

# HORIZON

## OUTSOURCING DISAPPOINTMENT COULD BECOME A THING OF THE PAST.



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# INTRODUCTION

**Outsourcing was conceived in the 1960s**, and since then it has become a pervasive management approach (Wolverton et al., 2020; p2).

**“Why is that and why haven't we yet figured out how to make it work effectively?”**

In this article I set out the hygiene and hidden factors of outsourcing that organisations must pay attention to, to avoid the disappointment of outsourcing failing to meet expectations.

**The global outsourcing industry is worth \$526.6 BN**, a rough estimate is that 50% of these deals fail to meet performance expectations (Lacity and Wilcocks, 2017).

It is fair to say this causes organisations substantial issues [1] that we at Horizon Seven spend most of our waking hours preventing/ resolving with great procurement.

**“Why is outsourcing still so widely used given its poor delivery of expectations?”**

This question has troubled me for a whole decade now. I am fascinated with why organisations continue to employ the outsourcing approach given its often poor performance.

**I believe we can resolve the performance issues in outsourcing.**

# CLUES FROM OUTSOURCING LITERATURE

**Outsourcing's foundations come from transaction cost economics theory or 'cost driven' [2].**

It makes sense for buyer organisations to ask supplier organisations to provide services at scale that would cost the buying organisation more to deliver themselves.

It is perhaps not surprising that **the main focus in outsourcing is on the commercial and contractual relationship** between the buyer and the supplier [3].

My review of the last 30 years of outsourcing literature reveals two really interesting observations;

**1. Outsourcing was primarily focused on the benefits on offer from outsourcing (between 2000 and 2007) [4] then it gave way to literature focused on behaviours in outsourcing (2006 to now) [5] with a focus on inter-organisational relationships [6].**

**2. There is an ongoing concern (1996 - now) in how to achieve performance in outsourcing. [7]**

The **first point (1) represents a shift in focus** in the literature from the need to justify outsourcing in terms of its benefits, to methods in managing inter-organisational relationships and behaviours to achieve the promised benefits.

The point at which the literature **adapted from justifying outsourcing, circa 2006-7, to the ways in which to extract and manage benefits** at the inter-organisational level is (likely to be) the point at which outsourcing became an accepted-without-question management approach that no longer needed justification.

The **second point (2) shows how the extended and continued research focus** on how to achieve outsourcing success demonstrates that despite outsourcings persistent use as a management approach, achieving the anticipated results continues to be problematic.

“SO WHY ISN'T  
OUTSOURCING DELIVERING  
EXPECTATIONS?”

The thing is, **no one - not ever - has challenged outsourcing as an effective management approach.**

It's been called a 'management fashion' (Price 2012) and 'fad' (Lonsdale and Cox, 2000), but we are talking two authors here in a whole history of academic thinking on outsourcing.

# HYGIENE PRACTICES IN OUTSOURCING

IN A SURVEY OF OUR CLIENTS, 100% SAID THEY WEREN'T FOLLOWING GOOD OUTSOURCING HYGIENE PRACTICES

Let's put to one side the fact that I believe something else is going on here that drives the outcomes of outsourcing, there are just some hygiene factors that every organisation needs to get right before we can even think about maximising performance and outcomes of outsourcing.

There are four types of hygiene factor that set outsourcing off on the right foot;

1. **A good sourcing strategy** that maps to business and technology strategies is the foundation of success.
2. **Good procurement processes** address the imbalances of power and poor commercial deals.
3. **A transparent and appropriate contract** that is outcome-based and a useful, flexible tool for the future.
4. **Well defined and properly managed governance** will ensure communications are good, and the relationship stays healthy.

It is clear from working with lots of buyers - that these hygiene factors are simply not being met in preparation for, and execution of outsourcing deals.

So, let's assume you are one of the very few organisations that does meet these hygiene requirements, you may be wondering why then, your outsourcing deals still fail to meet your expectations.

On top of the hygiene factors, there are four hidden factors which block performance of outsourcing.



# HIDDEN FACTORS IN OUTSOURCING

1. **Creating a joint understanding of the deal** and what both parties get out of it overcomes different ways of thinking.
2. **Creating your own language** that describes the outcomes in a way you both understand and sign up to in the beginning.
3. **Embrace the mutual gains to be had** from the contract, do not conceal how much you will save or profit – and balance this out. Think win-win!
4. **Create one team**, sit together if possible. Have regular face-to-face and informal governance.

We do a lot of work with organisations, having bought outsourcing well, that still find it difficult to meet the original expectations of outsourcing deals.

This is because two organisations are coming together with completely different cultures, language, and organisational objectives - that often compete with each other (covertly if not overtly).

The hidden factors are all about addressing this by building one culture.

**“OUTSOURCING WON’T SUCCEED  
BY HABIT OR HOPE,  
ONLY BY CONSCIOUSLY  
MANAGING THE FACTORS MOST  
ORGANISATIONS OVERLOOK.”**

## FIVE KEY TAKEAWAYS

- Outsourcing has become a long-established and widely adopted management practice, yet organisations still struggle to make it consistently effective.
- Roughly half of outsourcing deals fail to meet performance expectations, creating recurring challenges for organisations that rely on them.
- Many outsourcing issues stem from a strong focus on commercial and contractual elements while overlooking the relational and behavioural factors that strongly influence outcomes.
- The industry's evolution shows a growing recognition that successful outsourcing depends on well-managed inter-organisational relationships, not just cost or efficiency drivers.
- Despite decades of use, the core assumptions behind outsourcing as a management approach have rarely been questioned, leaving fundamental performance issues unresolved.

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[2] (Coarse, 1937; Williamson, 1985 both cited by Weeks and Galunic, 2003: p1310) (Shepherd and McKelvey, 2009: p137) (Lonsdale and Cox, 2000)

[3] Handley and Angst, 2015; Handley and Benton, 2012

[4] Fan, 2000; Dean and Kiu, 2002, Dhar and Balakrishnan, 2006; Ngwenyana and Sullivan, 2007

[5] Rebernik and Bradac, 2006; Hofer et al, 2009; Hartman and Grahl, 2011; Bhattacharya et al, 2015; Amster and Bohm, 2015; Steinbach et al, 2018

[6] Handley and Benton, 2012; Vaxevanou and Konstantopoulos, 2015; Handley and Angst, 2015; Schoenherr et al., 2015; Lacity and Wilcocks, 2017; Magnani et al., 2019; Wei, 2021

[7] Embleton and Wright, 1998; Lonsdale, 1999; Darwin et al., 2000; Koh et al., 2004; Gottschalk and Sollisather, 2005; Qi and Chau, 2013; Schwarz, 2014; Gorla and Somers, 2014; Wolverton et al., 2020