Strategic Orientation of Outsourcing Firms: Demystifying Key Differentiators

Kirti Sharda

W.P. No. 2009-12-03
December 2009

The main objective of the working paper series of the IIMA is to help faculty members, research staff and doctoral students to speedily share their research findings with professional colleagues and test their research findings at the pre-publication stage. IIMA is committed to maintain academic freedom. The opinion(s), view(s) and conclusion(s) expressed in the working paper are those of the authors and not that of IIMA.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380 015
INDIA

Strategic Orientation of Outsourcing Firms: Demystifying Key Differentiators

Kirti Sharda
Assistant Professor
Indian Institute of Management, Ahmedabad
Email: kirti@iimahd.ernet.in

Abstract

Despite the importance of outsourcing firms and the highly competitive nature of the outsourcing industry, there has been minimal examination of outsourcing firm strategy. This paper investigates the strategic focus of 60 outsourcing firms using empirical data collected through survey and semi-structured interviews from 226 top management team respondents. Factor and cluster analysis reveal three outsourcing firm archetypes based on their strategic orientation, namely, superachievers, quality advocates and defenders. The dominance of these archetypes also varies across business activities offered by sample firms. By delineating dimensions underlying outsourcing form strategy and by identifying archetypes of strategic orientation, the paper provides an understanding of key differentiators of outsourcing firm performance.

INTRODUCTION

Driven by developments in information and communication technology and globalization, the outsourcing industry has shown impressive growth in the last decade. The global market size of the industry has increased from approximately US$6 billion in FY2000 to almost US$60 billion in FY2009 (www.nasscom.in). As the spread of outsourcing model has increased, new forms of organization have emerged, known as *"outsourcing firms."* Outsourcing firms are distinctive organizations which exist with the sole objective of being providers of outsourcing services and activities to client firms. These firms can be defined as *"higher capability firms that provide determined non-strategic activities or business processes or human resources, necessary for the manufacture of goods or provision of services, by means of agreements or contracts with client organizations, with the aim of improving the clients' competitive advantage"* (Sharda, 2008). Outsourcing firms have steadily grown not only in terms of number but also in scope of services provided. Almost 82% of large firms in Europe, Asia and North America have outsourcing arrangements, and almost 51% of them use offshore outsourcing firms (Gottfredson, Puryear & Phillips, 2005). With their growth, the bargaining position of these firms has changed too. Their tremendous growth and success has led some to label them as the "*oil barons of 21st century*" (Greco, 1997; Logan, 2000).

The current economic downturn, however, has thrown up some serious challenges for outsourcing firms. It has dampened demand in the global markets which has translated into lesser number of new contracts and tightening budgets from existing clients. Competition has intensified amongst outsourcing firms as a result of which smaller players are being squeezed out by their larger competitors. To add to this, there is

renewed resistance against outsourcing in large export markets such as US and UK due to rising unemployment.

Despite these challenges, the outlook for outsourcing firms is still optimistic. The global outsourcing industry grew at a rate of 12% in 2007-08 and 14.8% in 2008-09, which was highest among all technology related segments (www.nasscom.in). This trend is expected to continue, and the worldwide outsourcing market is projected to grow at a CAGR of 11.9% to reach $181 billion by 2012 (www.nasscom.in). The economic crisis has forced clients to outsource more processes due to greater need for operational efficiency, reduced complexity and more standardization besides controlling costs. Recession has also exerted pressure on outsourcing firms to explore new sectors and new markets (Frost & Sullivan, 2009), thereby creating new business opportunities in the outsourcing industry. It is estimated that the Asia Pacific outsourcing market will grow from US$13.7 billion in 2008 to US$20.3 billion in 2011, and the majority of this revenue will be generated from India, Philippines, Malaysia and China (Frost & Sullivan, 2009). Analysts believe that amongst these main growth markets, India is best poised to blaze along the outsourcing success trail (Frost & Sullivan, 2009; India Knowledge@Wharton, 2008).

In order to take advantage of these new opportunities, outsourcing firms will have to gear up. Leading researchers believe that outsourcing companies can stay afloat during the crisis, and perhaps even get ahead, by offering "core" services and replacing transaction-oriented client relationships with strategic partnerships aimed at helping businesses transform themselves in the current economic environment (India Knowledge@Wharton, 2008). Other experts think survival for outsourcing firms will depend on the continuation of their existing strategies (India Knowledge@Wharton, 2008). Some industry analysts assert that outsourcing firms will have to move up the value chain through a strategy of

offering more data services to foreign clientele (Frost & Sullivan, 2009). Yet others believe that outsourcing firms will have to diversify not only in terms of geographies, verticals and service lines, but will also have to enhance focus on domestic markets to de-risk their business and tap in local growth opportunities (www.nasscom.in). *It appears from this debate that strategy, now more than ever, will determine the difference between success and failure of outsourcing firms.*

EXTANT RESEARCH

Despite the importance of outsourcing firms and the highly competitive nature of the outsourcing industry, there has been minimal examination of outsourcing firm strategy. Most research examines the "fit" between outsourcing and client organizations' strategic needs, but neglects the strategic compulsions of outsourcing firms (see Gottfredson, Puryear and Philips, 2006; Huber, 1993; Jurison, 1995; Loh & Venkatraman, 1992; Looff, 1995; Quinn, Doorley & Paquette, 1992).

An extensive review of literature yielded just one study on vendor value proposition in outsourcing. Levina and Ross's (2003) identified three strategic dimensions that a vendor firm could use to respond to client needs and demands: personnel development, methodology development and customer relationship management. Personnel development entailed replacing high-cost staff with lower-cost, junior employers and investing in their skill-development through training, mentoring and team-based project work. Methodology development focused on consistent delivery of best solutions to client problems. Customer relationship management included service agreements that reduced uncertainty and created clearer expectations between client and vendor. Levina & Ross (2003) observed these three competencies were complementary to each other and yielded best results when applied simultaneously to an outsourcing project.

However, the findings of this study cannot be generalized since it is a case study of just one long-term outsourcing engagement.

Given the inadequacy of research on outsourcing firms, it becomes imperative to look towards broader strategic management area in order to understand what strategies could be used to gain sustainable competitive advantage. Outsourcing firms have to make critical selections between competitive methods through which they can penetrate markets. Often faced with limited financial and human resources, no reputation, and competition from large, established businesses, outsourcing firms need to seek opportunities and ward off threats before they materialize. One possibility is to pursue niche strategies to avoid direct competition with large firms (Cooper, Willard, & Woo, 1986). Alternatively, an outsourcing firm could choose to make a large-scale entry into the industry. Biggadike (1976) recommended that being more aggressive and broader than incumbents could lead to superior financial and market performance.

In order to arrive at a better understanding of outsourcing firm strategy, this paper focused on two primary research objectives:

1. To identify dimensions underlying strategic orientation of outsourcing firms
2. To identify "archetypes" of strategic orientation of outsourcing firms based on these dimensions

UNCOVERING STRATEGIC DIMENSIONS OF OUTSOURCING FIRMS

Given the absence of theoretical and empirical research on outsourcing firm strategy, the paper integrated literature from broader outsourcing and strategic management areas in order to identify strategic dimensions relevant to outsourcing firms. To begin with,

"*strategic orientation"* was defined on the basis of a set of guidelines proposed by Venkatraman (1989). It was expected that such conceptualization of outsourcing firm strategy would lead to an initial set of operational measures that could be further used for theory testing and subsequent refinements.

Following Venkatraman's (1989) recommendations, the *"strategic orientation of outsourcing firm"* was conceptualized using the following boundaries:

1. The domain of "strategic orientation" was restricted to means adopted (i.e. resource deployment patterns) to achieve desired goals (i.e. outsourcing firm performance), as opposed to studying isomorphic links between means and ends of strategy.
2. The construct was defined at the level of business (and not corporate or functional level). Theoretical issues at business level pertain to the requirement of matching environmental opportunities and competitive threats with the efficient deployment of organizational resources (Bourgeois, 1980; Grant & King, 1982; Hofer & Schendel, 1978). This was seen as more appropriate than defining the construct at a functional level (which is limited) or at a corporate level (which is too aggregated).
3. The study emphasized a broader notion of strategy because emphasis on one or two areas such as marketing or research and development taps only a functional orientation and does not reflect the true strategic orientation of the outsourcing firm's business.
4. The study also focused on "realized" strategy as opposed to "intended" strategy. Mintzberg & Waters (1982) have argued that "conceiving strategy in terms of intentions restricts research to the study of perceptions of strategy makers, which is unproductive." In contrast, realized strategy viewed as a "pattern in a stream of decisions" reflects consistencies in the behaviour of organizations (Mintzberg & Waters, 1982).

5. Finally, taking into account the complexity of strategy concept, the "strategic orientation of outsourcing firm" was assumed to be a multidimensional construct.

A large number of dimensions have been used to study the construct of "strategic orientation" in strategic management literature.[1] Close examination revealed a lot of conceptual overlap between many of these constructs. For instance, "cost efficiency" attribute highlighted by Hambrick (1983) was similar to the strategy of "defensiveness" proposed by Venkatraman (1989). Likewise, "innovation" identified by Campbell-Hunt (2000) was closely related to the concept of "technology" defined by Carter et al. (1994). Similarly, the complexity of "differentiation" (Hambrick, 1983; Miller, 1986, 1987) dimension was reflected in the overlap with a number of factors such as "service" (Carter et al., 1994; Reynolds, Freeman & Oshana, 1986), "technology" (Carter et al., 1994; Reynolds et al., 1986), "quality" (Campbell-Hunt, 2000), "market sensitivity" (Carter et al., 1994; Reynolds et al., 1986) and "product distinctiveness" (Carter et al., 1994). Hence, these attributes were condensed into a set of nine dimensions based on relevance to the outsourcing context in order to create an appropriate starting point for studying the strategic orientation of outsourcing firms. The nine selected dimensions are briefly described herewith.

Product distinctiveness was identified as one of most important attributes of strategic orientation. It referred to the emphasis placed on providing a greater selection of exceptional products, processes or services in order to distinguish the firm from other firms. ***Service*** was another important factor, which tapped the stress outsourcing firms placed on providing a higher level of service than competitors. ***Market sensitivity*** focused on the use of aggressive marketing techniques to react and respond quickly to key

[1] Review of important studies used to understand the strategic orientation construct for this paper is presented in Appendix A.

competitor's moves. ***Cost efficiency*** reflected the concern for cost reduction and efficiency seeking methods. ***Price*** highlighted the strategy of competing on the basis of premium pricing. ***Technology*** referred to the development and use of new and advanced technology to satisfy customer needs. ***Scope*** was an approach that aimed at breadth in both product lines and customer segments. ***Site appeal*** referred to a differentiation strategy that offered convenient location and attractive facilities to customers. ***Human capital*** was defined as the emphasis placed on developing and retaining highly skilled workforce to provide better customer service.

Since, strategic orientation was conceptualized as a multidimensional construct (Hambrick, 1984), in addition to identifying the dimensions, it was also important to understand how these dimensions would interact with each other to create outsourcing success (Carter, Stearns, Reynolds & Miller, 1994). On one hand, these nine dimensions were expected to provide a basis for examining the underlying attributes of outsourcing firm strategy. At the same time, it was acknowledged that each of these dimensions could be associated with a different overall strategy, giving rise to "archetypes" or "clusters" of strategic orientation. Each archetype or cluster would suggest a different pattern of competitive positions, investment strategies, competitive advantages (Hofer & Schendel, 1978), and the strategic choice made by an outsourcing firm could determine its organizational performance (Biggadike, 1976).

METHOD

Research Design

This paper aimed to identify clusters or archetypes of outsourcing firms based on a set of strategic determinants. However, there were some important methodological challenges. Discovering archetypes among outsourcing firms based on prior empirical research was difficult since there was a dearth of studies on strategic orientations of outsourcing firms. Hence, a combination of exploratory as well as descriptive research designs was chosen, which would use inductive methods to identify relevant strategic variables in order to classify outsourcing organizations.

Sample Characteristics

The sample consisted of 60 outsourcing firms across India. In each organization, data was collected from at least three members of top management team (n = 226 respondents) through survey and semi-structured interviews. The demographic profile of sample organizations and respondents is presented in Table 1.

TABLE 1
Sample Demographics

CHARACTERISTICS OF SAMPLE ORGANIZATIONS	
Average age of organization	6.8 years (Ranges from 2 to 21 years)
Average size of organization (with respect to number of employees)	1994.8 employees (Ranges from 14 to 26000 employees)
Ownership of Business	Independent Vendors – 63.3% Partnership Firms – 16.7% Division / Subsidiary Firms – 20.0%
Outsourcing services offered by firms	IT services – 41.7% Financial services – 23.3% Engineering services – 5.0% E- learning / publishing – 3.3% Travel related services – 3.3% Healthcare services – 3.3% Market research services – 1.7% Human resource services – 1.7% Animation – 1.7% More than one service – 15.0%

RESPONDENT DEMOGRAPHICS	
Percentage of Female and Male respondents	Female – 8.4% Male – 91.6%
Average age of respondents	37.0 years (range – 24 to 64 years)
Average prior work experience of respondents	13.7 years (range – 2 to 35 years)
Educational qualification of respondents	High School – 0.0% Diploma – 0.0% Graduation – 6.7% Graduation (professional qualification) – 25.2% Post Graduation – 10.1% Post Graduation (with professional qualification) – 54.6% Ph.D. - 3.4%

Instrument Design

An examination of outsourcing and broader strategic management research was conducted in order to identify items that could be used to study the selected strategic dimensions. Wherever available, previously validated items were chosen and modified. Where no standardized measures were available, new items were developed using the theoretical definition of each construct. Construct definition of each variable is presented in Table 2.

TABLE 2

Strategic Orientation Variables

STRATEGIC ORIENTATION VARIABLES	
Product distinctiveness	Providing a greater selection of exceptional products, processes or services to distinguish the firm
Service	Providing a higher level of service than competitors
Market sensitivity	Use of aggressive marketing techniques to respond quickly to key competitor's moves
Cost efficiency	Concern for cost reduction and efficiency seeking methods
Price	Strategy of competing on the basis of premium pricing
Technology	Development and use of new and advanced technology
Scope	Breadth in both product lines and customer segments
Site appeal	Convenient location and attractive facilities
Human capital	Developing and retaining highly skilled workforce

Based on an in-depth literature review (Campbell-Hunt, 2000; Carter et al., 1994; Hambrick, 1983; Levina & Ross, 2003; McDougall & Robinson, 1990; Miles & Snow, 1978; Miller, 1986, 1987; Reynolds, Freeman & Oshana, 1986; Skaggs & Youndt, 2004; Venkatraman, 1989), 21 items were included in the strategic management instrument,

which was administered to at least 3 members of top management team in each firm. All items were measured on a seven-point Likert scale. In addition to the survey instrument, semi-structured interview schedules were also designed for use in interviews with members of the top management team in each firm.

ANALYSIS

Distribution Diagnosis

The data was first screened for missing values and outliers (Meyers, Gamst & Guarino, 2006; Tabachnick & Fidell, 2001). Next, a composite variable index was formed for the strategic orientation variables (α = .994). A one-way analysis of variance was performed on this index to determine if there was a greater variability in the ratings between organizations than within organizations (Smith et al., 1994; Winer Brown & Michels, 1991). The F-ratio was significant at an alpha level of $p < .001$. Intraclass correlation coefficient (ICC) was also calculated using a Two-Way Random Effect Model (Absolute Agreement Definition), which exceeded the acceptable threshold of ICC = .7 (Cohen, 2007, James, Demaree & Wolf, 1984; Smith et al., 1994; Winer et al., 1991; Wuensch, 2007).). These findings revealed that responses were sufficiently homogenous for within group aggregation. The data set was next tested for normality using histograms and normality plots with Kolmogorov-Smirnov and Shapiro-Wilk tests (Meyers, Gamst & Guarino, 2006). As the skewness and kurtosis values were within the +1.0 to –1.0 range, they indicated a normal distribution of item scores. The Kolmogorov-Smirnov and Shapiro-Wilk tests were not significant at a stringent alpha level of $p < .001$, which demonstrated that normality assumptions were not violated. These findings were supported by graphical approaches, i.e. histograms with normal distribution curve and normal Q-Q probability plots.

Principal Components Factor Analysis with VARIMAX Rotation

The data set was then subjected to factor analysis which served as a data reduction technique and helped reduce the large number of variables being studied to a smaller set of meaningful factors that accounted for the maximum variance. The use of principal components factor analysis with orthogonal rotation before cluster analysis also allowed for the factors to be treated as uncorrelated variables in order to satisfy multicollinearity assumptions (Punj and Stewart, 1983; www.chass.ncsu.edu/garson/pa765/factor.htm).

First, the appropriateness of strategic orientation items for factor analysis was established through an examination of the correlation matrix and communalities, plotting of latent roots (i.e. scree plots), Bartlett's test of sphericity (1950, 1951), and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, MSA (Kaiser, 1970). An examination of the correlation matrix revealed no items with correlations less than .3. An inspection of the communalities showed moderate to high communalities ranging from .526 to .815, which indicated that the data was appropriate for factor analysis. The Bartlett's test of sphericity was significant at a stringent alpha level ($p < .001$) which showed that there was sufficient correlation between the variables (Meyers, Gamst & Guarino, 2006). Similarly, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA) of .69 established that the strategic orientation items could be categorized on the basis of underlying dimensions (Hair, Anderson & Tatham, 1987). Finally, the plot of latent roots (scree plot) revealed a sharp break in the region of five factors, which was indicative of the point where the residual factors separated from the "true" factors (Stewart, 1981).

The 21 strategic orientation items were next analyzed using an R-Mode Principal Components Analysis (PCA) with VARIMAX rotation. The first five factors (with factor loadings greater than 0.4) accounted for 67.86% of the variance and were retained. These

five factors were labeled as *process distinctiveness* (α = .85), *focus on human capital* (α = .86), *market sensitivity* (α = .81), *cost efficiency* (α = .73), and *scope* (α = .79). Table 3 presents the results of principal components factor analysis along with a brief description of the five retained factors.

TABLE 3

Principal Components Factor Analysis with Varimax Rotation*

FACTORS	DESCRIPTION	PERCENTAGE OF VARIANCE EXPLAINED	RELIABILITY
Process distinctiveness	• Emphasis on providing a greater selection of superior processes or services by exploitation of new and advanced technology • Focus on patents and intellectual property rights secured to gain sustained competitive advantage	32.05%	.85
Focus on human capital	• Investment in development and retention of skilled employees in order to deliver superior customer service	15.41%	.86
Market sensitivity	• Use of aggressive approach to react and respond quickly to key competitor's moves, including proactive advertising and marketing techniques • Establishment of multiple (global and regional) centres of operation to serve clients more effectively	7.57%	.81
Cost efficiency	• Overriding concern with maintaining low per unit cost • Offer lower prices relative to competitors	6.58%	.73
Scope	• Acquisition of breadth with respect to market segments and processes/services offered.	6.26%	.79

*Factor score coefficients ≥ 0.4

Cluster Analysis of Strategic Orientation Factors

The five strategic orientation factors thus generated were used as input variables for cluster analysis in order to identify archetypes of strategic orientations of outsourcing firms. The aim was to attain high internal homogeneity within clusters and high external heterogeneity between clusters (Hair, Anderson & Tatham, 1987). As a first step, the factors were screened for presences of outliers (Punj & Stewart, 1983). A preliminary examination showed the presence of no extreme cases and the five strategic orientation factors were subjected to partitioning, interpretation and profiling as a part of cluster analysis.

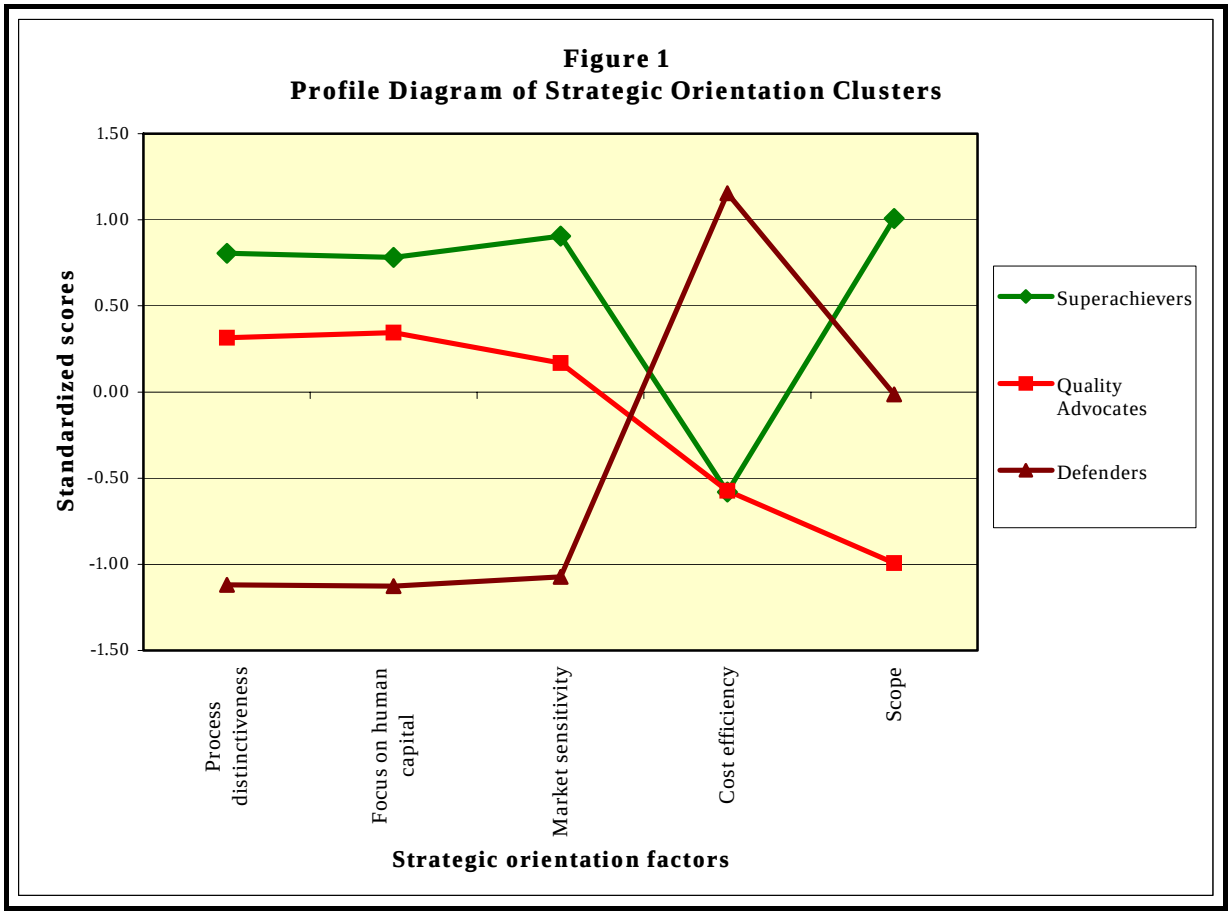
Partitioning of strategic orientation clusters. As suggested by Punj & Stewart (1983), Hartigan (1975) and Miligan (1980), a two-stage clustering approach was used. To begin with, Ward's minimum variance method was used to obtain initial approximations of a cluster solution. In addition to the resulting dendogram, the agglomeration schedule was consulted to determine the stage at which there was a large distance between clusters. The results of hierarchical clustering directed the analysis towards a 3 to 4 cluster solution. The next step involved a refinement of the cluster solutions through an iterative partitioning method. The centroids for each solution were obtained and were used as initial seeds for a *K*-means cluster analysis. On inspection, a three-cluster solution yielded the most stable and meaningful set of clusters and hence was retained for further analysis.

Interpretation of strategic orientation clusters. In this stage, the clusters were labeled based on which strategy it emphasized predominantly. To aid the interpretation of the three clusters, the cluster profile points were also plotted. The profile diagram of the three-cluster solution is presented in Figure 1. Cluster mean and membership size of each cluster is presented in Table 4.

TABLE 4

Cluster Means and Membership Size of Strategic Orientation Clusters

STRATEGIC ORIENTATION FACTORS	SUPERACHIEVERS N = 31	QUALITY ADVOCATES N = 26	DEFENDERS N = 3
Process distinctiveness	5.49	4.48	1.53
Focus on human capital	6.23	5.44	2.78
Market sensitivity	4.85	3.93	2.38
Cost efficiency	4.45	4.46	6.67
Scope	5.03	3.66	4.33



Profiling of strategic orientation clusters. The characteristics of each cluster were next examined in order to understand how they differed on underlying dimensions. Since cluster analysis was performed using factor analysis components as input data, the raw scores for the original variables were used to compute average profiles of the clusters (Hair, Anderson & Tatham, 1987). The mean of each variable within a cluster was compared to the global mean for that variable. The combination of variables that defined each cluster was examined to build its profile. A brief description of the clusters is presented here, followed by a detailed analysis in the Discussion section.

Cluster 1: Superachievers

Cluster 1 comprising of 51.7% of outsourcing firms in the sample characterized the *superachievers.* These firms promoted 4 major dimensions of strategic orientation simultaneously – process distinctiveness, focus on human capital, market sensitivity and

scope. These firms wanted to be "all things to all people" by adopting a flexible and responsive position.

Cluster 2: Quality advocates

Cluster 2 represented 43.3% of the sample firms. These firms were labeled as *quality advocates* because they chose to emphasize the quality of their distinctive processes and services. These firms operated in niche markets and used advanced technology to cater to customer needs. One of the most important dimensions of their strategy was their investment in development and retention of high quality human resources in order to provide high quality customer service.

Cluster 3: Defenders

The third cluster comprised of 5% of outsourcing firms and could be considered a candidate for deletion (Everitt, 1993). However, despite its small size, the cluster showed substantial stability when examined through multiple clustering procedures (Speece, McKinney & Applebaum, 1985). Its importance and meaningfulness was also supported in interviews with top management team members of outsourcing firms. Thus, *defenders* were outsourcing firms that tightly controlled costs, refrained from incurring expenditure on innovation or marketing expenses, cut prices in selling their processes and products, and courted broad market segments through a broad range of processes and services.

Validation of Strategic Orientation Clusters

As a final step, it was important to examine the internal and external validity of the cluster solution. Hence, multiple testing methods were used to determine if the solution differed significantly from a random solution (Punj & Stewart, 1983).

An analysis of variance (ANOVA) yielded F-ratios that were significant at an alpha level of .01. This implied that the strategic orientation clusters were significantly different from

each other with regard to all five factors namely, process distinctiveness ($F = 42.308$, $p < .001$), focus on human capital ($F = 27.989$, $p < .001$), market sensitivity ($F = 18.192$, $p < .001$), cost efficiency ($F = 6.050$, $p < .005$), and scope ($F = 11.586$, $p < .001$).

Internal validation. The reliability and validity of the strategic orientation clusters was established through two cross validation techniques, split sample replication and discriminant analysis. For split-sample replication, the sample was randomly split into two-third cases and a hierarchical clustering was carried out to estimate the number of meaningful clusters being generated. A 3 to 4 cluster solution exhibited stability and relevance given the outsourcing context and were selected for further examination. The centroids for both 3 and 4 clusters were calculated and used as non-random starting points for a *K*-means cluster analysis. The degree of membership concordance between the original and replication clusters was used as an indication of cluster stability (Morris, Blashfield & Satz, 1981). The kappa coefficient for the three-cluster solution was .85, which denoted a very high degree of agreement between the original cluster assignment and the replicated clusters. The three-cluster solution also demonstrated high stability with 97.7% of cases retaining their original cluster membership.

The second cross validation technique used was discriminant analysis. The sample was randomly split into 67% and 50% of the cases and a discriminant function for each cluster was derived. The stability of the cluster solution was estimated by examining the degree to which the cluster assignments made with the discriminant functions agreed with the assignments made by cluster analysis of the original sample (Punj & Stewart, 1983). A kappa coefficient was used to measure the degree of agreement between the classification and reclassification results. The kappa coefficients of .9 and above revealed a significantly high degree of agreement between the original classification and cases

classified by discriminant analysis (Landis & Koch, 1977). To assess the predictive accuracy of the discriminant function, the percentage of cases that classified correctly by chance (without the aid of the discriminant function) were examined. The *maximum chance criterion* and *proportional chance criterion* (Hair, Anderson & Tatham, 1987) were calculated to arrive at an acceptable hit ratio that could estimate the prediction accuracy. *C-maximum* or the *maximum chance criterion*, which is the percentage of total sample presented by the largest of the three groups, was 48%. The proportional chance criterion (i.e. the sum of the squares of the proportions) was 40%. Since, *C-maximum* was greater than *C-proportional*, the classification result was compared to *C-maximum*. The prediction accuracy took into account the fact that the hold-out sample method was not followed and hence an upward bias in the accuracy could be expected. Following Hair, Anderson and Tatham's (1987) recommendations, the classification accuracy was calculated to be at least 25% greater than that achieved by chance. In the present case, the hit ratio (1.25 x .48) was 60.0%. The percentage of cases classified through a discriminant analysis of both 67% and 50% of original sample were 97.1% and 95.5% respectively. The high degree of classification accuracy using the discriminant analysis validated the retention of the three cluster solution for strategic orientation factors.

External validation. The final step in the analysis of strategic orientation variables was validation of the chosen cluster solution on external criteria (Punj & Stewart, 1983). The nature of business activity of each organization was used to analyze differences between the clusters. A chi-square test ($\chi 2 = 80.94$, $df = 2$, $p < .001$) showed that the clusters varied significantly based on types of business activities offered. Table 5 shows the results of external validation of the three cluster solution.

TABLE 5

External Validation of Strategic Orientation Clusters

CLUSTERS	SUPERACHIEVERS		QUALITY ADVOCATES		DEFENDERS	
Business Activity	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**
Combination of services	24.62	1.40	25.87	.00	16.63	.00
IT services	27.61	2.85	21.23	1.87	18.22	2.25
Financial services	25.92	1.59	22.37	2.10	.00	.00
Healthcare services	28.27	.00	23.51	.00	.00	.00
Market research services	25.63	.00	.00	.00	.00	.00
Human resource services	.00	.00	23.73	.00	.00	.00
Engineering services	26.02	1.88	20.77	.00	.00	.00
Travel related services	25.72	.00	22.92	.00	.00	.00
Animation	22.49	.00	.00	.00	.00	.00
E-learning and publishing	26.96	.00	23.04	.00	.00	.00

As seen in Table 3, the "*superachiever*" strategy was followed by outsourcing firms that offered more than one service (22.58%). It was also followed by outsourcing firms in IT services (29.03%), financial services (25.81%), and engineering services (6.45%). The "*defender*" strategy, though, was followed predominantly by outsourcing firms in IT services (66.67%). Outsourcing firms that espoused the strategic orientation of *"quality advocates"*, while spread across all business activities to some extent, showed a dominant presence in IT services (53.85%) and financial services (23.08%).

DISCUSSION

Dimensions of Strategic Orientation

Principal components factor analysis uncovered five factors that defined the strategic orientation of outsourcing firms. These factors appeared consistent with strategy descriptions available in broader strategic management literature. However, far from simple replication, these factors enriched previous descriptions and exhibited high validity in the outsourcing context. Factor one, *process distinctiveness,* was similar to the "product distinctiveness" dimension found by Carter et al. (1994). In Carter et al.'s study (1994) this dimension represented the attempts to compete by emphasizing process or

product technology. The development and utilization of advanced technology provided basis for establishing competitive advantage. Beyond focusing on gaining competitive advantage, in the current study this dimension also highlighted the importance of sustaining this competitive advantage through acquisition of patents and intellectual property rights.

The second important dimension to emerge was *focus on human capital.* Researchers had stressed the importance of this factor especially in recent outsourcing literature. For example, Levina and Ross (2003) identified "personnel development" as an important approach that aimed at replacing high-cost employees with lower-cost junior employees and then developing their skills through training, mentoring and team-based project work. This aspect was also considered important by Skaggs & Youndt (2004) who suggested that firms having human capital with higher skills, knowledge and expertise were able to satisfy customer needs better, especially in service organizations. The importance of human capital as a strategic dimension was reaffirmed through the findings of the current study. It emphasized investment in development and retention of high skilled employees to deliver superior customer service.

Market sensitivity was another important attribute of strategic orientation identified by the current study. This factor described sensitivity or responsiveness to changes occurring in the marketplace. This strategy was similar to the dimensions of "market sensitivity" (Carter et al., 1994), "marketing differentiation" (Miller, 1987) and "marketing savvy" (Reynolds, Freeman & Oshana, 1986) identified in previous research. It promoted effective use of marketing techniques or advertising by firms to respond quickly to key customer needs. A new aspect was added to this dimension which proposed operating from an advantageous location to gain competitive advantage. Firms using this strategy

could establish multiple centres of operations (global or local) in order to serve customers effectively. This approach also helped in tapping a talent pool comprising of cheap but skilled human resources in diverse labour markets.

The *cost efficiency* factor recognized the extent to which a firm tightly controlled costs and cut prices in selling its products. The importance of this factor was also seen in Hambrick (1983) and Miller's (1987b) research on business strategy, which further supported its inclusion in the current study.

Previous studies on strategic management (Miles & Snow, 1978; Hambrick, 1983; Miller, 1987; Conant, Mokwa & Vardarajan, 1990; Campbell-Hunt, 2000) lent credence to the significance of *scope* as a dimension of outsourcing firm strategy. In the current study, scope was recognized as a strategic approach that embraced breadth in market segments as well as in offered products or services.

Archetypes of Strategic Orientation

The five strategic orientation factors (process distinctiveness, focus on human capital, market sensitivity, cost efficiency and scope) combined to create three kinds of strategic orientation clusters - superachievers, quality advocates, and defenders. While there was inadequacy of prior research on strategies of outsourcing firms, the validity of these clusters was supported by their close correspondence with strategy types found in broader strategic management literature.

The *superachievers'* cluster consisted of 51.7 % of firms in the sample. This cluster was very similar to the superachievers cluster found by Carter et al. (1994) in their study of new venture firms. Firms pursuing this strategy promoted four strategic dimensions

simultaneously – process distinctiveness, focus on human capital, market sensitivity and scope. It appeared that these firms wanted "to be all things to all people" (Carter et al., 1994). These firms chose to adopt a flexible and responsive stance. They emphasized the distinctive quality of their processes and services and exploited advanced technology to develop new products or increase process efficiencies. Keeping costs low was not an overriding concern. In fact, these organizations invested heavily in their human resources to ensure their customer service was superior to competitors. These firms also operated in broad market segments and offered a variety of products and processes. The strategy of superachievers also combined the strategies of "complex innovation" and "marketing differentiation" proposed by Miller (1987). Miller (1987) suggested that distinctive products and processes helped organizations identify new niches in the market. At the same time, a broader scope led to more market exposure, and encouraged new ideas for developing distinctive products and processes. Interestingly, most new venture firms in Carter et al.'s (1994) sample pursued the superachiever strategy. A similar pattern was seen in the context of outsourcing firms, with superachievers forming the largest cluster in the current study.

43.3 % of firms belonged to the *quality advocates* cluster. This cluster was similar to the quality proponents cluster studied by Carter et al. (1994) and resembled one kind of differentiation strategy proposed by Hambrick (1983). Like the "quality proponents" and "differentiators", these firms chose to compete in niche markets by offering exceptional products, distinctive processes or superior customer service. They also used advanced technology to cater to customer needs effectively. However, this cluster was also distinguished from quality proponents and differentiators in that firms adopting this strategy continuously sought to balance their investment in advanced technology and high quality human resources with a low cost approach.

The *defenders* comprised of 5% of the sample firms. These firms appeared to be "defending their turf" from the "unknowns" in the market. They took fewer risks and tried to continue doing what had worked in the past (Reeves, 1996). The strategic orientation of these firms was characterized by tightly controlled costs and low prices. The overriding concern for low costs was also reflected in limited marketing initiatives. Further, these firms offered a standard product, process or customer service and refrained from innovation in any sphere. The underlying theme was to maintain a low-priced, stable offering and to exploit the resulting stability through low costs (Hambrick, 1983). This strategic approach corresponded with Miller's (1987) "conservative cost control" and Hambrick (1983) and Porter's (1980) "cost leadership" strategy. Miller (1987) had suggested that this strategy would be found primarily in stable environments, as it could not be very effective in dynamic environments that required frequent product and technological changes. Interestingly, this strategy was indeed rare among the sample of firms studied, which could be attributed to the highly dynamic and competitive nature of business environment faced by outsourcing firms currently.

CONCLUSION AND IMPLICATIONS

This is one of the initial papers to investigate the strategic orientations of outsourcing firms. By delineating dimensions underlying outsourcing firm strategy and identifying archetypes of strategic orientations, the paper provides a comprehensive understanding of key differentiators of outsourcing firm performance. Outsourcing research predominantly focuses on the strategic needs of client firms. However, given the highly competitive nature of outsourcing industry, it is equally important to shift the lens and examine the strategies adopted by outsourcing firms to gain sustainable competitive advantage. This

paper is expected to help managers who are trying to move their outsourcing firms in the direction of sustainable success through the choice of appropriate strategies.

The paper also makes some important contributions to the academic realm. It follows research precedents established and tested in strategic management literature, but which have not been used in the context of outsourcing firms. Just as the theoretical foundation of this study links the fields of strategic management and outsourcing, so also could its findings be used in future research in these disciplines.

While the paper suffers from constraints of a limited sample size, it opens up some interesting new streams of research. Future research could examine the relationship between these strategic orientations and organizational success of outsourcing firms. A comprehensive range of performance outcomes including robust objective and subjective performance measures could be included in an analysis of linkages between strategies and organizational performance of outsourcing firms. Since this research was conducted in only one country i.e. India, replicating these results across countries would help in their validation, allowing for an in-depth understanding of outsourcing firm strategy in particular and outsourcing success in general.

REFERENCES

Bartlett, M. S. 1950. Tests of significance in factor analysis. ***British Journal of Statistical Psychology,*** 3 : 77-85.

Bartlett, M. S. 1951. A further note on tests of significance in factor analysis. ***British Journal of Statistical Psychology,*** 4 : 1-2.

Biggadike, R. C. 1976. ***Corporate diversification: Entry, strategy and performance.*** Cambridge, MA: Harvard University Press.

Bourgeois, L. 1980(b). Performance and consensus. ***Strategic Management Journal,*** 1 (1): 227-248.

Campbell-Hunt, C. 2000. What have we learned about generic competitive strategy? A meta-analysis. ***Strategic Management Journal,*** 21 (2): 127-154.

Carter, N. M., Stearns, T. M., Reynolds, P.D., & Miller, B.A. 1994. New venture strategies: Theory development with an empirical base. ***Strategic Management Journal,*** 15: 21-41.

Cohen, A. 2007. ***Agreement indices in multi-level analysis.*** Accessed May 20, 2008, from http://methods.haifa.ac.il/ayalac.ppt

Conant, J. S., Mokwa, M. P., & Varadarajan, P. R. 1990. Strategic types, distinctive marketing competencies, and organizational performance: A multiple measures-based study. ***Strategic Management Journal,*** 11 (5): 365-383.

Cooper, A. C., Willard, G. E., & Woo, C. Y. 1986. Strategies of high performing new and small firms: A reexamination of the niche concept. ***Journal of Business Venturing,*** 1: 247-260.

Everitt, B. S. 1993. ***Cluster analysis.*** London: Edward Arnold.

Frost & Sullivan, 2009. ***Tough times for contact centre outsourcing, but new sectors, markets offer expansion opportunities.*** Accessed February 23, 2009 from http://www.itwire.com/content/view/23405/1231/

Gottfredson, M., Puryear, R., & Phillips, S. 2005. Strategic sourcing from periphery to the core. ***Harvard Business Review,*** 83 (2): 132-139.

Grant, J. H., & King, W. R. 1982. ***The logic of strategic planning.*** Boston: Little, Brown & Co.

Greco, J. 1997. Outsourcing: The new partnership. ***The Journal of Business Strategy,*** 4: 48-54.

Hair, J. F., Anderson, R. E., & Tatham, R. L. 1987. ***Multivariate data analysis with readings.*** New York: Macmillian Publishing Company.

Hambrick, D. C. 1983. High profit strategies in mature capital goods industries: A contingency approach. ***Academy of Management Journal,*** 26 (4): 687-707.

Hambrick, D. C. 1984. Taxonomic approaches to studying strategy: some conceptual and methodological issues. ***Journal of Management,*** 10: 27-41.

Hartigan, J. A. 1975. ***Clustering algorithms.*** New York: John Wiley & Sons, Inc.

Hofer, C. W., & Schendel, D. E. 1978. ***Strategy formulation: Analytical concepts.*** New York: West Publishing Co.

Huber, R. L. 1993. How Continental Bank outsourced its "crown jewels." ***Harvard Business Review,*** 71 (1): 121-129.

India Knowledge@Wharton, 2009. ***Why the downturn may not leave outsourcing firms down and out.*** Accessed December 11, 2008, from http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4340

James, L. R., Demaree, R. G. & Wolf, G. 1984. Estimating within-group interrater reliability with and without response bias. ***Journal of Applied Psychology,*** 69: 85-98.

Jurison, J. 1995. The role of risk and return in information technology outsourcing decisions. ***Journal of Information Technology,*** 10 (4): 239-247.

Kaiser, H. 1970**.** A second generation little jiffy. ***Psychometrika***, 35 (4): 401-415

Levina, N., & Ross, J. W. 2003. From the vendor's perspective: Exploring the value-proposition in information technology outsourcing. ***MIS Quarterly,*** 27 (3): 331-364.

Logan, M. S. 2000. Using agency theory to design successful outsourcing relationships. ***International Journal of Logistics Management,*** 11 (2): 21-32.

Loh, L., & Venkatraman, N. 1992(b). Determinants of information technology outsourcing: A cross-sectional analysis. ***Journal of Management Information Systems,*** 9 (1): 7-24.

Looff , L. A. De. 1995. Information systems outsourcing decision making: A framework, organizational theories and cases. ***Journal of Information Technology,*** 10 (4): 281-297.

McDougall. P., & Robinson Jr., R. B. 1990. New venture strategies: An empirical identification of eight 'archetypes' of competitive strategies for entry. ***Strategic Management Journal,*** 11: 447-467.

Meyers, L. S., Gamst, G., & Guarino, A. J. 2006. ***Applied multivariate research: Design and interpretation.*** Thousand Oaks, CA: Sage.

Miles, R. E., & Snow, C. C. 1978. ***Organization strategy, structure, and process.*** New York: McGraw-Hill.

Miller, D. 1986. Configurations of strategy and structure: Towards a synthesis. ***Strategic Management Journal,*** 7 (3): 233-249.

Miller, D. 1987. The structural and environmental correlates of business strategy. ***Strategic Management Journal,*** 8 (1): 55-76.

Milligan, G. W. 1980. An examination of the effect of six types of error perturbation on fifteen clustering algorithms. ***Pyschometrika,*** 45: 325-342.

Mintzberg, H. T., & Waters, J. 1982. Tracking strategy in an entrepreneurial firm. ***Academy of Management Journal,*** 25: 465-499.

Morris, R., Blashfield, R., & Satz, P. 1981. Neuropsychology and cluster analysis: Potentials and problems. ***Journal of Clinical Nueropsychology,*** 3 : 79-99.

Porter, M. 1980. ***Competitive strategy.*** New York: Free Press.

Punj, G., & Stewart, D. W. 1983. Cluster analysis in marketing research: Review and suggestions for application. ***Journal of Marketing Research,*** 20: 134-148.

Quinn, J. B., Doorley, T. L., Paquette, P. C. 1990. Beyond products: Services-based strategy. ***Harvard Business Review,*** 68 (2): 58-67.

Reeves, T. C. 1996. ***Configurations among health services organizations.*** Unpublished doctoral dissertation, University of Alabama, Birmingham.

Reynolds, P., Freeman, S., & Oshana, L. 1986. ***Pennsylvania New Firm Survey: Volume Four.*** Philadelphia, Pennsylvania: The Wharton School.

Sharda, K. 2008. ***Configurations of BPO firms: Relating work design, strategic orientation, client relationship and context to organizational performance.*** Unpublished doctoral dissertation, Indian Institute of Mangement Calcutta, Kolkata, India.

Skaggs, B. C., & Youndt, M. 2004. Strategic positioning, human capital, and performance in service organizations: A customer interaction approach. ***Strategic Management Journal,*** 25 (1): 85-99.

Smith, K. G., Smith, K. A., Olian, J. D., Sims Jr., H. P., O'Bannon, D. P., Scully, J. A. 1994. Top management team demography and process: The role of social integration and communication. ***Administrative Science Quarterly,*** 39: 412-438.

Speece, D. L., McKinney, J. D., & Appelbaum, M. I. 1985. Classification and validation of behavioural subtypes of learning-disabled children. ***Journal of Educational Psychology,*** 77 (1): 67-77.

Stewart, D. W. 1981. The application and misapplication of factor analysis in marketing research. ***Journal of Marketing Research,*** 18: 51-62.

Tabachnick, B. G., & Fidell, L. S. 2001. ***Using multivariate statistics.*** Needham Heights, MA: Allyn & Bacon.

Venkatraman, N. 1989. Strategic orientation of business enterprises: The construct, dimensionality and measurement. ***Management Science,*** 35 (8): 942-961.

Winer, B., Brown, D., & Michels, K. 1991. ***Statistical principles in experimental design.*** 3rd ed. McGraw Hill, New York.

Wuensch, K. L. 2007. ***Inter-rater agreement.*** Accessed May 23, 2008, from http://core.ecu.edu/psyc/wuenschk/docs30/InterRater.doc

APPENDIX A

TABLE A1
Review of Literature on Strategic Orientation Dimensions

DIMENSION	AUTHOR/YEAR											
	Miles & Snow (1978)	Hambrick (1983)	Miller (1986)	Miller (1987)	Reynolds, Freeman & Oshana (1986)	Miller (1988)	Venkatraman (1989)	Conant, Mokwa & Varadarajan (1990)	Carter et al. (1994)	Campbell-Hunt (2000)	Levina & Ross (2003)	Skaggs & Youndt (2004)
Aggressiveness							X					
Analysis (problem solving posture, comprehensiveness, internal consistency)							X					
Asset parsimony		X	X									
Covenience (or attractiveness)					X							
Cost leadership / cost efficiency		X	X	X								
Defensiveness				X			X					
Differentiation		X	X	X								
Focus			X									
Focus on efficiency	X							X				
Futurity	X						X	X				
Innovation				X		X				X		
Lower prices					X				X			
Market sensitivity					X				X			
Marketing innovation										X		
Operations										X	X	
Human capital											X	X
Proactiveness							X					
Product distinctiveness									X			
Product market development	X							X				
Production method						X						
Product sophistication						X						
Quality										X		
Relationship management											X	X
Riskiness							X					
Scale/Scope	X	X		X				X		X		
Service					X				X			
Site Appeal									X			
Strategic clarity	X							X				
Technology					X				X			