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Design Outsourcing: The Antecedents and Performance Outcomes

Abstract

Firms are increasingly outsourcing their core activities, and design is one such activity. It is a common practice for parts of design process to be outsourced to independent suppliers, and which is often mentioned in academic literature. Yet, the theoretical underpinnings of its antecedents and outcomes have not been properly examined. This study includes in-depth interviews with practitioners and investigates what drives firms to outsource design tasks and what the determinants of successful outsourcing are. The findings reveal that offshore design outsourcing and domestic design outsourcing are opted for clearly different strategic purposes; offshore outsourcing in pursuit of new insights and creativity and domestic outsourcing for efficiency. Performance outcomes are determined by the capabilities of the focal firm in configuring internal and external resources.

INTRODUCTION

Challenging the long-standing claim of insourcing core activities and outsourcing peripheral activities (Contractor *et al.*, 2010), in practice, more and more firms are engaging in outsourcing core activities including R&D, innovation, and design (Grossman and Helpman, 2005; Grimpe and Kaiser, 2010). Design is not only about final goods, services, concepts but also about brand identity (Bloch, 1995; Brown and Katz, 2011). It is a core activity of the firm that is directly related to corporate and brand identity as can be seen from the examples of Apple and Bang & Olufsen (Ravasi and Lojacono, 2005; Kwon *et al.*, 2017). Design outcomes are not only differentiating factors but also one of the critical elements for competitive advantages (Ravasi and Lojacono, 2005; Luchs and Swan, 2011). In Apple, the design chief is a member of leadership team and directly reports to CEO (Clark and Smith, 2008). Considering that attention is one of the scarcest resources (Cyert and March, 1963; Ocasio, 1997), the allocation of the top management's attention to design signals the significance of the task.

Although design is acknowledged as a core activity of a company, the process through which the whole design activities are administered and managed has not been properly examined and explored in management studies (Luchs and Swan, 2011; Townsend, Montoya and Calantone, 2011). Like any other products and services in the age of modularization, it has been common for some parts of design process to be outsourced to independent suppliers (Luchs and Swan, 2011; Ulrich, 2011). Design activity typically involves suppliers that provide resources unavailable within a focal firm (Ulrich, 2011). Even for the company like Apple, for whom design sits among one of the most critical competitive advantage (Brown, 2008), outsourcing is not a strange domain. The Apple's current design chief Jonathan Ive once worked for a design firm one of whose clients was Apple (Gibbs, 2015). The client list of one of the biggest design companies, MetaDesign, includes Apple, GAP,

Hewlett-Packard, and Samsung (Metadesign.com). In response to the gap, this study attempts to ask a question around design outsourcing: why firms choose to outsource design tasks when design is a core activity? what determines the outcomes of design outsourcing?

Understanding design outsourcing is practically relevant considering its commonness and strategic importance of design tasks. It is theoretically interesting as well since it provides an opportunity to see whether classic theories used in the outsourcing literature can be applied to creative tasks outsourcing when their processes cannot be standardized and cannot be objectively measured. The data suggest that design outsourcing is driven mainly by two motivations: resource acquisition and efficiency seeking. Specifically, firms opt for domestic outsourcing when they need to deal with relatively short timeframe and/or tight budget whereas they choose to offshore outsource when they need new insights for major changes and learning opportunities. Successful design outsourcing, which can contribute to competitive advantages of a firm, requires the capabilities to comprehend and coordinate internal and external resources in the process of design outsourcing. More specifically, a firm needs an in-house designer who has not only a discerning eye based on her own design capability to select the right outsourcing partner but also an ability to effectively communicate with and manage suppliers. Having such an in-house designer in an internal resources will enable a significantly better utilization of external resources provided by suppliers.

The findings of this study contribute to the outsourcing literature first by acknowledging design outsourcing as a domain of core activities outsourcing and second by examining its antecedents and performance outcomes about which very little is known. The design literature will also benefit from the study as the findings have implication for effective design outsourcing management.

RELAVANT LITERATURE

Supply chains are increasingly segmented and modularized and outsourcing has become a common option for firms. Especially for the firms engaging in manufacturing, outsourcing has been an inevitable choice in pursuit of economies of scale, flexibility and resource accessibility (Leiblein and Miller, 2003; Wong, 2011). Traditionally, activities that are categorized as peripheral and non-core were subject to outsourcing (Contractor *et al.*, 2010).

However, firms are increasingly outsourcing core activities. There has been growing interests in outsourcing and offshore outsourcing of activities that are considered to be core ones including R&D, innovation, and design (Grossman and Helpman, 2005; Grimpe and Kaiser, 2010). Although they acknowledge protentional risks such as a loss of skills and competences and dematerialization (Bettis, Bradley and Hamel, 1992; Arnold, 2000), they do so as they see the chance for knowledge

transfer and improved performance outcomes (Maskell *et al.*, 2007; Nieto and Rodríguez, 2011; Bertrand and Mol, 2013). The existing studies are focused on the antecedents (e.g., Bertrand & Mol 2013), processes and outcomes (e.g., Grimpe & Kaiser 2010) of R&D and innovation outsourcing. Bertrand and Mol (2013) examine the drivers and consequences of R&D outsourcing and conclude that firms risk costs when they can gain complementing inputs by outsourcing such knowledge-intensive tasks. Yet, there have hardly been studies to examine the theoretical underpinnings of its antecedents, processes, and outcomes.

Design capability is an 'invisible asset' carried by human capital (Amit and Schoemaker, 1993). Growing interests in design thinking demonstrate the critical roles of designers in the firm (e.g. Beckman and Barry, 2007; Brown, 2008; Brown and Katz, 2011). Designers are considered to be able to read the trend and market needs and be collaborative and creative (Brown, 2008). Based on the acknowledged traits, Brown (2008) posits that design thinking enables desirable innovation that is strategically feasible and create values for the firm and consumers. Design itself is one of the core elements determining the success of a product, a brand, and a company (Bloch, 1995; Ravasi and Lojacono, 2005) not to mention that it is closely linked to other core activities including manufacturing, marketing and innovation (Clark and Smith, 2008). The studies on design in the management field have been mostly done from the perspective of marketing as it is closely related to consumer attraction and reaction (e.g. Bloch, 1995). This implies that studies so far have been looking at the impact of final design products rather than the design process and its management. Hence this paper attempts to shed light on design process management especially focusing on outsourcing.

METHODS AND ANALYSIS

12 pilot interviews with industry experts in South Korea were conducted in order to gain an in-depth understanding of the phenomenon and significantly more interviews are scheduled. Interview is an appropriate for this study as it is to explore the phenomenon that has not been properly studied yet. Interviewees were selected through the purposive sampling method since interviewees have to have a very specific set of skills and experiences; a designer who is in charge of outsourcing and managing suppliers. The interviewees were chosen across different industries ranging from cosmetics to gaming production, in order to ensure diversity among the purposely chosen sample. There are differences in the kinds of tasks that are outsourced from trivial and repetitive work to more critical and major ones.

Interviews were semi-structured, and the interviewer tweaked questions according to the responses of interviewees and interviewees had the leeway that they can add suggestions and comments as they see relevant even if they were not specifically asked by the interviewer. Interviews were all audio-recorded as agreed by the interviewees and transcribed.

In analysis of the pilot interviews, thematic analysis approach was adopted as the study basically means to comprehend the phenomenon by learning 'experiences' and 'reality' in the field (Braun and Clarke, 2006: p.81). At the open-coding stage, core themes and sub-themes that are closely relevant and repetitively found in the transcripts were identified (Ryan and Bernard, 2003; Bryman and Bell, 2015). The identified themes were written using the very words used by the interviewees mainly in order to minimize our "interpretation" (Anderson, 2007). At the stage of open coding, some critical categories surfaced and through several reiteration main categories and sub-categories were determined (Burnard, 1991). The researcher took the process in a recursive way in order to enhance the quality of the analysis. The same will be applied to the analysis of the further interviews.

FINDINGS

The preliminary findings confirm that firms look for outsourcing opportunities in pursuit of resources and/or efficiency. The sorts of resources generally include skills, techniques, styles, process, and ideas and they are sought through offshore outsourcing. This is an interesting finding considering he outsourcing literature has prescribed that firms usually offshore outsource when they seek cheaper labour and production costs. When it comes to design outsourcing, however, firms in our study are willing to pay more to buy creativity from offshore suppliers. By offshore outsourcing, firms expect to acquire a new idea and style and even learn from them. This was a particularly emphasized strategy by the firms going global and not being able to fully understand the taste and trend of the target market. Efficiency is another major driver, but which almost exceptionally applies to domestic outsourcing. Although they agree that design is considered to be a core task in their organizations, it turned out that firms in our research do not employ a large number of designers and hire only elite designers so that they can make critical decisions but not actually get involved in materialization. This is to seek efficiency by outsourcing the less critical part of the design process to suppliers that supply the resources at lower costs.

Our interviewees highlighted that it is the capabilities of in-house designers who are in charge of the whole outsourcing process that reduces the chance of common risks of design outsourcing such as delay, lower-than-expectation/ different-from-expectation qualities, and therefore determines the success or failure of design outsourcing. The capabilities include understandings of the products, brands and corporate identity and coordinating the entire outsourcing process. In our interviews, in-house designers were often called as coordinator and communicator. The findings suggest that firms need to keep a capable in-house designer as an internal resource and let her manage effectively manage external suppliers and their resources for successful design outsourcing.

CONCLUSION

The fast-changing environment of the design area where diversified social media, smart devices and their applications come into play, organizations are increasingly encouraged to incorporate external capabilities into internal resources. The organizations in the present study keep the minimum number of high caliber inhouse designers with outstanding competence and let them develop additional skills to manage external suppliers equipped with more up-to-date and diverse design techniques that keeps up with the fast-changing environment. The preliminary interviews provide answers to some of the research questions. Yet, there are some more questions to be asked and answered in the following data collection in order to suggest ways to use (offshore) outsourcing more effectively. For instance, how firms nurture and develop capabilities of in-house designers? In what process do firms/in-house managers learn from offshore outsourcing partners? How do they effectively deal with sensitive patent, intellectual property issues in outsourcing?

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