



# PROCEEDINGS OF PRAGMATIC CONSTRUCTIVISM

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## The outsourcing decision-making process: two extensions to the management accounting toolkit

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### Abstract

In response to a lack of research, this paper explores the type of reasoning that companies use to structure their complex outsourcing decision and the procedures for producing relevant accounting information. Analyzing two manufacturing companies, we uncover two methods for structuring the outsourcing decision-making process and for determining relevant accounting information: an analytical method and an actor-based method rooted in pragmatic constructivism. The two cases show that both strategy and management accounting play an interrelated, crucial role in the decision to outsource. The article adds to the academic literature on calculative decision theory by accentuating the notion of 'practice' rational decision-making, where managers have to integrate sensing and reasoning into practical affairs. In practice, the results provide extensions to the management accounting toolkit since these cases can serve as inspiration for structuring the outsourcing decision-making process in similar situations.

**Keywords:** Outsourcing, decision-making, management accounting information, methodology.

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## **The outsourcing decision-making process: Two extensions to the management accounting toolkit**

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### **NHH Background**

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- Outsourcing decision-making
  - Practical significance – lack of academic research
  
- Decision theory - intelligent human being(s) (March 1978)
  - Calculated rationality
    - Making calculations of the consequences of actions for objective
    - Acting sensibly to achieve objectives
  - Systemic rationality
  
- Research stream on calculated rationality
  - Rational choice
  - Bounded rationality
    - The individual solving simple, well-defined calculative tasks

## **NHH Focus of the paper**

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- Organizational reasoning into complex practical affairs
  
- Outsourcing decision-making
  - The encompassing decision process that shapes the company's entire supply chain configuration for a given product and determines whether the individual parts are to be kept in-house or contracted out
  
- Not 'pure' rational decision-making models, but 'practice' rational decision-making models guiding organizational action

## **NHH Methodology**

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- Case study
  - Two case companies
  - Semi-structured
  - Coding
  
- Conceptual framework
  - Method
    - Methodic and methodical procedure
  - Methodological approach
    - Ontology and epistemology

## **NHH** Theoretical core research question

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- Which type of methodological approaches for creating business knowledge do companies draw upon to structure their strategic outsourcing decision-making problem and to produce and use accounting information as a basis for their decisions?
  
- Reflections on the rationale

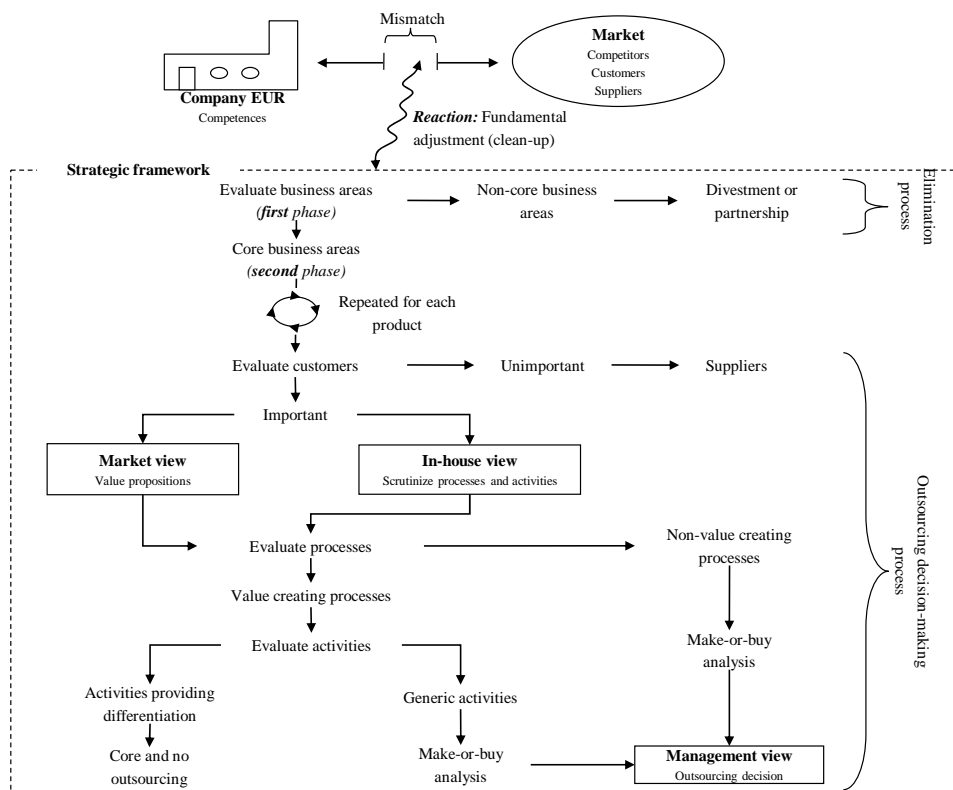
## **NHH** Methods

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- Analytical method
  - Objective world "out there" that can be explained by the sum of its parts
  - Method: One-way step-by-step analytical knowledge accumulation process
  - Methodical procedures: Quantitative techniques
  
- Actor-based method rooted in pragmatic constructivism
  - The human actors construct the relationship to the world
  - Construct causality – integration of the four dimensions of reality
  - Methodic approach
    - Numerous iterative stages of problematization, diagnostics and conceptual development – a reflective process that moves insight toward an increasingly higher diagnostical certainty
    - Social integration processes: Subjectification, externalization, and objectification
  - Methodical procedures
    - Dialogical interaction and reflections
    - Systematic observations of facts

• Strategic task

- Develops, manufactures, and sells mechanical and electronic components to be used in several industries around the world.
- Clean-up process and focus on core competences
- Outsourcing decision-making a part of the process





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- Method drawing on an analytical approach
- Methods
  - External view
    - The most important customers
    - Examination of their needs – value propositions
  - In-house view
    - Critical analysis of the present supply chain configurations
      - Processes including value creating features for the value propositions
      - Supplier market: Firm-specific activities vs. generic activities
      - Make-or-buy analysis of generic activities
        - » Cost of goods sold if the activity is kept in-house vs. outsourced
        - » Cost of being flexible
        - » Qualitative assessment of the loss/gain in technology, competences etc.
        - » Likert scale scoring system
        - » Risk assessment
- The managers do not actively contribute to the production of information
- Information is brought to the table and one definitive decision on the supply chain configuration is made.

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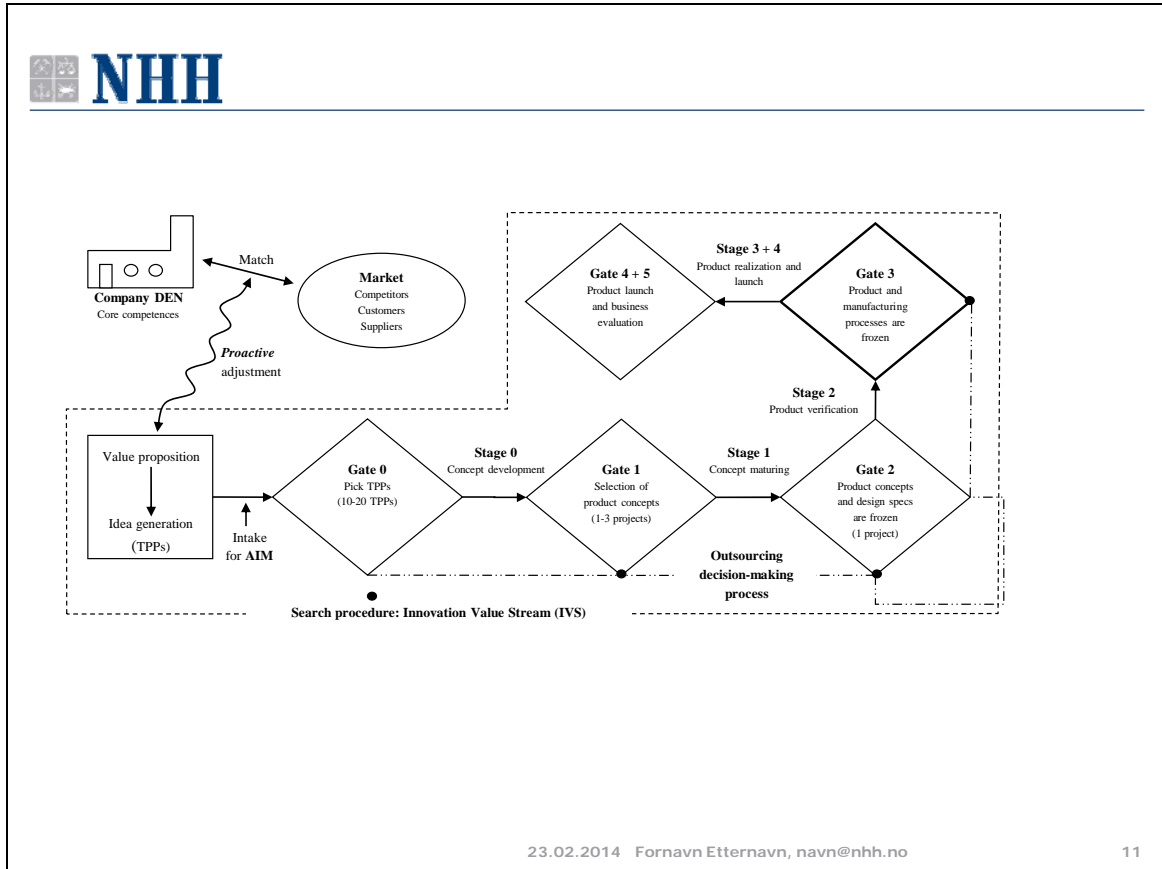


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- Strategic task
  - Core value of making life easier for people with a particular illness
  - Construction of profitable and functioning products within core competences
  - Matching the set of core competences with the perceived expectations of the market constrains the product possibilities and thereby the scope of supply chains that are constructible

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## Dialogue and confrontation

- To evaluate the business impact of the product, it is important that you - already in the early phase of concept development - prepare a business case that tells you: Marketing says that we can sell so and so much, and we have calculated these costs and investment estimates. In total, this gives us a profit of this [amount] if we launch the product, which is then compared to an "as is" situation that describes the business impact if we do not undertake this project (key employee in Global Operations).
- That is, they [statisticians and market modeling experts] would say: You [Global Marketing] have estimated that England can have an uptake of the product equal to this. If we consider the launch of earlier products with similar characteristics, we can see that we usually have an uptake that looks different. Why is it that this product can have a greater uptake – do you consider this to be realistic? Hence, Marketing needs to investigate this and explain why precisely this product will have a better uptake than the last three products launched within the same area (key employee in Global Operations).
- Budget and actual – performance pay.



- The IVS funnel
  - Organize and shape the construction of some factual possible products that fulfill the core values of the company
  - Outsourcing decision is an integrated part of the development process
  - Actor-based methodology structured the search procedure
    - The decision-makers are actively engaged in the information production
    - The individual's knowledge and understanding (subjectification) and human interaction (externalization) play important roles in the information production (objectification);
    - Ongoing learning – the time frame allows the supply chain configuration to be determined step-wise as information is repeatedly updated and reflected upon
  - Dialogue, reflection and factual observations



- Two methods
  - Drawing on two different methodological approaches supported the outsourcing decision making in the two companies
  - Both seem appropriate given the specific circumstances
    - An analytical method supported the cleaning up process
    - An actor-based method rooted in pragmatic constructivism supported the *proactive* use of outsourcing in relation to product innovations
- Both about construct causality – pragmatic constructivism?



## **NHH** Take aways

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- Can serve as inspiration for practitioners
  - The methods are extensions to the management accounting and strategy toolkit
  - Can serve the purpose of construct causality under the right circumstances
  - Adaption of method
  
- Adds to the contemporary management accounting research
  - Extension to the calculated rational choice model
    - Not 'pure' rational decision making models, but 'practice' rational decision making models to guide the organizational action
    - The strategy frames the decision task environment
    - Different methods for framing and analyzing problem space
  - Systemic rationality vs. calculated rational choice
  
- Further research

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