion To Institutional And Evolutionary Economics*, 1: 128-34.
- Homans, G. C. and Merton, R. K. (1961). *Social behavior, Its elementary forms, Under the general editorship of robert k. Merton*. Harcourt, Brace & World.
- Hsiao, H., Kemp, R. G., Van, d. V. J. and Omta, S. O. (2010). A classification of logistic outsourcing levels and their impact on service performance, Evidence from the food processing industry. *International Journal of Production Economics*, 124(1): 75-86.
- Jain, D. M. and Khurana, R. (2016). A framework to study vendors' contribution in a client vendor relationship in information technology service outsourcing in india. *Benchmarking, An International Journal*, 23(2): 338-58.
- Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm, Managerial behavior, agency costs and ownership structure. *Journal Of Financial Economics*, 3(4): 305-60.
- Jiang, B., Frazier, G. V. and Prater, E. L. (2006). Outsourcing effects on firms' operational performance, An empirical study. *International Journal of Operations & Production Management*, 26(12): 1280-300.
- Kakabadse, A. and Kakabadse, N. (2003). Outsourcing best practice: transformational and transactional considerations. *Knowledge and Process Management*, 10(1): 60-71.
- Kaufman, A., Wood, C. H. and Theyel, G. (2000). Collaboration and technology linkages, A strategic supplier typology. *Strategic Management Journal*: 649-63.
- Khanna, T., Gulati, R. and Nohria, N. (1998). The dynamics of learning alliances, Competition, cooperation, and relative scope. *Strategic Management Journal*: 193-210.
- Klaas, J. P. and van, G. D. M. (2007). Redefining the paradigm of global competition, Offshoring of service firms. *Business Strategy Series*, 8(1): 35-42.
- Kogut, B. and Zander, U. (1992). Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science*, 3(3): 383-97.
- Kotabe, M. and Mol, M. J. (2009). Outsourcing and financial performance, A negative curvilinear effect. *Journal of Purchasing and Supply Management*, 15(4): 205-13.
- Kotler, P., Kartajaya, H. and Setiawan, I. (2010). *Marketing 3.0., From products to customers to the human spirit*. John Wiley & Sons.
- Kroes, J. R. and Ghosh, S. (2010). Outsourcing congruence with competitive priorities: Impact on supply chain and firm performance. *Journal Of Operations Management*, 28(2): 124-43.
- Kutsikos, K. and Mentzas, G. (2012). *Managing value creation in knowledge-intensive business service systems*. Knowledge Service Engineering Handbook. 123-38.
- Kutsikos, K. and Sakas, D. (2014). A framework for enabling service configuration decisions, The case of it outsourcing providers. *Procedia-Social and Behavioral Sciences*, 148: 604-10.
- Lacity, M. C., Khan, S. A. and Willcocks, L. P. (2009). A review of the it outsourcing literature, Insights for practice. *The Journal of Strategic Information Systems*, 18(3): 130-46.
- Lavie, D. (2006). The competitive advantage of interconnected firms, An extension of the resource-based view. *Academy Of Management Review*, 31(3): 638-58.
- Lawler, E. J. (2001). An affect theory of social exchange1. *American Journal of Sociology*, 107(2): 321-52.
- Lee, J.-N. (2001). The impact of knowledge sharing, organizational capability and partnership quality on IS outsourcing success. *Information & management*, 38(5): 323-35.
- Levina, N. and Ross, J. W. (2003). From the vendor's perspective, Exploring the value proposition in information technology outsourcing. *Mis Quarterly*: 331-64.
- Li, M. and Choi, T. Y. (2009). Triads in services outsourcing: bridge, bridge decay and bridge transfer. *Journal Of Supply Chain Management*, 45(3): 27-39.
- Logan, M. S. (2000). Using agency theory to design successful outsourcing relationships. *The International Journal of Logistics Management*, 11(2): 21-32.
- McIvor, R. (2005). *The outsourcing process: strategies for evaluation and management*. Cambridge University Press.
- McIvor, R. (2009). How the transaction cost and resource-based theories of the firm inform outsourcing evaluation. *Journal Of Operations Management*, 27(1): 45-63.
- Momme, J. (2001). *Outsourcing manufacturing to suppliers*. Citeseer.
- Mukherjee, D., Gaur, A. S. and Datta, A. (2013). Creating value through offshore outsourcing, An integrative framework. *Journal of International Management*, 19(4): 377-89.
- Narayanan, V. and Raman, A. (2000). *Aligning incentives for supply chain efficiency*. Harvard Business School.
- Nelson, R. R. and Winter, S. G. (1982). *An evolutionary theory of economic change*. Harvard Business School Press: Cambridge.

- Perunović, Z. and Pedersen, J. L. (2007). *Outsourcing process and theories. Paper presented at the proceedings of the poms 18th annual conference, may 4-7, dallas, texas, 007.*
- Petersen, K. J., Ragatz, G. L. and Monczka, R. M. (2005). An examination of collaborative planning effectiveness and supply chain performance. *Journal Of Supply Chain Management*, 41(2): 14-25.
- Quélin, B. and Duhamel, F. (2003). Bringing together strategic outsourcing and corporate strategy, Outsourcing motives and risks. *European Management Journal*, 21(5): 647-61.
- Rajabzadeh, A., Asghar, A., Rostamy, A. and Hosseini, A. (2008). Designing a generic model for outsourcing process in public sector, Evidence of Iran. *Management Decision*, 46(4): 521-38.
- Seethamraju, R. (2012). Business process management, A missing link in business education. *Business Process Management Journal*, 18(3): 532-47.
- Spence, M. (1973). Job market signaling. *The quarterly journal of Economics*, 355-374:
- Stephan, M. and Silvia, M. (2008). A dynamic perspective on next-generation offshoring, The global sourcing of science and engineering talent. *The Academy of Management Perspectives*, 22(3): 35-54.
- Stigler, G. J. (1961). The economics of information. *The journal of political economy*: 213-25.
- Teece, D. J., Pisano, G. and Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*: 509-33.
- Tiwana, A. and Bush, A. A. (2007). A comparison of transaction cost, agency, and knowledge-based predictors of it outsourcing decisions, A us-japan cross-cultural field study. *Journal of Management Information Systems*, 24(1): 259-300.
- Tsay, A. A. (2014). *Designing and controlling the outsourced supply chain.* Now Publishers Incorporated.
- van, W. A. F. (2014). The netherlands, Facility management in dutch municipalities. *Nordic Journal Of Surveying And Real Estate Research*, 1:
- Vaxevanou, A. and Konstantopoulos, N. (2015). Models referring to outsourcing theory. *Procedia-Social and Behavioral Sciences*, 175: 572-78.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2): 171-80.
- Whitten, D. and Wakefield, R. L. (2006). Measuring switching costs in it outsourcing services. *The Journal of Strategic Information Systems*, 15(3): 219-48.
- Willcocks, L. and Choi, C. J. (1995). Co-operative partnership and 'total' it outsourcing, From contractual obligation to strategic alliance? . *European Management Journal*, 13(1): 67-78.
- Williamson, O. E. (1975). *Markets and hierarchies, Antitrust analysis and implications.* The Free Pres: New York.
- Williamson, O. E. (2008). Outsourcing, Transaction cost economics and supply chain management. *Journal Of Supply Chain Management*, 44(2): 5-16.
- Yanhong, W., 2011. "A framework of business process outsourcing relationship evolution model." In *Paper presented at the Management Science and Industrial Engineering (MSIE), 2011 International Conference on.*
- Zack, M. H. and Singh, S. (2010). A knowledge-based view of outsourcing. *International Journal of Strategic Change Management*, 2(1): 32-53.
- Zafirovski, M. (2005). Social exchange theory under scrutiny, A positive critique of its economic-behaviorist formulations. *Electronic Journal of Sociology*, 2(2): 1-40.
- Zhang, X., Song, H. and Huang, G. Q. (2009). Tourism supply chain management, A new research agenda. *Tourism Management*, 30(3): 345-58.
- Zsidisin, G. A. and Ellram, L. M. (2003). An agency theory investigation of supply risk m anagement. *Journal Of Supply Chain Management*, 39(2): 15-27.