The Impact of Corporate Outsourcing on Company Value

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Companies worldwide are expanding their use of outsourcing for services and products. This article appraises what is known about the impact of outsourcing on company value, and the emergent picture is not an unblemished one. Company managers frequently complain about the downsides, some companies have retrieved what they had sourced out, failures can be seen here and there, and the long-term potential consequences of outsourcing too much are yet to be seen. Still, the weight of the research evidence indicates that, when well designed and well managed, outsourcing reduces operating cost, enhances competitive strategy, and enlarges shareholder value. © 1998 Published by Elsevier Science Ltd. All rights reserved

Many observers mark the beginning of the contemporary surge of company outsourcing with Eastman Kodak’s decision in 1989 to source out its entire information management to IBM, Businessland, and Digital Equipment Corp. Since this deal’s execution, now almost a decade ago, outsourcing has become a standard management device at many US firms, and corporate expenditures on it have rapidly accelerated. Symptomatic of the trend, companies signed major new contracts for information outsourcing in 1994 worth $11 billion; in 1995, $20 billion; and in 1996, $33 billion (Loh and Venkatraman, 1994a; McClellan, 1996a, b; Bettis et al., 1992; Gould et al., 1997).

Business writers have so often extolled the virtues of outsourcing and have so widely reported the major deals that few US company managers are still unaware that outsourcing has become a widely used management device—even if their own firm still makes scant use of it. While contracting out is now broadly understood to be an attractive option, its specific impact on company value has not yet been well confirmed by research. When executives are asked about the financial impact of their outsourcing initiatives, they often respond that it cannot be readily quantified. When researchers look to measure the financial impact, they have usually been forced to rely on managers’ estimates in place of tangible metrics. The focus in any case has been on cost savings, and only rarely have managers or researchers directed their attention to its ultimate benefits for company investors (Tully, 1993; Byrne, 1996; Hoffman, 1996; Saunders et al., 1997; Benson and Ieronimo, 1996; Lacity et al., 1996, 1994; Domberger, 1994; Greenberg and Canzoneri, 1997).

The purpose of this article is to appraise what is known about the impact of outsourcing on company value. We have assessed the available research literature to identify what has been found to date and where significant gaps remain. The article’s sections flow as follows: In the first section, we discuss outsourcing in general, examining the types of services that are being outsourced. In the second, we offer a framework for thinking about both the sources and the effects of value creation for the users of outsourcing services. In the third, we address the issue of value creation for the provider of outsourcing services. In the fourth, we examine the downside of outsourcing by looking at situations where company value has been diminished. Finally, in the fifth section, we discuss directions for further research on the impact of outsourcing on company value.

Types of Outsourcing Arrangements

Drawing on a definition suggested by two researchers, we treat outsourcing as an outside company’s provision of the products or services associated with a major function or activity of a user organization. The provider usually furnishes products or
services for a specific business activity though sometimes for an entire business function or process. A user typically contracts with a single firm to provide the particular product or service, but in some cases users turn to multiple vendors. The latter can be seen in Dupont’s outsourcing of its information systems in 1996. Under its 10-year, $4 billion agreement, Dupont gave responsibility for running its 13 data centers to Computer Sciences Corporation (CSC) and assigned development of chemical and energy software applications to Andersen Consulting (Loh and Venkatraman, 1994a, b).

Outsourcing differs from a strategic alliance in that it represents a predominate flow of resources from one party to another. An alliance, by contrast, usually entails a contribution of resources, including capital, by both parties to a new and quasi-autonomous entity. Under an outsourcing agreement, one firm purchases the ongoing provision of a product or service from another without taking a direct financial stake. In a strategic alliance, the two firms typically agree to a mutual contribution of both knowhow and equity. The line between an outsourcing relationship and a joint venture, however, can sometimes blur, especially in recent years. In some major IT outsourcing deals, for example, both the user and the provider contribute resources and each commits to working closely with the other—similar in form if not in name to the operations characterizing many strategic alliances.

Although companies have often taken their first outsourcing initiatives in the area of information management, some have carried the concept into almost every facet of the business. A survey in 1997 of more than 600 large companies by the American Management Association finds that substantial numbers are now outsourcing not only in the area of information systems but also in the fields of finance, accounting, manufacturing, payroll, maintenance, and personnel. One-fifth of the surveyed firms had sourced at least some part of their financial or accounting functions, and four-fifths had sourced one or more administrative functions. Among manufacturing companies, more than half had sourced at least one component of their production process (Earl, 1996; Lacity et al., 1996; Lacity and Hirschheim, 1993; Greenberg and Canzoneri, 1997; Abraham and Taylor, 1996).

Observing which companies outsource more than others can help researchers infer the business motives behind many of the decisions. One study of 55 major American companies reveals that both cost structure and business performance matter: high cost producers are more likely to outsource, and so too are firms with sub-par performance records. Cost savings explains much of the former; a search for improved capabilities the latter. Another study finds that smaller enterprises and higher-wage companies also more frequently contract out. Inexpensive access to costly services helps explain the first; access to a less-costly workforce the second (Loh and Venkatraman, 1994a, b; Abraham and Taylor, 1996).

Value Creation for the Outsourcing User

An examination of the impact of outsourcing on firm value requires focusing on both the user of the products or services and the provider of them. Because the sources of value are distinct, we examine user value in this section—the primary concern in the present report—but also provider value briefly in the next.

Outsourcing can yield both longer-term gains and immediate payoffs. When a product or service costs less, it frees up capital for alternative uses. When the less costly service is deployed in value-creating areas, savings from sourcing should accrue to investor wealth in the longer term. But lower costs can also yield better margins and improved cash flows in the short-run, and they in turn may result in higher earnings per share and stock price in the quarters that immediately follow (Bettis et al., 1992).

Some analysts contend that an important source of user value is the firm’s access to economies of scale and the unique expertise that a large provider can deliver. Since providers are typically servicing many clients, they often achieve lower unit costs than can any single company. Specialist providers can also afford to invest more in new technologies and innovative practices than can many user enterprises (Alexander and Young, 1996).

Brand or reputational value can also improve when products and services are more competently delivered by providers than by inside personnel. The South Eastern Pennsylvania Transit Authority (SEPTA), for instance, outsources its off-train ticket sales. Few riders realize that the employees behind the ticket glass work not for SEPTA but for a contracted provider, and when the latter delivers high quality service to customers, the value accrues to SEPTA and its owners.

Firms enter sourcing agreements for strategic gain as well. Fresh value may come from an outsourcing contract if it provides for good complementarity between a user’s and a provider’s capabilities; if it allows the user to stay abreast of fast-changing technologies; and if it allows the user to draw on the results of capabilities it could not develop itself. Company value can also be enhanced when management attention is more focused on strategic issues and less on daily operational problems or organizational conflicts (Teece, 1986; Lei and Hitt, 1995; Alexander and Young, 1996; Bettis et al., 1992; Penrose, 1959; Lacity and Hirschheim, 1993; Abraham and Taylor, 1996).
Following these distinctions, we assess available evidence for the impact of outsourcing on users’ (1) stock price, (2) operating costs, (3) service performance, and (4) strategic advantage.

**User Stock Price**

Studies relating stock price to outsourcing announcements or agreements are not presently available, to our knowledge, and this remains a major deficit in the research literature. We utilize, as a result, two alternative sources of information from which inferences can be drawn. First, we interviewed four Wall Street analysts to learn their perceptions of the impact of an outsourcing announcement on a firm’s stock price. Second, we examined a close relative of outsourcing agreements—strategic alliances—to see if announcements of new alliances affect the participating companies’ stock price.1

The stock analysts that we interviewed—employed by Furman Selz, Goldman Sachs, Merrill Lynch, and Morgan Stanley—specialize in outsourcing providers, but in the course of their research they often contact major users as well. The analysts report that large and well crafted outsourcing announcements do favorably affect a company’s stock price. ‘Stocks usually trade up on user news of an outsourcing agreement,’ offered one of the analysts, and as an example he cited a major contract announced by J.P. Morgan. They ‘said they’d save 10 or 20 per cent (in IT costs) and gain competitive advantage in their deal with CSC and Andersen,’ he reported, and that was enough to make the company stock more ‘attractive to investors.’ Similarly, he noted that AT&T stock had ‘traded up’ on initial news of a major outsourcing contract, though it was hard to nail down the specific amount since a host of factors had been buffeting the company’s stock at the same time.

Unlike merger, acquisition, or divestiture announcements, which are typically closely-held secrets until announced, news of a pending outsourcing agreement sometimes leaks to Wall Street ahead of time. As a result, stock movements in the wake of a major sourcing contract are usually less decisive, but the analysts generally do view a major outsourcing contract—several hundred million dollars and up—as a positive for a user’s stock value. It should be kept in mind, however, that separating the impact of an outsourcing announcement from a range of other stock drivers is no easy task for analysts and may be equally daunting for researchers. And if an announcement is something less than a landmark deal for the user, its impact on price may be entirely lost in the daily tide of company information. ‘The analyst makes a note of it’ and it’s usually ‘a positive thing,’ offered one of the stock analysts. ‘But it’s one of dozens of factors to consider.’

In turning to the experience of strategic alliances for suggestive guidance, we draw on two studies of the impact of alliance announcements on the stock value of their parents. This is a useful comparison because an outsourcing contract and strategic alliance can be seen as first cousins: both entail working on an extended basis with a partner. Alliances are typically stronger relationships since they allow more readily for the transfer of new technologies and less readily for one company to move into the other’s market. Still, they are similar in that they often signify a new, long-term, and important relationship between two enterprises (see Lei and Hitt, 1995; Bettis et al., 1992).

The first alliance study finds that on the day of an announcement the stock price of high-technology parents moves up by about one per cent. The stock of firms in low-technology industries, by contrast, does not rise. The study’s authors infer that the flexibility and risk sharing that comes with alliances are particularly valuable for firms that are facing rapid growth, frequently changing technologies, and substantial risks of failure, characteristics typical of high-technology companies (Chan et al., 1997).

The first study also discovered that technology-focused alliances between firms in the same three-digit SIC code—the same ‘standard industrial classification’ grouping—result in higher stock price rises than do alliances between companies in unrelated industries. Investors evidently anticipate that the partners will gain from pooling their similar technologies or joining their complementary technical skills—yet at the same time not venturing beyond proven competences. By contrast, non-technological alliances across industries do yield positive stock returns, implying that when core competencies are not threatened, investors applaud the parents’ initiative.

A second study compared the announcements of new technology and marketing alliances, and it found that stock prices rise on average by about one percent among the technology ventures but that they change little among the marketing alliances. Size and profitability also matters: the impact of joint venture announcements on a firm’s market value is greatest when the firm is smaller or less profitable (Das et al., 1998).

From the scant evidence available, it is plausible to expect that company value is increased by the announcement of major outsourcing arrangements. The impact on stock price is likely to vary with the size of the contract, the activity sourced, the expected

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cost savings, and the size and past performance of the participants. The activity of the outsourcing—whether, for instance, it is core or peripheral—is also likely to affect price movement.

**User Operating Costs**

Immediate cost saving is often cited as the most tangible result of an outsourcing deal, and some observers see the savings not only dropping to the bottom line but also adding to investor wealth. Two McKinsey analysts, for instance, argue that in the area of oil and gas partnerships, smaller oil companies and suppliers have the potential to ‘unlock $40 billion in shareholder value’ of the companies that acquire their services (Ernst and Steinhubl, 1997, p. 144).

Reliable gauging of cost savings, however, is problematic for a host of reasons. These include, according to one assessment:

- **Savings are not consistent from year to year, with large gains often achieved at first but diminishing returns recorded thereafter.**
- **Environments are rapidly changing, making it difficult to compare saving several years after an outsourcing contract against the costs of inside operations that had been discontinued several years earlier.**
- **Savings are not always localized, and as they are spread across many units, aggregating the total benefits can be elusive.**
- **Since outsourcing is often motivated for reasons other than cost reduction, good information on cost reductions is sometimes simply not compiled.**
- **Some companies purchase outside services from the outset, as often seen among start-up enterprises, providing no inside baseline for comparison (Saunders et al., 1997).**

In light of such measurement challenges, it is little wonder that most available studies of the impact of outsourcing on costs rely upon perceived results rather than direct measures of them. In fact, we have located no studies with fully reliable quantitative indicators of operating cost reductions across a statistically representative sample of firms. The studies that are available do, however, consistently confirm that outsourcing brings substantial savings:

- **Cost reductions:** Saunders and colleagues surveyed 129 companies reported in the media to have signed outsourcing contracts and whose outsourcing arrangements were at least two years old. Of the 34 companies responding, 15 could not or would not divulge their cost figures, but of the remainder that did, the savings ranged from 0 to 40 per cent, with the average near 15 per cent (Saunders et al., 1997).

- **Meeting expectations:** Lacity and colleagues interviewed senior business executives and chief information officers involved in information outsourcing at 62 companies. The authors found that at 35 of the firms, the executives reported reaching or exceeding their savings objectives, though nine reported falling short (Lacity et al., 1996).

- **Improved productivity:** Benson and Ieronimo studied four firms that had outsourced equipment maintenance, and they find an improvement in labor productivity at all four (Benson and Ieronimo, 1996).

Studies of savings in public sector organizations yield similar conclusions. Domberger, for instance, finds that outsourcing in Australian public agencies achieved cost savings of about 20 per cent. In a searching study of how the savings are achieved in public agencies, Quiggin discovers that most of the budgetary gains derive from reduced employee wages or increased work intensity (Domberger et al., 1995; Domberger and Li, 1995; Quiggin, 1994).

**User Service Performance**

Improved service quality from outsourcing can also enhance company value, and many users aver that this has driven their decision to go outside more than any anticipated cost reductions. One study of company actions to outsource their warehousing, for instance, finds that the primary driver is quality rather than cost. It also finds that the larger the perceived shortfall in the quality of the inside warehousing service, the larger is the proportion of warehousing activity that the company transfers to providers (Maltz, 1994).

Consistent with the expectation of improved service performance, one study finds that outsourcing generally enhances service quality. In its analysis of competitive bidding for cleaning services, the study reveals that providers do not, as some fear, bid low to obtain the contract and then reduce their services to stay within the contract’s price requirements. While the lowest bidders generally won the contracts, they maintained or improved service quality (Domberger, 1994; Domberger and Li, 1995; Domberger et al., 1995).

**User Strategic Advantage**

Finally, companies often contract out for services or products for strategic considerations. By fostering longer-term competitive advantage, outsourcing can ultimately contribute to shareholder value here as well.

Saunders and colleagues found that among the companies they surveyed, the most oft-cited consider-
ations for contracting out are technological or strategic, not cost cutting. The managers expressed frustration at the difficulty of estimating any cost savings—and satisfaction by contrast with what they perceived as outsourcing’s contribution to the firm’s technical flexibility and competitive advantage. Outsourcing made it easier for them to operate in ways that ranged from faster adoption of new technologies to better coping with seasonal variation in business demand. Consistent with the concept of strategic sourcing, Saunders et al. ’s study also found that the companies most likely to report successful experiences with information outsourcing were those that viewed information technology as a vital function rather than a commodity, and those that treated the relationship as a collaborative partnership rather than an arms-length contract (Saunders et al., 1997).

Company managers widely perceive outsourcing to be a vehicle for achieving strategic goals—especially in the case of information technologies but in other areas as well. The translation of strategic advantage into value for a company’s stockholders is likely to come about in three ways. First, outsourcing can improve competitive positioning by allowing the firm to access world-class expertise not available internally. Second, outsourcing can make available a complementary asset or resource that, when combined with those of the firm, produces synergies that can be profitably exploited. Third, outsourcing can provide a way to learn the specialized skills of the provider, especially if staff from the two firms work closely together (Feeny and Ives, 1990; Kettinger et al., 1994).

In some cases, outsourcing may be required in order for a firm to simply maintain competitive position. Consider, for example, a large firm that initiates outsourcing in an underperforming business. Other firms in the industry note the move and follow suit for fear of falling behind. Their actions in turn stir firms in the industry to note the move and follow suit for fear of falling behind. Their actions in turn stir.

The Glass is Half Empty

Much of the research literature confirms that outsourcing is adding to company value, even if detection of the precise amount remains nearly as elusive as measuring the mass of a neutrino. But from a different benchmark—management hope—outsourcing often falls short. Contracting out may be creating wealth, but not always in the quantity that executives anticipated and sometimes not enough to justify the wrenching organizational changes that are occasioned by it:

- Three-quarters of the managers of firms responding to an outsourcing survey conducted by the American Management Association confide that outsourcing outcomes have fallen far short of expectations, and more than half report that they have brought at least one outsourced activity back in-house (Greenberg and Canzoneri, 1997).
- Three-fifths of the chief information officers surveyed by Deloitte and Touche had outsourced to benefit from a vendor’s expertise—but only a third say they actually realized the benefit (Caldwell, 1997).
- Many managers in a survey of British and American firms that had outsourced information management report that not only did costs not fall but they actually increased under the contract (Lacity et al., 1994).
- Other studies find managers complaining several years into major sourcing deals that the contracts are sometimes too unwieldy and inflexible to yield sustained value.

Even when contracts do not suffer these shortcomings, some managers come to regret that the vendor’s employees—often working full-time inside the user organization—do not display the same commitment and dedication shown by the inside staff. As one Silicon Valley manager characterized the problem, a ‘mercenary may shoot a gun the same as a soldier, but he will not create a revolution, build a new society, or die for the homeland’ (Lacity et al., 1996; Blaxill and Hout, 1991; Byrne, 1996).
Value Creation for the Outsourcing Provider

Outsourcing contracts are of course the source of value creation for the providers. They are the lifeblood. Consider the recent history of Computer Science Corporation. In 1996, CSC won three of the five largest sourcing deals concluded that year. Its market capitalization rocketed from $4.3 billion in May to $6.7 billion by December, a better than 50 per cent increase that placed 2.4 billion new dollars in the hands of CSC investors. Some of the growth came from acquisitions, but much of it rode on the shoulders of the rising flow of major contracts. CSC had won $3.1 billion in new business in 1995 but $7.4 billion in the eight months that followed, and analysts forecasted outsourcing revenue to grow at annual rates near 25 per cent (McClellan, 1996a, b; Gould and Glasofer, 1997; Gould et al., 1997).

No compilation of the combined market value of all major sourcing providers is available. Yet it is safe to assume that, compared with a decade earlier before the Kodak contract announcement and all that has followed, outsourcing has produced new value on the provider side of the equation that totals in the many tens of billions of dollars, and the value growth displays no sign of slowing down. By late 1996, more than nine out of ten large US manufacturing companies had outsourced at least one activity. Since outsourced functions are rarely brought back in, even among the most cautious movers the cumulative effect has been for increasing portions of company work to be performed outside. The typical company now outsources in nine distinct areas, and a recent survey found that companies expect on average to increase their expenditures on outsourcing during the next twelve months by another 35 per cent (Greenberg and Canzoneri, 1997).

Can Outsourcing Also Reduce Value?

Competition today has become as much a race to acquire skills and competencies as it to battle for market position. Companies also increasingly compete on responsiveness and flexibility, placing a premium on first-mover advantages. But as these considerations have driven much of the rise of outsourcing during the past decade, some observers worry that they may also lead to a hollowing-out of the corporation. As companies turn their know-how in one area after another over to providers in the name of lower cost or improved strategy, the largely invisible and unanticipated cumulative consequence could be for companies to find they have gone too far. With their value-generating activities no longer under their own roof, the argument goes, enterprises no longer possess the cutting-edge means to create innovative products, develop fresh services, or find new ‘profit zones’ (Bettis et al., 1992; Lei and Hitt, 1995; Slywot-sky et al., 1998). Cost savings and other immediate advantages come at the sacrifice of future evolution of capabilities in core areas.

Manufacturing is one place where outsourcing of core functions is increasingly common. In 1997, for instance, the fraction of manufacturing firms reporting that they had completely contracted out a significant production activity stood at 6 per cent in component design, 6 per cent in product design, 9 per cent in product assembly, 14 per cent in component production, and 23 per cent in packaging (Greenberg and Canzoneri, 1997).

In light of these concerns, some researchers are advocating that companies steer away from outsourcing core activities and limit the contracting to areas where the companies can no longer find competitive advantage, as for instance in back-office processing of bank credit cards. However, for many firms, following this principle will be difficult in practice for several reasons.

First, many markets are rapidly changing, and what is core or peripheral today may not be in several years. This is especially evident in fast-changing areas like information technology, where rapid innovation and obsolescence can transform an initially high-valued-added technology into a virtual commodity within months (Bettis et al., 1992; Lei and Hitt, 1995).

Second, even when an activity is not at the core of a company’s strategic advantage, it often carries implicit or tacit interdependencies with parts that are. In allocating design, manufacturing, and marketing to distinct outside providers, for instance, a company may underestimate the importance of coordination and integration of these and other activities for achieving superior performance. Maintaining such cross-activity synergies is not unlike that required for effective corporate strategy across multiple business units, and when outsourcing thwarts their achievement, it can thus undermine the very advantages that gave rise to large organizations in the first place (Porter, 1987). In addition to loss of synergistic effects, when functional entities or business units are interdependent, the outsourcing of just one key skill may subtly weaken the ability of other functions or business units to successfully perform. Savvy managers would vigilantly seek to avoid such an impact, but much of the complex interplay among the major parts of an organization is tacit and therefore usually little visible before an outsourcing decision is reached on them (Nelson and Winter, 1982).

Third, in markets that move very rapidly, some firms build sourcing relationships to gain access to evolving technologies. Over the term of a major relationship, however, a large contract may so effectively build a provider’s technological capabilities that the
provider may turn around and even sell the improved capabilities to the firm’s competitors. This can occur slowly and subtly, but over the course of a lengthy contract it may amount to the transfer of a core technology to the provider (Lei and Hitt, 1995).

### Research Agendas

Little practiced anywhere in the 1980s, outsourcing has spread far and wide among American firms in the 1990s, and worldwide application is sure to follow during the decade ahead. Few major US corporations are still without some sourcing out, and many are now contracting dozens of major activities, ranging from real estate management to product manufacturing. All trend indicators suggest still more, not less, is in the works.

It is possible that the pendulum could reverse, with in-sourcing rising on the ashes of too many failures on too much outsourcing. Recall the fate of the conglomerate corporation. Led by ITT’s example under the leadership of Harold Geneen, unrelated diversification became an American mantra in the 1960s. But ‘getting back to basics’ replaced it as the drum beat in the 1980s, and since then US companies have radically re-focused their energies on related business areas (Hoskisson and Hitt, 1994).

At the present, however, it appears that such a reversal of fortune is unlikely for outsourcing. As management experience and academic research on enterprise diversification accumulated with experience, it became apparent that incorporating unrelated product lines under the same umbrella had the long-term effect of destroying, not creating value. Management experience and academic research on outsourcing to date, however, shows little sign of confirming any of the worst fears about its downsides for corporate performance.

The research reviewed here does not paint an unblemished picture. Company managers frequently complain about the downsides, companies sometime retrieve what they had contracted out, and outright failures can be seen here and there. And the long-term potential consequences of becoming too hollow, of outsourcing too much, are yet to be seen. Still, the weight of the evidence points in the affirmative direction. When well designed and well managed, outsourcing reduces operating cost, enhances competitive strategy, and enlarges shareholder value.

Studies to date indicate that the impact of outsourcing is modest in magnitude compared to the benefits that accrue from certain other management innovations. The Japanese lean production system—pioneered by Toyota and now practiced by many companies worldwide and far afield from automaking—brings quality improvements and costs reductions of 50 per cent or more in specific process areas. Process reengineering—introduced by thousands of companies over the past decade—can sometimes generate saving of far above 50 per cent. The impact of outsourcing on costs, by contrast, tend to be in the range of 10 to 15 per cent at best. Similarly, mergers, acquisitions, and buyouts often add or subtract several points or more to a company’s stock price. Joint ventures, by contrast, add but a point or so, and if outsourcing has stock price effects akin to its cousin, outsourcing is likely to impact investor wealth in much the same modest but positive range. The stock analysts with whom we discussed this question suggest favorable effects of about this magnitude (Womack et al., 1990; Hammer and Champy, 1993; Bowman et al., 1998).

Nonetheless, compared with product diversification—for which the research evidence never offered confirming support—activity outsourcing has received a tentative vote of confidence from the research community. When good data are available on well designed and well managed outsourcing contracts, they indicate that outsourcing enhances company operations in ways that should ultimately accrue to investors. Outsourcing will never be a silver bullet nor a turnaround engine, but the evidence to date indicates that it is one of contemporary management’s more promising new tools.

Further study on the impact of outsourcing on company value might best follow one or more of the following research agendas:

### Potential Research Agendas

**Outsourcing announcements**: With a representative sample of major outsourcing announcements, and good data on the firms involved and other events of the period that could affect stock price, a study could seek to isolate the impact of announced agreements on the stock price of both users and providers.

**Strategic cases**: If the prior research agenda relies upon statistical analysis of a cross-section of companies, it can be equally instructive to go to the other end of the methodological spectrum. Depth case studies of the strategic payoff of major outsourcing decisions in two or three companies where it has worked well could help identify the specific ways that outsourcing, when effectively implemented, contributes to competitive advantage.

**Best practices**: A still different approach is to examine the experience of a dozen diverse companies where outsourcing in its most varied forms has been in place for sometime. By investigating what has worked well and what has not, this research
agenda could help identify the better or best practices for ensuring that outsourcing leads to enhanced company value.

Where it works: A fourth research agenda is to ask where outsourcing works best. With a representative cross-section of firms and reliable information on which have outsourced, what has been outsourced, and when they met success, this study would provide guidance on the more specific issue of the conditions under which outsourcing should or should not be utilized.

Outsourcing and options: A fourth study worth considering is to place outsourcing decisions into a broader context of management options. Here the research agenda would be to ask such questions as when it is better to outsource an activity, enter a joint venture to achieve the activity, or bring the activity in-house through acquisition.

Globalization challenges: Most outsourcing contracts are for domestic or even just regional operations, but companies are increasingly globalizing their operations, and ownership markets are becoming more international as well. A final study agenda could be to examine whether global sourcing—which faces an additional set of challenges not encountered in the home market, ranging from unpredictable currency fluctuations to the absence of providers in many foreign markets—adds air pressure to a company’s stock price.

All of these studies face formidable problems of conceptualization and data collection, but all are needed. The challenge here is to identify those that are of greatest priority for managers who are facing critical decisions on the outsourcing frontier—and those that are of greatest feasibility for the researchers who would then face the critical decision on the research frontier.

Acknowledgements
The authors would like to acknowledge the support of the Outsourcing Research Council, A.T. Kearney Executive Search, the Wharton Center for Leadership and Change Management, and the assistance of Michael Corbett, Joseph Haberman, Rick Gray, and the company representatives on the Outsourcing Research Council.

Note
1. The four analysts that we interviewed in January 1998 are: Greg Gould of Goldman Sachs; Brian Maimone of Furman Selz; Steve Mc Clellan of Merrill Lynch, and David Togus of Morgan Stanley.

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