Application of Strategic Sourcing Practice in Public and Private Sectors: Literature Review

Adam H. Yagoob Zuo Ting
College of Humanities and Development Studies, China Agricultural University; No. 17 Qing Hua Dong Lu, Haidian District, Beijing 100083 P.R.China

Abstract
Notwithstanding the urging initiatives to improve acquisition processes and methods, the public sector continually fails to implement acquisition reform measures that would produce the desired change. Moreover, the strategic sourcing best practices for commercial goods and services of the private sector have not been adopted in the standardized acquisition practices of the public sector. The purpose of this paper is to analyze the implementation of strategic sourcing of the public sector. We provide thorough review and analysis of strategic sourcing from both the private and public sector viewpoints, focusing on the similarities and differences regarding the approach of each sector to strategic sourcing, we highlights which strategic sourcing practices, traits, and components have proven to work and which may or may not be transferable from the private to the public sector; focusing on bureaucracies, organizational theories, and some of the key differences among the public and private sectors as they pertain to these constructs. The similarities offer encouragement that strategic sourcing can be used by the public sector although the differences suggest that a simple mandate within the public sector to use the commercial model without any adjustments is likely not possible. These three overarching themes play a significant role in determining whether public sector agencies and departments are successful, or whether they possess the potential to be successful, in adopting private sector practices.
Keywords: Outsourcing, acquisition, public sector, bureaucracy, private sector

1. Introduction

Recently, discussions on concepts and ideas in the literature on the attempts of the public sector at mirroring the processes and models of the private sector are cantered on bureaucracies and organizational theories. In this paper we examines which bureaucratic issues and traits affect the ability of public sector to employ commercial practices, which leads to an examination of organizational theory. Following this analysis, a thorough examination of successful strategic sourcing practitioners offers insight into lessons learned, critical success factors, and other related details. Prior to analyzing the myriad of journal articles focused on the practice of strategic sourcing, the paper focuses on successful practitioners in the private sector. The analysis illustrates what has and has not worked regarding the implementation, management, communication plans, hiring, and many other miscellaneous topics inherent in establishing, managing, and maintaining a successful strategic sourcing program. In addition to examining the stories of these successful practitioners, the discussion is enhanced by adding government-wide reports focused on how and why the federal sector needs to embrace strategic sourcing. A careful analysis of what is and is not applicable and, more importantly, possible in a federal setting highlights the potential of strategic sourcing for the public sector.

1.1 Defining Strategic Sourcing

Defining the concept of strategic sourcing is critical in that it ensures that various parties embrace a uniform concept of this commercial practice and that the public sector has the same, basic understanding. The government interpretation of strategic sourcing, which Johnson (2005) defined as “the collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently” (p. 1). As a means for comparison, Banfield (1999), who led a successful strategic sourcing initiative with the Southern California Edison (SCE) electric company and saved more than $150 million per year, asserted the following definition of strategic sourcing: “It is a management process used to systematically assess purchasing requirements across a company and identify opportunities, both internal and external, for total cost reductions” (p. 3). Although these definitions of strategic sourcing appear similar, there are subtle nuances that distinguish them. For example, Banfield’s (1999) definition incorporates a comprehensive approach to the practice of strategic sourcing, calling for processes that cross company lines and seeking both internal and external opportunities. This approach contrasts with the government’s interpretation of strategic sourcing that calls for a structured, albeit collaborative, process. Collaboration in the federal sector, although encouraged, is rarely realized as new initiatives are rarely, if ever, accompanied by additional resources or budgets making the call for collaboration little more than encouragement rather than the comprehensive approach mandated by Banfield at SCE.

Johnson’s (2005) call for structure synchs with Weber’s call for strict and ordered rules, a bureaucratic trait that the federal sector continues to attach to all of its initiatives, even its modern, commercial endeavours.

Banfield's (1999) focus on collaboration is more difficult in the public sector where the acquisition-related job functions are segmented into specific, narrow job series that oftentimes serve to discourage the type of collaboration that Banfield endorsed. Government acquisition professionals segmented by job series illustrates the Weberian nature of the public sector bureaucracy. Rudzki (2006), president of Greybeard Advisors and noted strategic sourcing expert, defined the practice as "a fact-based, rigorous process that involves substantial internal data gathering and evaluation, and extensive external data gathering and interactions, in order to select the most appropriate strategy and negotiations approach and ultimately select the right supplier" (p. 119). Rudzki, like his private-sector counterpart Banfield (1999), focused less on rules and structure and more on the need to seek both internal and external data, a comprehensive, multifunctional approach that necessarily violates the tenants of the hierarchal, stove-piped organizational structures that Weber endorsed and promoted. Both Rudzki's (2006) and Banfield's (1999) definitions have similarities with the federal sector in defining strategic sourcing. Both of these practitioners agreed with the federal sector approach of systematically and collaboratively gathering information to make wise business decisions. Although the differences in their approaches are subtle, all parties agree that the process, however it may be implemented, leads to better business decisions and outcomes.

2. Strategic Sourcing Models

As with any new program or initiative aimed at establishing a uniform practice, strategic sourcing can be implemented and executed among a variety of constructs, most of which have overlapping processes, steps, characteristics, and traits, all of which are aimed at delivering the benefits detailed in the definitions noted in section 1.1. Although the federal government has never officially endorsed a specific public sector model for strategic sourcing, it has relied upon its acquisition schoolhouse to define its official model and, although generated by a private firm; it remains the default model for the public sector and is best explained visually as shown in Figure 1.

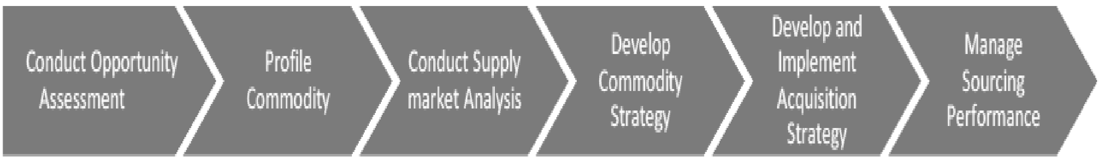

Figure 4: An Example of Public sector strategic sourcing model.

The initial step of profiling a commodity although, a necessary part of the overall endeavour, serves as a precursor to the follow-on steps. It is aimed at determining which goods and services will be strategically sourced through the application of the follow-on steps. Although each of the pieces of the overall model warrants detailed attention and research, for the purposes of this research effort, it is necessary to examine the similarities and differences between the public sector and private sector models. To illustrate the similarities and differences, the study benchmarked the government model against two private sector models that have proven successful. Laseter (1998) researched the emergence of strategic sourcing in the private sector across a host of firms for his book Balanced Sourcing. The model that he constructed has both similarities to and differences from the public sector model, which is illustrated in Figure 2.

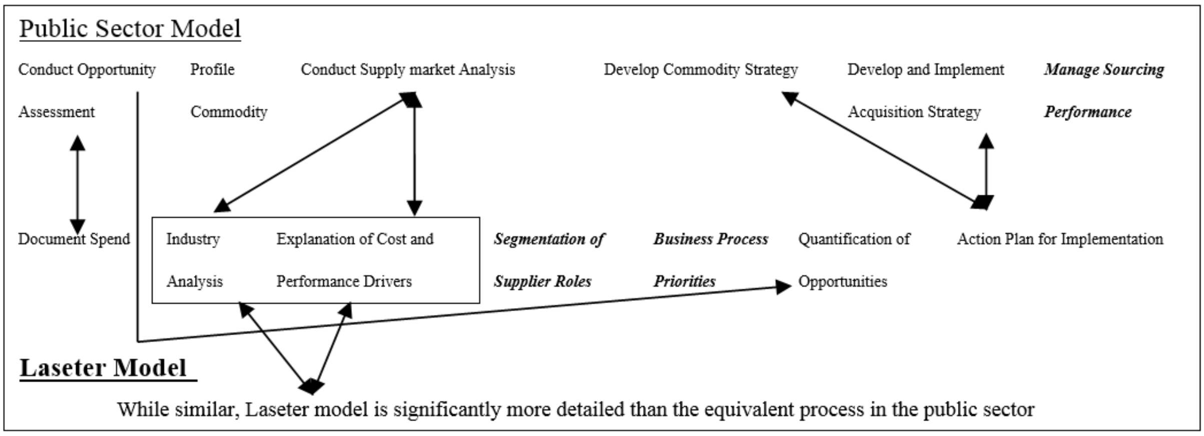

Figure 2: Comparison of the public sector model (see Figure 1) and the Laseter model illustrating both the similarities and differences

The analysis in Figure 2 details how the models have overlapping processes and traits and that the similarities far outweigh the subtle differences. Even the differences can be partially explained by those processes being covered in other parts of the model. For example, the public sector model identifies profile commodity as its initial step after the entry phase of conducting the opportunity assessment. Although Laseter

(1998) does not specifically call for a commodity to be profiled, the document spend portion of his model calls for detailed information that the government model would typically classify under profile commodity. For example, Laseter (1998), in discussing how to properly document and research a firm's spend profile, asserted, "Proper spend documentation should also capture the total acquisition cost for the commodity. Such analysis; reinforces the principle that a proper strategy should address total cost, not just price" (p. 73). This type of information and approach are of the sort that the government compiles, or at least should compile, under its "Profile Commodity" step, illustrating that the differences between these models are few and subtle. The primary difference between the models is that the sourcing approach under the Laseter model is far more detailed and relies on a greater depth of research and understanding in terms of grasping the business processes of private sector firms. Steps such as understanding and considering the business process priorities of a firm prior to making sourcing decisions are not considered in the public sector and require an advanced acquisition skill set that exceeds the federal government's existing capabilities. A fair assessment regarding the comparison of these models is that the processes and levels of analysis asserted by the government's approach are mirrored by the Laseter model but to a far lesser extent. Banfield (1999) also asserted a model for organizations to implement and practice strategic sourcing. Again, Banfield's experience is in the private sector and the model that he constructed reflects principles and practices in this sector; nonetheless, the similarities between his model and the public sector model are remarkable. Figure 3 highlights how these two models compare

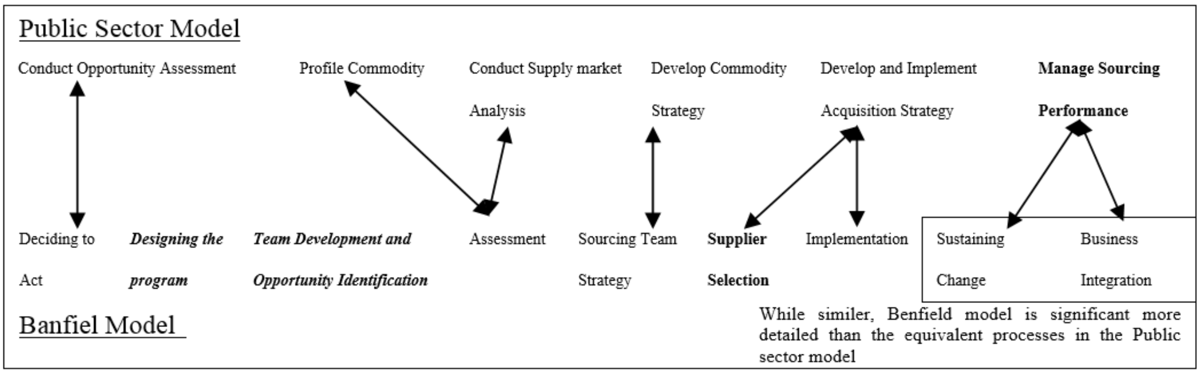

Figure 3: Comparison of the public sector model) and the Benfield model model illustrating both the similarities and differences

Again, as with the Laseter and public sector model comparison, the Banfield and public sector models are more similar than dissimilar. Banfield, like Laseter, offered a more in-depth model whose steps require greater research and detail but, from a generic standpoint, the models are similar. Both require a logical sequence of identifying opportunities and marching them through a series of practical steps to transition the opportunities into realities and, at the end of the model, each call for managing or sustaining the accomplishments. Because the two private sector models that have proven to be effective are similar to the public sector model, then why is the public sector unable to replicate the successes encountered by its private counterparts? A deeper look and comparative analysis regarding how the sectors approach strategic sourcing and the varying organizational structures are necessary.

3. Key Success Factors (KSF)

The overlapping themes regarding what practitioners claimed were necessary ingredients for successful strategic sourcing implementation and what academia is discovering through research are plentiful. A host of repeating suggestions and criteria for a successful strategic sourcing program emerged from the literature. These criteria, which are the key success factors, can be categorized into the following, high level headings: the overall status of the purchasing function, effective leadership within the organization, the ability of strategic sourcing teams to cross functional areas, and working jointly with suppliers in an integrated fashion in lieu of establishing an arms-length relationship. This final KSF includes developing suppliers in addition to simply working together. The following analysis synthesizes the existing literature's contribution to these KSFs.

Government think tanks such as RAND have highlighted these critical success elements in various government studies and related reports. For example, RAND researchers Moore, Baldwin, Camm, and Cook (2002), in a study for the United States Air Force, asserted that the establishment of a chief purchasing officer (CPO), or any title that actually empowers the leader of an organization's buying entity, is imperative for the implementation of a strategic acquisition platform. This government-directed success factor is a common theme from private sector practitioners. Although defenders of the federal sector's acquisition practices would likely argue that there is a chief acquisition officer (CAO) position that is tasked to lead each department's acquisition function, critics quickly point out that this position is more powerful in title than in practice. Falcone (2010) argued that the position should demand attention and power equal to its C-level partners, such as an agency or department's chief information officer (CIO) or chief financial officer (CFO), but unfortunately that is not the reality. Falcone highlighted how many agencies simply assign the CAO position to the department's CFO, delivering the message that the CAO position does not even warrant an additional hire. Burman (2008) explained why the CAO position has failed to live up to its expectations: There are a number of reasons as to why the position has failed to achieve the results sought for it, ranging from the relatively narrow roles set for the position in law to the placement of the office. The existing statutory language outlining CAO responsibilities does not provide the strong level of accountability, responsibility and authority needed to strengthen the position. Perhaps if the public sector organizations empowered their CAOs in a manner that mirrored how private sector organizations empower their CPOs, strategic sourcing in the public sector may gain momentum and related success. The fact that CAOs may offer some insight into why this particular position still lacks the clout that private sector practitioners and government think tanks preach is a necessary component for successful implementation and execution of strategic sourcing. Wilson's (1989) explanation of government rules and the red tape that inevitably ensues offers insight into how and why change is so difficult, especially when it involves already established processes and organizational structures.

Another success factor highlighted by Moore et al. (2002) is the need for cross-functional integrated product teams, the opposite of the stove-piped environment that typically defines federal acquisition organizations and processes. Their argument that this cross-functional, collaborative approach to strategic acquisition is a necessary component for success is supported by various practitioners in the private sector who have already successfully implemented strategic sourcing initiatives. Rudzki et al. (2006) argued, "Strategic sourcing must have access to cross-functional talent and resources, either through ad hoc team members borrowed from key departments and locations or, even better, through the assignment of high-potential employees to a core team role lasting two to three years" (p. 129). Owens, Vidal, Toole, and Favre (1998) stressed the importance of incorporating an organization's purchasing activity with all other organizational components that contribute to the acquisition process, such as research, sales, finance, logistics, manufacturing, and so on. Owens et al. asserted that an organization that fails to build this type of collaboration and integrated acquisition environment from an internal perspective would never realize any type of strong relationships with outside parties (p. 290). Both private and public sector practitioners have unanimously agreed that collaboration is necessary internally within the organization as well as externally with suppliers. Although it is easy to recognize and appreciate the need for an integrated team approach toward the practice of strategic sourcing, the opinions and experiences stemming from the private sector are related to an environment that is much more flexible than the federal government. For example, the federal government operates under different job series established by the Office of Personnel Management that naturally create a stove-piped, isolated organizational structure. Further, each of these job series must work within certain laws and constraints that do not lend themselves to collaboration. For example, the budget process alone frequently demands quick action due to expiring funds resulting in folks forgoing the time-consuming task of collaboration. Further, an acquisition is often considered a secondary duty for many federal employees. For example, a federal employee working in an agency's office of the chief information officer has a myriad of tasks and the acquisition of the goods and services to support his or her duties is normally a secondary duty that is deemed more administrative than strategic. As such, spending the bulk of one's time collaborating on such efforts is deemed futile, thereby strengthening the natural tendency to stay within one's own narrow, organizational alignment. Events and processes such as these serve to heighten the already stove-piped nature of federal acquisition structure making the effective use of strategic sourcing more difficult to implement. The necessity of strong leadership endorsing, promoting, and supporting commercial practices such as strategic sourcing is a necessary ingredient for success, according to government reports as well as private sector practitioners. Moore et al.'s (2002) report focused on the continued need for senior leadership support from the onset of the strategic sourcing program through the execution and support phases. According to Moore et al., any program that brings about as much change as strategic sourcing requires strong leadership support and, without it, failure is inevitable.

Practitioners in the private sector, in their discussions regarding their own experiences and research, agree with Moore et al.'s (2002) line of thinking. Baldwin (1999) labelled his call for leadership support as a strategic sourcing champion to promote the goals of the cross-functional team and to leverage the necessary relationships that will be required to market the team successfully. Banfield argued that the degree of success of the team is directly dependent upon the strategic sourcing champion's credibility and influence within the organization (p. 73). Laseter (1998) endorsed the necessity of leadership and extends it beyond Banfield's call for a leader or executive to serve as a strategic sourcing team's champion. Laseter argued for the following steps to be taken by a CEO who wants to institute a strategic sourcing platform in his or her organization:

A. Upgrade the skills and visibility of the purchasing function.
B. Set aggressive near-term and long-term improvement goals.
C. Launch pilot efforts to demonstrate that the goals are achievable.
D. Make selective investments in IT.

Laseter's call for upgrading the skills and visibility of the purchasing function, ties back to the importance that the private sector places upon leadership and the need for an organization's acquisition practice to be spearheaded by both a technically competent and empowered leader. Laseter would likely argue that the current role of the federal sector's CAO falls short of his vision for upgrading the skills and visibility of the purchasing function. Laseter's research highlighted numerous commercial firms such as IBM and Honda of America that employed such tactics as employing empowered leaders for their purchasing entities that resulted in effective strategic acquisition platforms that delivered unprecedented savings and process efficiencies.

Acquisition leaders must do more with less to deliver critical resources with a diminishing budget. It is not known if and to what extent if a correlation exists between strategic sourcing and collaboration, competition, and cost among public sector acquisition leaders. The decreasing budget impedes the procurement process such as the collaboration, competition, and cost. The purchasing and supply management functions—acquires goods and services—depend on strategic sourcing processes and make use of better buying power (BBP) initiatives. The standard objective of BBP is to provide better value by enhancing the way public sector acquires goods and services. The public sector strategic sourcing is:

a. A systematic procedure that is data-driven and counts on relevant facts for sourcing decisions,
b. Relies on interior customer requirements and exterior market knowledge to establish approaches,
c. And considers all the perspectives from consumer requirements, and market conditions.

Implementing strategic sourcing involves a committed team and their discernment on what adds value to their organization through the implementation of BBP. A need exists to explore how public sector acquisition leaders use strategic sourcing to influence collaboration, competition, and cost. Public sector requires analysis and measurements to decide which elements provide value to the organization. Collaboration, competition, and cost may have a significant influence on strategic sourcing than the other elements defined by public sector. Acquisition leaders can use strategic sourcing as a collaborative procedure that will be cross-functional towards engaging and synergizing stakeholders from multiple viewpoints. Another element of strategic sourcing is to control price growth, that is, what something will cost compared to what it should cost. Exercising cost controls gets rid of inconsistent techniques or repetitive business arrangements of obtaining similar products and services, and influences purchasing power to obtain better costs. Further studies may show that total ownership cost (TOC) savings can be achieved through reduced quantity and usage, improved process effectiveness, and better supplier management. Strategic sourcing encourages an organized process which maximizes the government's supply base while lowering total cost of ownership, seeks to establish collaboration with numerous diverse groups, and enhances operations. Public sector must remain a global competitive organization that allows vendors, regardless of size and financial status, to bid on requirements. Execution of strategic sourcing improves delivery, enhances the performance of the procurement function by improving the quality and value of purchased products and services that directly or indirectly support mission-focused programs and activities. Strategic sourcing markets reliable competitors, encourages competitive acquisition techniques, takes out barriers of inefficient competition, and promotes sales.

3.1 The Status of the purchasing function

As mentioned by Baldwin et al. (2000), Moore et al. (2002), Laseter (1998), and others, practitioners have publicized the need for purchasing to cease its stereotypical role of serving as an administrative or clerical function. Driedonks, Gevers, and van Weele (2010) stressed this point in their study regarding how to manage the effectiveness of strategic sourcing teams when they asserted, "Although things have changed dramatically over the last decades, the purchasing profession has a history as a clerical function" (p. 109). Driedonks et al. claimed that the ability of strategic sourcing to create a competitive advantage is what has largely raised the prominence of the purchasing function (p. 109). Kocabasoglu and Suresh (2006) enhanced the notion of increasing the status of purchasing when they asserted that successful strategic sourcing implementation is dependent on purchasing and supply managers partaking in the organization's strategic processes (p. 7). The typical public sector framework—whereby requirements are generated and provided to the purchasing function to simply administer an order—falls far shy of the type of strategic, organizational integration that Kocabasoglu and Suresh label as a KSF. Ogden, Rossetti, and Hendrick (2007) confirmed the importance of this KSF, offering that the purchasing literature has identified "status within the organization" as one of the key determinants of purchasing's strategic influence (p. 4). The public sector's failure to break through the bureaucratic, stove-piped nature of its acquisition system and purchasing's continued administrative role will inevitably add to the challenge of implementing strategic sourcing initiatives and practices.

3.2 The Effective Leadership.

Wisma, Schmidt, and Naimi (2006) asserted that significant resources need to be focused on leadership in order to properly manage the inevitable change that accompanies a strategic sourcing initiative (p. 174). Wisma et al. argued that such an initiative without an effective leader to manage the significant change that stems from executing strategic sourcing practices will surely lead to failure. By comparison, the private sector typically hires experts with leadership skills whose sole focus is to drive successful strategic sourcing initiatives. In reviewing the organizational structures and leadership roles of private sector firms that have experienced successful strategic sourcing programs, it turns out that their leaders are focused on the primary mission of ensuring that their programs exceed the established goals and metrics. Klein (2004) included this approach as one of the three key steps to excellence. Klein cited Prudential as a best-in-class case study in his research and stated how its strategic contracts manager led the needed change (p. 24). This senior level executive focused on driving effective strategic sourcing practices in the company. This type of focus is not only lacking but is frequently altogether absent in the public sector environment.

The federal government's approach was to add this challenging initiative to the countless other duties assigned to their senior leaders, and to do so with a flat-lined budget. In this instance, the federal government reverted to the hierarchical structure and tasked the senior-most leaders who delegated down to their subordinates in hopes of some level of progress (Johnson, 2005). Referencing Simon's (1997) thoughts, the outputs of executives cannot be understood without understanding the organizations in which they work (p. 18). Regarding the implementation of strategic sourcing in the federal sector, the important trait of leadership was handled in the bureaucratic fashion by tasking and delegating in lieu of the commercial approach of hiring dedicated leadership to ensure that the proper level of focus and energy supported the initiative (Johnson, 2005). Leadership's impact on strategic sourcing has been studied, albeit only with private sector data. Hult, Ferrell, and Schul (1998) examined the impact of leadership on a set of individual purchase outcomes related to the sourcing process. Hult et al. studied leadership's impact on an organization's purchasing cycle times and relationship commitments, both critical measurement's in assessing an organization's success in a strategic sourcing environment.

This is not to imply that effective leadership alone ensures that strategic sourcing initiatives experience success. For example, when Hawkins, Randall, and Wittmann (2009) researched factors contributing toward the use of reverse auctions, a strategic sourcing tool, they illustrated that leadership was not a contributing factor. Hawkins et al. revealed that leadership in their study only proved to be marginally significant and negatively related to the use of reverse auctions (p. 65). Although still marginally effective and considered by most to be a critical part of successful strategic sourcing practices, leadership alone does not guarantee positive outcomes from a strategic sourcing perspective.

3.3 Cross-functional representation

The internal coordination of purchasing with other functions is a KSF that relies heavily on internal communications. Freytag and Mikkelsen (2007) stressed the importance of this KSF, stating that the managerial challenge of managing relationships is critical in implementing strategic sourcing. Freytag and Mikkelsen asserted, "The key to success is that all parts of an organization cooperate, and that no part of the organization passively or actively shows a reluctant attitude to handling the tasks" (p. 189). Internal communication and managing relationships across the public sector's vast, stove-piped acquisition system is difficult to effectively execute. Acquisition is comprised of a handful of job series, although this handful varies from agency to agency. These job series, ranging from contracting officers to program managers to engineers to logisticians, contain their own training, competencies, and skill sets that rarely overlap, thereby exacerbating the limited view and scope of a public sector acquisition official.

Mookherjee (2008) studied the criticality of moving towards a flatter organization in lieu of the traditional vertical organizations that typically define government bureaucracies if an organization is to effectively practice strategic sourcing. Mookherjee asserted that companies are therefore moving, and sometimes being forced, away from the classical, vertical structures towards those that are more flexible (p. 72). Most of The current public sector organizational structure and its stove-piped nature violate the tenants of flexibility and horizontal platforms that Mookherjee's research endorsed. In a study similar to Mookherje's (2008) study, Gopal, Viniak, and Caltagirone (2004) outlined a model to achieve a strategic sourcing that relies heavily on the effective use of cross-functional teams. Gopal et al. asserted, "The project's success depends heavily on the team's formation. Purchasing, logistics, operations, engineering, and finance all need to be represented on the team" (p. 56). Again, considering that the public sector currently hires, trains, and works according to functional area, each particular function is frequently ignorant regarding the roles and responsibilities of their counterparts in the other functional areas.

Recently, asserted the following list of barriers that limit the public sector's ability to form integrated product teams: lack of empowerment, unclear goals, poor leadership, unreasonable schedule, insufficient resources, and lack of commitment (p. 31). This translates the tasking of a joint cross-functional team into a monumental challenge, at least for the public sector bureaucracy. This is not to imply that the public sector has not long been warned regarding the need to shift from a functional, narrow focus towards the industry standard of cross-functional teams.

3.4 Buyer–supplier relationships

Information sharing and the development of key suppliers are two of Kocabasoglu and Suresh's (2006) KSFs that come close to violating the ethical standards and statutory regulations that guide the federal sector's acquisition system. The public sector acquisition system, from a purchasing perspective, is guided by the federal acquisition regulations, which place the concepts of fairness and competition above these KSFs, regardless of their importance in executing strategic acquisition practices. Government business shall be conducted in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none. Transactions relating to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships.

It is easy to decipher why contracting officers are hesitant to establish long-term relationships with suppliers. The current bureaucratic structure of the public sector and the lengthy list of regulations that guide it prohibit certain buyer–supplier relationships that serve as common practices in the private sector. When these rules are violated, the losing contractor in a competitive process has the legal right to protest the government's decision. In line with KSFs that promote successful strategic sourcing implementation, Towers and Song (2010) provided that long-term purchasing arrangements are necessary between buyer and supplier to ensure a strategic relationship that will lead to effective strategic sourcing practices (p. 542). There are a host of bureaucratic hurdles that make this KSF difficult to achieve, including the budgetary system that funds public sector acquisitions. In the summary of their study, Chan and Chin (2007) claimed that managing and collaborating with suppliers early in the process offers companies a competitive advantage (p. 1407). This competitive advantage escapes the largest buying entity in the world because of its bureaucratic rules that continue to prohibit it from applying commercial best practices.

4. Pros and Cons of Outsourcing

There are many well-defined types of outsourcing, as listed by Urquhart (2002). However, the favorite of these types varies by organization. The underlying factor is always based on the outcome expected from the partnership. Based on the available research and information, Urquhart developed seven different theories of outsourcing, which include (a) core competencies, (b) resource-based theory, (c) resource-dependent theory, (d) transaction cost theory (TCT), (e) agency cost theory (ACT), (f) partnerships, and (g) game theory. These theories have different objectives and the choice by organizations looking to outsource varies, ultimately dependent on the reason the organization is seeking to outsource some of its functions and the amount of risks the organization is willing to accept. Many scholars have explored and documented some of the reasons an organization would look into allowing external companies to perform part of the noncore functions (Freeman & Minow, 2009; Mukherji & Ramachandran, 2007; Williams, 2009). Some of the reasons listed were cost reductions, "reduction in complexity, reduction of the concentration of risk," and opportunity for the organization to focus on core competencies (McKenna & Walker, 2007 p. 217). According to Lee, Mohamad, and Ramayah (2010), there are three generations of outsourcing. The first generation is based on transactional cost and contractual agreements between each organization: this generation is driven by cost and reduced overhead. The second generation of outsourcing is as a result of increased demand from consumers; functions are outsourced in order to meet the growing demands of consumers. The third and final generation of outsourcing springs from industry competitiveness. Cisco Systems, Amazon, and Dell are a few of the companies in the third generation category, according to Lee et al. (2010). The difference between the second generation and the third generation is the willingness to outsource some of the core functions, as a result of organization competitiveness and to satisfy the growing demand from consumers.

Mukherji and Ramachandran (2007) identified four strategic reasons for outsourcing, which were listed as "cost minimization, resource access, resource leverage, and risk diversification" (p. 104). According to Ahearne and Kothandaraman (2009) and Mukherji and Ramachandran (2007), many organizations considering outsourcing do so in order to reduce costs associated with performing the functions in-house, either through the economy of scales or by venturing internationally for reduced labor and production costs. Others consider outsourcing in order to gain access to those resources that are needed within the organization, but are noncore functions to the organization and to eliminate the possibility of expanding the facilities or procuring additional machinery equipment (Bon & Hughes, 2009; Sakolnakorn, 2011). Fel and Griette (2012) explored the benefit of off-shoring on company size. The authors conducted a survey of 158 French companies and received 158 useable and complete responses. The survey revealed that French companies engage in offshoring activities primarily from China and Western Europe. Fel and Griette (2012) concluded that the larger the company, the more diversified in offshoring companies; small-to-medium sized enterprises (SMEs), on the other hand, often concentrate and engage minimally in offshoring activities. Hutzschenreuter, Lewin, and Ressler (2011) as well as other researchers who have researched insourcing and outsourcing phenomenon (Freeman & Minow, 2009; Mukherji & Ramachandran, 2007; Williams, 2009) often concluded with cost savings or cost reduction as one of the major reasons for outsourcing or offshoring products and services. Hutzschenreuter et al. explored insourcing decisions in U. S and Germany using secondary data that span over three decades. Technological innovations have made it increasingly reasonable to explore other opportunities and resources beyond a firm's geographical location and continent. Even though the primary focus for offshoring functions has been devoted to cost savings and cost reductions, Hutzschenreuter et al. (2011) explained that other factors such as a competitive advantage, availability and access to global resources, innovation and educational background, are now becoming the determining factors for offshoring. Using data from Offshoring Research Network (ORN) database, the authors performed comparative analyses between 119 German firms and 231 US firms and discovered that the initial move to offshoring was due to a technological advancement and innovation which led reduced transaction cost. However, the recent move to offshoring has been influenced by political decision consequently forcing firms to look abroad for solutions while at the same time providing business opportunities for the receiving countries.

Offshoring benefits are very well documented and supported by many scholars. The literature is replete with researches revealing that many organizations make this strategic decision for many reasons such as cost savings, competitive advantage, and even for the opportunity to explore and to take advantage of available resources. However, there are underlying implications especially when the offshoring strategy conflicts with internal organizational structure. Lampel and Bhalla (2010) clarified the definition of offshoring as either a strategic outsourcing with an external organization or relocation of a firm's activities to a distant or foreign location even though the firm still retain control and maintain full ownership of intellectual activities and decision making. The authors conducted a case study analysis of one of the major telecommunication service providers in UK- Tiscali UK and discovered that although Tiscali was successful in implementing and achieving the initial offshoring goals (after its acquisition and successful mergers), the offshoring agreement became complicated with growing structure. Lampel and Bhalla (2010) examined the decision making of the management of Tiscali to consider offshoring in order to meet growing demands from customers. The case study analysis indicated that though the decision was made to offshore certain functions to mitigate growing customer demands, overhead and development cost; management did not foresee the problems that arose with the offshore activities. Understanding the benefits of offshoring strategies and the disruptive impact of offshoring would be advantageous to managements in organizations during the decision making process. Williams (2009) used an Internet survey of 5,500 people living in the city of Sheffield in the United Kingdom, which generated 418 responses. His findings supported the main idea that many organizations may look at outsourcing for reasons other than cost savings, but rather for augmenting core functions and for seeking expertise in other noncore areas. Westergren (2010) stated that it is advisable for organizations to consider outsourcing for the case in which the cost of outsourcing is significantly lower than the cost of performing the function in-house. Westergren also stated that the same logic can be applied in the federal government, especially since the public sector is funded by taxpayers and the agencies operate on a limited budget.

Other scholars, however, have stated that the notion of privatizing or contracting out has to be examined further in the public sector, (Freeman & Minow, 2009; Verkuil, 2007). In determining when to outsource government functions, the associated risks must be thoroughly evaluated. The major concern of public sector is that some functions are not clearly defined, thus leading to contractors performing functions that should be performed by government employees. Fisher (2006) discussed the reason behind the federal government's decision to consider a multi-sector workforce, which consists of both private and public-sector employees. One of the reasons for this consideration is the aging federal workforce. Since the majority of the federal workforce consists of positions requiring specialized skills, it is imperative to ensure that there are personnel in line to perform tasks necessary for mission accomplishments. The two options considered by federal managers to resolve issues surrounding the aging federal government workforce are the competitive sourcing, (Fisher, 2006). The federal government looked into outsourcing in order to help with the forecasted decline of federal employees due to retirement. Friedman (2005) documented many events that led to outsourcing and globalization. In his interviews with many participants, Friedman explained the genesis of globalization and further explained that the change was inevitable. The world has transformed from outsourcing manufacturing goods to services and technology (Chou & Chou, 2011). Based on interviews and research, Friedman documented seven rules that have worked for companies that had managed to be successful in light of global change. The sixth of Friedman's rules highlighted the main factor businesses should consider when outsourcing; that outsourcing should be looked into as a means of gaining expertise and leveraging, and not necessarily for cutting costs. Page et al. (2010) concurred with Friedman, and also went further by mentioning that many organizations are now looking at what is now considered near-shoring. Near-shoring refers to cases in which organizations seek consulting services or contract some of the noncore functions to third parties within the same continent (Chou & Chou, 2011; Page et al., 2010). Friedman (2005) also supported this idea and discussed that the word "outsourcing" should be retired and replaced with "sourcing." According to Page et al. (2010), information technology, administrative, and logistics are the most outsourced positions; while India, Malaysia, The Philippines, Indonesia, Jordan, Thailand, and Egypt are some of the top outsourcing destinations in the world.

Outsourcing or the process of assigning specific functions of an organization to an external organization has gained momentum and recognition over the years. However, after the recent financial crisis leading to the economic downturn of 2007, many organizations are now reevaluating this decision (Drauz, 2013). According to Drauz (2013), there has been an extensive research and study conducted on outsourcing phenomenon and its benefits; whereas fewer researches have been conducted to document the strategic decision for insourcing and its underlying benefits. Using a case study approach, Drauz gathered information from five large manufacturing and supplier companies where the author was able to document the initial decision to outsource, and the subsequent decision to re-insource. The ability to retain expertise and prominent skill set within the organization as well as a reduction of associated costs of outsourcing were cited as some of the determinants for the decision to re-insource.

Offshoring activities have evolved from manufacturing and labor intensive work to service and support type functions. Jesen, Larsen, and Pedersen (2013) noted that firms are offshoring due to lack of skilled and qualified personnel in the domestic country. The authors posited that for a firm to function properly after offshoring some of its function, the company must be treated as a system. Jesen et al. (2013) further explained that with the understanding that comes with being treated as a system, offshoring firm is in a better position to evaluate all its key functions and determine means for proper operation. Ahearne and Kothandaraman (2009) and Mukherji and Ramachandran (2007) posited that many organizations focus on outsourcing as an opportunity to reduce costs associated with performing the functions in-house. On the other hand, Qu, Oh, and Pinsonneault (2010) argued that cost savings should be considered, but it should not be the primary determinant when managers are making the strategic decision to insource or outsource. The authors also expressed that most organizations do not consider information technology infrastructure as one of the core competencies of an organization therefore outsourcing to an external organization. Using secondary data from InformationWeek 500 report, Qu et al. studied and analyzed data from 143 firms which revealed that firms invested more in IT insourcing than in IT outsourcing. Qu et al. concluded "firm should consider IT an integral part of their strategic core" (p. 96) in order to increase productivity and performance.

Roza, Van den Bosch, and Volberda (2011) explored the impact of firm size on offshoring strategy and agreed with other scholars that outsourcing or offshoring decision is often based on cost savings, technology innovation, or resources. The authors further explained what was considered as the three waves of offshoring. The first wave being manufacturing, then information technology and lastly business process (Roza et al., 2011). Roza et al. (2011) tested few hypothesis to determine the importance of offshoring motives (cost, resources, entrepreneurial) on small, medium-sized, and large firms and discovered that firm size does not affect the "offshoring governance mode" (p. 321). However, small and medium sized firms tend to consider offshoring for cost, resources, and entrepreneurial strategies while the large firms use offshoring for cost and resource strategies. Kang, Wu, Hong, and Park (2011) along with other scholars have reported the growing demand for outsourcing. Kang et al. (2011) confirmed that many firms considered outsourcing as a "primary management tool" (p. 1195). However, over half of these firms expressed dissatisfaction with outsourcing outcomes. In a case study of five multi-national corporations consisting of senior executives "including CEOs, purchasing managers, production managers, and outsourcing specialist" (p. 1197), the authors concluded that in order to achieve the desired goals for outsourcing, different outsourcing strategies will require different organizational controls. Mohr et al. (2011) further explained that an organization's structure must be aligned with its management functions in order to maximize benefits and minimize potential risks. Nackman (2010) stated that much could be learned from decisions made by prior administrations; essentially, experience is the best teacher. Most importantly, the cause of over reliance on the private sector can be attributed to the reduction in the acquisition workforce and increase in acquisition activity. Nackman (2010) and Jurich (2010) agreed that public sector's decision to reduce the number of the acquisition workforce personnel in order to save money during the time the agency was experiencing a decline in the budget, has resulted in an opposite outcome.

5. Conclusion

The four KSFs detailed above are all limited when considering the existing institutional structure that guides the public sector acquisition system. Although both scholars and practitioners may argue over which KSF is most critical to an organization that is implementing or practicing strategic sourcing, the overlapping themes were constant. Thawiwinyu and Laptaned (2009) executed a detailed study on the impacts of strategic sourcing on supply chain performance management. In their literature review, they asserted the following as the main elements of strategic sourcing: strategic elevation of the purchasing function, internal coordination between supplier and purchasing, long-term relationships with suppliers, and supplier involvement in planning and design. Their assessment assists in validating the fact that these elements or KSFs are constant and need to be massaged into the public sector institutional setting if the public sector expects to realize the utilization of strategic sourcing processes.

Thawiwinyu and Laptaned (2009) asserted, "Firms that implement strategic sourcing experience significant improvement in their supply chain performance management, specifically in terms of responsiveness and satisfaction of customer" (p. 20). In an era of budget cuts, multiple efforts, and overall economic uncertainty, the public sector should focus its efforts mightily on how to properly implement strategic acquisition practices so its customers can experience increased customer satisfaction, however that might be defined (e.g., increased savings, better service, decreased delivery times, etc.). Further, the potential regarding positive social change associated with the reallocation of financial resources is tremendous serving to heighten the demand for strategic sourcing in the public sector. Unfortunately, the academic literature to date has not yet explored, at least not with any depth, the impact of organizational structures on the ability to implement strategic acquisition practices such as strategic sourcing. Although the KSFs detailed above acknowledge the need to elevate the status of the purchasing function, empower effective leaders, increase the cross-representation of acquisition teams, and change the dynamics of how the public sector engages its suppliers, the need for a focused study honing in on the role of an institutional structure and its impact on that institution's ability to implement best practices is long overdue. Matthews (2005) asserted that public sector procurement professionals are expected to focus more on strategic practices versus the traditional tactical approach in an effort to assist the government's tasking to do more with less. This public demand will be difficult to meet if both academia and practitioners do not vigorously study and explore the barriers that may or may not be preventing the procurement professionals from meeting their tasking to institute strategic methods and practices.

One of the reasons for a lack of literature on this topic, especially regarding the public sector, may be partly explained by Matthews (2005) statement, "Despite the history of government purchasing and its evolution over the last three centuries, it has still not been completely embraced by the academic community as a formidable player within public administration" (p. 397). The resulting research seeks to initiate a reversal of this unfortunate trend by implementing academic vigor through a case study that carefully analyses and interprets the impact of the public sector's institutional setting on its ability to implement the commercial best practice known as strategic sourcing. This analysis reveals existing gaps in the academic literature, thereby encouraging future research.

References

Ahearne, M., & Kothandaraman, P. (2009). Impact of outsourcing on business-to-business marketing: An agenda for inquiry. *Industrial Marketing Management, 38*, 376–378. doi:10.1016/j.indmarman.2009.03.004

Baldwin, L. H., Camm, F., & Moore, N. Y. (2000). *Strategic sourcing: Measuring and managing performance.* Arlington, VA: RAND.

Banfield, E. (1999). *Harnessing value in the supply chain: Strategic sourcing in action*. New York, NY: John Wiley and Sons.

Bon, J. L., & Hughes, D. E (2009). The dilemma of outsourced customer service and care: Research propositions from a transaction cost perspective. *Industrial Marketing Management, 38*, 404-410. doi:10.1016/j.indmarman.2009.003.004

Buchanan, J. M. (1984). Politics without romance: A sketch of positive public choice theory and its normative implications. In J. M., Buchanan & R. D. Tollison (Eds.), *The theory of public choice–II* (pp. 11–22). Ann Arbor, MI: University of Michigan Press.

Burman, A. V. (2008). The role of chief acquisition officers: What should they be doing? Retrieved from http://www.businessofgovernment.org/sites/default/files/ Role%20of%20Chief%20Acquisition%20Officers.pdf

Chan, T. C. T., & Chin, K.S. (2007). Key success factors of strategic sourcing: An empirical study of the Hong Kong toy industry. *Industrial Management and Data Systems, 107*(9), 1391–1416. Retrieved from http://www.emeraldinsight.com/index.htm?PHPSESSID=eu1d3lot4iqrvjstd61udb r9r0

Chou, D. C., & Chou, A. Y. (2011). Innovation outsourcing: Risks and quality issues. *Computer Standards & Interfaces, 33*, 350–356. doi:10.1016/j.csi.2010.10.001

Chubb, J. E., & Moe, T. M. (1990). *Politics, markets, & America's schools*. Washington, DC: Brookings Institution.

Drauz, R. (2013), (in press). Re-insourcing as a manufacturing-strategic option during a crisis – Cases from the automobile industry. *Journal of Business Research,* doi:10.1016/j.jbusres.2013.01.004

Driedonks, B. A., Gevers, J. M. P., & van Weele, A. J. (2010). Managing sourcing team effectiveness: The need for a team perspective in purchasing organizations. *Journal of Purchasing and Supply Management, 16*, 109–117. doi:10.1016/j.pursup.2010.03.007

Falcone, R. (2010, May 18). Boosting the role of the CAO. *Federal Computer Week*. Retrieved from http://fcw.com/Articles/2010/05/24/COMMENT-Ron-Falcone-Chief-Acquisition-Officers.aspx?Page=1

Fel, F., & Griette, E. (2012). An analysis of the offshoring decision process: The influence of the company's size. *Procedia Social and Behavorial Sciences, 58*, 596-605. doi:10.1016/j.sbspro.2012.09.1037

Freeman, J., & Minow, M. (2009). *Government by contract: Outsourcing and American democracy*. Cambridge, MA: Harvard University Press.

Freytag, P. V., & Mikkelsen, O. S. (2007). Sourcing from outside—Six managerial challenges. *Journal of Business and Industrial Marketing, 22*(3), 187–195. Fynes, W. B. (1958). *An evaluation of the methods of purchasing in Army ordinance procurement* (Unpublished master's thesis). Temple University, Philadelphia, PA. General Accountability Office. (2009). *High-risk series* (GAO Publication GAO-09-271). Retrieved from http://www.gao.gov/products/GAO-09-271

Gopal, G., Viniak, V., & Caltagirone, J. (2004, November/December). A team approach to global sourcing. *Supply Chain Management Review*, *8*(8), 54–59.

Hawkins, T. G., Randall, W., & Wittmann, C. M. (2009). An empirical examination of reverse auction appropriateness in B2B source selection. *Journal of Supply Chain Management, 45*(4), 55–71. doi: 10.1111/j.1745-493X.2009.03176.x

Hutzschenreuter, T., Lewin, A.Y., & Ressler, W. (2011). The growth of white-collar offshoring: Germany and the US from 1980 to 2006. *European Management Journal, 29*, 245-249. doi:10.1016/j.emj.2011.02.002

Jesen, P. D. O., Larsen, M. M., & Pedersen, T. (2013). The organizational design of offshoring: Taking stock and moving forward. *Journal of International Management, 19*, 315-323. doi:10.1016/j.intman.2013.03.012

Johnson, C. (2005, May 20). Memorandum for chief acquisition officers, chief financial officers, chief information officers. Subject: Implementing strategic sourcing. Retrieved from www.uspto.gov/web/offices/ac/comp/proc/OMBmemo.pdf

Jurich, J. (2010, Summer). The multisector workforce comes full circle. *National Contract Management Journal*, *8,* 57–65. Retrieved from http://www.ncmahq.org

Kang, M., Wu, X., Hong, P., & Park, Y. (2011). Aligning organizational control practices with competitive outsourcing performance. *Journal of Business Research, 65*, 1195-1201. doi:10.1016/j.jbusres.2011.07.004

Klein, A. (2004). Three steps to excellence. *Supply Management, 9*(7), 22–25. Retrieved from www.supplymanagement.com/analysis/features/2004/three-steps-to-excellence/?locale=en

Kocabasoglu, C., & Suresh, N., C. (2006). Strategic sourcing: An empirical investigation of the concept and its practices in U. S. Manufacturing Firms. *Journal of Supply Chain Management*, *42*(2), 4–16. doi: 10.1108/01443571211195736

Lampel, J. & Bhalla, A. (2010). Living with offshoring: The impact of offshoring on the evolution of organizational configurations. *Journal of World Business, 46*, 346-358. doi:10.1016/j.jwb.2010.07.007

Laseter, T. M. (1998). *Balanced sourcing*. San Francisco, CA: Jossey-Bass Publishers. Matthews, D. (2005). Strategic procurement in the public sector: A mask for financial and administrative policy. *Journal of Public Procurement, 5*(3), 388–399. Retrieved from http://ippa.org/jopp/download/vol5/issue-3/Art6_Mathews.pdf

Lee, J. W. C., Mohamad, O., & Ramayah, T. (2010). Outsourcing: is the social exchange theory still relevant in developing countries? *Journal of Research in Interactive Marketing, 4*, 316-345. doi:10.1108/17505931011092826

McKenna, D., & Walker, D. H. T. (2007). A study of out-sourcing versus in-sourcing tasks within a project value chain. *International Journal of Managing Projects in Business, 1*, 216–232. doi:10.1108/17538370810866340

Mitchell, W. C. (1988). Virginia, Rochester, and Bloomington: Twenty-five years of public choice and political science. *Public Choice, 57*, 101–119. doi: 10.1007/BF00115751

Mohr, J. J., Sengupta, S., & Slater, S. F. (2011). Mapping the outsourcing landscape. *Journal of Business Strategy*, *32*, 42–50. doi:10.1108/02756661111100319

Mookherjee, S. N. (2008). Strategic sourcing: Need for a disciplined approach. *The Icafai University Journal of Business Strategy, 2008*(2), 71–76.

Moore, N. Y., Baldwin, L. H., Camm, F., & Cook, C. R. (2002). Implementing best purchasing and supply management practices: Lessons from innovative commercial firms. Arlington, VA: RAND.

Mukherji, S., & Ramachandran, J. (2007). Outsourcing: Practice in search of a theory. *IIMB Management Review, 19*, 103–110. Retrieved from http://www.iimb.ernet.in

Nackman, M. J. (2010). The aftermath of the decision to reduce the Defense Acquisition Workforce: Impacts, difficulties ahead, and fixes. *National Contract Management* Journal, *8,* 79–88. Retrieved from http://www.ncmahq.org

Ogden, J. A., Rossetti, C. L., & Hendrick, T. E. (2007). An exploratory cross-country comparison of strategic purchasing. *Journal of Purchasing and Supply Management, 13*, 2–16. doi: 10.1016/j.pursup.2007.03.005

Ostrom, V., & Ostrom, E. (1971, March/April). Public choice: A different approach to the study of public administration. *Public Administration Review*, *31*, 203–216. doi: 10.2307/974676

Owens, G., Vidal, O., Toole, R., & Favre, D. (1998). Strategic sourcing: Aligning procurement needs with your business goals. In J. Gattorna (Ed.), *Strategic supply chain management* (pp. 285–301). Hampshire, England: Gower Publishing.

Page, R. A., Deme, J., & Nodoushani, O. (2010). Outsourcing contingencies in a global world. *Competition Forum*, *8*, 5–12. Retrieved from http://www.eberly.iup.edu /asc

Qu, W. G., Oh, W., & Pinsonneault, A. (2010). The strategic value of IT insourcing: An IT-enabled business process perspective. *Journal of Strategic Information Systems,19*, 96-108. doi:10.1016/j.jsis.2010.05.002

Roza, M., Van den Bosch, F. A. J., & Volberda, H. W. (2011). Offshoring strategy: Motives, functions, locations, and governance modes of small, medium-sized and large firm. *International Business Review, 20*, 314-323. doi:10.1016 /j.jbusrev.2011.02.002

Rudzki, R. A., Smock, D. A., Katzorke, M., & Stewart, S. Jr. (2006). Straight to the bottom line: An executive's roadmap to world class supply management. Fort Lauderdale, FL: J. Ross Publishing.

Sakolnakorn, T.P.N. (2011). The good aspects of managing an organization with an outsourcing and subcontracting strategy. *International Journal of Management and Information Systems, 15*(3), 11–16. Retrieved from http://journals.cluteonline.com/index.php/IJMIS

Simon, H. (1997). Administrative behavior. A study of decision-making processes in administrative organizations (4^{th} ed.). London, UK: The Free Press.

Sobel, R. S., & Leeson, P. T. (2006). Government response to Hurricane Katrina: A public choice analysis. *Public Choice 127*, 55–73. doi: 10.1007/s11127-006-7730-3

Thawiwinyu, K, & Laptaned, U. (2009). The impact of strategic sourcing and E-procurement on supply chain performance management. *China-USA Business Review,* *8*(8), 8–25. doi: 10.1080/13602380903068071

Towers, N., & Song, Y. (2010). Assessing the future challenges in strategic sourcing commodity from China: a case study analysis. *Asia Pacific Business Review, 16*(4), 527–544. doi: 10.1080/13602380903068071

Urquhart, C. (2002). Applications of outsourcing theory to collaborative purchasing and licensing. *VINE: The Journal of Information and Knowledge Management Systems*, *32*, 63–70. doi:10.1108/03055720210471157

Verkuil, P. R. (2007). *Outsourcing sovereignty: Why privatization of government functions threatens democracy and what we can do about it.* New York, NY: Cambridge University Press.

Williams, C. C. (2009). Rationales for outsourcing domestic services to off-the-books workers. *Journal of Economic Studies*, *36*, 343–354. doi:10.1108/01443580910973565

Wilson, J. Q. (1989). *Bureaucracy: What government agencies do and why they do it.* New York, NY: Basic Books.

Wisma, M., Schmidt, E., & Naimi, L. (2006). Factors to consider in strategic sourcing. *Review of the Electronic & Industrial Distribution Industries*, *5*(2), 173–187. Retrieved from http://www.nedassoc.org/publications.php5