

# **Is Outsourcing What's Cracked Up to Be or Just a Fad?**

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## **ABSTRACT**

Outsourcing has gained much prominence in managerial practice and academic discussions in the last 15 or so years. Yet, we still do not know the full implications of outsourcing strategy for corporate performance. Until quite recently it was generally accepted that outsourcing, and especially outsourcing across borders, was primarily implemented to cut costs in order to uphold competitiveness. Of course, these lower production costs are offset somewhat by higher transaction costs, because of the difficulties associated with sourcing across borders. A recent core competency argument is that outsourcing leads to an increased focus on remaining activities. However, no general explanation has so far been provided for how outsourcing could lead to deterioration in a firm's competence base. I will examine how outsourcing is influenced by an organizations' current set of competences, but also how it alters that set over time. I provide such an explanation by developing an evolutionary stage model that relates outsourcing to competence development inside the firm and shows that a vicious cycle may emerge. This is primarily based on my in-depth case studies of major consumer electronics manufacturers, Emerson Radio from the U.S., Japan's Sony and Philips from the Netherlands. Strategic implications can be sought for Korean and other emerging multinationals.