

Managing The Aftermaths of Outsourcing: A Look At The Employees' Perspectives**Philip O. Sijuwade****School of Urban and Public Affairs****University of Texas, Arlington, Texas****Abstract**

This paper explores how outsourcing activities and decisions put the well-being of the remaining employees at risk, ultimately affecting productivity and creating further costs to the employer. It highlights four potential threats to remaining employees: trust, job satisfaction, motivation, and stress. The paper provides several suggestions for resolving these impacts, including communication to retain trust, acting ethically to ensure satisfied employees, seeking an understanding of employee perspectives to build employee motivation, and providing good planning along with training and development to reduce employee stress.

INTRODUCTION

Globalization provides organizations with more options than ever before. Business leaders are continuously encouraged to adapt, reevaluate, and strategically improve processes and approaches. Best practices are reinvented rapidly in attempt to keep up with market trends. The quest to recognize new methods for increasing revenue has become the inspiration for exploring new management techniques and strategies. One such rising trend in the advent of global markets is that of outsourcing. Common purposes for outsourcing include improvements to performance, cycle time, cost-savings, market share, productivity, customer service, and quality (Elmuti and Kathawala, 2000) in industries such as information technology, human resource, logistics and administrations, real estate, transportation, marketing, sales and finance. Outsourcing benefits are publicized and cited in business journals and among professional management circles, leading to the commonly held perception that outsourcing holds the key to cutting costs and maximizing productivity. What is less commonly understood, however are the serious risks that accompany outsourcing.

Outsourcing is a strategy whereby companies decide to utilize resources for activities that were previously accomplished using internal staff and resources (Elmuti,2003). As global supply markets have continued to increase, businesses now have the opportunity to reassess which functions are best to remain in-house and those that are suited for outsourcing (Barthelemy,2003). Ideally, organizations who seek to outsource should focus on delegating major, non-core functions to specialized and efficient service providers (Elmuti,2003). Most often, the purpose of such a decision is a strategy to reduce cost, improve service, and allow management more time to commit to activities more directly tied to the firm's core strategic goals (Logan,2004).

OUTSOURCING TRENDS AND OUTCOMES

Over the last 15-20 years, global outsourcing activities have continued to increase. Research suggests that this trend is expected to continue. Continued outsourcing growth presents a need for the development of expertise around successful outsourcing management and a comprehensive understanding of relevant trends and issues.

Based on anecdotal evidence and empirical research regarding the growing trend of outsourcing, the benefits tend to appear insurmountable. Outsourcing has the potential to decrease costs, increase focus, improve productivity, add flexibility, and innovation, and simplify tasks and costs related to personnel management (Barthelemy, 2003; Elmuti, 2003; Logan et al., 2004; Walsh and Deery, 2006).

Decreased costs may result from improved financial performance, increase in profitability, increase operating income, reduced risks and costs associated with innovation, and cheaper labor (Barthelemy, 2003; Elmuti, 2003; Logan et al., 2004). Outsourcing often increases an organization's ability to focus on their core competencies. Outcomes tied to increased focus include improved productivity, improved and increased capacity, and improved organizational effectiveness (Barthelemy, 2003; Elmuti, 2003).

Further, companies may notice increased productivity in terms of access to new technologies, improved quality in work outcomes, increased speed of task and product completion, increased ability to respond to customer needs, and the ability to establish a smaller core workforce (Elmuti, 2003; Elmuti and Kathawala, 2000; Walsh and Deery, 2006). Outsourcing can also increase an organization's access to new skills of offsite personnel, increases in organizational competitiveness and the ability to gain in markets that might otherwise be inaccessible or uneconomical (Elmuti, 2003). Finally, through downsizing and simplifying the number of key personnel a company employs, Outsourcing can save on time, energy, and resources spent toward personnel management in such areas as recruitment, screening and selection, training, managing, and even employment benefits and pensions (Walsh and Deery, 2006). From this data, the evidence would appear to clearly support a strong business case for the use of outsourcing to achieve a variety of positive results.

Outsourcing, however, is not without its challenges. In fact, 75% of U.S. managers admitted that "outsourcing initiatives do not necessarily fulfill all their expectations" (Barthelemy, 2003). Further, 55% of outsourcing relationships fail with the first five years of implementation, and of the remaining 45%, 12% are unhappy and regret the decision to outsource in the first place (Elmuti, 2003). To add to these bleak statistics, it is often the case that customers express dissatisfaction with the outsourcing decisions as well. Inevitably, a host of factors play into the lack of success in outsourcing endeavors.

THE EMPLOYEE PERSPECTIVE: RISKS TO PERSONNEL

This paper intends to reveal important areas of employee well-being that may be hindered by outsourcing decisions. Four primary personnel risks must be considered when implementing outsourcing strategies: trust, job satisfaction, motivation, and stress. These four personnel risks may each lead to a variety of negative organizational outcomes if left unmanaged. However, businesses can attempt to mitigate these negative outcomes through taking the proper action when developing and planning outsourcing strategies.

In identifying the seven deadly sins of outsourcing, Barthelemy (2003) recognized the fourth most common outsourcing mistake is overlooking personnel issues that stem from outsourcing endeavors. Analysis showed that 38% of companies, who failed in outsourcing attempts, committed this mistake (Barthelemy, 2003). As outsourcing has grown, thousands of employees have become subject to drastic organizational change. Yet, strangely, management researchers have nearly ignored the employees' perspective on the matter (Logan et al., 2004). The attitudes, perceptions, and behaviors of employees influenced in outsourcing initiatives are vital aspects that

should be considered when outsourcing.

Employees who remain within an organization that has reduced its workforce experience real challenges. These challenges must be recognized, considered, and addressed if the organization wishes to maintain a healthy workforce that is able to function at its maximum capacity. The potential risks to employees are vast. For example, an older outplacement firm survey of companies that had downsized, reported that 74% of senior managers observed a reduction in morale, trust, and productivity (Cameron,1994). Workers may also experience issues around occupational stress, job security, commitment, satisfaction, satisfaction, burnout, motivation, psychological contracts, confusion, job involvement, turnover intention, job embeddedness,loyalty, attitudes and organizational-based self-esteem (Brooks,2006;Chattopadhyay and George,2001;Elmuti and Kathawala,1993; Logan et al.,2004). These risks to employees are not surprising as outsourcing is often initiated with major organizational change and restructuring with little regard for the effect on remaining personnel. Seemingly abrupt organizational change may lead to employees' resistance to change, low morale, reduced efficiency, a decrease in organizational citizenship behaviors (proactive behaviors performed out of goodwill), and malfunctions in corporate culture(Bruce and Martz,2007; Chattopadhyay and George,2001; Elmuti and Kathawala,1993). Why should organizations care? The ultimate impact for the organization is reduced performance and productivity, and increased turnover. The following illustrates the importance of effectively monitoring turnover:

Research studies have indicated that customer satisfaction and loyalty can be influenced by employees' perceptions of equity as well as job satisfaction and organizational commitment. High employee turnover has been correlated to high customer turnover. An inability to build a stable long-term workforce can deprive an organization of an accumulated knowledge of products,customers and work process that are seen as crucial to the provision of high-quality service. (Walsh and Deery,2006).

PRACTICAL IMPLICATIONS

Trusts, job satisfaction, motivation, and stress issues not only put employees at risk, but may also have real consequences for the organization. Organizational-level outsourcing decision-making and implementation ultimately affects the capacity at which the employee operates therefore further affecting the company's bottom line. Fortunately there are strategies managers and executives can use to avoid these dangers and lessen the impact of choosing to outsource.

Communication to Retain Trust

Corporations who decide to introduce outsourcing should ensure that they use open and frequent communication with their employees. Managers who attempt to maintain secrecy may find that rumours leak due to failed silence, leading to counterproductive anxiety and premature resignation notices (Barthelemy,2003). Communication must be present throughout the outsourcing process(Elmuti, Kathawala and Monippallil,1998). Employees should be privileged to information about the new outsourcing partnership and their human resources related concerns must be addressed. Vigilant communication should include issues such as the employee selection process, culture, policies and benefits of the new expected outsourcing partner (Elmuti,Kathawala, and Monippali,1998). Further, the commonly held fear of change and fear of job loss is cited as one of the most serious problems that successful firms face when attempting to begin global outsourcing

(Elmuti and Kathawala,2000). Two important techniques in managing this risk are communication and honesty. By curbing fear and allowing open communication, companies can retain trust. Another focus when building trust should include effective communication between cross-functional departments. This is expected to reduce the “negative effects of outsourcing projects on the morale and performance of the remaining employees” (Elmuti,2003). Effective communication is a vital piece of successful implementation of outsourcing by reducing fear and anxiety and retaining trust in management and coworkers.

Understanding the Employee Perspective Facilitates Job Satisfaction

Managers must pursue a true understanding of employee perceptions and fear around outsourcing and display acts of commitment to those remaining employees. Such an understanding will allow managers to address concerns as they arise throughout the transition process (Logan et al.,2004). Vigilant personnel management may be able to aid in shaping employee opinions of outsourcing implementation. Without this pledge to monitor employees’ perceptions, companies are likely to experience a drop in productivity (Logan et al.,2004). Working toward realignment of company and employee goals, vision, and values may be a useful tool in this process, especially during the outsourcing process. Collins(2009) suggests taking innovative steps toward motivating purpose in your employees. Creating a higher purpose for employees, as opposed to numbers-driven accomplishments, provides employees with the opportunity to give meaning to their work and also unifies the organization (Collins,2009).

Organizations can also consider aligning the business strategy and goals with the employee vision by measuring success through client satisfaction and service levels. Establishing a strong corporate culture with visible top management support is expected to assist in effectively restructuring the organization (Elmuti and Kathawala,1993). Further, maintaining those key employees hold “firm-specific knowledge” about how to make operations run smoothly(Barthlemy,2003). Along with understanding their perspective and providing higher purpose, it may be necessary to offer higher salaries and benefits (Barthlemy,2003). Continued development of employees will aid in rebuilding employee commitment. Training, retraining, and cross-training will aid in employee adaptation to downsizing (Cameron,1994). Treat employees remaining within the organization as assets whose ideas and contributions are respected by encouraging and offering ongoing career development opportunities (Cameron,1994). The extent to which employees feel like valued assets in the company’s pursuit for change, largely determines the extent to which those employees remain satisfied of their role within a greater purpose.

Ethical Decisions Target Motivation

Research also suggests that companies must maintain ethical behavior throughout their decision-making and implementation process to retain motivated employees. Given the aforementioned plausible onset of decreased motivation, organizational citizenship behaviors, and performance, the following suggestions are ideal for outsourcing scenarios:

Leaders with strong ethical commitments who regularly demonstrate ethically normative behavior can have an impact on the job characteristics model elements of task significance and autonomy, thereby affecting an employee’s motivation (willingness to exert effort), which in turn will be evidenced by indication of enhanced task performance and organizational citizenship behaviors. (Piccolo,

Greenbaum, den Hartog and Folger,2010).

Ethical decision-making, according to Henderson(1997), can assist in circumventing a majority of personnel issues related to outsourcing (as cited in Barthelemy,2003). Ethical behavior includes the involvement and support by top managers (Elmuti and Kathawala,2000). It is unreasonable for organizations to expect acceptance for change on the part of the affected employees without support starting at the top. The entire organization needs to be on board with the expected changes. --executive level managers are of no exception. Top management should aspire to think of themselves as the standard bearers, mood setters , and moral leaders of their organizations. Throughout the process it is necessary to continue to treat employees with value. Employees who feel that they are valuable resources for the company as opposed to commodities that are easily purchased and discarded are likely to have more commitment toward the organization (Brooks,2006). Acting ethically as a business includes investing in the well-being of your employees and making decisions for the long-term success of the organization. Outsourcing is not a short-term fix for unruly spending or poor financial planning; outsourcing is a long-term business strategy that seeks to re-evaluate the core of the business.

Thorough Planning Addresses Occupational Stress

It is essential that organizations commit to see through the change process step-by step. This includes creating a comprehensive plan for change management,laying out the specific long-term goals of outsourcing, and training and developing the necessary skill sets to manage the outsourcing process and the personal issues that are likely to stem from its onset (Elmulu,2003). Managers must ensure strategic alignment of company and employee visions and goals, seek to understand the employee perspective, and display commitment to continued employee development. Further, the company must prepare to reevaluate various job positions and workloads using job analysis as the organization experiences a major restructuring through implementation of outsourcing.

Insufficient planning for implementation is a commonly cited reason for failed attempts at outsourcing (Elmuti,2003;Elmuti and Kathawala,2000). Major change is always stressful and painful for people, especially when it involves a prolonged transition period of adjustment, disruption, and dislocation . When planning for the outsourcing transition, it is important to look at current change management literature. A few such pertinent concepts include: create a sense of urgency around the opportunities that outsourcing provides, communicate a clear vision about how these opportunities will benefit the company and its employees, and build an expansive alliance of change supporters.(Yukl,2010).

Additional steps for preparing personnel involve explaining how the change process will affect employees, providing support for coping with the potential trauma of change, and ensure that employees will experience and/or see the success of the initiative in early stages of the transition.

Preparing employees for change is a vital piece of the planning process.

Comprehensive planning should also consider detailed objectives, expectations, requirements and expected benefits of the projects, and management support for the project before the firm begins implementation. The strategy for outsourcing should have a specific goal that can produce a measurable objective and quantifiable outcome (Emuti,2003). Organizations must clarify their long-term business objectives before deciding to outsource portions of their labor. Companies that overemphasize the short-term benefits of outsourcing in their decision-making process put themselves at risk of failure (Elmuti et.al.,1998). In addition, such a plan must provide for reevaluation throughout the transition and during maintenance of its implementation. The planning phase is an important tool that should include reevaluation of the plan's progress, its effects on the staff, and its effectiveness toward implementation. Further, as job positions are subject to change,

reevaluation must consider that various positions might also need reassessment (Elmuti,2003). This will help avoid the potential burnout and stress resulting from increased work load. The strategic plan should include performance of a thorough job analysis for those positions that have been affected by the decision to outsource. Job analysis will establish the knowledge, skills, and abilities needed to perform the job in addition to the duties and tasks that are expected of a person within this role. This process will help determine to what extent individuals are working under fair expectations. The simple fact that employers take a vested interest in employee well-being and workload is expected to increase commitment to the organization and job satisfaction through perceived organizational support.

CONCLUSION

Given that the quality of the workforce is the key to customer satisfaction, consideration of the impact of outsourcing and restructuring upon employees is vital to the success of the change effort. Walsh and Deery (2006) succinctly highlighted customers' perceptions of service quality are critically affected by the organizational commitment of employees. Moreover, high turnover rates of employees have been found to have a negative impact on customer sales in various settings. If subcontracting leads to less committed employees and an increasingly unstable workforce, it will likely affect the quality of service provided and require firms to recalculate the net benefits of outsourcing. Outsourcing provides great benefits when implemented effectively, yet also exposes a host of risks to personnel and therefore the organization as a whole. To combat the risks of trust, job satisfaction, motivation, and stress, companies contemplating outsourcing must adhere to open communication with staff, ensure that decisions are made ethically, seek out the employee perspective and provide appropriate support in response, and outline a detailed and comprehensive plan that gives thought to each phase of the process.

Given the increasing challenge and variety of potential complications, companies that use outsourcing might benefit from implementing a unique department that is devoted to providing outsourcing management expertise. Outsourcing is on its way toward becoming a unique field with distinctive issues. Developing field-specific expertise of all aspects of outsourcing benefits, challenges, and best practices will be increasingly valuable given the vast array of common pitfalls. Many companies are unknowingly operating under experimental conditions without privilege to the existing research around outsourcing best practices. Ideally, as outsourcing continues to grow, the risks and issues associated will become more commonly acknowledged. Until then, we must hope that business leaders take the initiative to seek out pertinent information useful for making decisions that are valuable for the affected employees and rational for the long-term existence of the company.

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