Aligning organizational control practices with competitive outsourcing performance

Mingu Kang a, Xiaobo Wu a, Paul Hong b,*, Youngwon Park c

a School of Management, Zhejiang University, PR China
b Information Operations and Technology Management, College of Business and Innovation University of Toledo, USA
c Manufacturing Management Research Center, University of Tokyo, Japan

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A B S T R A C T
The aim of this article is to present a research model that defines how different outsourcing strategies influence organizational control mechanisms that impact outsourcing outcomes. This research study consists of five case studies, each focusing on a foreign multi-national corporation (MNC) that has outsourcing experience in China. The results of these case studies examine the relationships among outsourcing strategies, organizational control, and outsourcing performance outcomes. In addition, the findings explain how trust competence and in-house knowledge of outsourced tasks have moderating effects between outsourcing strategies and process control. This article provides practical insight into the ways that business executives exercise organizational control in order to achieve effective outsourcing outcomes within China’s evolving economic context.

1. Introduction

In the current globally networked economy, outsourcing has increasingly become a strategic weapon (Gottfredson, Puryear, & Phillips, 2005; Kremic, Tukel, & Rom, 2006). According to Rigby and Bildeau (2009), the latest trend in outsourcing is clear. These authors have reported that 63% of firms in 2000, 77% of firms in 2006 and 63% of firms in 2008 regarded outsourcing as a primary strategic management tool. On the other hand, the overall level of satisfaction with outsourcing among these firms has remained below 50%. Many firms have adopted outsourcing practices in order to obtain cost efficiencies and strategic competitiveness, yet more than half of the firms are disappointed with their outsourcing outcomes. Such alarming results call for critical examinations of effective outsourcing practices. Previous research has explored the drivers, processes, and outcomes of outsourcing (Hatonen & Eriksson, 2009; Jiang & Qureshi, 2006), yet this research has provided inconsistent results regarding the effects of outsourcing (Bengtsson, Von Haartman, & Dabhilkar, 2009; Leiblein, Reuer, & Dalsace, 2002). These results suggest that the contextual differences associated with strategic outsourcing practices, such as “the individual transaction and the contracting environment” (Leiblein et al., 2002, p. 818) as well as firms’ differing specific strategic intentions for outsourcing (Bengtsson et al., 2009), require further investigation.

China has undoubtedly become a very attractive FDI destination and the manufacturing center for foreign MNCs. According to the National Bureau of Statistics of China, 63.6% of the total FDI from 1997 to 2007 belonged to the manufacturing sector. Since the mid-1990s, China has successfully attracted foreign direct investment (FDI) from multi-national corporations (MNCs) that focus primarily on offshore manufacturing (Qu & Brocklehurst, 2003). As MNCs continue to locate their manufacturing sites in emerging economies (e.g., China and India), their subsidiaries will naturally continue to engage in extensive outsourcing activities. The majority of research literature on offshore or global outsourcing has focused on the activities of MNCs’ headquarters (Bozarth, Handfield, & Das, 1998; Monczka & Trent, 1991; Trent & Monczka, 2003). However, little research has been conducted on the outsourcing practices of MNCs’ subsidiaries within host countries. These subsidiaries experience enormous business challenges related to legal, political, cultural, and financial obstacles (Kang, Wu, & Hong, 2009; Kotabe & Murray, 2004). Thus, obtaining effective outsourcing outcomes for these subsidiaries requires the use of appropriate organizational control mechanisms. Research literature related to strategy and control theory has focused on international joint ventures (Chen, Park, & Newburry, 2009), strategic alliances (Das & Teng, 2001), and the influence of parent firms on their subsidiaries (Egelhoff, 1984). However, in spite of the importance of control mechanisms that govern outsourcing practices, few empirical studies have been conducted on this topic. Particularly, it is unclear how MNCs’ subsidiaries adopt organizational control mechanisms to implement outsourcing strategies. In response to this research deficit, the aim of this article is to examine outsourcing strategies and corresponding organizational control mechanisms that impact outsourcing performance outcomes and create competitive advantage.
2. Research model

A good research model should be credible (i.e., scientific and objective in explaining phenomena in particular contexts) and relevant (i.e., the principles and implications should be applicable in broader contexts) (Palmer, Dick, & Freiburger, 2009; Suddaby, 2010). Fig. 1 presents a research model that defines the key dimensions of outsourcing (i.e., outsourcing strategy, organizational control, outsourcing performance). Outsourcing strategy patterns and organizational control mechanisms may be somewhat distinct within different business contexts (e.g., advanced countries and emerging global economies) (Li, Liu, Li, & Wu, 2008). Therefore, this paper focuses specifically on outsourcing practices of foreign MNCs that operate in China.

2.1. Outsourcing strategy

Outsourcing strategy is a business approach that views outsourcing as an important organization-wide and long-term strategic initiative designed to achieve a sustainable competitive advantage (Jennings, 2002). Researchers have classified outsourcing strategies according to a variety of different schema. For example, Gilley and Rasheed (2000) have classified outsourcing strategies into two types (i.e., peripheral and core outsourcing) based on strategic values. Kremic et al. (2006) have suggested that cost-driven outcomes and strategy-driven outcomes are important drivers of outsourcing. In contrast, Power, Desouza, and Bonifazi (2006) have divided outsourcing activities according to whether they are process-oriented or project-oriented activities based on the characteristics of each task. Bengtsson et al. (2009) introduced the idea of low-cost-oriented outsourcing and innovation-oriented outsourcing. These authors have argued that the strategic intent of outsourcing affects the outsourcing outcomes. All of these approaches represent legitimate and valuable perspectives on outsourcing.

As an extension of the research by Wu, Chen, and Wu (2009), this study, however, considers two specific types of outsourcing: efficiency-seeking and innovation-seeking outsourcing. Efficiency-seeking outsourcing transfers routine and non-core activities to external expert organizations in order to achieve cost reductions and enhance productivity. Firms adopt this type of outsourcing to decrease their investment in fixed assets and instead increase their return on equity and overall efficiency (Kotabe, Mol, & Murray, 2008; Mouzas, 2006). In this context, efficiency-seeking outsourcing is characterized by routine activities, predictable demand, and products with long life cycles. On the other hand, innovation-seeking outsourcing strives to develop and upgrade innovative capabilities with knowledgeable resources from external markets. In a rapidly changing market environment, few, if any, firms are able to generate continuous streams of innovative products through their internal R&D resources alone. Effective R&D strategies require that firms use their external capabilities, including those of their key suppliers (Arnold, 2000; Johnsen, Phillips, Caldwell, & Lewis, 2006). Thus, the role of outsourcing becomes more critical in newer technology-based businesses (Bengtsson et al., 2009), and, as a result, an increasing number of firms have begun to source complex core activities in addition to simple, repetitive non-core activities (Bengtsson et al., 2009). In fact, innovation-seeking outsourcing attempts to achieve competitive advantage by capitalizing on new technologies, a more technologically competent workforce, and increased learning opportunities provided by outside entities (Weigelt, 2009).

2.2. Organizational control

Organizational control refers to the business process by which organizational entities impact and motivate other entities to carry out collaborative plans to ensure that specific organizational goals are met (Kirsch, Sambamurthy, Ko, & Purvis, 2002; Rooney & Cuganesan, 2009). Two primary types of organizational control include formal and informal control (Jaworski, 1988; Kirsch et al., 2002). Formal control can be further divided into process control (i.e., behavior/action-based control) and output control (i.e., results-driven control). Informal control refers to social control (i.e., clan-involved control) and emphasizes rich interactions. This study employs three types of organizational control (i.e., process control, output control, and social control) using a framework that has been well accepted by control researchers (Chen et al., 2009; Das & Teng, 2001; Groot & Merchant, 2000).

Process control refers to all activities related to supervision, regular inspection, and non regular inspection. Firms that implement effective process control clarify due process details, including pre-specified procedures, formalized roles and job descriptions, training, rigorous reporting and approval processes for managing organizational routines, problem solving, and goal-directed activities (Cardinal, Sitkin, & Long, 2004; Chen et al., 2009; Das & Teng, 2001; Groot & Merchant, 2000).

While process control focuses on the methods by which suppliers achieve specific outcome requirements (Kirsch et al., 2002), output control focuses on defining the specific performance outcome goals that suppliers should achieve. Output control focuses primarily on outsourcing outcomes and requires clear goals, specification of outsourcing activities, adequate incentives, and corrective measures (Kirsch et al., 2002). Upon completion of a deliverable product or service, final outcomes can be compared to the original plans. To the extent that noticeable discrepancies arise between planned and actual outcomes, firms can take corrective action. Due to technological and market uncertainty, task complexity often requires firms to revise their final outsourcing goals. Therefore, when undertaking any outsourcing enterprise, firms should consider (a) the process of post-outsourcing goal revision and (b) the factors that may influence collaboration with their outsourcing partners based on the revised goals. Such effective output control activities remove or reduce potential conflicts as well as decrease opportunistic behaviors (Das & Teng, 2001). As a result, firms are able to focus more on problem-solving activities and goal-achievement efforts.

Social control refers to the distribution and expression of shared values, beliefs, and goals through formal and informal communication channels, such as meetings and other forms of social communication. Social control is applied when task-related behaviors and outputs are ambiguous and not clearly specified (Das & Teng, 2001). In such circumstances, firms may focus on shared values, beliefs, and goals through social interaction and communication that further enhances suppliers’ motivation and commitment, thus accomplishing the firms’ intended goals (Chen et al., 2009; Das & Teng, 2001).

2.3. Relationships between outsourcing strategy and organizational control

Organizational control plays a key role in strategy implementation (Chen et al., 2009). Prior research on outsourcing has indicated that outsourcing strategies are linked with organizational practices, such as failure-prevention practices and performance-enhancing practices (Hartmann, Trautmann, & Jahn, 2008; Narasimhan, Narayanan, & Srinivasan, 2010). In discussing outsourcing alliances in China, Li et al. (2008) emphasized the point that the strategic acquisition of tacit knowledge through inter-firm cooperation has an impact on the use of

[Fig. 1. A conceptual model of outsourcing strategy, organizational control and outsourcing performance.]
control mechanisms and subsequently affects firm innovation. Similarly, appropriate control mechanisms are necessary for the effective implementation of specific outsourcing strategies (DiRomualdo & Gurbaxani, 1998).

2.4. Outsourcing performance

The primary driver of early traditional outsourcing has been the pressure for cost reductions. Since the 1990s, the objectives of outsourcing have been broadened somewhat and now include the goal of seeking sustainable competitive advantage (Hatonen & Eriksson, 2009). Firms also include other outsourcing performance measures, such as (1) innovation, financial performance, and stakeholder performance (Gilley & Rasheed, 2000); (2) responsiveness or flexibility (Handley & Benton, 2009); and (3) time to market, product functionality, and time specificity (Bengtsson et al., 2009). The evaluation criteria of outsourcing performance have evolved from cost reduction based on transaction cost theory to sustainable strategic value supported by a resource-based perspective (Varadarajan, 2009; Zhou & Li, 2010). Thus, outsourcing performance includes both cost reduction measures and overall strategic value dimensions. This study integrates two types of performance measures: (1) traditional financial outsourcing performance measures that focus on cost reductions, cash flow improvement, and enhancement of investment efficiency; and (2) strategic outsourcing performance measures that achieve competitive advantage and increase focusing on core business and operational flexibility.

2.5. Relationships between organizational control and outsourcing performance

Not all outsourcing practices provide desirable performance results. In the course of pursuing outsourcing processes, firms may experience a variety of risk factors, including increased transaction costs, opportunistic behaviors of outsourcing partners, loss of innovative capabilities, increased dependency, and heightened vulnerability (Kotabe et al., 2008). Without proper control measures in place to mitigate these risk factors, outsourcing may result in a net loss in terms of competitive advantage. In this respect, prior research on the benefits and risks of outsourcing has emphasized the need for effective control over suppliers as the primary drawback to outsourcing (DiRomualdo & Gurbaxani, 1998; Kotabe et al., 2008; Lau & Zhang, 2006). Proper control measures impact positive outsourcing performance outcomes by reducing the overall outsourcing risk factors (e.g., relationship risk and performance risk) and maximizing the outsourcing benefits (Kremic et al., 2006; Lonsdale, 1999).

3. Case study methods

Case studies are useful in examining how or why particular business practices work in authentic, real-life contexts. In this study, we focus on foreign MNCs’ subsidiaries in China that have implemented various organizational controls to achieve competitive outsourcing performance requirements. Our multiple-case design permits us to examine the relevance of the research model and causal relationships among variables (Eisenhardt, 1989; Yin, 2003).

3.1. Case selection

A purposeful sampling technique was used to select firms that implement efficiency-seeking and/or innovation-seeking outsourcing strategies in China. We selected the five MNCs that have operated for more than seven years in Huadong, an area that is regarded as one of the centers of Chinese economic activity. This study is limited to manufacturing sectors among wholly-owned MNCs’ subsidiaries in China to control extraneous variation (e.g., differences between the contractual joint ventures and wholly-owned foreign MNCs and between the service sectors and manufacturing sectors) (Eisenhardt, 1989). Table 1 provides an overview of case companies that have participated in this study.

3.2. Data collection and analysis

We conducted in-depth interviews with senior executives, including CEOs, purchasing managers, production managers, and outsourcing specialists from five MNCs. We employed semi-structured interviews based on a predesigned interview protocol to ensure reliability and to systematically collect the data (Eisenhardt, 1989; Tellis, 1997; Yin, 2003). Each interview lasted approximately two hours. All interviews were tape-recorded and transcribed for later analysis. Additional information was collected through follow-up telephone interviews and archival records (corporate brochures, presentations, annual reports, websites, and newspaper reports). During the follow-up interviews, original informants reviewed each case report to ensure construct validity (Yin, 2003). We also visited the premises of outsourcing suppliers, observed activities at these sites, and examined the nature of outsourcing management and control practices to check the accuracy of the interview details. All the responses were initially classified according to the research model (Fig. 1). Two new variables (i.e., competence trust and knowledge) were identified during the coding and data analysis processes. We chose the analytic induction method to refine the conceptual model in the course of comparing the interview data with the model.

4. Research results

4.1. Outsourcing strategy

All the firms involved in this study employ efficiency-seeking outsourcing, and three firms (CA, CC, and CE) use both efficiency-seeking and innovation-seeking outsourcing (Note: CA, CB, CC, CD, CE refers to Case firm A, B, C, D, and E, respectively).

4.1.1. Efficiency-seeking outsourcing

The common outsourcing motive of these case firms is comprehensive cost reductions. Another strategic intent of outsourcing is to align firms’ goals with suppliers’ professional management capabilities and

| Table 1 | The overview of case companies. |
| --- | --- | --- | --- | --- | --- |
| Case A (CA) | Case B (CB) | Case C (CC) | Case D (CD) | Case E (CE) |
| Products | Apparel | Power supply | Power supply, Consumer electronics | LCD panel | Chemical products |
| Duration in China | 8 years | 19 years | 9 years | 7 years | 29 years |
| Origin of country | Korea | USA | Korea | Korea | Japan |
| Investment goal in China | Cost reduction, market access | Cost reduction, market access | Manufacturing, R&D | Cost reduction, market access | Cost reduction, market access |
| Outsourcing items | Manufacturing, design | Manufacturing | Manufacturing, R&D | Manufacturing, R&D | Manufacturing, R&D |
The importance of clear outcome objectives regardless of the types of CE, target cost (CA, CD), target delivery (CA, CB, CC, CD, CE), and clear sourcing from existent products. Beyond internal development and production, new products into the market with shorter lead times and lower costs. To successfully implement this type of outsourcing arrangement, CA has used comprehensive outsourcing that includes design and product manufacturing. In order to manufacture outsourcing, CA also has used comprehensive outsourcing procedures (CA, CB, CD, and CE) and regular and non-regular inspection (SMD) and auto insertion (AI) processes instead of manual insertion processes. For these new processes, CC collaborated with large-scale electronic manufacturing services (EMS) firms to improve its overall manufacturing efficiency. Among the CD's liquid crystal display (LCD) module manufacturing processes, back light unit (BLU) assembly process and aging test process are all time-consuming procedures. In order to solve this problem, CD outsourced several of the final processes (e.g., BLU assembly, aging and final test, and packaging processes) to the BLU suppliers. CE's main sourcing items in China are chemical products for its Japanese customers. CE sourced a wide range of chemical products from Chinese manufacturers and produced premium-level and cost-competitive chemicals for its loyal Japanese customers.

4.1.2. Innovation-seeking outsourcing

Three case firms (CA, CC, and CE) currently have attempted to find new opportunities to create value for customers by relying on the external capabilities that are located in their surrounding business networks. These case firms acquire new capabilities through outsourcing arrangements and enhance their business capabilities (CA, CE) or even dare to expand new lines of business (CC). Besides simple manufacturing outsourcing, CA also has used comprehensive outsourcing that includes design and product manufacturing. In order to successfully implement this type of outsourcing arrangement, CA has continued to explore and recruit capable suppliers that have both design and manufacturing capabilities and utilize their capabilities to introduce new products into the market with shorter lead times and lower costs. CC has created new business opportunities by sourcing new products (e.g., DVD players and coffee makers) that are significantly different from existent products. Beyond internal development and production, CC has adopted the practice of outsourcing to help develop new products more efficiently. CE also has been sourcing new chemical products developed by Chinese suppliers since 1998 because CE has accumulated a wealth of information and sourcing experiences in China. The development of new chemical products requires a large-scale investment in physical facilities and high R&D costs. Thus, CE has tried to create partnerships with Chinese manufacturers that have R&D and manufacturing capabilities.

4.2. Organizational control

4.2.1. Output control

Some of the various output controls exercised by these case firms included clear specification of outsourcing activities (CA, CB, CC, CD, CE), target cost (CA, CD), target delivery (CA, CB, CC, CD, CE), and clear incentives and punishments (CA, CD, CE). All case firms emphasized the importance of clear outcome objectives regardless of the types of outsourcing. In general, efficiency-seeking outsourcing among these firms tends to focus on operational routines and standardized processes and tasks. For example, CB uses insourcing for complex products with small volumes. On the other hand, CB outsources simple products with large volumes and stable demand patterns. Such outsourcing has a high level of output measurability, and thus utilizes output control for minimizing business conflicts or opportunistic behaviors of its suppliers. CA uses clear reward incentives and punishments by clarifying the extent of each party's responsibility when it enters outsourcing contracts. Such output control mechanisms require suppliers to meet requirements in a timely manner even in the event of specific outsourcing failures. Long-term business relationships are based on such responsible actions and mutual trust. When CC outsources DVD players, which have little to do with its existing product lines, CC does not maintain internal knowledge for the work domain that is outsourced. Previous research on outsourcing has noted that without outsourcing-specific knowledge, the outsourcer tends to depend on its supplier; as a result, effective control needs are quite important (Chen et al., 2009). CC, therefore, entered into partnership arrangements with a large global Korean firm that was quite successful in producing and marketing household appliances, and thus it has access to expert knowledge as well as outsourcing and market strategy details. By taking advantage of the large partner firm's knowledge and outsourcing know-how, CC has developed a set of control lists (e.g., software checklists, hardware checklists, and clear product specifications) in order to exercise effective output control. CC also required its suppliers to meet clear target delivery requirements in terms of timely product development and precise order fulfillment of high-quality goods at competitive prices. Our study indicates that output control is an important control mechanism for creating effective outsourcing outcomes. CE's sourcing specialist mentioned the importance of output control for successful outsourcing: "Make your requirement as clear and as detailed as possible, and lead them to do what you want them to do."

4.2.2. Process control

Process control centers on the activities by which suppliers work toward desirable outcomes, while output control focuses on the results. In our study, process control exercised by case firms included specified procedures (CA, CB, CD, and CE) and regular and non-regular inspection (CA, CB, CC, CD, and CE). For example, to ensure reliable product quality, CA regularly sends its own inspection team to BLU suppliers in order to let them produce the LCD module according to strict procedures and specifications. CA and CB sent their executives (CA's outsourcing manager and CB's quality manager) to the suppliers to confirm and verify all the process details with the suppliers. With detailed procedure manuals in hand, CA and CB's executives stayed at the manufacturing facilities of Chinese suppliers and provided necessary support for effective process implementation. Most firms relaxed the extent to which they exercised process control over their suppliers that had successfully passed the initial quality standards tests.

4.2.3. Social control

In our study, social control is evident primarily in firms (CA, CC, and CE) that apply innovation-seeking outsourcing. Social control requires a high degree of communication (CA, CC, and CE) in order to exchange shared information, shared values, and vision. Social control measures are quite useful for long-term collaboration and mutual understanding, even when problems and issues arise. For example, CA was engaged in outsourcing activities that included both design and manufacturing. CA maintains a high degree of social contact with its suppliers’ design and marketing team members. These design and marketing team members possess the ability to design new products and scan the environment for emerging market opportunities. They are quite capable of sharing information in diverse areas, including design selection and raw materials choices. Therefore, close communication with the design and marketing team members through social control mechanisms is important in order to capitalize on these
suppliers’ critical capabilities. CC executives regularly interacted with the suppliers to examine engineering specifications and determine product design details. A Korean CEO also visited one of its suppliers in China, commented on the growth potential of the Korean market, and thus began to develop a strategic partnership. Such shared vision enabled CC and its supplier to develop win-win partnerships resulting in mutual business growth opportunities. CE attempted to build effective working relationships with key figures within the organizational structures of its suppliers and invited them to Japan every year. CE’s sourcing specialist noted the importance of social control: “In China, if you can’t make friends with them, if you don’t drink with them, then you can’t be a good business partner.” Thus, CE’s sourcing team frequently invited suppliers to have dinner with them to build close relationships.

4.3. Outsourcing performance

The results of measuring outsourcing performance are summarized in Table 2. Regarding efficiency-seeking outsourcing, all the case firms show satisfactory results in financial performance and strategic performance. For foreign MNCs in China, efficiency-seeking typically focuses on achieving both short-term financial benefit and long-term strategic value (Williamson, 1991). With stiff competitive challenges (e.g., increasing pressure for downward prices), sustaining efficiency throughout a firm’s entire operation has become a strategic imperative. For example, CD develops, produces, and markets much more complex and higher value-added products than the other case firms. Despite this strongpoint, CD still needed to reduce costs in order to secure its competitiveness and achieved a 30% cost reduction by contracting out final LCD assembly process and delivery services to its component supplier (i.e., BLU manufacturer). The BLU manufacturer also has entered into a new business area by expanding its manufacturing capacity to include LCD module assembly processes. Such win-win relationships benefit both CD and its supplier by ensuring flexible production systems.

CA outsourced both manufacturing processes and new product designs to Chinese suppliers. These two types of outsourcing achieved both cost reduction and better design performance options. Thus, CA enhanced its overall product development capabilities to serve the demanding Korean market without additional investment. An increasing global competition dictates apparel firms to integrate multiple requirements, such as cost competitiveness, trendy design, quality assurance, and fast market introduction. One executive from CA characterized its outsourcing as “speed sourcing” and explained that successful outsourcing in China has been playing a major role in its Korean market expansion. CC and CB outsourced a portion of their manufacturing processes. Such partial outsourcing did not necessarily reduce simple processing costs. In the case of CB, outsourcing instead increased overall cost by 10%. However, without additional major investment, CB accomplished SMD and auto inserting tasks through outsourcing and thus enhanced its overall production efficiency. CB’s vice-CEO commented on its outsourcing efforts with these words: “In the short run, the costs rather increase with outsourcing. In the long run, outsourcing allows our firm to organize and utilize internal resources more efficiently. So we are satisfied with the outsourcing results.”

CA, CC, and CE applied outsourcing to innovation-seeking practices. This type of outsourcing enabled CA and CE to increase the frequency and speed with which it was able to introduce various new products to the market ahead of its competitors. CC executives were happy with the fact that CC launched new business with no additional major investment.

4.4. Case summary

Based on the above analyses, Table 3 summarizes the measurement results on outsourcing strategy, organizational control, and outsourcing performance.

5. Discussion and research proposition

For efficiency-seeking outsourcing, outsourcers generally have adequate knowledge about outsourcing details and are able to measure specific outsourcing processes and outcomes. Thus, outsourcers tend to use output and process control to successfully implement efficiency-seeking outsourcing, as researchers on control mechanisms have acknowledged that high levels of “knowledge of the task programmability” and “output measurability” are appropriate with both process and output control (Das & Teng, 2001). Besides the use of formal control mechanisms to successfully implement efficiency-seeking outsourcing, conducting business in China commonly requires guanxi (i.e., strong personal relationships) (Belcourt, 2006). Previous studies have reported that when both process and output measures are clear, formal control is most valuable and social control is not appropriate (Das & Teng, 2001). Our study, however, suggests that social control is quite useful for implementing efficiency-seeking outsourcing in a Chinese context in which outsourcers employ guanxi to activate the suppliers’ voluntary commitment to sustainable and measurable high-quality processes.

Proposition 1. Efficiency-seeking outsourcing primarily uses formal control measures (output control and process control), while social control is necessary in case potential relational risks exist.

Existing theories on international joint ventures proffer that as firms pursue innovation-seeking motives, the increasing level of tacit knowledge and uncertainty allows for a lower level of output measurability, and, accordingly, the importance of social control and process control is naturally emphasized (Chen et al., 2009). However, this study finds that social control and output control are required primarily for successful innovation-seeking outsourcing (CA, CC, and

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<th>Table 2</th>
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<td><strong>Outsourcing performance of case companies.</strong></td>
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<tr>
<td><strong>Outsourcing items</strong></td>
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<tr>
<td>Financial performance</td>
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<tr>
<td>Cost reduction</td>
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<tr>
<td>Productivity</td>
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<td>Better cash flow</td>
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<td><strong>Strategic performance</strong></td>
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<td>Flexibility</td>
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<td>Competence</td>
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<tr>
<td>Focus on core</td>
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<tr>
<td><strong>Outsourcing Performance</strong></td>
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*MFG: manufacturing, V-High: very high.*
Table 3
Case summary.

<table>
<thead>
<tr>
<th>Outsourcing items</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
<th>Case E</th>
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</thead>
<tbody>
<tr>
<td>Outsourcing strategy</td>
<td>MFG</td>
<td>Design/MFG</td>
<td>MFG</td>
<td>R&amp;D/MFG</td>
<td>MFG</td>
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<tr>
<td>Efficiency-seeking Innovation-seeking</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Innovation-seeking</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
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<td>Organizational control</td>
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<tr>
<td>Output control</td>
<td>High</td>
<td>High</td>
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<td>High</td>
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<tr>
<td>Process control</td>
<td>High</td>
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<td>Medium</td>
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<tr>
<td>Social control</td>
<td>Low</td>
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<tr>
<td>Outsourcing performance</td>
<td>High</td>
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</table>

CE), which is typically characterized by high levels of knowledge. Social control in innovation-seeking outsourcing promotes the suppliers’ commitment and acquisition of useful knowledge with a high level of interaction. Regarding output control mechanisms, foreign manufacturing MNCs in China usually do not take extreme risks by outsourcing items with low output measurability. When firm CC outsourced a new item, it collaborated with its partner firm, which has knowledge about outsourced products, in order to exercise output control. In terms of both innovation-seeking and efficiency-seeking outsourcing, it should be noted that outsourcing by nature entrusts tasks to suppliers through contracts. Thus, it is essential to specify clearly the output requirements in order to minimize outsourcing risks and avoid opportunistic behaviors. Furthermore, innovation-seeking and efficiency-seeking outsourcing are not mutually exclusive. A high degree of innovation is critical in order to create premium value for products, and yet efficiency (e.g., competitive pricing) is essential for successful market positioning. Innovation-seeking outsourcing also requires an adequate degree of efficiency. Thus, process control is necessary when implementing innovation-seeking outsourcing as well.

Proposition 2. Innovation-seeking outsourcing primarily uses output control measures and social control measures, while process control is necessary in case stringent efficiency requirements exist in a particular market.

This study also shows that competence trust and in-house knowledge moderate the relationship between outsourcing strategies and process control. According to Das and Teng (2001), trust has two vital dimensions: goodwill trust and competence trust. Competence trust refers to the ability of suppliers to accomplish assigned tasks, whereas goodwill trust focuses on suppliers’ noble intentions and integrity (Das & Teng, 2001). Since goodwill trust is more concerned with relationship issues, this study instead focuses on competence trust in the capabilities of suppliers to perform specific tasks. The case studies suggest that ongoing outsourcing performance exerts a feedback effect on the competence trust. Based on superior outsourcing performance records, two case firms (CB, CC) have trusted their suppliers’ process capabilities. As a result, they do not apply strict process control and instead focus on output control. On the other hand, the suppliers deemed not so reliable require continuous process control measures to ensure successful outsourcing strategy implementation.

In contrast to competence trust, the knowledge of the outsourcer has a positive effect of outsourcing strategies on process control. In this study, the term “knowledge” refers to the outsourcer’s understanding of in-house processes as well as the outsourced tasks; this knowledge is useful for testing and applying the outsourcing outcomes (Cui, Loch, Grossmann, & He, 2009) and achieving efficient control over the outsourced activities (Lacity, Willcocks, & Feeny, 1995). Outsourcers may have better manufacturing systems (CD) or greater knowledge about outsourced tasks (CA, CB, CD, CE) than suppliers. In these situations, outsourcing arrangements tend to strengthen process control and ensure effective outsourcing outcomes by utilizing their expert knowledge. Thus, since the effects of outsourcing strategies on process control mechanisms depend on both competence trust and the expert knowledge of outsourcers, we propose the following:

Proposition 3. Competence trust weakens the relationship between outsourcing strategy and process control because suppliers are confident in securing effective outsourcing performance.

Proposition 4. Knowledge about outsourced tasks strengthens the relationship between outsourcing strategy and process control because outsourcing firms want to secure higher quality by exercising process control.

Loss of control is an important reason for outsourcing failures. All these case firms implemented a combination of different control mechanisms in order to obtain desirable outsourcing outcomes in different contexts. Previous research has focused on the ways that outsourcing intensity impacts outsourcing performance, or firm-level performance, and the results of this research do not follow consistent patterns. Although firms intend to achieve cost and operational efficiency and acquire innovation capability through outsourcing, not all outsourcing arrangements provide the satisfactory results that firms have expected. Our case study suggests that in different contexts, appropriate combinations of controls are required to achieve expected outsourcing results. In addition, an immediate feedback loop exists between outsourcing performance and competence trust. Excellent outsourcing performance enhances competence trust over time, and unsatisfactory outsourcing performance subsequently diminishes competence trust in suppliers. Fig. 2 shows a revised model based on our case study analysis.

![Fig. 2. Revised model for effective outsourcing performance.](image-url)
Proposition 5. Appropriate combinations of organizational control mechanisms that are in accordance with outsourcing strategies are positively associated with outsourcing performance outcomes.

Proposition 6. Outsourcing performance moderates the degree of competence trust toward suppliers.

6. Conclusion

The results of this study suggest that different outsourcing strategies require the implementation of different types of organizational control measures in order to obtain desirable outsourcing outcomes. The results of this study also provide useful insight into the ways that MNCs’ subsidiaries may achieve effective outsourcing performance. This study focuses on two types of outsourcing strategies—efficiency-seeking outsourcing and innovation-seeking outsourcing—and emphasizes that different outsourcing strategies necessitate the use of appropriate control mechanisms in view of strategic priority differences. Efficiency-seeking outsourcing primarily adopts formal control, while innovation-seeking outsourcing uses social control and output control in order to achieve desirable outsourcing outcomes. In addition, MNCs’ subsidiaries in China that adopt efficiency-seeking outsourcing use social control to increase their suppliers’ commitment when they perceive potential relational risk. Furthermore, the results of this study suggest that the role of process control tends to diminish over time as outcome-based feedback mechanisms enhance competence trust in suppliers, whereas the in-house knowledge of outsourcers has a positive effect on outsourcing strategies and the use of process control. Thus, effective design of organizational control requires firms to consider carefully Chinese business contexts, the types of outsourcing strategies used, the level of competence trust in suppliers, and their in-house knowledge of outsourcing activities.

MNCs’ subsidiaries in China have responded to increasingly dynamic competitive requirements by implementing effective outsourcing strategy practices. Our case studies suggest that MNCs’ subsidiaries in China expect more from their outsourcing suppliers than price competitiveness. Increasingly, the reality of intense competition has required firms to pursue complex outsourcing goals that include efficiency, flexibility, innovativeness, and sustainability. Extending this research framework, future studies may examine diverse outsourcing practices in different industries (e.g., service outsourcing). As firms strive to meet complex product and service requirements in a dynamic global market environment, it is all the more critical to align organizational control practices with competitive outsourcing performance and, thus, future research in this area will be even more valuable.

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