Externalizing the core: Firms’ use of employment intermediaries in the information and communication technology industries

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Externals in the core

• **Do** firms use external work arrangements in the core activities?

• **Why** do firms use consulting firms and temporary help firms in the core activities?

• What are the **strategic correlates and perceived benefits** that organizations receive from using external work arrangements in their core?
Perspectives

• Monolithic studies
• Nonstandard work arrangements should be used in peripherical area, internalization of core competencies
• Use external work arrangements in the core combined with internal resources – increase knowledge, innovation and product development capabilities
Mechanisms

- Internal rigidities
- Learning costs
- "Protected" from ideas from the outside
- Vital sources of information are external to the firm

In dynamic environments, the firm should focus on its ability to upgrade its stock of private and public knowledge – use "externals" in combination with internal resources
Dual model of employment intermediaries

• Consultancy firms vs temporary help firms
• Flexibility: Qualitative vs numerical
• Strategy: Innovation vs cost leadership
• Benefit from intermediaries: Special competence vs extra capacity
## Dual model of intermediaries in the core

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Consulting firms</th>
<th>Temporary help firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Innovation (H1)</td>
<td>Cost leadership (H2)</td>
</tr>
<tr>
<td>Type of flexibility</td>
<td>Qualitative</td>
<td>Numerical</td>
</tr>
<tr>
<td>Perceived benefit</td>
<td>Special competence (H3)</td>
<td>Extra capacity (H4)</td>
</tr>
</tbody>
</table>
Data and methods

• ICT-sector in Norway
• Dynamic environment
• 2003
• 501 firms
Findings

• Innovation strategy (+) use of consultancy firms
• Cost leadership (+) use of temporary help agencies
• Special competence (+) use of consultancy firms
• Extra capacity (0) use of temporary help agencies
Summary

• Firms use both types of intermediaries in the core activities
• Different reasons: Innovation, special competencies (consultancy firms) – cost (THA)
• Empirical support for the perspective that states that externals are used in the core, in a conscious manner
Research questions etc

- Other business sectors
- Compare core and support activities
- Instrumental vs incrementalistic use of external contracts/consultants
- Mechanisms that stimulate learning and knowledge dissemination inside the firm
- Governance of external contracts
- Guard against dependency