

# Organizational Psychology and Performance in IS Employment Outsourcing and Insourcing

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## Abstract

*In recent years, organizations have increased their use of outsourcing (contract) employment in information systems (IS). Yet, we know very little about outsourced workers' contribution toward organizational performance and effectiveness. Based on theories of individual-organizational linkages, this research examines differences in the organizational psychology and performance of IS insourced and outsourced workers from the perspectives of multiple informants in a large IS organization. First, individuals evaluate themselves on their level of individualism and their perceptions of organization support, workplace justice, and alienation. Second, peers rate their co-workers in terms of in-role and organizational citizenship behaviors. Third, supervisors evaluate their insourced and outsourced subordinates on individual performance and trustworthiness. We find significant differences in organization citizenship behaviors, performance expectations, trustworthiness, and individual characteristics between the different types of workers. Our results suggest that there can be negative consequences of employment outsourcing, and that organizations may need to adjust their human resource practices to use outsourced workers more effectively.*

## 1. Introduction

The use of outsourced employees to work side-by-side with their insourced counterparts has become an essential human resource strategy for organizations in light of corporate downsizing and reengineering. Outsourced workers are also referred to as “contract” or “contingent” workers in the literature. Often, organizations deploy outsourced workers even in areas traditionally considered part of their strategic or core competence such as research and development and information technology.

Many organizations hire outsourced workers to stay competitive and to respond to dynamic economic and technological changes by reducing the fixed cost of permanent staff [9]. Other companies hire outsourced workers because of the urgent need for specialized skills [15] or to test the abilities of temporary staff before deciding to employ them on a permanent basis.

As the number of outsourced workers rises, important questions emerge regarding the organizational consequences of their use. One major research question is: *To what extent are outsourced workers able to integrate and work with insourced co-workers and contribute to organizational performance, innovativeness and effectiveness?* This concern is particularly salient for organizations that employ outsourced workers where IS is of strategic importance. In this study we examine the organizational consequences of hiring outsourced workers. Our primary objective is to compare and understand the differences in the organizational psychology and performance of outsourced and insourced workers.

We begin with a theoretical discussion of the differences in the individual-organizational linkage between outsourced or insourced workers and their employers. This is followed by the development of hypotheses on the psychological and behavioral differences of outsourced and insourced workers. The hypotheses are tested in an IS organization where IS is of strategic importance and where there is a mix of outsourced and insourced IS workers. To enrich our understanding of the multi-faceted effects of outsourced workers, we adopt a multiple informants research design. In addition to obtaining self-perceptions from both outsourced and insourced workers, we gather perceptions from peers and supervisors on their co-workers and subordinates, respectively, regarding work behaviors and individual performance. Based on these responses, we analyze the data using multivariate analysis of variance, discuss the findings, and conclude with suggestions for future















