Management Control of Outsourcing Relationships  
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This study pursues research questions about outsourcing in the framework of a four-stage process model that is derived from complementary, structural, transaction-cost and resource-based views of outsourcing. The stages are:

• Strategy development for outsourcing business activities
• Partner identification and selection
• Contracting
• Implementation and control of daily operations

We use Merchant and Van Der Stede’s (2007) typology of management controls – cultural, personnel, action, and results controls – to describe the uses of management controls in the stages of this framework.

This paper presents the results of a two-part field study at three global companies that have outsourced non-strategic resources across foreign borders (aka offshoring) with different outsourcing strategies, business complexities and degrees of success. These firms represent three different industries (air transportation, consumer products, and high technology manufacturing). The outsourcing choices reflect the purchasing firms’ different strategies, and the providers range from local to global suppliers, who also have different strategies. The research was conducted in the context of operating in Latin America, which has unique regional characteristics, but also presents issues common to the management control of outsourcing elsewhere.

The first part of the field study describes how structural theory explains the design and implementation of management controls in the simplest case, where commodity resources are outsourced with unilateral contracts. The second part of the field study presents results from two more complex and contrasting cases of customized outsourcing with bilateral contracts, which identify the ascendance of cultural controls and trust-building that are less salient than bureaucratic controls in the simpler context.

This research points to understanding and anticipating the dynamic nature of management control of outsourcing through iterative verification of performance and trust-building. We find that cultural affinity and trust might not replace bureaucratic controls in complex contracting but can (1) reduce unproductive conflicts and (2) enhance cooperation and innovation. We find unanticipated side effects of global outsourcing that raise important risk management, financial reporting, auditing, human resource, and education issues. Finally, the paper points to promising areas of future qualitative and quantitative research on the management control of outsourcing relationships.