

OUTSOURCING: AN EXPLORATORY STUDY

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Abstract

Outsourcing has become a strategy to increase an organization's competitive advantage by enabling them to focus on activities or processes that create value or on those that they do best. This study sought to determine the reasons why companies resort to outsourcing: the kinds of jobs they usually outsource; the outsourcing related problems they encounter; and the patterns that can be seen in the sample. This study revealed that the firms in the sample resorted to outsourcing in order to reduce cost and to enable them to focus on the activities that are more critical to their firms. Among the activities that the sample firms outsource are certain human resource management functions such as recruitment and training; janitorial services and maintenance of building and grounds; and sales and distribution. The most common problem encountered is poor quality of service or output. It seems that this study generated more questions than answers. The results of this study point to the need to refine the operational definition of outsourcing. Because outsourcing has several forms, it seems that different sets of factors explain each form. There is therefore the need to look into each form of outsourcing separately to gain a better understanding of the phenomenon. It may also be meaningful to know why firms resort to a particular form of outsourcing for specific activities.

I. Introduction

Outsourcing is an arrangement whereby one company provides services or manages functions, which were formerly or typically could be provided in-house (Unsigned, 1999; Switser, 1997; Rothery and Robertson, 1995). It can range from a large contract where a company manages a specific service for another company to the practice of hiring temporary workers (Unsigned, 1999). Although the practice may have gained prominence in the last two decades, the concept is not altogether new. In the early days of the practice, the common form it took was subcontracting (Millsap, 1997).

Outsourcing has become a strategy to increase an organization's competitive advantage by enabling them to focus on

activities or processes that create value or on those activities which they do best. Historically, operations outsourced include information technology, advertising, public relations, legal, payroll, benefits and compensation administration, recruitment, training, accounting and financial reporting, and tax compliance and planning, among others (Millsap, 1997; Switser, 1997). In addition, human resources management functions such as recruitment and training, messengerial and janitorial services, as well as the maintenance of building, equipment and grounds are increasingly being outsourced by Philippine firms. Outsourcing has also afforded organizations the flexibility to respond to the demands of an increasingly global and dynamic environment. For organizations which

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compete on cost, outsourcing services or processes that may be provided by other companies more efficiently and with better quality has enabled them to lower operating costs (Millsap, 1997; Matusik and Hill, 1998).

The pervasiveness of outsourcing argues for more attention given to the topic. The study of outsourcing also becomes important when it is taken in the context of its impact on the employment arrangements in organizations inasmuch as employment practices affect the employees' achievement of organizational as well as personal goals.

The present study looks at outsourcing practices in selected companies in Metro Manila. Specifically, it aims to address the following questions:

1. What are the reasons why companies resort to outsourcing?
2. What kind of jobs do they usually outsource?
3. What outsourcing related problems do they encounter?
4. What patterns can be seen in the sample?

The present study is exploratory in nature. It is hoped however that some patterns emerge and hypotheses will be developed.

II. Current Views on Outsourcing

Globalization and rapid technological changes have affected businesses in many ways. They are confronted with more price and non-price competition, shorter product life cycle and rapid product obsolescence (Hammel and Prahalad, 1994). This scenario places pressure on companies to respond quickly and with greater flexibility to the demands placed on them. In addition, competition from other countries also exerts

pressure on companies to lower costs of production. Some companies in the Philippines and elsewhere respond to such challenges by outsourcing some of their needs. In the Philippines, this takes the form of subcontracting, use of home workers, and hiring temporary workers provided by employment agencies (Aganon, 1994-1995). Subcontracting is commonly used in garments firms. The tasks commonly subcontracted include laundry and ironing, silk screening, embroidery, and cutting and finishing, among others (Aganon, 1997). The use of home workers is common among manufacturing and service organizations (Macaraya and Ofreneo, 1992 in Aganon, 1994-1995). Hiring casual or contractual labor is common among electronics firms although subcontracting is also resorted to in the manufacture of spare parts, maintenance service, as well as in spare parts machining. Banks and department stores make use of employment agencies which provide them with temporary workers (Aganon, 1995). However, the use of temporary workers is not limited to clerical or blue-collar work. Technical experts and professionals are also hired as temporary workers in special projects and are oftentimes called consultants to differentiate them from those hired to do clerical or manual work.

Cost saving generated from outsourcing may be demonstrated in the practice of hiring temporary workers. When a firm hires temporary workers, it does not usually pay for benefits (Matusik and Hill, 1998; Allan and Sienko, 1997). In addition, hiring technical experts or professional saves an organization from training cost and even administrative cost. Recruitment, selection and transaction costs may also be reduced specially when firms deal with an employment agency to provide them with temporary workers. In particular, firms with seasonal demand for workers enjoy cost

savings when they hire temporary workers. This is because when firms base their staffing levels on peak periods, they incur considerable cost of excess capacity during periods of low demand. The use of temporary workers is also associated with lower cost of exit including severance pay to those laid off and the indirect cost of loss of morale of the remaining employees (Matusik and Hill, 1998; Davis-Blake and Uzzi, 1993). To the extent that a firm faces cyclical demand for its products or faces dynamic market conditions, outsourcing presents itself as an employment alternative for firms to respond more flexibly. In addition, when a firm operates in an environment where product or knowledge obsolescence is rapid, the firm is given flexibility by obtaining services from another company without incurring investment in technology and training costs (Matusik and Hill, 1998).

While outsourcing may reduce a firm's cost and increase its flexibility, it is also associated with an organization's loss of control (Davis-Blake and Uzzi, 1993). However, outsourcing is not for all firms. Aside from some problems stemming from implementation (Laabs, 1998), certain environmental factors limit the benefits or determines the appropriateness of outsourcing. For example, it has been cautioned that the use of contingent workers should be limited to non-core activities or processes of the firm (Pfeffer, 1994). This, however, is qualified by Matusik and Hill (1998). Accordingly, such caution may not be appropriate when the firm operates in a dynamic environment where there is need to continually upgrade the stock of knowledge, otherwise it will face obsolescence.

The impact of outsourcing goes beyond cost and flexibility considerations. Matusik and Hill (1998) argue that the more significant

impact of outsourcing, specifically the use of contingent workers, is on the knowledge stock of the firm, and in the long run, on its competitive position. However, in using contingent workers, there is need to take into consideration the environment of the firm as well as the competitive pressure it faces. In stable environments, leakage of knowledge to the environment may prove too costly for firms operating in them, thus, the task is to preserve such knowledge. Given the above considerations firms facing stable environments, with low competitive pressure, should make limited use of contingent workers. However, firms in stable environment but with high competitive pressure may use contingent work in non-core areas provided there is direct cost savings. Firms in a dynamic environment, with low competitive pressure, should use contingent workers in core areas, elsewhere, its use should be limited. For firms in dynamic environments with intense competitive pressures, contingent workers should be used extensively in core and non-core areas (Matusik and Hill 1998).

However, the cost of using contingent worker, and perhaps outsourcing in general should be weighed against its potential benefit. Firms may pay premium wages for contingent workers (Matusik and Hill, 1998). From a more pragmatic concern, problems in outsourcing include vendor errors and mistakes, incompatibility between client and vendor cultures, and lack of proactiveness by the vendor, among others (Laabs, 1998). There is also a need to monitor the impact of contingent worker on the core employees of the organization (Pearce, 1993). The use of contingent worker may put to question the firm's sincerity in its concern for the core employees' security of tenure and may affect their commitment to the firm. The inequality of rewards associated with the use of

contingent workers may also lead to dysfunctional conflicts which in the long run will prove costly to the firm (Davis-Blake and Uzzi, 1993).

To further analyze the determinants of outsourcing, specifically the use of temporary workers and independent contractors, Davis-Blake and Uzzi (1993) looked into the effects of employment costs, external environment of the firm, organizational size, degree of bureaucratization, and skill requirement on the use of contingent workers. The use of contingent workers is consistent with the concept that it is an avenue through which the organization increases its flexibility. Thus the need for more employees in the short-run, in the case of small firms, as well as the need for specialized skills in the case of large firms, increases the use of contingent workers.

The use of contingent workers is determined by several factors including costs of externalization and the structure of the organization (Davis-Blake and Uzzi, 1998). Thus jobs requiring firm specific training are less likely to be staffed by temporary workers. Less use of temporary workers is also associated with level of bureaucracy because the temporary nature of the use of external workers seems to threaten the foundations of a bureaucratic organization which relies on strict compliance with rules and standards. While the use of contingent workers takes on different forms--temporary workers leased workers, independent contractors-- different factors also affect them differently. For example, large organizations are more likely to hire independent contractors but less likely to hire temporary workers than small firms. On the other hand, bureaucratic organizations are more likely to hire independent contractors and less likely to

hire temporary workers (Davis-Blake and Uzzi, 1998).

The increase in the utilization of outsourcing as an employment or production alternative warrants further study of the phenomenon. There is need to look at outsourcing beyond the level of description and to be able to increase the generalizability of results. While some work has been undertaken toward the direction of building a theoretical framework, much still remains to be done. This exploratory study is hoped to be able to arrive at some hypotheses which will contribute to building a framework with which to view outsourcing.

III. Methodology

While the study is exploratory in nature and the questionnaire asked mostly open-ended questions, it likewise measured some variables found to be of importance to the understanding of outsourcing. This was done in order to discover patterns from which some hypotheses may be developed.

Definition and Measurement of Variables

1. Outsourcing

In this study, outsourcing was measured as a binary variable. The firm was assigned a value of one if it engaged in outsourcing, otherwise it was assigned a value of zero.

2. Unionization

Unionization was also a binary variable, coded one if the firm was unionized and zero if it was not.

3. Size

Size of the company was measured in terms of the total number of employees as of the end of December 1998.

4. Perceived Environmental Uncertainty

Environment refers to the conditions outside the organization that have direct effect on the organization's effectiveness. The interest in the environment is on its degree of uncertainty. The variable was measured in terms of the respondents' location on each of the bipolar statements covering such areas as competition, product or service development, nature of customers, and technological innovation. This was adapted from the work of Gordon and Narayanan (1984). The average of the ten items constituted the firm's score for its perceived environmental uncertainty. Scores for items 2,3,4,6,8,9, and 10 were reversed such that higher scores indicated a more uncertain environment.

5. Downsizing

This was also a binary variable coded one if the firm had engaged in downsizing activities and zero otherwise.

Data Collection

The data set for this study was from a convenient sample of 17 firms. A structured questionnaire (Appendix A) was sent to 300 Human Resource Managers in October 1999. The names of the Human Resource Managers came from the list of members of

the Personnel Management Association of the Philippines (PMAP) in 1996.

Data Processing

In order to describe the data means, standard deviations and some frequencies were computed. To determine some patterns, the logistic regression analysis was used. This is an appropriate tool because the variable under consideration, outsourcing, was measured as a binary variable.

IV. Results

Profile of the Sample

The sample consisted of 17 companies. A majority of them, 58.8 percent, were in manufacturing (Table 1) and 62.5 percent were family owned or privately held firms (Table 2). On the average, these firms had been operational for the past 33.1 years. In 1998, the average size of the sample companies was 1,268.5 employees, 1,027.6 of them were in the rank and file positions. (Table 3). More than half, 52.9 percent, of the companies were unionized. Some 70.6 percent of these companies had practiced outsourcing for the past 7.9 years. In addition, 57.1 percent (of the 14 sample companies that answered the question) had engaged in downsizing activities.

Table 1
Number of Companies
According to Major Business

| Major Business Activities | Number | Percentage |
|---------------------------|--------|------------|
| Investment | 4 | 23.5 |
| Manufacturing | 10 | 58.8 |
| Services | 2 | 11.8 |
| Trading | 1 | 5.9 |
| Total Number of Companies | 17 | 100.0 |

Table 2
Type of Organization

| Type of Organization | Number | Percentage |
|---|---------------|-------------------|
| Publicly Listed with Concentrated or Family Ownership | 4 | 25.0 |
| Publicly Listed with Dispersed Ownership | 2 | 12.5 |
| Family or Privately Held | 10 | 62.5 |
| Total Number of Companies | 16 | 100.0 |

Table 3
Profile of the Sample

| Variables | Value | Number of Observations |
|--|--------------|-------------------------------|
| Years in Business | | 17 |
| Average | 33.1 | |
| Standard Deviation | 25.8 | |
| Total Number of Employees in 1998 | | 17 |
| Average | 1286.5 | |
| Standard Deviation | 1791.9 | |
| Number of Rank and File Employees in 1998 | | 17 |
| Average | 1027.6 | |
| Standard Deviation | 1675.3 | |
| Percentage Unionized | 52.9 | 17 |
| Percentage Engaged in Outsourcing | 70.6 | 17 |
| Number of Years Engaged in Outsourcing | | 8 |
| Average | 7.9 | |
| Standard Deviation | 5.6 | |
| Percentage Engaged in Downsizing | 57.1 | 14 |

Outsourcing Activities in the Sample Firms

Twelve of the sample companies have engaged in outsourcing activities for varied reasons. It seems that the two most compelling reasons for outsourcing are to reduce cost and to free the managers of these firms from non-core activities to enable them to focus on the more critical activities. In addition, companies in the sample also engage in outsourcing to reduce administrative load (Table 4). This is

particularly true when these firms subcontract the manufacture of certain products or parts of the product, or when they engage other companies to provide them with specific service such as janitorial and messengerial services, sales and distribution. In the latter cases management of the workers who perform the needed tasks is taken care of by the service provider. The "others" category include such reasons as practicality, urgency productivity and quality considerations.

Table 4
Reasons for Outsourcing

| Reason for Outsourcing | Number of Mentions | Percentage to Total Mentions |
|--|---------------------------|-------------------------------------|
| Cost Considerations | 6 | 31.6 |
| Non-core Activities/ Specialization of Service Provider | 6 | 31.6 |
| Reduced Administrative Load | 3 | 15.8 |
| Others | 4 | 21.0 |
| Total Mentions | 19 | 100.0 |

Note: Total number of reasons exceeds 17 because some companies outsource for more than one reason.

Among the activities that the sample firms outsource (Table 5) are certain human resource management functions such as recruitment and training (35.3 percent). It appears that these activities may be expensive to maintain in the organization even as some specialized firms or service providers may do better jobs than the sample firms engaging in these activities themselves. When these activities are not done the whole year round, it makes sense to hire specialized firms to provide them these needed services. Janitorial services also

figure in the top most outsourced jobs. Firms consider these jobs non-core activities and firms may save on administrative and labor costs when they outsource them. Maintenance of buildings and grounds (11.8 percent) is also often contracted out since these are not considered core activities. Firms in the sample also outsource sales and distribution (11.8 percent). Again these functions may be more expensive to maintain in-house for some firms in the sample.

Table 5
Jobs Being Outsourced

| Jobs | Number of Mentions | Percentage to Total Mentions |
|-------------------------------------|---------------------------|-------------------------------------|
| Building/Ground Maintenance | 4 | 11.8 |
| Human Resource Management Functions | 12 | 35.3 |
| Janitorial Services | 6 | 17.6 |
| Messengerial Services | 3 | 8.8 |
| Production Work | 2 | 5.9 |
| Sales and Distribution | 4 | 11.8 |
| Security Services | 3 | 8.8 |
| Total Mentions | 34 | 100.0 |

Several factors are considered in deciding whether or not to engage in outsourcing (Table 6). The most important consideration taken by management of the firms that outsource is the benefit they derive from outsourcing (24.0 percent). The firms also consider the availability of needed skills

(20.0 percent) as well as the cost of outsourcing (20.0 percent) before deciding on whether or not to outsource. To some firms, outsourcing is considered only when the job is not a core activity of the firm (16.0 percent).

Table 6
Important Factors Considered in Outsourcing

| Factor Considered | Number of Mentions | Percentage to Total Mentions |
|-------------------------------|--------------------|------------------------------|
| Advantages | 6 | 24.0 |
| Availability of Needed Skills | 5 | 20.0 |
| Cost | 5 | 20.0 |
| Non-core Nature of Activities | 4 | 16.0 |
| Others | 5 | 20.0 |
| Total Mentions | 25 | 100.0 |

The sample firms list several benefits they have derived from outsourcing (Table 7). The most common benefit derived from outsourcing is cost savings (24.0). In addition, outsourcing has allowed these firms to focus on their more critical or core activities (16.0 percent). Thus by outsourcing non-core activities, managers and workers of these firms are enabled to focus on their core activities. Expertise not available in these

organizations is also acquired through outsourcing (16.0 percent). Moreover, firms resort to outsourcing because they are more flexible in terms of shifting to other providers should they be dissatisfied with the current service providers' performance compared perhaps to the difficulty in firing regular employees should these firms be dissatisfied with the latter's performance (16.0 percent).

Table 7
Benefits from Outsourcing

| Benefits | Number of Mentions | Percentage to Total Mentions |
|---|--------------------|------------------------------|
| Access to some Expertise | 4 | 16.0 |
| Able to Maintain Lower Headcount | 2 | 8.0 |
| Convenience | 3 | 12.0 |
| Cost Savings | 6 | 24.0 |
| Ease in Changing Service Providers | 4 | 16.0 |
| More Time for More Critical or Core Areas | 4 | 16.0 |
| Others | 2 | 8.0 |
| Total Mentions | 25 | 100.0 |

However, the firms also encountered problems related to outsourcing (Table 8). The more common problems encountered by the firms is poor quality of service or output (28.6 percent). This may be one telling consequence of the firm's loss of control associated with outsourcing. When supervision or administration is done by service providers, oftentimes the quality of products or service do not meet the client firm's standards. However, this problem may be short-term in nature as the firms enjoy the flexibility of shifting to other providers

should they find the services or output of one wanting in quality. While some firms mentioned cost savings as a benefit from outsourcing, it could actually be more expensive (21.4 percent) for others. This may be the case when firms pay a premium over that paid to full time employees (Matusik and Hill, 1998). There is also a premium to be paid for rush jobs or for jobs to be delivered in short notice. Thus the potential advantages from outsourcing must be weighed against potential problems.

Table 8
List of Problems Encountered

| Problem Encountered | Number of Mentions | Percentage to Total Mentions |
|----------------------------|---------------------------|-------------------------------------|
| Could be Expensive | 3 | 21.4 |
| Quality of Service/output | 4 | 28.6 |
| Low Commitment/Loyalty | 2 | 14.3 |
| Delay | 2 | 14.3 |
| Choice of Supplier | 2 | 14.3 |
| Others | 1 | 7.1 |
| Total Number Mentions | 14 | 100.0 |

Hiring contingent or temporary workers is one form of outsourcing. These workers are hired on a temporary, contractual or part-time basis for a specified period of time (Allan and Sienko, 1997). The most common reasons (Table 9) for hiring contingent workers is that it provides immediate solution to short-term manpower problems (50.0 percent). It is also resorted to when staffing jobs which are temporary or have fixed duration (28.6 percent). These two reasons clearly provide flexibility to the

firms in terms of increasing and decreasing their employment levels in response to cyclic or erratic demands of their products. Rarely is the hiring of contingent workers seen as a means to cut cost. Indeed while firms may save on the cost of employee benefits given to contingent workers, they may have to pay premium wages particularly for those possessing specialized skills. In addition, agency fees may actually be exorbitant.

Table 9
Reasons for Employing Contingent Workers

| Reasons for Employing Contingent Workers | Number of Mentions | Percentage to Total Mentions |
|---|---------------------------|-------------------------------------|
| <i>Solution to Short-term Manpower Problem</i> | 7 | 50.0 |
| To staff jobs that are for Specific duration | 4 | 28.6 |
| Cost Savings | 2 | 14.3 |
| Avail of Specialized Knowledge and Skills | 1 | 7.1 |
| Total Mentions | 14 | 100.0 |

Attempt to Find Some Patterns

An attempt was made to determine some patterns in outsourcing. A logistic regression analysis was done to examine the factors that explain the phenomenon. First, size, age of the company and perceived environmental uncertainty were used to test whether or not they could explain the probability that a firm will resort to outsourcing. However, these variables did not come out to be significant in explaining the phenomenon (Appendix B). Another logistic regression analysis was done to determine whether or not unionization and downsizing explain a firm's use of outsourcing. Again, these variables did not explain the probability that a firm will resort to outsourcing (Appendix C).

The above results may be explained by the small sample size. A larger sample from different industries may yield results that could explain outsourcing. Another possible explanation is that, inasmuch as outsourcing may take several forms such as subcontracting, hiring of temporary workers, employee leasing, hiring of consultants, etc. lumping them altogether into one variable - outsourcing-- may cancel the effects of the different explanatory variables on these different forms of outsourcing. In other words, different forms of outsourcing may

have been determined by different sets of factors. For example, while the most compelling reasons for outsourcing in general were to reduce cost and to buy time so that the firm can focus on their core activities, cost consideration was not an important reason in hiring contingent workers. This points to the need to look into specific forms of outsourcing and to determine the factors that influence their use.

V. Summary

This study looked into the phenomenon of outsourcing. Specifically, this study sought to determine the reasons why companies resort to outsourcing; the kinds of jobs they usually outsource; the outsourcing related problems they encounter; and the patterns that can be seen in the sample.

This study revealed that the firms in the sample resorted to outsourcing in order to reduce cost and to free themselves from non-core activities to enable them to focus on the activities that are more critical to their firms. In addition, companies in the sample also engaged in outsourcing to reduce administrative load.

It seems that firms outsource activities that are not among their core activities and those that maybe expensive to provide in-house. This may result from a volume of output or service that may not be large enough for the firm to enjoy economies of scale. Among the activities that the sample firms outsource are certain human resource management functions such as recruitment and training. Janitorial services and maintenance of building and grounds also figure in the top most outsourced jobs. Sales and distribution are also activities that are being outsourced by some of the sample firms.

There were some problems encountered by the firms that engaged in outsourcing. The most common problem encountered is poor quality of service or output. While some firms mentioned cost savings as a benefit from outsourcing, it could actually be more expensive for others. Thus potential advantages from outsourcing must be weighed against potential problems.

An attempt was made to determine the factors that could explain the variation of outsourcing activities across the sample firms. However, the variables tested did not come out to be significant in explaining its variation.

V. Limitations

This study is severely limited by its sample size. In addition, since the database comes from a convenient sample, results may

therefore be generalized only to the firms in the sample. The idea of attempting to determine causality is also limited by the cross sectional design of the study. Given the mentioned limitations of the study, its results should be taken as tentative.

VII. Directions for Future Research

It seems that this study generated more questions than answers. The results of this study point to the need to refine the operational definition of outsourcing. Because outsourcing has several forms, it seems that different sets of factors explain each form. There is therefore the need to look into each form of outsourcing separately to gain a better understanding of the phenomenon.

Moreover, firms in the sample mentioned cost, flexibility, and the centrality of the activity (whether or not it is a core activity) as among the reasons for outsourcing. It is important to operationalize these concepts and to test the significance of these underlying factors in explaining the use of a particular form of outsourcing. It may also be meaningful to know why firms resort to a particular form of outsourcing for specific activities.

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Appendix A

QUESTIONNAIRE

Company Background

1. Principal Business Activities: _____
2. Date Established: _____
3. Type of Organization (Please encircle appropriate number)
 1. Government owned
 2. Publicly listed with family or concentrated ownership
 3. Publicly listed with dispersed ownership
 4. Family or Privately Held (Not Publicly Listed)
4. The company is: 1 Unionized 2 Non-unionized
5. Total number of employees in 1998: _____
6. Total number of rank and file employees in 1998: _____
7. Total number of Supervisors and Middle- level managers in 1998: _____
8. Total Number of Top-Level Executives in 1998: _____
9. During the past five years (1994-1998) , employment level has:
 - 0 remained the same
 - 1 increased
 - 2 decreased
10. Would you say that on the average, your wage levels are:
 - 0 equal to industry average
 - 1 above industry average
 - 2 below industry average
11. What percentage of the current total compensation package goes to benefits?

| Type of Employee | Percentage |
|--------------------------------|------------|
| Rank and File | _____ |
| Supervisors to Middle Managers | _____ |
| Top Level Executives | _____ |

II. For the following questions, please encircle the number indicating your organization's position on the continuum.

- | | | | |
|---|---------------|-----------|-------------|
| 1. Our organization's offering of products/services is: | narrow | 1 2 3 4 5 | wide |
| 2. Relative to each other, our products/services are: | different | 1 2 3 4 5 | similar |
| 3. We cater to a variety of customers that is: | extensive | 1 2 3 4 5 | limited |
| 4. The need of our customers are: | different | 1 2 3 4 5 | similar |
| 5. We are concerned with innovation the: | least | 1 2 3 4 5 | most |
| 6. In the past five years, modifications made on our products/services have been: | frequent | 1 2 3 4 5 | infrequent |
| 7. In the past five years, changes in our customers' needs have been | insignificant | 1 2 3 4 5 | significant |
| 8. Price competition is: | intense | 1 2 3 4 5 | low |
| 9. The economic environment facing our organization is: | dynamic | 1 2 3 4 5 | stable |
| 10. During the past five years the preferences of our customers are becoming | unpredictable | 1 2 3 4 5 | predictable |

III. Please encircle the number of the item that best applies to your organization.

1. Does your company engage in outsourcing (defined here as: "employing an outside agency to manage a function formerly carried out inside the company")

| | | | |
|---|-----|---|----|
| 1 | yes | 2 | no |
|---|-----|---|----|

 (if your answer is no, please proceed to IV)
2. When did you start with your outsourcing activities? _____
3. What are the reasons for engaging in outsourcing activities?

4. Please list down what are being outsourced and indicate whether these are activities, processes, and others (please specify): _____
5. Did your company ever engage in downsizing activities?

| | | | |
|---|-----|---|----|
| 1 | yes | 2 | no |
|---|-----|---|----|

6. What relationship, if any, do your outsourcing activities have with your downsizing activities?

7. When do you outsource?

- 1 on a continuing basis
- 2 seasonally (please specify months)
- 3 others (please specify)

8. How is outsourcing considered in your organization

- 1 as a tactical move
- 2 as a strategic move

9. Who decides on what activities/processes are outsourced? _____

10. What are the most important considerations in determining whether or not an activity or process is to be outsourced?

11. What benefits does your organization enjoy from outsourcing?

12. What problems did you encounter from outsourcing?

(Please proceed to IV4.)

IV. Please encircle the number of the item that best applies to your organization.

1. What are the reasons why your company does not engage in outsourcing activities?

2. Do you intend to outsource some activities within the next 12 months?

- 1 yes
- 2 no (If your answer is no please proceed to V)

3. Has your company ever engaged in downsizing activities?

- 1 yes
- 2 no

Appendix B

Model 1: Size, Age of Firm and Perceived Environmental Uncertainty as Independent Variables

Dependent Variable.. Outsourcing

-2 Log Likelihood 14.045308

* Constant is included in the model.

| | |
|------------------------------|-------|
| -2 Log Likelihood | 6.661 |
| Goodness of Fit | 6.099 |
| Cox & Snell - R ² | .433 |
| Nagelkerke - R ² | .656 |

| | Chi-Square | df | Significance |
|-------|------------|----|--------------|
| Model | 7.384 | 3 | .0606 |
| Block | 7.384 | 3 | .0606 |
| Step | 7.384 | 3 | .0606 |

Classification Table for Outsourcing

| Observed | Predicted | | Percent Correct |
|----------|-----------|---|-----------------|
| | 0 | 1 | |
| 0 | 2 | 1 | 66.67% |
| 1 | 1 | 9 | 90.00% |
| Overall | | | 84.62% |

Variables in the Equation

| Variable | B | S.E. | Wald | df | Sig | R | Exp (B) |
|--------------|----------|---------|--------|----|-------|-------|---------|
| Size of Firm | -.0021 | .0022 | .9180 | 1 | .3380 | .0000 | .9979 |
| Age of Firm | .2375 | .1869 | 1.6137 | 1 | .2040 | .0000 | 1.2680 |
| PEU* | 4.3445 | 2.8072 | 2.3951 | 1 | .1217 | .1677 | 77.0524 |
| Constant | -17.5746 | 10.9628 | 2.5700 | 1 | .1089 | | |

*PEU= Perceived Environmental Uncertainty

Number of selected cases: 17

Number rejected because of missing data: 4

Number of cases included in the analysis: 13

Appendix C

Model 2: Unionization and Downsizing as Independent Variables

Dependent Variable.. Outsourcing
 -2 Log Likelihood 11.483257
 * Constant is included in the model.

| | |
|------------------------------|-------|
| -2 Log Likelihood | 7.777 |
| Goodness of Fit | 7.000 |
| Cox & Snell - R ² | .233 |
| Nagelkerke - R ² | .416 |

| | Chi-Square | df | Significance |
|-------|------------|----|--------------|
| Model | 3.706 | 2 | .1567 |
| Block | 3.706 | 2 | .1567 |
| Step | 3.706 | 2 | .1567 |

Classification Table for Outsourcing

| | Predicted | | Percent Correct |
|----------|-----------|----|-----------------|
| | 0 | 1 | |
| Observed | 0 | 1 | |
| 0 | 0 | 2 | .00% |
| 1 | 0 | 12 | 100.00% |
| Overall | | | 85.71% |

Variables in the Equation

| Variable | B | S.E. | Wald | df | Sig | R | Exp (B) |
|--------------|----------|---------|-------|----|-------|-------|---------|
| Unionization | -10.7621 | 99.6910 | .0117 | 1 | .9140 | .0000 | .0000 |
| Downsizing | 1.3863 | 1.8027 | .5914 | 1 | .4419 | .0000 | 4.0000 |
| Constant | 10.7621 | 99.6841 | .0117 | 1 | .9140 | | |

Number of selected cases: 17
 Number rejected because of missing data: 3
 Number of cases included in the analysis: 14