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**OUTSOURCING PROCESS FROM MANAGEMENT AND EMPLOYEE  
PERSPECTIVES**

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**ABBREVIATIONS**

3 PL	Third Party Logistics provider
RBV	Resource-based view
DC	Dynamic capabilities
CDC	Central Distribution Center
HR	Human Resources
LO	Logistics Outsourcing



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**ABSTRACT:**

Growing interest in third party warehouse and logistics service providers has been observed globally. This paper focuses on outsourcing logistics process, especially outsourcing particular logistics activities to the third-party providers. The study explores leading decision making factors and drivers in outsourcing process from management and employee perspective, as well as the impact of the whole process on the employment relationship. The research approaches two main research questions. The first research question examines particular decision-making factors that have been used in order to archive strategic outsourcing. The second research question looks at employees' perception during the transferring process. Current work presents opinions of both groups regarding the process, at the same time attempting to find the reasons for differences in perception of the process by two sides.

In order to explain logistics outsourcing and identify company's potential key resources the resource-based view (RBV) together with dynamic capabilities have been used. A connection between RBV and human resources together with employees' attitude towards organizational change have been explained. To complete the research, a qualitative in-depth case study was conducted. Semi-structured interviews were used for the investigation. Certain key elements of the strategic outsourcing process have been observed, such as critical evaluation of decision-making factors of the change, resources and capabilities assessment, communication strategy, leadership and management as well as perceptions and results of the process from employee point of view.

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**KEY WORDS:** Outsourcing, Third-Party Logistics Outsourcing, Organizational Strategy, Change Management, Employees Perceptions, Psychological Contract



## 1. INTRODUCTION

This chapter aims to introduce the main topic of the study and present the scene for the reader. Introduction to research problem, presentation of research questions based on the objective of the study, background of the study - all these will be presented below.

### 1.1. Background of the study

Due to expanding competitive environment companies are constantly searching for new steps to increase productivity, while at the same time attempting to cut costs. Corbett (2004) describes outsourcing as a phenomenon that has skyrocketed in recent years. However, it is not a new phenomenon: outsourcing as a practice originated in the 1950s, and it was first adopted in organizations as a strategy in the 1980s (Hätönen & Eriksson, 2009). This paper focuses on successful outsourcing logistics process, especially outsourcing particular logistics activities to the third-party logistics providers (3PLs). According to Capgemini's annual board meeting report (2013), the aggregate global revenues for the 3PL sector continue to rise, and more than 65% of shippers are still increasing their use of 3PL services rather than returning to in-house services.

There are various forms of outsourcing. One of the forms is to lay off employees before business activities are transferred to outsourcing service provider. Another form develops the in-house department to be outsourced, which is then transformed into an independent organization that provides services to its parent company. Under the third scenario, both activities are combined, and employees are transferred to a service provider (Logan et al., 2004). Current research will focus on the last form, which implies that employees of a company are transferred to an outsourcing provider and retained to delivery services to their former employer.

Organizational change brings positive and negative outcome to the companies. According to Kakabadse (2000), organizational performance can be developed by introducing new

working methods, diminishing number of staff as well as adjusting individual incentives, employment terms which in turn affects employee morale (Kakabadse, 2000). Management is able to forecast future costs more accurately than predict future revenues. Downsizing of the workforce is commonly used to reduce costs. Expected economic benefits of a smaller workforce include reduced expenses, increased return on investment, higher profits and improved stock prices (De Vries and Balazs, 1997).

Naturally, a particular change can generate fears and contention among employees. Majority of previous studies reveal that many outsourcing initiatives have not reached the desired results because organizational and staff issues were neglected.

## 1.2. Research problem

Growing interest in third party warehouse and logistics service providers has been observed globally. The case company is not an exception. As part of co-operation negotiations announcement in June of 2016 it was communicated that a decision had been made to transfer the ownership of the warehouse from one organization to another under the same company. At the same time a project was started to look into possibilities of outsourcing the warehouse operations to third-party logistics provider. The employees were informed that they were at risk of being laid off, transferred to another organization or outsourced. In the end of November it was announced that warehouse operations would be outsourced to an external provider. From the 1st of January 2017 warehouse was outsourced to third-party logistics provider.

Current research focuses on two different groups: decision-makers consisting of directors, general managers and managers; second group including warehouse employees and team leaders that have been outsourced to the third-party logistics provider.

Initial study of the subject has demonstrated that the case company's outsourcing process has been well-planned and successfully implemented. Following the discussion with the company's representative, the researcher decided to collect data from the two groups

involved in the process in order to acknowledge the views from both sides and confirm research assumptions. However, at the time of data collection it became evident that the employees' opinions regarding the outsourcing process – planning, implementation, communication flow – vary significantly from the management's.

Current work presents opinions of both groups regarding the process and attempts to find the reasons for differences in perception of the process by two sides. Researcher also examines certain missteps and omissions, which have complicated the process, and suggests ways to avoid them in the future projects. Furthermore, diversity of answers and perceptions of the project brings additional interest to the case.

### 1.3. Research Gap

Selviaridis and Spring (2007) observe that 3PL studies are weakly theorized, with 69 percent of the papers having no theoretical foundation and simply describing trends in the industry. Other researchers in the field agree that inquiries into logistics processes lack theoretical basis (Kent and Flint, 1997; Mentzer et al., 2004)

Roe (2005) identifies another gap in the research, highlighting that the impact of outsourcing on the service provider has received much less attention than the outsourcer. Although outsourcing is generally characterized as a win-win strategy, beneficial both for outsourcer and for service provider. Nevertheless, guarantees given to the employees, regarding employment, career and pay may limit the benefits for some period of time. For the service provider it is crucial that the outsourcing process goes well in order to ensure employees' commitment and motivation to perform work after the change. Resistance to change, distrust and lack of commitment may seriously undermine the feasibility and success of the outsourcing process. (Roe, 2005)

At the same time, limited attention has been paid to the impact of human resource aspects of outsourcing on the affected employees (Benson, 1998; Khosrowpour & Subramanian, 1996; Logan et al., 2004).

The purpose of this study is to explore leading decision making factors and drivers in outsourcing process from management and employee perspectives as well as the impact of the whole process on the employment relationship. Semi-structured interviews were used for the investigation. Interviewees comprised several directors, managers and employees influenced by the transfer. Due to the sensitivity of the subject, interviewees wished to stay anonymous without specification of occupation. Division on decision-making group and employees being outsourced have been accomplished.

#### 1.4. Research questions

The above mentioned purpose of the study has led to the following research questions:

- What decision-making factors have been used in order to archive strategic outsourcing?
- How did the employees perceive outsourcing and transferring process?

#### 1.5. Scope of study

The research is limited to a Finnish born global company with strategic outsourcing to a third-party logistics provider. The purpose of the study is to identify success drivers and factors of strategic outsourcing. Taking into account that opinions of both groups vary extensively, this research aims to report the results of the process presenting both management point of view and perceptions of employees, being transferred to the external provider. Both sides' opinions will be analyzed and presented based on the theoretical framework.

Research results concern a rapidly growing industry; therefore the outcome will impact the case company and its industry peers considering to implement 3PL services. However, the study subject is a single company with specific cultural and organizational factors; therefore it cannot be fully generalized and applied to a larger population of other studies.

The study focuses on key elements of this strategic outsourcing process, such as critical evaluation of decision-making factors of the change, resources and capabilities assessment, communication strategy, leadership and management as well as perceptions and results of the process from an employee point of view.

## **2. LITERATURE REVIEW**

This chapter consists of a comprehensive literature review which aims to penetrate such topics as definition of outsourcing and theory of resource-based view by taking a closer look at resources and dynamic capabilities. A connection between resource-based view and human resources as well as employees' attitude towards organizational change is drawn and explained.

### **2.1. The concept of outsourcing**

The term "outsourcing" was first used in the late 1980s for the subcontracting of information systems (Aubert et.al.2004; Lacity and Hirschheim 1993; Loh and Venkatraman 1992, Teng et.al.1995). Nevertheless, for the past years the term has been increasingly applied to other types of activities. The term has been interpreted as a decision between 'make or buy' or 'integration/ disintegration of activities' (Ford and Farmer 1986; Gilley and Rasheed 2000; Perry 1992).

Lei and Hitt (1995) define outsourcing as "reliance on external sources for manufacturing components and other value-adding activities" or Business Process Outsourcing (BPO). Other researchers aim their attention at international sourcing of components, sub-systems and final products (Bettis et al., 1992; Feenstra and Hanson, 1996). Logistics outsourcing refers to BPO as it delegates company's business process or some specific area of the process, like warehousing and logistics, to the third-party provider.

At the time of defining the outsourcing process, Perry (1997) has also highlighted the terms of employment, defining outsourcing as "another firm's employees carrying out tasks previously performed by one's own employees", which precisely describes the topic of current research.

Another definition of outsourcing has been proposed by Sharpe (1997), who described outsourcing as the process of *transferring main activities*, which would help the company to focus on organization's core competencies. Keeping the warehouse running and taking care of logistics activities is one of the ways to transfer secondary activities to an external provider, specializing in those. Gilley and Rasheed (2000) propose their own solution to the definitional confusion, explaining outsourcing as obtaining activities that were either originally sourced internally or with the decision to go outside. Other researchers have defined outsourcing in terms of: internal vs external sourcing (Scheuing, 1989); strategic make-or-outsourcing decisions (Virolainen, 1998); contracting out (Gustaffson, 1995); contractorisation (Hood, 1997); sub-contracting, purchasing, privatization (Seidenstat, 1996); compulsory competitive tendering, market testing, liberalization (Beaumont, 1991); and make or buy and focus (Knight and Harland, 2000). This presents outsourcing in a more strategic and holistic way than previously discussed publications which creates the need for further studies in order to propose a unified definition.

The term of vertical integration has been considered as a part to outsourcing definition in 1960s. Academic world has researched vertical integration between 1960 and 1990, including the following works: Bain in 1968; Clark in 1961; Bucklin in 1966; Harrigan in 1983 and 1984, and Jacquemin, 1987. Most of them have started their research from mergers and acquisitions and shifted to comparing sourcing and outsourcing. Thackray (1986) gave an example of Ford selling a sheep farm producing wool for car seat covers; General Motors outsourcing their paint manufacturing factory; owners of newspapers and magazines dispossessing forests and paper mills. These examples demonstrate that vertical integration symbolized a particular organizational type.

However, Williamson (1975, 1986) has highlighted a trend towards vertical integration in outsourcing and presented different organizational forms. Porter (1988) wanted to overturn vertical integration strategies and agreed with Williamson discovering that half of the acquisitions in new industries and 60 percent in the new fields were dispossessed. Kumpe

and Bolwjin (1988), Gadde and Hakansson (1990) found evidence of increased occurrences of “buy” rather than “make” strategies.

## 2.2. Definition of outsourcing in logistics services

According to Espino-Rodriguez (2006), most researchers agree that

*“Outsourcing means going outside the firm to acquire determined activities that are not processed internally.”(Espino-Rodriguez 2006:50.)*

However, because propositions made by authors are biased by the purpose of their research, three different definitions of outsourcing can be picked out from the body of research.

- (1) According to Mol et al. (2005), Quelin and Duhamel (2003), Sacristan (1999) outsourcing is as a stable, long-term collaboration agreement in which the supplier becomes a strategic partner.
- (2) Definition by Casani et al. (1996), Lei and Hitt (1995), Quinn and Hilmer (1994) illustrates the type of activities or services that can be outsourced, i.e. non-strategic activities and services.
- (3) The third definition implies that outsourcing is in action that allocates planning, responsibility, knowledge and administration of activities through contracts (Blumberg 1998; Greaver 1999; McCarthy and Anagnostou 2004; Rothery and Roberson 1996).

Based on different types of definition, Espino-Rodriguez and Padron-Robaina (2006) proposed an integrated concept that comprises all the aspects and provides a frame of reference for this work. The definition below has been chosen as the main definition of outsourcing concept for current research work:

*“Outsourcing is a strategic decision that entails the external contracting of determined non-strategic activities or business processes necessary for the manufacture of goods or the provision of services by means of agreements or*

*contracts with higher capability firms to undertake those activities or business processes, with the aim of improving competitive advantage.” (Espino-Rodriguez and Padron-Robaina 2006: 52.)*

Current definition contains three important aspects that can be ascribed to outsourcing in general and to logistics outsourcing, in particular. The first aspect defines outsourcing as a *strategic decision* that creates integral part of the firm’s strategy and strives to maintain the firm’s competitive advantage. Therefore, as a non-activity in most enterprises, logistics is an ideal candidate for outsourcing. According to Stojanovic (2012), plenty of logistics outsourcing (LO) definitions highlight that LO is an arrangement where a logistics provider performs services for a firm that before have been arranged “in house”. Hence, companies often buy logistics services from a third-party provider after the transfer or sale of resources.

The second aspect is *the concept of business processes*, which includes the fact that resources themselves cannot be a source of competitive advantage. Resources can be a source of competitive advantage only if they are executed via core business processes (Ray et al.2004; Stalk et al.1992). Business environment dynamics led to identification of additional opportunities for logistics outsourcing, which will be presented more closely in the next chapters.

The third aspect highlights the companies’ ability to determine *business activities* more suitable for outsourcing. To achieve that suppliers with more superior skills in particular activities need to be identified (Espino-Rodriguez & Padron-Robaina, 2006). The position of outsourced logistics differentiates between ordinary capacities and single processes such as transport or warehousing. Therefore, arrangements with carriers and logistics providers differ and can range from spot contracts to long-term agreements and strategic alliances. (Stojanovic ,2012)

The case company has successfully applied the strategy of vertical integration in logistics outsourcing. Specialized suppliers are better placed to respond to the end customer and market needs, which creates competitive advantage for their clients.

### 2.3. Resource-Based Perspective

Vast amount of literature on business strategy has been dominated by resource-based view theory (RBV) that places accent on a firm's internal resources as the main driver of profitability and strategic advantage (Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991; Conner, 1991).

Originally RBV has been developed from the work of Edith Penrose titled "The Theory of the Growth of the Firm" published in 1959. In her work she focused on how the companies move from one product or market to another. She outlined a number of concepts that later became central to the resource-based view: aggregation of human and physical resources, the ability of leaders to utilize these resources to succeed in different markets in different markets, and the importance of knowledge to a firm.

Silverman (1999) uses the RBV theory to explain the diversification strategy by highlighting that an organization can optimize its processes through agreements with industry peers rather than by expanding its resource base. An acquired resource can be internalized by the process of diversification. Suarez (1994) believes that diversification occurs because some of the resources are not fully utilized. In order to take advantage of these resources, the firm starts to search for new applications in new markets or businesses. Outsourcing process may have an opposite effect, then minimizing the size and simplifying the structure of the firm. This is caused in part by the absence of resources and capabilities in certain areas as well as by the existence of a non-specific resource that can be exchanged on the market (Suarez, 1994).

Resource-based view is specifically applicable in analyzing logistics outsourcing, because companies use outsourcing as a strategy for getting access to other companies' valuable resources (Madhok, 1997; Ramanathan et al.1997). Gradually, these resources expand to adapt towards one another (Teece, 1987), growing to be more value-dependent and therefore more difficult to be traded without potential loss in value (Madhok, 1997).

Some theorists acknowledge that the RBV can help the companies to decide which activities to outsource and which to perform in-house (Barney 1999; Gainey and Klaas 2003; Grant 1991). Within that perspective, the core competences approach one of the most powerful frameworks capable of explaining why companies turn to outsourcing (Gilley and Rasheed 2000; Teng et al.1995). It advises that an organization should focus on the activities that promote core competences and outsource the rest (Prahalad and Hamel 1990; Quinn 1992; Quinn and Hilmer 1994). These activities contribute to the organizational growth and provide direction developing of the processes (Peteraf, 1993).

According to Quinn and Hilmer (1994), the most effective core competence strategy focuses on several service operations, grounded in intellect or knowledge combined with essential skills. These approach allows companies to build and maintain best possible capabilities and provide a flexible platform for future innovations. The core competencies should be closely adjusted to the needs and desires of the customer. Quinn (1999) specifies, that an organization must not outsource its core competences, but rather try to create a system for their protection. Quinn and Hilmer (1994) acknowledge that core competencies are not specific products or services that a company does relatively well, but those activities that it operates better than competitors.

Resource-based view theory suggests to own and mobilize resources that do not belonging to core competencies of the company and might therefore be appropriate for such activities as warehouse management and logistics. Companies use 3PL provider services in order to save costs as well as develop logistics service ability. Through RBV framework, firms can combine own resources with external providers' resources in order to be able to contend with changing market dynamics (Lin & Wu, 2014). Leuschner et.al. (2014) discover that work relationship empowers 3PLs and their customers to operate closely together to develop logistics customer service and enlarge companies' overall performance.

### 2.3.1. Resources and Capabilities in Formulating the Strategy

In order to define outsourcing from the resources and capabilities perspective, it is necessary to refer to the conceptual framework presented by Grant (1991) where firm's resources and capabilities are taking into consideration a company's strategy. Grant (1991) has substituted the term RBV with RBT (resource-based theory) with the emphasis on strategic resources, which the company should protect from imitation in order to gain a sustainable competitive advantage.

This study relies on Grant's (1991) resource-based approach, presented in Figure 1, as an analytical basis. Grant (1991) presents five different stages that combine strategy, competitive advantage, resources and capabilities. The last of these stages refer to *"identifying the resource gaps which need to be filled and invest in replenishing, augmenting and upgrading the firm's resource base"* (Grant, 1991:259). While the common approach to creation of resources was a response to firms' lack of resources and capabilities, Grant's approach assists in defining the strategy and can enhance companies' resource base for this particular study.

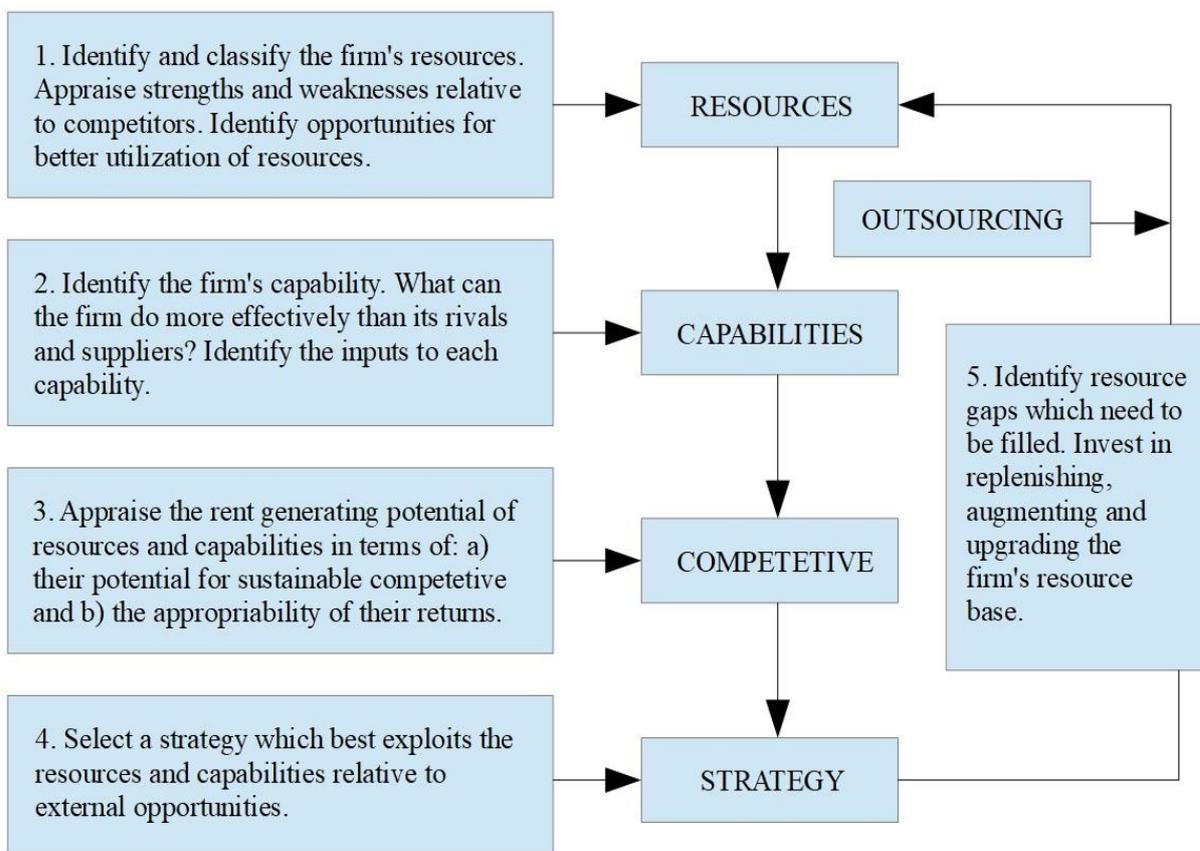
Grant (1991) emphasizes that a firm has to choose between developing resources internally and obtaining them externally. A company might need to acquire complementary resources from outside in order to achieve the combination of resources and capabilities necessary to develop a strategy creating competitive advantage. Therefore, a company should not be content itself with improving only internal resources and capabilities (Teng et al.1995). Grant (1991) argues that any shortage of resources can be constituted by purchasing, forming strategic alliances or by outsourcing. At the time when performance of organization's activities or tasks is below the desired level, outsourcing of the activities is a strategy that could reconcile existing differences and gaps (Teng et al., 1995).

Cheon et al. (1995) states that company's resources may vary, depending on their characteristics (valuable, rare, inimitable or non-substitutable) as well as amount of resources

assigned to a business process. Above mentioned authors highlight that the decision to outsource can be presented as the following linear function:

$$\text{Outsourcing} = f(\text{gaps in capabilities})$$

$$\text{Gaps} = f(\text{resources attributes, resources allocation})$$



**Figure 1.** A resource-based approach to outsourcing strategy. Source: Grant (1991: 115).

### 2.3.2. Obtaining the Capabilities

In general, a company keeps activities in-house, if it has high capability to perform them efficiently (Argyres 1996). Those activities for which a company does not have a high capability could be outsourced. Argyres (1996) summarizes that companies outsource what they do not know how to do and expand in-house what they do better than competitors or suppliers.

Researchers have characterized capabilities as invisible assets, based on the development, use and exchange of information by means of human capital resources (Amit and Schoemaker 1993). Argyres (1996) claims that cost of creating the capabilities in order to grow specific assets is lower if it is done in-house rather than outside the company. Commonly, decision to outsource rely on the required level of capabilities rather than company needs.

Barney (1999) agrees with Argyres (1996) highlighting that the decision on how to obtain the necessary capabilities relies not only on the degree of specificity but on the cost of evaluating capabilities or obtaining them from other organizations. Therefore, capabilities play an important role in regulating the borders of the firm, since creating capabilities or acquiring them from another company by means of acquisitions or takeovers can be very costly (Barney, 1999). For that particular reason, the RBV advises to acquire tradeable resources from the market, as internal investments are unlikely to bring competitive advantage at the later stage (Gilley and Rasheed, 2000).

### 2.4. Dynamic Capabilities

Based on RBV theory, capabilities can be viewed as static (operational) and dynamic capabilities (adaptation and change). Teece et al. (1997) have proposed an extension to the resource-based view theory which has been termed the “dynamic capabilities” approach. The author analyzed dimensions of firm-specific capabilities which became a source of

advantage. The work also explained how combinations of competences and resources can be developed, expanded and defended.

This approach highlights how a company can recognize and benefit from its current internal and external competencies when marketing environment and customer needs are changing. Maley (2015) defines dynamic capability as “*the capacity of the organization to purposefully create, extend or modify its resources and capability bases to address changes in its environment*” (2015: 57). Cepeda and Vera (2007) expand on Maley’s definition and argue that dynamic capabilities empower the firm to change, adapt, integrate and reconfigure resources and operational capabilities. Particular emphasis is placed on improvement of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills (McIvor, 2005).

Barney (2002) has demonstrated that it is possible to apply the resource-based view for analyzing the strengths and weaknesses of an organization and recognizing the dynamic of organizational development. The author suggests that dynamic capabilities approach can be useful in changing logistics environment. Organizations are increasingly practicing the approach with notable benefits such as reduction in operations cost, improvement in flexibility and operationalization of logistics services, reduction in capital investment (Rahman, 2011). Giri and Sarker (2016) suggest that companies recourse to 3PL to reduce the load of logistics tasks, ensure customer satisfaction and achieve competitive advantage (Chen, Goan, & Huang, 2011).

According to Barney (2002), a resource with potential to create competitive advantage must meet four particular criteria, which are presented in detail further in this section.

*Value* regulates whether the company’s resources and capabilities are able to react dynamically to opportunities or threats. The resources and capabilities are considered to be valuable only if they allow the company to seize opportunities and counter threats. Thereby, these resources should help the organization to fulfill the criteria necessary to succeed in business environment (McIvor, 2005). Barney (2002) argues for the importance of

understanding value links between the analysis of internal capability, i.e. strengths and weaknesses, and external opportunities and threats.

Value of a resource is determined among other characteristics by its *rarity*. If a number of competitors possess the same resource it is unlikely to be a source of competitive advantage. Resources with these aspects are often considered to be basic resources necessary for survival. A valuable resource that is *rare* amongst present and potential competitors will take the position of a competitive advantage and be a part of dynamic capabilities. Nevertheless, over a period of time valuable and rare resources can become basic resources as competitors copy or improve on them (McIvor, 2005). Valuable and rare resources can be listed as a source of competitive advantage. Nevertheless, it is important to acknowledge how quickly and easily competitors copy a valuable and rare resource owned by an organization.

According to McIvor (2005), valuable and rare resources can also be a source of sustainable competitive advantage only if competitors struggle to gain a cost advantage by replicating valuable resources of an industry leader. Resources that demonstrate these characteristics are defined as *imperfectly imitable* (Lippman and Rumelt, 1982; Barney, 1986). Dierick and Cool (1989) recognized five main factors, that can delay imitation of valuable and rare resources.

- *Time-compression diseconomies*: additional costs appear when an organization attempts to acquire resources under time pressure.
- *Asset mass efficiencies*: concentrating resources when the company's existing stock of assets is small relative to the competitor's stock can be costly.
- *Asset interconnectedness*: the lack of supplementary resources can prevent a company from concentrating resources.
- *Asset erosion*: regardless of what the resource basis is, it can break down over a time.
- *Causal ambiguity*: it might not always be possible to decide which factors or processes are needed for required resources.

Barney (2002) states that a company should be organized in a way that enables it to easily assess its resources and capabilities. Under company's *organization* Barney (2002) intends

number of characteristics such as reporting structure, management control systems and compensation policies. Amit and Schoemaker (1993) characterize these as dependent resources and capabilities because of their limited ability to create competitive advantage on their own. Moreover, combining with other resources, an organization can achieve more significant competitive advantage.

One important area of this research is to verify whether the RBV of the firm mostly gives priority to sustainable competitive advantage, while dynamic capabilities view concentrates mainly on the role of competitive endurance in organizations response to frequently changing business position at the market. As proposed by Porter (1988) it is important to understand that RBV and the dynamic capabilities manage organizational strategy through performance rather than through the market position approach. Porter also highlighted the value of internal resources as oppose to focusing on external environment. Dynamic capabilities view can be challenging to utilize due to the fact that it deals with changing internal factors, which are generally not measurable. (Ambrosini et.al., 2009). The most significant reason for analyzing both theories together is the possibility to gain new forms of competitive advantage through remodeling of base resources and competences (Fossas, 1999).

## 2.5. Change Management from 3PL Perspective

As discussed above, the resource-based theory is an important model in strategic management, as it identifies the factors that predict an organization's success on the market. Company's success is composed of its joint resources and capabilities, which differentiate it from competitors. This research focuses on change management, organizational resources as well as its crucial attributes of knowledge, skill, know-how, and talent. These resources and capabilities may become a source of competitive advantage (Fossas, 1999).

Applying 3PL services implies shift from traditional in-house operations to open- form services. It includes compression internal logistics activities and transferring them to a external provider. Uncertainties, insecurity, fears and frustration caused by the change, together with long-held practices and routines, may increase employee's unwillingness to

change (Mitra, 2006; Sohal et al., 2002). According to Self et al. (2007), the organizational content and processes as well as organizational context of change influence how employees react to organizational change. Organizational content of change indicates the impact such a change has on employees, and can activate emotional and cognitive resistance. During 3PL transition organizational processes can change as well. Global competitiveness and internal process improvements during 3PL outsourcing can also cause employee resistance. Thus, change management process and practices are important during 3PL adoption. (Etokudoh, 2017)

The next section examines how outsourcing process should be reviewed from a perspective of organizational change. How human resource management is changing so that new practices and politics strengthen company's capabilities and knowledge? How do employees' attitudes change during the outsourcing process? The last section of the literature review discusses these topics.

#### 2.5.1. Employees' Attitude towards Organizational Change

This part of literature review focuses on one potential reason for the organizational change failure, which stems from the lack of arrangement between the value systems of change activity and the members of an organization who have been effected by the change.

Whenever a company makes a decision to transfer responsibilities to external providers or outsource some activity, its concurrently changes organizational boundaries and structure. These changes often require the next wave of reductions in personnel to address the need to maintain cost discipline and retain competitiveness on the market (Cameron, 1994). As discussed above, the core competencies endorse an organization's ability to provide unique value for customers and strategically outsource activities, which do not contribute to organization's performance and profitability. Increasing number of research works have stated that many change project efforts fail because the change leaders often underestimate the essential role an employee plays in the process (Choi, 2011).

In the beginning of 1990s, Hammer and Champy (1993:23) affirmed that "...change has become both pervasive and persistent. It is normality". This view is still supported, for example, by Burnes (2009). In addition, global survey by McKinsey & Company (2008) confirmed that importance of change has increased noticeably and only through constant change an organization has hope to survive.

However, the McKinsey survey has also found that around two-thirds of all change initiatives fail. The reason behind these statistical observation and factors that cause organizational change projects to fail have attracted only limited attention in research world. Some theories focus on shortcomings in either planning or execution of the change process (Burnes and Weekes, 1989; Hoag et al.,2002). Others highlight the lack of competence or commitment during and after the change projects (Kotter, 1996; Caldwell, 2003, 2006). Specifically, Kanter et al. (1992) proposed to follow their 10 commandments for successful change, Pugh (1993) summarized a success formula into four principles of change, while Kotter (1996) put forward his eight-step model. The problem with all of the models above explanations is that they assume that there is only one way to manage change and failure is the result of derivation from that particular way (Burnes, 1996).

Other studies increasingly recognize the limitation of such narrow approach to change management, namely, it's inability to cover the vast variety of change situations (Storey, 1992; Burnes, 2009). As Dunphy and Stace (1993) affirmed:

*"...managers and consultants need a model of change that is essentially a 'situational' or 'contingency' model, one that indicates how to vary change strategies to achieve 'optimum fit' with the changing environment" (Dunphy and Stace, 1993: 905)*

These studies confirm that an agreement between the organization and the content or type of change must be in place before any other steps are undertaken. There is no 'one best' method to implement the change, but rather several theories have to be combined in to one model based on the needs and desires of a particular organization. The model's main focus should be on the creating conditions under which employees support organizational change.

Many research works attempted to identify the indicators of employees' readiness towards organizational change. As a result, they have centered on diverse frameworks that symbolize employees' attitudes towards the change. Choi (2011) distinguishes between the following frameworks corresponding to various degrees of change:

- readiness to change
- commitment to change
- openness to change
- cynicism about organizational change.

These frameworks share many aspects as they all indicate individuals' positive and negative opinions on a specific organizational change initiative. Common organizational framework published by Choi (2011) is applied for clarifying the results found during the research. The frameworks have meanings and emphases, and thus help to analyze the data on employees' evaluation and involvement in organizational change implemented by the case company.

#### 2.5.2. Readiness to change

Few researchers have focused on individual employees' readiness in the context of organizational change. The organizational context has to be considered before the concept individual's readiness for change is ascertained to the organizational settings (Choi & Ruona, 2011). In such changing situations, employees try to adjust to new environment and make own conclusions. They search for information and form own beliefs about the change process (Ford & D'Amelio, 2008).

Correspondingly, employees create assumptions, expectations and impressions regarding the need for organizational change and the way the change will affect them. These assumptions, expectations and impressions create individual's readiness in the context of organizational change. According to Choi (2011), readiness for change in the organizational context includes: *"individual impressions about the organization's capacity to make a successful*

*change, the extent to which the change is needed, and the benefits the organization and its members can gain from the change” (2011: 489).*

Another significant condition for readiness to change involve employees’ evaluation of the organizational support for the change (Holt et al., 2007).

### 2.5.3. Commitment to change

Commitment has been acknowledged as one of the most important aspects in defining employees’ behavior and desirable work outcome (Benkhof, 1997). Benkhof (1997) forms a concept of organizational change, which is well developed in psychology and management literature. Mowday et al. (1979) defined the organizational commitment as “the relative strength of an individual’s linkage to the organization”.

Meyer (2002) states that organizational commitment has been related to such workplace outcomes as turnover intention, employee health and well-being as well as on-the-job behaviors such as attendance, organizational citizenship behavior and performance.

A new model for defining commitment to change has been proposed by Herscovitch and Meyer (2002). They define commitment to change as “a force (mind-set) that binds and individual to a course of action deemed necessary for the successful implementation of a change initiative” (Herscovitch and Meyer, 2002: 475). The authors (Herscovitch and Meyer, 2002) distinguish between three types of commitment to change:

- affective: desire to provide support during first initiatives, positioned on the belief in its essential benefits
- normative: a sense of obligation to give support for the change
- continuance: supporting the change due to recognition of the costs associated with failure to support the change

In the context of this research, commitment to change is a recognizable framework of organizational behavior, where observed behaviors can be distinctly categorized into the

three types of commitment to change. Commitment to change reflects behavioral intentions to support a change initiative and different behavioral consequences associated with different forms of that particular change.

#### 2.5.4. Openness to change

Miller et al. (1994) formed a concept of openness to change as a combination of willingness to support the change, and positive expectations about the potential consequences of change. Wanberg and Banas (2000) argued that Miller et al.'s (1994:135) definition consists of two recognizable factors with different priorities and that "willingness to accommodate and accept change" rather than expected effects has been used to measure such outcomes as job satisfaction. Researchers advise that openness to change can be viewed as a condition for developing employees' readiness for organizational change (Axtell et al., 2002; Wanberg and Banas, 2000).

Concentrating on openness to change, Miller et al. (1994), Wanberg and Banas (2000), and Erturk (2008) researched how the information environment in particular affects employees' attitudes in the conditions of organizational change. Their findings suggest that if employees are well-informed about their role and what is happening within the organization making them feel included in the task and the social information network, they are more likely to be open to change.

#### 2.5.5. Cynicism about Organizational Change

Organizational cynicism is defined as "an evaluative judgement that stems from an individual's employment experiences" (Cole et al., 2006: 463). According to Dean et al. (1998:345) it consists of three aspects: *"a belief that the organization lacks integrity; negative affect toward the organization; tendencies to disparaging and critical behaviors toward the organization that are consistent with these beliefs and affect."*

Organizational cynicism can be manifested as increased belief in unfairness, feelings of distrust and related actions against the organization (Bommer et al., 2005). Moreover, researchers have observed that regardless of the validity of the individual's beliefs, organizational cynicism results in emotional fatigue, burnout, lower organizational commitment and lower intention to demonstrate organizational citizenship behavior (Abraham, 2000; Andersson and Bateman, 1997). According to the social exchange theory's view, organizational cynicism stems from the formulation of expectations, the experience of disappointment to meet those expectations, and subsequent disillusionment (Andersson, 1996). According to Dean et al. (1998:347) if employees see organizations as "generally insincere and duplicitous, then it makes sense that organizational changes will not be expected to be seriously undertaken and, therefore, will be expected to fail".

Organizational cynicism has been studied in a variety of ways, starting from general cynicism to cynicism associated with specific occupations, organizations or leaders (Dean et.al., 1998; Wanous et.al, 2004). In this study it is important to comprehend, while persons in the same unit may demonstrate similar attitudes, the attitudes across departments and organizational levels can differ significantly. Four frameworks of interest are similar due to the fact that they reflect overall positive or negative judgment of a specific change initiative. On the other hand, the four frameworks have distinctive meanings and focus areas. (Dean et al., 1998). Commitment to change, in particular, leads to support for the change grounded in belief in further benefits (affective commitment to change). If a person has faith in inherent benefits of a specific change initiative – he/ she may become committed to the change. However, the person can be also cynical about the change initiative due to the lack of motivation or trust in the overall feasibility of the change initiative incompetent. As the differences demonstrate, the four frameworks show different sceneries for employees' response to organizational change. Due to that, the frameworks specify different implications for research and practice.

## 2.6. Literature Review Summary

The critical literature review revealed that the core competence approach and its relationship with outsourcing have been developed from the resource-based view of the firm. Company's core competences are important to research as they reflect the potential competitive advantage. Obtaining, creating and developing certain capabilities is important to the core competence approach as it helps to decide which activities should be kept within the firm and which should be outsourced to another company or supplier (McIvor, 2005). Current research seeks to test theory above by evaluating the reasons and main factors affecting organizational change and outsourcing process as a whole proposed by the decision-making group and transferred employees.

Regardless of vast amount of research works and studies on the current topic, a substantial gap remains between making a decision, planning the outsourcing activities and practical implementation of changes. Until nowadays numerous organizational change projects fail due to unplanned, not open, insecure working environment. New initiatives such as downsizing and transfers generate internal anxiety and the feeling of uncertainty among employees, due to organizational and staff issues that were overlooked. Therefore, this research specifically examines organizational change as a process as well as employees' attitude towards organizational change. In the Findings and Discussion section, the researcher presents several proposals on key factors that a company should consider in order for organizational change to be successful and noticeably beneficial for both parties involved in the process.

### 3. RESEARCH METHODOLOGY

The section of this thesis describes research methods that have been utilized during the study process. This chapter starts with an introduction to the research strategy that was chosen in accordance with the research question provided in the previous chapter. The description of the data collection method is followed by the discussion of the data analysis process with the emphasis on validity and reliability of this research.

#### 3.1. Research Approach

Research philosophy determines the methods the researcher chooses to apply in this qualitative study into organizational change. Research philosophy is a concept of beliefs and expectations about the development of knowledge in a particular field (Saunders, Lewis & Thornhill 2016: 124). As Cunliffe (2010) states:

*“Our metatheoretical assumptions have very practical consequences for the way we do research in terms of our topic, focus of study, what we see as “data”, how we collect and analyze the data, how we theorize, and how we write up our research accounts.” (Cunliffe, A.L., 2010:48).*

Therefore, methodology consists of both philosophical assumptions and the methods, used to prove them. Naturally, each research philosophy and paradigm offers a unique and beneficial contribution to business and to the research world, showing contrasting and unconventional perspectives on organizational matters (Morgan, 1986).

##### 3.1.1. Research Strategy

Current research utilizes the “abduction” method, which is a combination of two other methods: deductive and inductive.

On one hand, this research employs the inductive method to collect the data in order to explore the phenomenon. In inductive part of the study, the researcher seeks to establish the link between how the decision to outsource the service has been made and how the information has been delivered to the employees.

Opposite to the inductive method, deductive approach is developed from theory into the research strategy to test the theory (Saunders, 2016). Since only limited theory and research is devoted to the topic of employees' attitude towards organizational change associated with strategic outsourcing, this research will propose theories that can be verified in later research projects. Limited resources and material availability on this topic make current research more challenging.

Saunders (2006: 710) defines abductive method as “approach to theory development involving the collection of data to explore a phenomenon, identify themes and explain patterns, to generate a new – or modify an existing – theory which is subsequently tested”.

Abductive approach is based on data collection, which investigates the phenomenon and analyzes the research topics. Through additional data collection, the researcher may establish a new theory or modify the existing one. Abduction starts from simple observation of some ‘extraordinary fact’, which may occur at any stage during the research process. (Van Maanen et al., 2007). The researcher then presents the theory that provides the best explanation for the ‘extraordinary fact’ identified at the beginning of the research process.

However, to involve the analytical RBV as a guiding framework to investigate the relationship between resources and capabilities in organizational change, the deductive approach is used. The data on employees' attitudes was collected through semi-structured interviews.

### 3.1.2. Criteria for the choice of participants.

The participants were selected based on the aim to achieve representation of every major role in logistics outsourcing process linked to the research problem:

- i. The logistics managers and procurement managers of the case company were relevant for network issues and change management.
- ii. The executives and directors were relevant for providing insights into the issues with client interface and relationship management
- iii. The holders of 3PL contracts in the case company were relevant because of their knowledge of companies' capabilities to manage the 3PL contract.
- iv. Employees transferred to 3PL were key to understand the progress of outsourcing process and internal organizational challenges.

### 3.2. Research Method

Outsourcing and human resource culture are complicate fields, which could lead into emotional “taboo” topics. Therefore the current research would apply a method of individual interviews instead of group interviews to prevent bias in the answers to interview question. The list of themes and key questions can be found in the Appendix section of this paper. Certain questions can be excluded in particular interviews depending on the organizational context. The order of questions may also vary depending on the flow of the conversation (Saunders, 2016).

Each interview was conducted on a one-to-one basis in a closed environment. The researcher asked interviewees for permission to voice record to ensure accurate transcribing after the interview. All the interviewees were guaranteed anonymity in the research study. In order to avoid possible source of bias, the researcher did not interrupt the interviewees.

Semi-structured interviews were conducted with the managers in the decision-making group and employees being transferred to the third-party provider. Interviews included discussions with deeper meaning; therefore, it is considered to be a qualitative research. To prepare the questions and interpret the findings, the researcher was required to apply prior knowledge in such areas as strategic outsourcing, supply network, human resource management as well as the organizational and situational context in the outsourcing process.

Current research is based on an in-depth case study of an international company established in Finland. To the author's best knowledge, no explicit research has been previously conducted on the topic of outsourcing and human resource management in the subject company, therefore there is a clear need for an exploratory, in-depth case study.

According to Yin (2009):

*“A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. (Yin, 2009:18)”*

Dubois and Gadde (2002: 554) agree that, *‘the interaction between a phenomenon and its context is best understood through in-depth case studies’*. In-depth research can help to recognize the nature and reasons of an organizational phenomenon, assist in acceptance of the situation and suggest a course of action. In order to archive such awareness, case study allures qualitative research method to fully understand the dynamics of the case. (Saunders, 2016)

One reason for studying phenomenon with the help of case study is to ensure its competence to demonstrate complex and difficult-to-grasp business issues in a reachable, intense, individual and down-to-earth format (Eriksson & Kovalainen, 2008).

There is essential difference between intensive and extensive case studies (Stoecker, 1991). Current research will be an intensive case study as it seeks to collect as much information on one organization as possible, rather than combine data from multiply cases.

A common challenge for this case study research will to incorporate the theories into the data collected, especially when the research topic is still in its beginning stage. The researcher attempts to identify the most appealing research question, as well as to comprehend and summarize the results. The research process has been well described by Eriksson & Kovalainen (2008) as a dialogue of theory and empirical data collected.

The results of this research is expected to have universal application for the companies, that have decided to outsource own activities to the third party. The aim of this research is also to expand the study field of outsourcing process and its impact on employees being transferred to the future third-party provider.

### 3.3. Data Collection

As introduced earlier, this study has been carried out as primary research within the borders of a large manufacturing company (“the case company”) that has gone through an outsourcing process of their warehouse and logistics activities to a third party provider. The case company arranged an applicable research settings helping to analyze all facts associated with the phenomenon of interest.

The research starts by recognizing a challenging organizational situation has been observed in the case company when the warehouse and logistics activities had been outsourced to an external provider starting from 1<sup>st</sup> of January 2017. The case company has made it clear that no staff cuts would be implemented, unless employee leaves their job voluntarily. All employees were encouraged to stay to ensure that knowledge and skills would be transferred and conserved with the external service provider. The setting determines an opportunity to research how outsourcing process has been implemented, how local employees perceive organizational change and the obstacles can be encountered. Furthermore, the researcher expected to determine the kind of managerial actions may contribute to successful employee’s transfer. In particular, the paper seeks to analyze managerial actions aimed at reducing the negative attitudes of employees towards outsourcing in terms of their effectiveness.

The research questions were formulated by analyzing current literature and considering the case company study context focusing on the aspects that have potential contribution value. Nonetheless as it was a semi-structured interview, the researcher followed interview questions only as a guide. Due to interviewees’ lack of English language skills and ensure reliability and fullness of collected information, the interviews were conducted in the

employees' native languages, Finnish and Swedish. The complete semi-structured interview questions in English can be found from the appendix.

As stated earlier, data was collected through interviews with the case company decision-making group and employees transferred to external service provider. No specific selection criteria were applied apart from interviewee belonging to decision-making group during the organizational change or being one of the employees that have been transferred.

Informal info-session has been held for all transferred employees including a presentation on the research in the organization. Afterwards, senior employees have gathered a participants list, revealing that not all employees were willing to be interviewed. From 11 employees being transferred, only 6 expressed the desire to take part in data collection. Others were either on holidays, sick leave or simply did not want to participate in the current research.

Formal e-mail has been sent to all parties that have been involved in decision-making group asking for their input to data collection. Everyone was willing to take part in study, except for one person who was absent during that time.

All in all, 11 interviews were conducted during the period between June 06<sup>th</sup> and June 19<sup>th</sup> 2017 with each interview lasting 30 to 55 minutes. After the 3<sup>rd</sup> interview with a representative of the decision-making group and 4<sup>th</sup> interview with transferred employees, the congestion point of the research has been identified when further interviews would offer little new data.

Gathered interviews were non-standardized one-to-one interviews, where the questions were adapted to interviewees and their responses. The order of questions varied insignificantly based on the flow of the conversation. Semi-structured interviews allow the researcher to adapt to the situation and discard some questions or ask additional questions in order to examine and find the answers to research question.

Before starting an interview the researcher created warm atmosphere with the help of informal small talk, which assist the interviewee to become relaxed and open in sharing their opinions. Furthermore, an opening interview information statement was presented in order to set the tone of the interview as well as help the interviewee to keep an attitude towards the

research topic. Interviewees were informed about anonymous and conspiracy of the study and have been asked for permission to record the conversations.

The data was collected by transcribing audio-recordings and written notes used more whenever it was possible. However, one on one occasion, the researcher has observed that one of the transferred employees was more restrained, when notes were being taken. Therefore, the pen and notebook were set aside and eye contact was established during all interviews with the transferred employees. At this point the discussion will proceed to the data analysis process.

### 3.4. Data Analysis and background of the case company

In order to gain the whole complexity of making the decision to outsource a warehouse to an external provider and examine employees' attitude prior to and during the process, the researcher needs to deepen the process analysis. Therefore, specific analytical tools that support the research process are required.

The analytic scheme, presented in Figure 2 (Hallinen, 2013) is employed in current research in order to investigate the empirical part of the study and to reveal the dynamics associated with outsourcing process. According to Hallinen (2013: 6) "the scheme comprises three elements that assist the researcher in understanding of a process: influence factors, critical events, and the resulting changes."



**Figure 2.** An analytical scheme for process analysis. (Adopted from Hallinen, 2013)

Events are the key elements of the process, hence it is logical to investigate why particular events occurred, how they are connected and what changes they generate. Therefore, all three elements – influence factors, critical events and changes - were combined into analytical framework by Hallinen to discover how the process develops. (Hallinen, 2013)

As a matter of fact, theories combine different types of elements in order to explain the phenomenon, such as “critical events and turning points, contextual influences, formative patterns” that can provide a good view of the change as well as factors that influence the descent of events (Hallinen, 2013:6).

*“Identifying influencing forces and factors that lay behind the events is an attempt to understand the underlying dynamics inherent in the multilayered network structure.”*  
(Hallinen, 2013:6)

In this research, the analytical scheme helps to present to the reader the history of the case company which have led to current outsourcing process.

The case is a multinational company offering leading technologies and complete lifecycle solutions for different markets. According to company’s 2016 annual report, net sales totaled EUR 4.8 billion with approximate 18,000 employees all around the world. The company operates in over 200 locations in more than 70 countries around the world. (Company Annual Report 2016) For the past decades few warehouses were established almost on every continent. The biggest European warehouse is situated in Netherlands. It serves as a Central Distribution Center (CDC), which supplies with spare parts to many locations all around the world. Small warehouses were transferred under central distribution center from other European countries in 2011-2012, including the Vaasa warehouse, leaving just some small operations in the house. From the beginning, CDC has been outsourced to an external provider to manage the warehouse and transportation. In 2014 distribution center was outsourced to another global logistics provider. From 1<sup>st</sup> of January 2017 warehouse with small operations in Vaasa has been outsourced to the same logistics provider.

The short description above reveals the influence factors that have led to the critical event and changes afterwards. A closer look at the outsourcing process in 2017, shows that the influence factor to the critical event (outsourcing itself) was establishing the CDC center and transforming it to the third party logistics provider. Changes concern employees being transferred to the logistics provider as well as alteration of whole storage and transportation process.

The whole process of outsourcing has lasted for more than 5 months. At the time of cooperation negotiations in June 2016 warehouse employees were informed that they would be transferred to another unit. No information was released regarding the transmission and the unit that they would become a part of. At the end of November it was officially announced that warehouse employees will be outsourced to the external logistics provider.

### 3.5. Description of the data collected

As it was mentioned earlier, overall 11 interviews were conducted during the data collection process. All interviews took place in the case company premises in different meeting rooms.

Ten participants were male and one female. The interviewees were at the different stage of their work carrier, with their work experience ranging from less than 10 years to having a few years left before retirement.

Table 1 describes the data has been collected during the interviews.

**Table 1.** Description of the data

Amount of interviews	11 interviews
Duration of interviews	30-55 minutes
Gender	10 male and 1 female

Duration of employment at the case company	3 between 5 and 15 years 8 more than 15 years
Position at the case company	2 Directors  1 General Manager  2 Senior Managers  2 Senior warehouse employees  4 warehouse employees

### 3.6. Reliability and Validity

Contrary to quantitative research, qualitative research often faces challenges in ensuring reliability and validity of findings, as their role in qualitative research is contested (Saunders, 2016).

Reliability implies that another researcher would receive the same findings if they repeat current study. Reliability attributes to replication and flexibility. According to Maylor and Blackmon (2005), most ethnographers try to convince the audience, that principles of quality evaluation of qualitative research should not be the same as for quantitative study. The aim of the scientific study is statistical and generalizable results, the aim for qualitative research is valuable and transferable results (o'Leary 2004:7).

As Maylor and Blackmon (2005), most ethnographers disagree with the notion that researchers should be objective and even question whether objectivity is a desirable quality in research. Instead, researchers should recognize that all human beings are subjective, but that subjectivity can be managed in social research (Maylor & Blackmon 2005). Two suggested ways of managing subjectivity by Maylor and Blackmon (2005) are *neutrality*, developing strategies to avoid unrecognized subjectivity that might cause in the research findings, and *transparency*, acknowledging subjectivity.

To achieve reliability of the research the data was collected through semi-structured interviews. It was assured that all the instructions were followed accurately and all the questions were asked consistently by the interviewer. Meaning of the questions was also clarified when necessary. All interviews were digitally recorded and transcribed afterwards. By that, the researcher was able to keep records on data collection and all that was said by informer would be taken into consideration at the time of analyzing the findings.

*Validity* pertains to how accurately current research was conducted (Maylor & Blackmon 2005). Validity depends on the extent the conclusions drawn in research give an accurate description or explanation of what has happened (Eriksson & Kovalainen 2008). Essentially, the research findings are valid when they are true and certain (Schwandt 2001; as cited in Eriksson & Kovalainen 2008). This requires that findings are accurately described and supported with evidence (Eriksson & Kovalainen 2008).

In the context of this research, theoretical generalization was accomplished with the help of in-depth qualitative confirmation. Ritchie & Lewis (2003: 73) declared that generalizations in qualitative research should be seen as working propositions, or extrapolations on the applicability of the findings under similar but not identical conditions“. The main goal of current data analysis is to generalize the findings on the main decision-making factors and drivers of successful outsourcing process as well as the experience and perceptions of transferred employees in the context of the developed theoretical framework. The findings, explanations and conclusions were used to compose the relevant questions.

## 4. FINDINGS

This part of the thesis will present the empirical results of the conducted research based on the conceptual framework presented by Grant (1991) where resources and capabilities are closely examined to determine their impact on outsourcing process. As it was discussed in chapter 2, the framework consist of five main aspects:

- identifying and classifying the firm's resources
- identifying the firm's capability
- appraising the potential of resources and capabilities
- selecting a strategy
- identifying resource gaps

Collected data was divided into two main sections. The first section presents the replies of the decision-making group's opinions and attitudes towards the outsourcing process with additional comments from employees being transferred. The second section discusses employees' feedback on organizational change during the outsourcing process. In order to demonstrate interviewees viewpoints and provide supporting evidence for the presented topics – direct quotes from the interview will be used. Names and position of the interviewees are not disposed to grant the anonymity due to the sensitivity of the subject.

### 4.1. Outsourcing as organizational strategy

The following section presents the resources and capabilities view of outsourcing strategy in accordance with exploration of leading decision-making factors and drives that have been used at the time of organizational change. Citations are taken from decision-making group interviews as well as employees being transferred. The major themes that were discussed are core competencies, change management, decision factor, development and innovations.

#### 4.1.1. Focusing on core activities

In order to be able to win new customers and increase the revenue from existing ones, a company should adjust its focus on the core business activities. One of the way to achieve that goal is by outsourcing non-core activities to the third party provider to improve management of operational and technical risks. The company should invest in specific activities that develop core activities and outsource the rest. As Quinn and Hilmer (1994) have specified earlier, core competencies should be closely associated with the needs and desires of the customer. The same opinion is shared by one of the interviewees.

*“Decision factor was, of course, that we looked from the customer point of view. I mean, how we can serve the customer better that was the number one and number two and number three. And after (that) we have been looking in to it. ... The thing is you always need to ask yourself, is that a thing that you should do or somebody else? External provider usually knows what is really happening: they have the last gadgets, the newest information, (things that) we are not able to handle by ourselves, they are looking at the whole picture and it’s ok. By outsourcing the operations and by centralizing the operations under one organization, we have managed to gain this expertise. When you have one organization, you are able to work in one way. You outsource part of your business, not your core business.” (Decision-making group)*

Decision-making group agrees that decision to outsource is expected to help the company to maintain its capabilities and provide a flexible platform for future innovations. According to Kakabadse (2000), outsourcing can provide companies with greater capacity for flexibility, particularly in the purchase of rapidly developing new technologies, due to the fact that small specialized suppliers usually have greater responsiveness through new technologies. Outsourcing can also decrease the process design cycle time, which can be among another reasons for shifting warehouse services to a third party provider.

*“Development of the warehouse is one important aspect. We are, as I said, expecting them to have focus and really bring it forward. Another aspect of it is flexibility, cost*

*wise it should be also more reasonable in a bit longer run, but it is mostly flexibility that we can support in the best way.” (Decision-making group)*

*“(Third party provider) has core competences on the logistic side. We were thinking that by outsourcing that function we will get logistics services to the next level in (warehouse), which was the primary goal. Obviously, of course it’s also the flexibility, when our volumes are changing they have a broader network, they are able to utilize people in other areas than the (case company) when volume is going down and, basically, when we are picking and they have some businesses that are not going that strong, then they are able to take this kind of persons, that used to work with the logistics side. To lift the logistics to the next level and get this kind of global partner who is able to support.” (Decision-making group)*

The collected data suggests that the external provider contributes to working force and invests in development and innovations. They have been efficiently testing drones and plan to implement robotics into warehousing system.

*“We have today all kind of information that we are calling digitalization. That is usage of data, being smart, trying to predict things. They (external provider) have tried robotics and robots and drones – they are on time with the things” (Decision-making group)*

Employees that have been transferred to the external provider have also mentioned innovativeness and modernity of the outsourcing company as one of the main factors in the organizational change decision.

*“The reason why our warehouse was outsourced to the external provider might be that they wanted to bring development in it, get it to another level. I guess, the beef is still coming” (Transferred employee)*

*“External provider has been chosen because they are providing the service the case company was looking for” (Transferred employee)*

Certainly, innovativeness and development were seen as one of the main factors in the decision-making process by both groups. A number of organizations switch their mind-set

from focusing on cost reduction to approaching talents and skills that are not available in the house, which can bring development and improvements to regular logistics services.

Even though the answers were almost exceptional, most employees have admitted the following reasons for outsourcing:

- reduce amount of employees
- saving costs
- dispose of warehouse services and maintenance

During the interviews it was evident that warehouse employee's lack of understanding of the reasons for the outsourcing process has taken place and future perspective of having it. Their answers started from such words as: "I'm not sure...", "May be the reason was...", "I would say, that..." The lack of skilled communication between the decision-making group and the employees transferred was evident from the first minutes of interviews with the warehouse workers. More elaboration on that topic will be presented in other chapter.

#### 4.1.2. Business unit competitive strategy

In order to develop an organizational strategy aimed for achieving future business revenues, a strategic business unit should become a compelling organization segment. Rest of business units are combined into one strategic business unit in order to develop a unified, cooperative vision and mission of the company. It is essential for a company to ensure that outsourcing decision is consistent with the business unit's competitive and organizational strategy.

*"In every strategy there are always different steps, such us development and we are always checking that we are going into right direction and then we have different means of how to get there, we assure that we are able to get the benefits. That came already from the strategy that we are all the time searching for different kinds of possibilities to improve our ways of working. We have considered capabilities and different kinds of technologies and tools that can be used also in future. I think that we are pretty efficient as a logistic function already at the moment but then now we*

*get additional factors that are able to boost the development.” (Decision-making group)*

More specifically, every company is going through the process of establishing their mission, vision and individual strategy for reaching the goals. Generally this journey has a destination point and directions or mapping the strategy to be aligned together.

*“We have of course (the case company’s unit) strategy where we look at certain aspects, which fit better to the customer. We have upper –management team, where we wanted to have a broad selection. Around one year ago we had sessions where we were looking and mapping out our part until 2020. We have a long-term plan of how and where we want to go and then we had this as a first step. We have a long-term program and this project was a first step in this program. We make sure that it fits a long-term program.” (Transferred employee)*

The strategy can be obvious, well-known to senior management and while remaining incomprehensible, distant to workers. The reason for that is either the absence of the link between the strategy and every-day activities, leading to the overall result, or the strategy which is a company’s secret in order to avoid any leaks to competitors.

*“From my point of view, all this could have been done totally differently: they could have kept the resources under own wing, to have it under own control. The skills will disappear soon as people are searching for other jobs. It depends on what they have as a goal for outsourcing: did they want just to reduce people from own premises or do they see it as potential for growing?” (Transferred employee)*

Harvard Business Review (2012) has analyzed more than 60,000 confidential responses of an employee-satisfaction survey carried by a global corporation that has more than 300 operating companies. The result was that employees, who are satisfied with their compensation paid, the work-life balance and have overall positive perception of their employment conditions are more likely to understand and accept the company strategy. This observation is supported by the findings of the current research. Transferred employees were not satisfied with the outsourcing process, they did not want to change the company.

Unfortunately, they were not given any other chances than to be transferred or resign from work activities. It has been seen as a very negatively change, which lead to a drop in morale and motivation.

*“Unfortunately, they didn’t give any options to the personnel during that long period of waiting. It was only an option to transfer to the external provider or to leave. They didn’t allow for a move to any other department of the case company, even though such possibility was available. It was prohibited by top management. The whole process went very bad.”(Transferred employee)*

*“Surely, the whole process influences my motivation at work. I have worked with the case company for many years and now, when I do the same job, but for a different employer with less bonus, that is definitely affecting me.”(Transferred employee)*

*“I don’t have any positive picture of the outsourcing process.” (Transferred employee)*

Next chapter provides a more thorough explanation of the reasons behind employees’ negative feelings.

#### 4.1.3. Identification of outsourcing gaps

Needless to say, managing the project successfully is a heavy task, especially when there is no full control and visibility of all moving parts, starting from manufactured details to change management. Nevertheless, the project has to be carried on with as little risk as possible. The following quotation from the decision-making group interviews give a hint of how to carry on a successful project.

*“Be open-minded and have data for back-up. You don’t do outsourcing decision on feelings, you really need to have data, do it on data, and you need to have facts behind. Make a decision on a lot of facts and understand that you will have some issues to deal with, some worse than others but you will always have something. And then you also need to have an old-fashioned thinking outside the box: can we do it in*

*a different way? Then you also need to have a change management part looking at how will we communicate it to the people?” (Decision-making group)*

Another interviewer has directly said that they did not succeed with the change management side.

*“We have not been good enough with change management. You can always do this and that better but change management started to be more and more important. People need to know why we are doing it. They have a feeling that it is a cost cutting, but it is very seldom when it’s a cost-cutting. You need to pay more in order to get the latest information. That time when we have started it was difficult to take all into consideration” (Decision-making group)*

Absence of communication or communicating not clearly enough may be the key problem in the outsourcing process. Communication is a vital aspect at the time of organizational change, but what to communicate, when and how –is out of the scope of this research.

*“It’s a continuous balance of how early you can involve the employees. Then of course when you communicate something, it opens up kind of uncertainty period, so I think optimizing that uncertainty period is one of the thing that I would definitely do differently.” (Decision-making group)*

Interviewees from the decision-making group perceived that it was difficult to work with the chosen Project Manager as he was located in another country and mostly busy with other projects. Even though, every company has its own definition of best practices, there are basic skills that a project manager should possess, such as strategic leadership, communication and organizational skills as well as problem-resolution and conflict-solving ability.

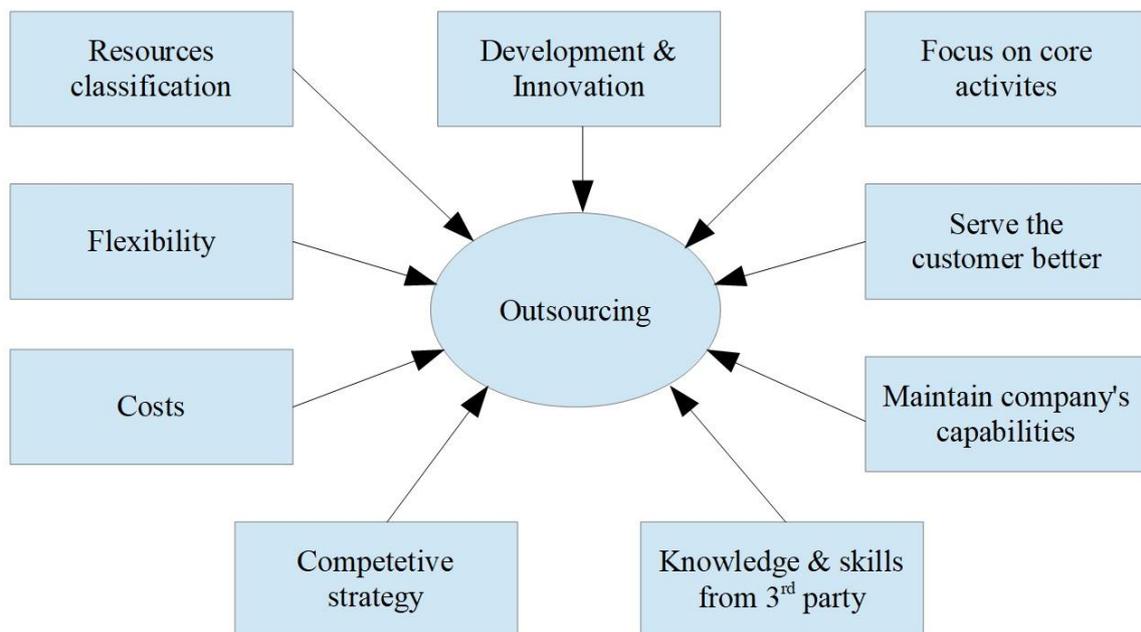
*“I would select a Project Manager differently (he was located in the Netherlands at that time) The project went really well, we had a trustful relations and if I want to meet someone from the decision-making group I just drive to another side of the city, but if I want to meet him in person then I need to fly to the Netherlands and he was busy with other projects as well, so was not available all the time. As to the end result, I do not see it has been affected that much because another manager was there. That*

*other manager is very professional and easy to deal with and easy to cooperate. He was excellent for this project.” (Decision-making group)*

This chapter shortly presented perceptions, opinions and reactions of the decision-making group members. Organizational change is not an easy process, where all the aspects need to be taken under control and precise consideration, giving direct attention to company’s resources and capabilities. Core competencies are the ones the case company wants to focus further on, meanwhile giving a possibility to external logistics provider with the task of handling the transportation side skillfully and efficiently.

#### 4.1.4. Summary

This chapter presents the main factors that are required for successful outsourcing from decision-making interviewee’s perspective. These factors have been mentioned few times in the data collection section.



**Figure 3.** Decision- making factors of outsourcing process.

In order to carry out a successful outsourcing process few factors should be taken into account. All activities, where the company lacks crucial resources or capabilities internally, can be contracted out. The few resources then can be utilized to expand the core activities. Focusing on the core activity will lead to a successful customer performance at the case company. Competitive strategy is affirmed by new development and innovation of the external provider as it obtains all needed knowledge and skills by bringing them to the house. Flexibility benefits and costs are expected to be more evident in the long run. All these factors positively affect the strategic alignment with the third party provider as well as enable the case company to own resources and capabilities more efficiently.

#### 4.2. Employee's perspective

In this section the researcher presents findings from interviews with employees that have been transferred to the external provider.

All interviews flowed in the same stream with common answers and similar emotional perceptions. The researcher has divided employees' interview questions into three main categories that were constantly repeated: length of the process, communication and negotiation management, project transition.

##### 4.2.1. The change itself

From the beginning of data collection it became clear that the whole outsourcing process was a challenging situation for employees transferred, with emotions and feelings of misunderstanding, uncertainty, insecurity involved.

Employees have experienced the overall change process as rather challenging due to certain reasons. First of all, employees were kept in unawareness of the change progress. Secondly, they had difficulties understanding the motives behind the organizational change as they thought that the working and controlling process worked well before and did not require changes.

*“The process has went very badly. I did not expect (the case company) will use their employees for good, for example. I still have not received compensation for travel cost. Maybe they should have explained more, why they do it? Why outsourcing is needed? Some paper has been brought stating that the personnel is under resignation threat. I think this is not how you handle human resources, employees.” (Transferred employee)*

Transferred employees thought that the case company wanted to make an easy, quick decision in order to reduce the number of employees in own books, even though there is steadily high workload and continuous need for employees.

*“They needed to do something with the warehouse and do it in an easy way. Outsourcing is easy, you do not need to take care of employees anymore even though work still continues.”(Transferred employee)*

*“I would say (the case company) wanted to reduce people from own premises, maybe that brings flexibility to them. Easier to supervise than own personnel. They did not outsource us because it went bad for a company, they said, we have always worked and are working hard. I think, they just needed to reduce personnel.” (Transferred employee)*

One of the perceptions clearly indicated by employees is that the outsourcing has not been a cost-saving measure. They assume that it is more expensive to let an external provider to manage the warehouse and employees than handling it in the house.

*“I don’t think they are saving anything by keeping external provider and pay them. I don’t understand, why they wanted to outsource us, we could have easily work under that other unit, as we have been always used to do. Maybe after one year it will be clearer why they did it, but if it continues as it is now, then I do not see any point in outsourcing.” (Transferred employee)*

From the presented data it can be generalized that employees have suffered from lack of knowledge about the process. Lack of communication and organization of basic moments

have been also mentioned. The following basic questions have arisen: who is the employer at the moment and will the employee have a work place next month?

#### 4.2.2. Employees' Perceptions during the process

Employees perceived the process as a long-lasting period of uncertainty and insecurity. At the time of transition, employees were offered two options: to wait until some news will be announced or quit the job.

*“Unfortunately, they didn’t give any options to the personnel during that long period of waiting. It was only option of transferring to external provider or leaving. They didn’t allow to move to any other department of the case company, even though such possibility was available. It was prohibited by the higher management. The whole process went very badly. First they gave the info that we will be transferred to another unit. But then it became clear that another unit will go for outsourcing. It was managed very badly, poor information. If I knew how it goes, I would have made another decision.” (Transferred employee)*

Some of the interviewees wanted to change the department and get a place from another unit during the outsourcing project, but such possibility has not been granted.

*“From my side, I feel very bad that they didn’t give us any other options than to quit the job. I would like to transfer to another department under the case company and they were willing to take me, but top management has forbidden that. They wanted the outsourcing process to go well and keep the skills in the warehouse. Of course, I also understand that if one leaves to another department then others will want to go. That would lead to chaos.” (Transferred employee)*

Cooperation negotiation advantages, such as monetary compensation those who resign without waiting period, help in starting own business, early retirement were not offered to the warehouse employees.

*“...if the person wanted to leave, there was no extra compensation as it was given to those who fell under cooperation negotiation, that was announced at the same time.*

*They said if we wanted to quit, we should have quit earlier, before anything was announced. By that they wanted to save the skills and knowledge in this department.”*  
(Transferred employee)

Employees have felt that they were deprived of all benefits that other employees had access to at the same time. No clear explanation on why certain employees had fallen under the outsourcing process and had no possibility to benefit from the advantages, given to other employees was presented by the top management.

*“They should have given more possibilities to change the work place during that long process of uncertainty. For example, here is a person who would want to go for pension and use the pension package that was provided to 90% of others, who fall under cooperation negotiation, but he was not allowed to do that.”* (Transferred employee)

The lack of possibilities to change the work place created dissatisfaction and unwillingness to understand the change as a whole, even though few interviewees had expressed positive thoughts about just having a job.

*“On the other hand, surely, it is a positive thing that work continues, but still possibilities to change the work place should have been given more. Most likely, not everyone would even go for it but at least those who want would have a chance. Strangely, the case company didn’t want to keep good employees under their own wing. They just wanted to get rid of everything.”* (Transferred employee)

The main influence factor emphasized by all interviewees is that outsourcing organizational change was announced in economically difficult time the case company was going through.

Cooperation negotiations always require a well- structured plan of the change and effective internal/ external communication. Some employees clearly understand the required changes, others express their concerns and doubts by posing questions and searching the gaps in the implementation plan and process. Therefore, qualified people that can advise during the process is a key to manage organizational change and reduce the feelings of uncertainty and prevent rumors.

#### 4.2.3. Time management in outsourcing process

Project should be well planned and organized, taking into account such areas as time, knowledge, personnel and financial management. Often duration of the project time is not correctly estimated, which leads to uncertainty and mistrust from the side involved in transition.

All employees that have been interviewed (4 warehouse employees and 2 team leaders) complained about the length of the process. Employees found the situation to be challenging as their future was uncertain for a period of 5 months.

*“The process was too long! In June they have announced that we do not belong to the unit anymore and ombudsman said that most likely (other unit) will take us. At the same time cooperation negotiation has been started at the (unit). We kept our summer holidays and came back to work (August-September) and still no news regarding who will be our employer. We were waiting for the announcement that (another unit) takes us, but it never came... time goes and no news at all. Then we started to think that most likely we will be outsourced to another company. Still, we did not want to believe it.” (Transferred employee)*

Interviewees have felt lack of leadership and poor management overall during the process. Some of them perceived the delay as an indicator that management was not ready and able to make the decision about the outsourcing.

*“The process has lasted too long, we were 5 months up in the air, didn’t know what is going to happen to us. So we were in that uncertainty period for too long. If they announce in June that we do not belong to that unit any more, then in August we should have had news regarding our positions. They should have prepared everything already then, before even announcing it. And we all have families, kids, plans to build or renovate the house and you cannot decide about anything when you don’t even know, if you will have a job next month.” (Transferred employee)*

Long-awaited information arrived just one month before the actual transition. By that time employees felt misled and betrayed that was the beginning of survival syndrome which will be discussed more closely in next chapter.

*“They have informed us 1 month before the transition, at the last day when it was possible to reveal the information. Uncertainty was the hardest thing in the whole process: never knowing what happens next, no possibilities to change the work were provided, just waiting.” (Transferred employee)*

#### 4.2.4. Communication management in outsourcing process

The internal communication strategy during the process was named as one of few challenges transferred employees have faced. Not even “open communication” has been mentioned that often, even though the following replica came up, but quality of communication:

*“They make us believe that we will be transferred to another unit, but that transfer never happened, we have been outsourced instead. They have promised to have an open communication but it was not there.” (Transferred employee)*

Continuously postponing the release of official information has led to guessing and rumors.

*“We have started to guess ourselves that we are going to be outsourced as no information has appeared at any stage.” (Transferred employee)*

Some information steps of the process came via warehouse information board, not personally or in a meeting.

*“They have brought a paper and put it on the information board, stating that personnel is under a threat of layoff. I think, this is not how you handle human resources. They have needed to do something with the warehouse and do it in an easy way. Outsourcing is easy, you do not need to take care of employees anymore and work continues.” (Transferred employee)*

Visitors of the warehouse were not presented to employees, they did not know what is going on and who the people who check their facilities are. Employees had an impression that the

decision about organizational change was made some time before, but for some reason, management needed to delay announcement to employees and definitive actions for several months.

*“In the warehouse we saw how external people were going around and checking things, but no one has said anything to us, so we thought that they just want to see the costs and how it works here. Most likely, they have already decided then in June, that we will be outsourced and we tried to ask them, but they were just saying: “No, we cannot say anything yet.” (Transferred employee)*

Employees were highly disappointed about the quality of communication as they have perceived, that provided by decision-making group information, did not take place in their working lives future.

*“They said, nothing will change but, obviously, we are missing the yearly bonus” (Transferred employee)*

Employees thought that they would retain all benefits and profits of the case company as the decision-making group repeatedly mentioned to them that nothing would change. However, it is rather obvious that transition to another employer does not necessary trigger benefits and profits of the previous employer.

*“And then they were saying that all the conditions and advantages would be preserved, but actually it didn't happen exactly that way: the salary was kept, but then if we think that case company has paid bonus yearly to their employees, we are not going to receive it anymore. One employee just celebrate 30 years in the house and the case company gives additional monthly salary, the external provider gives a present of 200,00 euro value. So, at its best, you can lose 2 additional monthly salaries. In my opinion, it doesn't indicate that all the conditions and advantages have been saved. If they would say it directly, that those advantages are being taken away from you - then it would be ok, but they speak nice speeches, which never took place.” (Transferred employee)*

Poor communication has been seen at the final stage as well. The result of the process has been delivered to employees by employees of another unit, not by the members of the decision-making group or shop stewards.

*“When they announced regarding outsourcing to the external provider, employees from another unit has called and informed us about that. So, first we have heard it from them. Even the shop steward hasn’t informed it to us first.” (Transferred employee)*

The main conclusion that can be derived from the collected data is that communication aspect of the project has not been successfully organized and implemented. This led to uncertainty, insecurity and lose of trust by employees towards the old employer. For example, rumors cannot be avoided but they can be controlled by communicating possible known outcomes early in the planning stage.

#### 4.2.5. Summary

This section will focus on summary of employees’ perceptions and feeling during the process. Collected data can be divided into preliminary phase and transition phase. In the preliminary phase the researcher refers to findings starting from announcement of unit transition in June 2016 and up to the day when it was informed that the unit will be outsourced to the external logistics provider. By the transition phase the researcher provides findings, starting from announcement that the unit will be outsourced to 3PL until outsourcing day and the day when data for this research was collected. Aspects of preliminary and transition phases were collected and presented in Table 2 below.

The external logistics provider as well as the case company are expected to benefit mostly from the information on the transition phase.

Both phases have been divided into the following blocks:

- information (at the beginning and during the process)
- support (at the beginning and during the process)
- procedure (at the beginning and during the process)

**Table 2.** Summary of the findings from transferred employees.

<i>Preliminary Phase</i>	<i>Transition Phase</i>
<p><b><u>Information</u></b></p> <p>No clear information No consistent information</p>	<p><b><u>Information</u></b></p> <p>Expected honest information provided on the last possible day</p>
<p><b><u>Support</u></b></p> <p>No respectful treatment No appreciation by the employer No response to problems Talks about worries and wishes only with the colleagues (management or HR have not been involved)</p>	<p><b><u>Support</u></b></p> <p>No appreciation by employer ( had to wait and ask for the promised year-end bonus) No talks/ support from supervisor/ hr/ management side</p>
<p><b><u>Procedure</u></b></p> <p>Work Council involvement Union Involvement Too long duration of the process</p>	<p><b><u>Procedure</u></b></p> <p>Poor termination of the contract</p>

As seen from Table 2, the preliminary phase was mostly filled with negative and unsatisfied complains caused by various gaps in the communication during the outsourcing process: no

clear and consistent information; no obvious support and appreciation by the employer, no response to employees' questions and concerns. Even though Work and Union Councilors were involved, the process took unacceptably long time and period of uncertainty for all employees that have been transferred.

The transition phase has went in a more structured way, even though long awaited information has appeared on the last possible day. Due to the end of the year and all transfer procedures, employees wait for promised year- end bonus and ask for it several times. During interviews it became clear that transferred employees have never met anyone from HR department, not even mentioning to have a meeting with them. The management held the meeting to announce the decision and present the organizational changes.

## 5. DISCUSSION

Current study concentrates on two main research questions:

- 1) What decision-making factors have been used in order to archive strategic outsourcing?
- 2) How have the employees perceived outsourcing and transferring process?

The main goal of this chapter is to analyze the findings presented in the previous section in accordance to theoretical framework and study research questions. Firstly, main factors and drivers of successful outsourcing from the decision-making group will be explained. These results will be compared to the employees' perception of the whole project. Secondly, attitudes of employees towards the organizational change will be discussed. Thirdly, implications for managers based on literature review and data collected from outsourced employees will be presented.

### 5.1. Factors influencing successful outsourcing

Needless to say, every director and manager wants to succeed in projects his/ her company has been involved with. From the beginning all organizational meetings with the project team are enriched with strategic planning on how to drive the project to the end sufficiently and successfully applying the fixed time schedule. Even though all the parts are well-planned and structured, there is always that, which have requires more manager's attention and alignment.

Current project with outsourcing the warehouse services to the external provider has been planned by higher management for some time. They have started by creating a framework for evaluation and management the process until implementation scene. During that time bench marketing and performance metrics of different logistics companies have been done and one external provider was chosen. The personnel received information at the earliest possible stage.

Below is the summary of the data collected from the decision-making group, listing outsourcing drivers presented in chapter 4, figure 2.

Outsourcing allows the company to:

- Focus on core activities
- Serve the customer better
- Maintain company's capabilities
- Get knowledge and skills from third party
- Sustain competitive strategy
- Save costs
- Be flexible
- Resources classification
- Invest in development and innovation

Many researchers agree that organizations should definitely contribute more to the activities, which benefit to the core competencies and outsource the rest (Prahalad and Hamel 1990; Quinn 1992; Quinn and Hilmer 1994). The decision-making group has indicated in their interviews that at the moment the case company concentrates on serving the customer and promoting core competencies more than ever in order to keep a strong position in a competitive market environment.

The case company has classified its resources and capabilities and decided to outsource the activities where it lacks knowledge and skills in management. The external provider is able to bring development and innovation into the company, because logistics and warehousing is its core activity. The researcher sees it as a company concentrates on own core activity, while the rest is contracted out to the external provider, which do its own core activity in the best possible way.

As Quinn and Hilmer (1994) noted, the most effective core competencies strategy is usually based on few service operations, concentrating on knowledge combined with essential skills, where a company can cultivate best possible capabilities and provide a flexible platform for future development and innovations. Innovations are the key to the company's success and leading market position.

Grant (1991) has suggested to fill company's missing resources from outside, in order to obtain the needed combination of resources and capabilities. He did not suggest disposing of them completely, but to complement with missing parts, so the company would still have the resources under own roof but managed by another contractor. This is the scenario that took place in the case company. The warehouse was not moved to a different location, the logistics provider came into the house to manage the services from "old known" place. This strategy allowed the case company to ensure that the warehouse service stays close, even though the entire activity has been outsourced to the external provider.

The case company ensured that the external provider is responsible to perform the activity as well as delivering associated products and services to their customers (McIvor, 2005). In the current research, the chosen company has possessed resources and capabilities by integrating the entire activity in-house. The case company ensures that all argument and dispute situations will stay under one roof and get resolved as soon as possible due to presence of both sides.

#### 5.1.1. Dynamic Capabilities recognition

In the rapidly changing world it is not enough just to recognize the missing resources and capabilities, a company needs to be able to extend and modify them due to current changes (Maley, 2015).

Dynamic capabilities allow the company to change, adapt, integrate and reconfigure resources (Cepeda & Vera, 2007). Directors and senior managers of the case company during the interviews indicated robotics and drones that the external provider had been sufficiently testing and planned to incorporate into the warehouse operational process.

*"We have today all kind of information that we are calling as digitalization. That is usage of data, be smart, try to predict things. They (external provider) have tried robotics and robots and drones – they are on time with the things" (Decision-making group)*

Following the dynamic capabilities line, the company is able to prioritizing their activities based on such criteria as value, rarity, imitability and organization, which gives a competitive advantage on the market. It will be visible if the case company has correctly concentrated their activities and is able to react to opportunities or threats coming from external environment.

The “dynamic capabilities” usually refers to the strategy based on customer-centered performance, who is in the center of the whole business. Customer- oriented decisions require effective planning and deep research of the field. The collected data has shown that the case company’s outsourcing decision was based on customer needs.

DC are seen by researches as a supplement to RBV theory (Amit& Shoemaker, 1993; Barney, 2002; Ambrosini – Bowman, 2009), even though the researchers think that DC is complex in itself as it aims to deal with external environment change and unquantifiable resources.

## 5.2. Managerial intervention

One of the last questions of the interview was: What would you do differently during the project? Valuable impact has been given by the interviewees in the answer to this question.

Some of them have mentioned that they would change the project manager, as at that time he was situated in the Netherlands, which has obviously affected the quality and quantity of communication. Moreover, the assigned project manager was occupied with other projects, which left very limited time for the Finnish outsourcing project. The decision-making group would have preferred to have a project manager in the same location, where the outsourcing process was going on.

According to Haughey (2017) a project manager is a person who has comprehensive responsibility for the successful inception, planning, design, controlling, carrying out the results and closing the project. He or she should have negotiation and diplomatic skills, know how to resolve the conflicts, while motivating the whole team to work together. That’s the reason why the project manager preferably needs to be based at the same geographical location as the rest of the team. Although, meetings allow regular communication, the quality

of such communication suffers in the absence of face-to-face interaction. Openness of expression is lost when the parties cannot use non-verbal means of communication.

Optimization of communication during the uncertainty period has been also listed as one of the areas where the decision-making group would have done differently. Some of them has named change management and communicating updates to the personnel as areas that could have been improved by explaining the reasons for outsourcing as well as goals and expected benefit of this change. Shum (2008) agrees for sharing the vision, the progress as well as the consequences of the organizational change. Received information should be qualitative and subjective. In his article, Choi (2011) highlighted that when employees are being involved in decision-making and important information is shared to them, they are likely more ready and open for change.

Considering that both groups of interviews have agreed that lack of communication during the whole project and unspecified length of the process had produced in employees feelings of uncertainty and insecurity. Understandable that not all information could be widely shared at the early stage of the process, even though it could reduce rumors and speculations. The case company needed to focus on improving upon openness in communication with the involved personnel, and ensure that the employees understand the process and its benefits for all parties: the end customer, the employer and the employees themselves. These are crucial key success factors of an organization change project. Although, the decisions made during the project might have been beneficial for the transferred employees, their perception suffered from the poor quality of the information shared at different stages of the process and consequent lack of understanding.

At the end of this section, the researcher would like to bring also positive sides of the project. None of the interviewees have shown or mentioned dissatisfaction with the chosen external logistics provider. They have all been pleased by provider's services and way of working in the warehouse with equipment as well as with the personnel. This observation clearly indicates that certain decision-making factors and drivers have been applied correctly and an appropriate external provider has been chosen.

Next section will discuss findings on employee's overall perception of the project.

### 5.3. Outsourcing as a process from employees' perspective

From the first collected interview it became clear that during the whole outsourcing process employees have faced a very challenging situation, being placed in an information black hole. The emotions, reactions, feelings and perceptions of employees have varied slightly based on individual personality, work experience and future plans. Those, who were closer to the end of their career, perceived the whole change slightly more positively, than employees in the middle of career.

As it was discussed earlier, Choi (2011) has identified four main categories employees demonstrate towards organizational change.

Current research has shown that *readiness for change* was very low among the interviewed employees. Transferred employees did not form a positive assumption and impression regarding the need for change and range of positive implications for them as individuals and for the entire organization (Choi, 2011). The length of the uncertainty period (around 5 months) has forced some employees to stop in-progress projects such as building and repairing homes, planning holidays abroad, as they had no information on the future of their employment status (Data from interviews).

Choi (2011) proposed that openness in communication may be a condition that makes employees ready for a change. In addition, different policies supporting the change should be presented to the personnel so that employees would feel secure, have trust in peers and leaders (Choi, 2011). Shortage in communication from the decision-making group during the outsourcing process was indicated as one of the missing aspects, which has negatively influenced the perception employees of the project.

Another element that was evidently missing from findings is *commitment to change* or organizational commitment. According to Fedor (2006), extent and turbulence of the change has substantial impact on particular change initiative. Long uncertainty and turbulence period produced growing dissatisfaction towards management and diminishing organizational

commitment among the employees being transferred. Many of interviews repeated that they were constantly searching for new jobs and applying for study leaves.

Choi (2011) named a positive experience with previous change, high-quality relationship among employees and managers, satisfaction with HR practices as aspects of organizational change associated with high level of organizational commitment. As for the change process itself, perceived fairness and extent of information sharing about the change have negatively affected employees' attitudes. Interview responses showed that transferred employees felt deceived at the time of cooperation negotiation in June, whereas employees being laid off were offered monetary compensation and support in case of voluntary resignation. Employees of the transferred department would not receive such benefit if they would choose to resign. Furthermore, they were not allowed to change departments.

Bernerth et.al. (2007) reported that lack of procedural and interactional justice during the change process have a negative influence on commitment to change among affected employees. Current research finds evidence for this proposition, observing the commitment was undermined because employees perceived strong transactional and communicational injustice.

Several researchers have examined how information environment influences *employees' openness* toward organizational change. Miller (1994), Wanberg and Banas (2000) and Erturk (2008) observed that when employees were more likely to be change, when the employer provided clear information on their roles within the organization at the early stages of the change. Quality of information is as crucial to employees as the quantity. Dean et al. (1998) emphasized that when employees perceive the organization as "generally insincere then it makes sense that organizational changes will not be expected to be seriously undertaken and, therefore, will be expected to fail" (p.347). Conforming with this view, the case company's employees skepticism about the change leads to uncertainty and general mistrust towards management.

Researchers revealed that successive leadership practices, employee's participation in decision-making process (Wanous et. al., 2000) and trust in leaders (Qian& Daniels, 2008) will affect negatively perception of organizational change as the process.

In conclusion to this chapter the researcher would like to highlight that employee's skepticism is often an unavoidable part of any organizational change. Employees forced to adapt to change employment relationships, which often report experience varying degrees of stress. Organization should offer these employees support by arranging face-to-face meetings and individual medical specialist if needed.

## **6. CONCLUSION**

This chapter summarizes contributions and implications of the research study. Limitations of the study and suggestions for further research are presented.

### **6.1. Theoretical Contributions**

Theoretical background can be divided into two sections. On one hand, the current work presents a review of the main contributions to the field of outsourcing from RBV of the company as well as leading decision-makings drivers and factors of organizational change. On another hand, transferred employees' attitude, views and perceptions fronting outsourcing process are analyzed.

As mentioned above, this study is based on two different theories. The researcher wanted to identify the business reasons for the outsourcing decision and the effects of that decision on transferred employees. The report presents different definitions of outsourcing and highlights the definition that is most in line with the resource-based theory. The analysis utilizes the main features of RBV relevant to the outsourcing process. The current study contrasts the relationship between outsourcing and organizational change using the basis of the RBV, such as resources classification, competitive strategy, flexibility, development and innovation. The framework demonstrates that the outsourcing of services depends on the strategic value of resources, maintenance of capabilities in the core business activities and willingness to invest in knowledge and development. Moreover, the framework highlights the relationship between outsourcing and organizational change by presenting transferred employees' attitude and perceptions of the process. The four forms of attitude (readiness to change, commitment, openness and cynicism to change) indicate individual's overall positive or negative judgment of a specific change initiative (Choi, 2011).

Resource-based theory in outsourcing process and employees' attitude towards the change are presented and discussed in current work. The two parties, management and employees, were equally represented, and their responses were discussed in the light of organizational change.

## 6.2. Managerial Implications

As soon as a decision to outsource a unit, service or business process to external provider is made, management needs to carefully plan the further steps. Communication about the proposed changes to the concerned employees is one of the crucial actions to be planned well ahead. Management would benefit from involving the employees in the process and meeting them individually. These actions are generally interpreted as showing the gratitude and thankfulness for the personnel's contribution and devotion. The decision-makers should ensure that the information communicated to the employees is valuable and relevant.

Figure 4 presents the summary of current research findings as well as suggestions on how to approach organizational change. First block lists the main factors of organizational change to be taken into consideration during the change itself. The second block presents the main points related to the desirable management actions. Implementing the suggestions from both block in practice would directly impact individual employees and improve the indicators listed in the third block.



**Figure 4.** Actions at the time of organizational change

The research findings reveal that employees who perceive that they are involved in the decision-making and that important information is shared are more likely to demonstrate openness to change and be less pessimistic about the potential impact of organizational change on their position. According to Choi (2011), when employees consider a change initiative to be compatible with the organization's vision, goal and capabilities they are more likely to be committed to the change initiative and to the organization itself. Such indications of good leadership as employees' trust in executive management, effective leadership practices and the quality of relationship also influence readiness, commitment, and openness to change (Choi, 2011).

Quality of communication on individual level is crucial due to the fact that "employees' attitudes toward organizational change are shaped significantly by the way each individual experiences and regards the change situation" (Choi, 2011: 492).

The results of the study suggest that employees' attitude toward organizational change can be significantly improved by Human Resources departments and management's efforts.

Organizational change should be considered a continuous process that may be initiated at any stage of a company's life cycle. Therefore, effective leadership and history of successfully implemented change initiatives in the organization create a positive attitude toward organizational change.

### 6.3. Directions for further research

The empirical application of RBV theory in the light of outsourcing is still in its early days due to the complexity of such aspects as invisible assets, organizational learning and dynamic capabilities, which are difficult to measure (Teece et al. 1997). Further research in this field improve the relevance and applicability of the results by creating operational framework and constructing reliable metrics for measuring the strategic value of companies' resources and activities.

Scholars could choose a different direction for further research to develop RBV framework for the organizational change that predicts the types of activities suitable for outsourcing in different economic sectors and geographical zones.

Yet another research study may examine outsourcing by classifying the firm's activities according to their strategic value, specifying the type of inter-organizational relations to be developed with suppliers, as well as constructive intra-organizational relations between the firm and its employees.

By contrast, further studies can focus on management and HR activities directed at outsourced employees before, during and after the project has ended. Explaining the link between leadership style and employees' resistance to change requires research on behavioral support during the implementation of change initiatives. Researchers could also attempt to interpret the effects of employees' attitudes toward organizational change in the light of such factors as behavioral support for particular change initiatives, organizational behavior and psychological contract.

Furthermore, researchers can investigate the impact of organizational change on transferred employees from psychological point of view and test how well it is explained by the “survivor’s syndrome” as suggested by Kakabadse& Kakabadse in 2000.

*“Corporate survivors’ syndrome is often used to describe the manifestation of decreased management credibility, decreased employee morale, increased absenteeism, and increased turnover often apparent after corporate restructuring.” (Kakabadse& Kakabadse, 2000:698).*

The psychiatrist, William G. Niederland (1968) first used the term of “survivors’ syndrome” referring to survivors of the Holocaust and other catastrophes. The survivor’s syndrome in employees affected by organizational change could be examined more closely by incorporating the analysis of individual nature of an employee.

Needless to say, organizational change and outsourcing process in particular cannot be compared to any catastrophe or disaster. Nevertheless, organizational change has been observed to trigger the same feelings and emotions as experienced by the person under physical attack. The reason might lie in the sense of uncertainty experienced by employees because inadequate information is shared by top management regarding the strategic decisions that affect the personnel. People are encouraged to strive to achieve corporate goals without realizing the full impact of their efforts. Decisions on organizational change are usually announced at the stage when personnel can have little impact on the outcome of the change project. As a result, employees being transferred to a different company report heightened levels of stress, anxiety, insecurity about the future. According to Kakabadse& Kakabadse (2000):

*“the most typical symptoms of the survivor’s syndrome are fear, insecurity, uncertainty, frustration, resentment, anger, sadness, depression, guilt, injustice, betrayal, mistrust, decreased morale, increased absenteeism, and increased turnover” (Kakabadse& Kakabadse, 2000: 698).*

Other researchers observed that during the outsourcing process employees became egocentric, intolerant, unwilling to take risks in future projects or processes, as perceived insecurity at workplace negatively affects organizational effectiveness (Brockner et al, 1987).

At present, limited empirical research into the psychological experience of employees affected by organizational change makes it difficult to compare their perception to the survivor's syndrome. However, when conducting interviews for the current research the author observed the symptoms that Kakabadse & Kakabadse (2000) present in their work. Employees have reported experiencing the feelings of uncertainty and insecurity. They were sad and frustrated by the decision the case company has made. Interviewed employees conveyed that their feeling injustice, betrayal and mistrust appeared when they were excluded from the case company's annual profit sharing program offered to the regular employees. Decreased morale and motivation resulted in increased absenteeism on meetings and at workplace. These symptoms were evident during the waiting period and remained for five-six months after the transfer has been finalized.

The survivor's syndrome might last weeks, months or even years depending on individual person's individual characteristics. The organization can reduce the length of the recovery process by investing in employees and offering professional psychological support. The results of this study suggest that organization should take active part in handling the personnel aspect of the transition process and maintain the leading position in employees' personal and professional development.

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## APPENDICES

### APPENDIX 1. Semi-Structured Interview Guide and Questions.

Introduction Key	I want to thank you for taking the time to meet with me today.
Components:	My name is Olga Kanto and I would like to talk to you about your
· Thank you	experiences in outsourcing process. Specifically, what were the
· My name	main factors and decision-making steps that have been taking in
· Purpose	order to outsource case companies' warehouse and logistics to the
· Confidentiality	third party provider?
· Duration	This interview is part of the completion of my Master's Thesis at
· How interview will	the University of Vaasa. I am currently a second year Master's
be conducted	degree student in the faculty of Business Management.
· Opportunity for	I would like to hear about your personal experiences through
questions	providing practical examples as well when helpful. Please, try to be
	honest while answering the questions, the information regarding
	your identity will be kept confidential and anonymous and nothing
	would be attributed to you without first seeking and obtaining your
	permission. You can decide to not answer any question and you can
	have the interview stopped if you wish. The data collected will only
	be used for the purpose of this Master's thesis research. I would like
	to confirm that I have your permission to record the interview
	electronically. The interview should last 45minutes to 1hour.

<p>Questions:</p> <ul style="list-style-type: none"> <li>· Open-ended questions</li> <li>· Ask factual before opinion</li> <li>· Use probes as needed:</li> <li>- Would you give me an example? - Can you elaborate on that idea?</li> <li>- Would you explain that further?</li> <li>- I'm not sure I understand what you're saying.</li> <li>- Is there anything else?</li> </ul>	<ol style="list-style-type: none"> <li>1. Drive for outsourcing       <ol style="list-style-type: none"> <li>1) To begin, please explain briefly a bit about the background of your role at the case company.</li> <li>2) What were the reasons/main goals of shifting warehouse services to the 3PL? Why did your organization consider outsourcing this particular area of business?</li> <li>3) What were you expecting to gain?</li> <li>4) What was the key selection area and main decision-making factors during the process?</li> <li>5) To what extent it was ensured that outsourcing decision was consistent with the business unit's competitive and operations strategy?</li> </ol> </li> <li>2. Firms Capabilities       <ol style="list-style-type: none"> <li>6) To what degree do you perceive that decision-making team has considered organization's core competencies? Did you consider capabilities that may be important in the future?</li> <li>7) What specific resources or capabilities the case company was looking for in 3pl provider?</li> <li>8) What kind of contract or alliance is used? Does the contract clearly define a dispute resolution process?</li> <li>9) To what extent does the relationship with 3pl provider rely upon collaborative mechanism such as joint problem solving, trust, information sharing, frequent communication?</li> </ol> </li> </ol>
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<p>Closing Key Components:</p> <ul style="list-style-type: none"> <li>· Additional comments</li> <li>· Next steps</li> <li>· Thank you</li> </ul>	<p>10) Have potential negative consequences of losing company's internal capability to perform logistics activity been considered?</p> <p>11) Looking so far, what do you think, does 3PL provider met or exceeded expectations for quality performance and employee management?</p> <p>12) Are there some advices you want to give to other managers and companies regarding 3PL partners and export?</p> <p>Is there anything more you would like to add?</p> <p>I'll be analyzing the information you and other interviewees gave me and submitting the thesis at the beginning of next year. I'll be happy to send you a copy at that time, if you are interested.</p> <p>Thank you for your time, I really appreciate it.</p>
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<p><b>Questions to transferred employees:</b></p> <ul style="list-style-type: none"> <li>· Open-ended questions</li> <li>· Ask factual before opinion</li> <li>· Use probes as needed: <ul style="list-style-type: none"> <li>- Would you give me an example? - Can you elaborate on that idea?</li> <li>- Would you explain that further?</li> <li>- I'm not sure I understand what you're saying.</li> <li>- Is there anything else?</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1) To begin, please explain briefly a bit about the background of your role at X?</li> <li>2) How have your role changed? How did the outsourcing affect your duties in the company?</li> <li>3) From your point of view, what was the main reason/ main goals of shifting warehouse services to the 3PL?</li> <li>4) In your opinion, why exactly that logistic provider has been chosen?</li> <li>5) How did the outsourcing process go? Have you received enough information about third party provider?</li> <li>6) Have you been well-instructed regarding all the steps of switching the employer? Have you been well instructed regarding possible positive/ negative outcome of that process?</li> <li>7) Do you see any positive or negative changes in your daily work?</li> <li>8) What should have been done differently during the process?</li> <li>9) Does the current change affect you motivation at work?</li> <li>10) How has the change effect your future plans?</li> <li>11) Do you feel more or less secure in your employment at this stage?</li> </ol>
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<p>Closing Key Components:</p> <ul style="list-style-type: none"><li>· Additional comments</li><li>· Next steps</li><li>· Thank you</li></ul>	<p>Is there anything more you would like to add?</p> <p>I'll be analyzing the information you and other interviewees gave me and submitting the thesis at the beginning of next year.</p> <p>I'll be happy to send you a copy at that time, if you are interested.</p> <p>Thank you for your time, I really appreciate it.</p>
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