The Outsourcing of Training and Development: Factors Impacting Client Satisfaction

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Firms increasingly use outside vendors to provide their training and development needs. However, the strategic importance of many training programs often introduces unique challenges for organizations outsourcing this function. To better understand the effects of outsourcing in this key area, we use transaction cost economics, social exchange theory, and the resource-based view to identify factors thought to impact client satisfaction with external training vendors. Using data obtained from 157 organizations, structural equation modeling results suggest that socially-oriented trust and contractual specificity mediate the relationship between client satisfaction and a number of vendor, relationship, training, and firm characteristics.

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Consistent with a growing trend toward the outsourcing of activities traditionally performed in-house, many HR activities are now being outsourced (Lepak & Snell, 1998). Indeed, recent surveys indicate that 93% of firms outsource at least some HR tasks or programs and that HR is the functional area where outsourcing will increase the most in future years (Cook, 1999). This trend is understandable given that many of the tasks being outsourced are largely administrative or transactional in nature and, thus, well suited for outsourcing (Greer, Youngblood & Gray, 1999). However, even among HR activities that are more clearly linked to strategic issues within the firm, such as training and development (Huselid, Jackson & Schuler, 1997; Wright & Snell, 1998), there is a growing trend toward outsourcing (Cook, 1999; Greer et al., 1999). And the very nature of these more strategic...
HR activities (Becker & Gerhart, 1996) raises questions about when and how firms will benefit from reliance on outsourcing (Ulrich, 1996).

Such questions may be understood by examining some of the potential risks associated with the high levels of outsourcing that are occurring in the training and development area (Bassi, Cheney & Van Buren, 1997). Because many training and development activities must be tailored to meet the unique needs of the firm (Noe, 1999), obtaining such services from a vendor may require a firm to make an asset-specific investment (i.e., an investment that has value only if the firm continues its relationship with the vendor). However, because an asset-specific investment provides the vendor with leverage within the relationship (Williamson, 1983), it is thought to expose the firm to an increased risk of opportunistic behavior by the vendor. Further, uncertainty regarding how a task should be performed or the deliverables resulting from task completion (Williamson, 1975) may limit a firm’s ability to use contractual mechanisms to ensure that quality services are provided (Milgram & Roberts, 1990). Beyond this, training and development is designed to develop intellectual capital, which is the foundation of any effort to develop core competencies (Barney, 1991, 1995). However, core competencies emerge through a socially complex process with intra-firm relationships playing a critical—though often unspecified—role (Hamel & Prahalad, 1989; Prahalad & Hamel, 1990). Moving training and development outside of the firm could potentially interfere with this strategically important and socially complex process (Ulrich, 1996). Moreover, while not all training and development activities are linked to core competencies, outsourcing training where such links exist may introduce greater risk of imitation by competing firms (Barney, 1995).

Clearly, the nature of training and development potentially introduces risks for firms that rely on outsourcing in this area. What is less clear is how these risks can be effectively managed. Evidence from the alliance literature suggests that firms may be able to make effective use of market-based relationships even when the nature of the transaction introduces significant risk (Nooteboom, Berger & Noorderhaven, 1997). However, little is known about what allows firms to actually overcome these risks. Therefore, in this study, we will draw on transaction cost economics (TCE), social exchange theory, and the resource-based view to examine factors that affect client satisfaction with the outsourcing of training and development. This study builds on the HR outsourcing literature in two ways. First, past empirical research (Klaas, McClendon & Gainey, 1999) has been guided largely by TCE and, thus, has focused on factors that affect a firm’s vulnerability to opportunistic behavior by their vendor (Williamson, 1975). It is important to note, however, that TCE’s emphasis on opportunism is based on the assumption that market relationships are casual and arms-length in nature (Gulati, 1995). By contrast, social exchange theory (Blau, 1964; Emerson, 1962) emphasizes how social ties can alter the nature of market relationships, the willingness of parties to behave opportunistically, and, thus, service quality (Nooteboom, 1996). This study, then, attempts to expand our understanding of HR outsourcing by incorporating a social exchange perspective.

Second, while previous studies have examined HR outsourcing in general (e.g., Klaas et al., 1999), this study focuses exclusively on training and development. And as noted above, training and development differs from the more transactional HR activities that are typically outsourced in that it has the potential to help create resources that may allow for sustained competitive advantage (Barney, 1991; Noe, 1999). Thus, this study also incorporates a
resource-based perspective in order to understand the factors that affect client satisfaction when outsourcing an activity that, potentially at least, may be more strategically important.

Theory and Hypotheses

When firms outsource an activity, they are relying on market governance. And, according to TCE theorists, because of imperfect information, firms sometimes choose market governance even when this alternative makes them vulnerable to opportunism (Williamson, 1975). However, consistent with the inter-firm relationship literature, it is generally accepted that opportunism can impact the quality of customer–vendor relations (Dorsch, Swanson & Kelley, 1998). Specifically, customers form strong expectations about the service levels that should be met by vendors (Parasuraman, Berry & Zeithaml, 1991). But, when vendors have substantial discretion in providing services, they may be motivated to neglect their obligations to customers (Klaas et al., 1999). And consistent with the psychological contract literature (Rousseau, 2001), when opportunistic behavior results in a failure to meet expectations regarding service quality or costs, there is likely to be a perceived violation of the psychological contract, resulting in lower levels of client satisfaction (Lester & Kickul, 2001).

Using a TCE framework, the link between opportunism and satisfaction has been examined previously in other studies (Jones, 1984). For instance, Gassenheimer, Baucus and Baucus (1996) used a TCE perspective to suggest that when franchisors have the latitude to behave opportunistically, lower franchisee satisfaction can be expected. Thus, it is reasonable that this same effect will occur in other inter-firm relationships such as outsourcing. When vendors are positioned such that they have some leeway in terms of the delivery of services, TCE would predict that, at least in some cases, opportunism will ultimately lead to decreased customer satisfaction.

Social exchange theory supplements TCE by emphasizing how social relationships modify market-based relationships and, thus, the effects of market governance (Nooteboom, 1996). For instance, while TCE tends to focus on dyadic exchanges between parties, the social exchange literature suggests that the social ties among a network of suppliers and buyers are likely to impact interactions as well (Provan, 1993). Indeed, the social embeddedness among a network of firms can be a strong deterrent against opportunistic behavior even in dyadic exchanges (Granovetter, 1985).

Additionally, while an outsourcing arrangement may begin as an arms-length relationship, disciplined only through market-based mechanisms, over time it may be transformed through a social exchange process. As firms voluntarily make adjustments that are generally required in inter-firm relationships, strong obligations to reciprocate are often invoked (Hallen, Johanson & Seyed-Mohamed, 1991). In turn, these seemingly unselfish acts often create trust between parties (Kirchler, Fehr & Evans, 1996). And given that trust may affect both the vendor’s motivation to meet client needs and the client’s willingness to utilize vendor expertise (Bradach & Eccles, 1989), factors that lead to the development of trust may play an important role in outsourcing relationships.

The resource-based view of the firm adds yet a third important perspective to this study. Training and development programs that are tailored to meet the unique needs of a firm have the potential to create resources that may allow for sustainable competitive advantage
When training and development has the potential to create such resources, outsourcing these activities may well increase the risk of imitation by competing firms. In some cases, these risks are assumed by clients to be manageable because the training is tailored to the client’s culture, strategy, and management systems (Cook, 1999). Such customization may limit the applicability of the training program to other firms. Even where competing firms would be willing to make adjustments to their training program or to their culture, strategy, or management systems, these adjustments are likely to be difficult and complex (Barney, 1991, 1995). However, these factors that mitigate against the risk of imitation are not always present when firms outsource training and development.

An equally important concern raised by the resource-based view is that the outsourcing of training and development may make it difficult to develop core competencies that lead to competitive advantage. Core competencies develop through a complex process requiring high degrees of social capital and the ability to draw—in ways that are difficult to specify in advance—on a variety of sources of intellectual capital (Hamel & Prahalad, 1989; Prahalad & Hamel, 1990). As a result, the learning and collaboration required by this complex process is thought to be more likely to occur when all parties are part of the same organization (Connor & Prahalad, 1996). To the extent, then, that training and development is linked to the process by which core competencies emerge, concerns might be raised about the potential for training and development outsourcing to adversely affect this process.

Drawing on these theoretical perspectives, Figure 1 proposes a number of factors likely to impact client satisfaction with outsourcing in the training area. In the following sections, we formally develop each of the hypotheses suggested in this framework.

The Determinants of Trust

While trust has been examined using a number of alternative theoretical perspectives, it is generally agreed that it involves a willingness to make oneself vulnerable to another party (McAllister, 1995; Nooteboom, 1996). Further, it is generally acknowledged that trust can emerge through different means (Lewicki & Bunker, 1996). For example, trust can emerge through rational calculation (Dasgupta, 1988). When one party examines the other party’s incentives, reputation, and past behavior, they might rationally conclude that the other party will behave responsibly and do as they promise. However, this cognitive-based form of trust is generally characterized by a short-term, almost suspicious approach where the supplier’s performance is continually assessed (Lewicki, McAllister & Bies, 1998).

By contrast, socially-oriented trust, which evolves over time, is likely to lead to more stable, enduring relationships (Dorsch et al., 1998). When parties develop deep, personal ties and identify with each other, each party will come to believe that the other will look after their interests and behave responsibly because of a genuine concern for their welfare. In fact, some theorists contend that many of the most significant benefits typically associated with trust will only occur when that trust is socially-oriented (Blau, 1964; Ring & Van de Ven, 1992). Thus, it is the socially-oriented form of trust that is considered here.

Relationship tenure. Firms differ greatly in how they manage outsourcing relationships in the training area. Some establish service relationships with vendors where interactions are repeated across time, while others are more content with encounters where there is no
Figure 1. Hypothesized model and standardized path coefficients.
clear expectation that the client and vendor will interact repeatedly across time (Gutek, Bhappu, Liao-Troth & Cherry, 1999). Because the encounter approach is consistent with the way firms often interact with vendors, this approach is commonly used in managing outsourcing relationships as well (Cook, 1999). However, the encounter approach makes it less likely that trust will emerge. In part, this is because firms that rely on encounter outsourcing will be less likely to develop long-term relationships with vendors. And in order for deep, personal ties to emerge, parties must interact extensively over time in a way that allows each party to demonstrate their concern for the other (Gulati, 1995; Lewicki & Bunker, 1996).

**Hypothesis 1:** The amount of tenure between a firm and its training vendors will be positively related to the level of socially-oriented trust that a firm has in its training vendors.

**Vendor dependency.** Social exchange theory argues that power plays an important role in relationships and that it is inversely related to alternatives available from outside the relationship (Thibaut & Kelley, 1959). We argue that where the vendor has invested substantial resources into the relationship and quasi-rents are significant (Klein, Crawford & Alchian, 1978), or where the vendor faces small numbers conditions (Williamson, 1985), vendor dependence on the buyer for continued business will affect the development of trust. Trust in a vendor that flows from affect is thought to be linked to the vendor making cooperative adjustments in order to accommodate the needs of the buyer. These adjustments are often viewed as an indication of concern for the welfare of the other party (Nootenboom, 1996). And demonstrating such concern is thought to be a key step in the gradual process by which socially-based trust develops (Kramer, 1993). When a training supplier is highly reliant on a particular customer, the supplier is more likely to adjust to the needs of the customer. While the initial motivation behind this willingness to make cooperative adjustments may be purely self-interested in nature, higher levels of trust may ultimately result because of the impact on how the vendor is ultimately perceived by the buyer.

**Hypothesis 2:** The degree to which a firm’s training vendors rely on that firm for business will be positively related to the degree of socially-oriented trust in those vendors.

**Communication behaviors.** The linkage between trust and communication behaviors has received considerable attention from organizational researchers (Mishra, 1996). In general, it is believed that frequent and accurate communication is essential to building levels of socially-oriented trust in inter-firm alliances (Shapiro, Sheppard & Cheraskin, 1992). The regular exchange of information between parties is particularly important because the more parties interact, the more they will understand each other’s values, norms, and behaviors. In turn, this understanding will help build trusting relationships (McAllister, 1995). Conversely, where parties only occasionally communicate with one another, there are limited opportunities to create the understanding necessary to form trusting relations.

**Hypothesis 3:** There will be a positive relationship between the degree to which a firm develops effective communication behaviors with its training vendors and the degree of socially-oriented trust in those vendors.
Idiosyncratic training. Asset-specificity, while generally considered one of the transactional dimensions of TCE, is also relevant to understanding the emergence and development of trust. Asset-specificity refers to the degree to which a client or vendor makes an up-front investment in order for services to be provided—an investment that has value only if the buyer–vendor relationship continues (Riordan & Williamson, 1985). Within the context of this study, asset-specificity is likely to be determined by the degree to which the training being outsourced is idiosyncratic. When investments are made to design or deliver training programs that meet the unique needs of the firm, the party (or parties) that have invested the resources is (are) likely to be motivated to maintain the relationship. This desire to ensure continued relations, even though initially economically based, is likely to motivate seemingly altruistic behaviors that form the basis for trusting relations (Lewicki & Bunker, 1996). These seemingly altruistic behaviors may well serve as trust-building incidents. Then, as the buyer and vendor continue to successfully interact and establish “norms of equity and reciprocity” (Ring & Van de Ven, 1992, p. 489), each will be more inclined to exhibit higher levels of socially-oriented trust. Thus, while asset-specificity may—as suggested by TCE—expose a buyer to an increased risk of opportunism, that very risk may sometimes prompt behavior that allows for the development of socially-oriented trust.

Hypothesis 4: There will be a positive relationship between the degree to which a firm is outsourcing idiosyncratic training and the degree of socially-oriented trust in that firm’s training vendors.

Satisfaction with Training and Development Outsourcing: The Effect of Trust

As proposed in Figure 1, trust is one important antecedent variable that is expected to be related to client satisfaction. This relationship is expected for several reasons. First, trust is likely to allow the vendor to better serve client needs. Tacit knowledge plays a key role in much of training and development and, as such, vendors may sometimes have difficulty explaining the rationale behind their recommendations (Connor & Prahalad, 1996). When a vendor offers advice based partly on tacit knowledge, it is unlikely that a firm will heed that advice in the absence of trust. As such, when there is limited trust, a firm may be less likely to fully utilize vendor expertise—thus, affecting the quality of the services provided and, in turn, client satisfaction.

Second, socially-oriented trust is likely to affect whether clients experience opportunistic behavior by a vendor. Both TCE and game theory suggest that vendors, motivated by self-interest, will sometimes behave opportunistically toward an existing client if such behavior will ultimately benefit the vendor (Davis, 1970; Williamson, 1996). However, behaving opportunistically where socially-oriented trust exists introduces psychic costs that are often sufficient to reduce the temptation to behave opportunistically (Bradach & Eccles, 1989). Because socially-oriented trust is likely to reduce opportunistic behavior (e.g., sharing proprietary information in order to generate new revenue, cutting the resources devoted to servicing a client, etc.), it is likely to be positively related to client satisfaction.

Third, to the extent that trust constrains opportunistic behavior, it may reduce the time spent by clients monitoring vendor actions. When each party in a relationship is viewed as being committed to acting in a fair and less egocentric manner, fewer resources will be
devoted to ensure that agreed upon services are provided as expected. Because a key component of customer satisfaction relates to whether a vendor can be relied upon to complete required duties without continual monitoring (Parasuraman et al., 1991), higher levels of client satisfaction are expected in association with higher levels of socially-oriented trust.

**Hypothesis 5:** There will be a positive relationship between socially-oriented trust in training vendors and client satisfaction with the outsourcing of training and development activities.

**Satisfaction with Training and Development Outsourcing:**

TCE argues that buyer–vendor relationships will differ in the degree to which an asset-specific investment is required in order for the vendor to provide needed services (Williamson, 1983). Within the context of training and development, asset-specificity is likely to be higher where the training provided is idiosyncratic to the buyer. While many training programs are off-the-shelf, others have to be designed to meet the unique needs of the organization. It is possible that the vendor may incur a substantial part of the costs associated with providing firm-specific training. However, in areas related to managerial consulting and HR outsourcing, it is generally customary for the buyer to pay for the vendor’s additional time and expenses when firm-specific services are requested (Rimbert, 1981). In fact, contracts are often written such that vendors recoup their costs as development occurs (Washburn & Hosmer, 2000). And, when a buyer has made an asset-specific investment the vendor may be tempted, at the margin, to reduce the resources devoted to serving a client in order to gain new business or reduce costs.

Asset-specificity may also be associated with lower satisfaction because it is an indication of the degree to which the vendor must—within the context of substantial causal ambiguity (Barney, 1991)—design and delivery services that are consistent with a given client’s culture, strategy, and management system. Successful completion of this task requires the acquisition of tacit knowledge regarding client operations. Since external vendors are thought to be limited in their ability to easily acquire such knowledge (Connor & Prahalad, 1996), the sheer difficulty of the task may affect a vendor’s ability to meet client expectations and, thus, client satisfaction.

**Hypothesis 6:** There will be a negative relationship between client satisfaction with training and development outsourcing and the extent to which the outsourced training programs are idiosyncratic to the firm.

**The Determinants of Contractual Specificity**

In market relationships, the contract is a critical mechanism through which parties protect themselves from opportunistic behavior (Joskow, 1987). Contracts that more clearly describe the responsibilities of each party, the required performance levels, and penalties for deficient performance allow parties less latitude to act in an opportunistic manner. While TCE emphasizes the inevitability of incomplete contracting, key factors such as the idiosync-
Idiosyncratic training. As noted above, idiosyncratic training is thought to make firms more vulnerable to opportunistic behavior and, other things held constant, negatively affect satisfaction with outsourcing. However, as proposed in Figure 1, it is likely that at least some firms will attempt to minimize their vulnerability by increasing contractual detail and specificity. This is not to suggest that increased contractual specificity will eradicate vulnerability created by asset-specificity. Because of the difficulty of anticipating all contingencies, incomplete contracting is, to some extent, inevitable (Williamson, 1996). However, where asset-specificity is high, firms are likely to be more motivated to protect themselves through contractual means. Thus, the outsourcing of idiosyncratic training is likely to be positively related to levels of contractual specificity.

Hypothesis 7: There will be a positive relationship between contractual specificity and the extent to which a firm outsources training and development programs that are idiosyncratic.

Uncertainty. Uncertainty is sometimes conceptualized as ambiguity regarding how a task should be performed or what deliverables should result from task completion (Williamson, 1975). And, while many training and development activities involve greater uncertainty than more administrative activities within HR, there is still likely to be variation across training programs in the degree of uncertainty. For instance, uncertainty is likely to be more limited with many standardized training programs where the training has already been designed and all parties can mutually agree on expected deliverables. Here, it is feasible to write detailed agreements outlining vendor responsibilities, fee schedules, service levels, and termination rights. Alternatively, uncertainty is often high where training is relatively new, where the needs of the organization are not fully known, or where there is ambiguity about how best to achieve training outcomes (Cook, 1999). Where such uncertainty exists, vendors may have more discretion because it is often more difficult to determine in advance the length, content, and cost of training programs. Therefore, where greater uncertainty exists about how to evaluate and monitor vendor performance, parties must generally avoid specificity in the development of contracts.

Hypothesis 8: There will be a negative relationship between contractual specificity and the degree to which there is uncertainty regarding how to evaluate and monitor vendor performance.

Outsourcing KSAs. Resource-based theorists have long recognized that organizational resources may serve as a source of competitive advantage because they allow for the effective management of a firm’s workforce (Barney, 1995). Resource-based theorists now also suggest that organizational resources might also allow for the effective management of outsourcing arrangements and, thus, sustained competitive advantage (Takeishi, 2001).
One resource that was recently identified as an important factor in effectively managing outsourcing relationships was the KSAs gained through experience in dealing with outside vendors (Borthick, 2001). Specifically, KSAs such as contract negotiation skills, familiarity with the market for the service being outsourced, knowledge of the vendor’s cost structure, and the ability to identify measurable outcomes are all central to making effective use of outsourcing arrangements (Harkins, Brown & Sullivan, 1995; Takeishi, 2001). Without these outsourcing KSAs, decision-makers are less likely to develop specific and detailed contracts that protect the interests of their firm.

**Hypothesis 9:** There will be a positive relationship between contract specificity and the outsourcing KSAs possessed by those responsible for managing relationships with training vendors.

**Satisfaction with Training and Development Outsourcing: The Effects of Contractual Specificity**

A central tenant within TCE is that buyers and vendors are rarely able to anticipate all possible contingencies likely to arise during the course of the relationship (Williamson, 1996). As such, contracts formed between buyer and vendor are likely to be incomplete. It is because of incomplete contracting that market governance exposes firms to opportunistic behavior.

While incomplete contracting is, to some extent, inevitable, there is likely to be variation in the degree to which contracts are incomplete (Barron & Umbeck, 1984). Where incomplete contracting is minimized through incorporating high levels of contractual detail and specificity, it is likely to be more difficult for vendors to engage in opportunistic behavior (Shelanski & Klein, 1995). Alternatively, where contracts leave substantial latitude in areas such as performance levels, penalties for non-conformance, conflict resolution, and termination, the potential for opportunistic behavior is greater. It is important to note that TCE does not argue that opportunistic behavior will be observed in all instances where there is incomplete contracting. However, the economic and behavioral assumptions within TCE do suggest that some vendors will exploit incomplete contracts by engaging in opportunistic behavior (Williamson, 1996). And, when it occurs, such opportunistic behavior has the potential to affect client satisfaction.

It is important to note that while we argue that contractual specificity will lead to increased satisfaction, there is some debate in the literature regarding the role of contract specificity in inter-firm relationships (Ghoshal & Moran, 1996). For instance, Harrigan (1986) suggests that when outside parties, such as attorneys, become involved in contract negotiations, they often accentuate differences between the buyer and vendor, making it more difficult for the parties to ultimately work together. We argue, however, that within the context of training, contractual specificity is less likely to lead to lower satisfaction. This is because outsourced training programs often tend to be relatively narrow in scope. As such, opportunities for outside parties to debate intricate issues are somewhat limited.

**Hypothesis 10:** There will be a positive relationship between levels of contractual specificity and client satisfaction with the outsourcing of training and development.
Methodology

Sample and Surveys

In order to conduct this study, it was necessary to identify firms which: (a) used outsourcing in the training and development area; and (b) had both a training director responsible for managing outsourcing relationships and an HR director able to evaluate the firm’s outsourcing of training and development. To do this, a total of 1361 surveys were mailed to members of the American Society of Training and Development (ASTD) with job titles indicating they were either directors or managers responsible for the training function in their organization. Training directors were asked to participate if their organization outsourced at least some training and development activities and if they were responsible for managing these outsourcing relationships. Eligible training directors were asked to complete a questionnaire designed to assess attributes of their training programs, characteristics of their contractual agreements, and the nature of their relationship with external training providers. As part of this survey, respondents were also asked to provide the name of an individual within their facility with overall HR responsibilities (such as the HR director) who might be willing to complete a second questionnaire. Business reply envelopes were coded to allow responses from the same organization to be matched upon their return.

Fourteen of the 1361 surveys initially mailed to training directors were returned because of an incorrect address or because the individual was no longer employed by the firm in question. Of the remaining 1347 firms that were contacted, 305 (23%) agreed to participate in this study. As research suggests that 71% of firms outsource training and development activities (Buckley, 1996), it is likely that a substantial portion of those firms contacted were not eligible to participate.

After the survey of the training and development managers was completed, we then mailed surveys to the HR director to whom the training director reported. We only asked for information from the HR director because of concerns about whether specialists or managers in other areas would be in a position to assess the quality of services provided by outside vendors. When the name of the HR director was not provided by the training director or manager, we contacted the responding organization or used Internet resources to ascertain the name of the HR director. We then spoke directly with HR directors or left detailed messages encouraging their participation. We were able to locate HR directors in 297 of the 305 responding firms. And a total of 157 of these HR directors (53%) responded to the second survey.

To encourage participation, both training and HR directors were informed that a small contribution would be made to the charity of their choosing if they participated in this study. Follow-up surveys were also conducted to encourage participation. We were able to obtain responses from both the training director and the HR director in 12% of the organizations who were originally contacted about their ability and willingness to participate in the study. While efforts were made to encourage participation, as noted previously, it is likely that a substantial portion of those originally contacted regarding the study were not eligible given our requirements.

Response bias was examined by comparing industry classifications among the 157 organizations where both the training manager and HR director responded with the 1361
organizations initially contacted. No significant differences were observed (at the .05 level of significance) between respondents and non-respondents on the eight different industry categories represented in the sample.

Respondents provided an interesting profile of the nature and extent of outsourcing in the training area. On average, firms indicated that they used outside suppliers for about 30% of their overall training needs and spent about 26% of their training budget on outside vendors. Additionally, 58% of respondents noted that they used five or less different outside suppliers to provide their training.

In terms of the type of training outsourced, 25% of respondents noted that they used training suppliers most often for management development programs, while 23% responded that technical training was the most prevalent type of outsourced training. The remaining firms used training suppliers mostly to provide computer training, strengthen communication skills, and to ensure compliance with federal safety standards. Results of a one-way ANOVA revealed that there were no significant differences in client satisfaction in relation to the primary type of training outsourced.

**Measures**

Surveys were completed by the training director and the HR director in each organization. HR directors reported on satisfaction with outsourcing in training and development (the dependent measure) because they are the individuals ultimately responsible for monitoring and evaluating the training function within the organization. Training directors provided responses related to training activities, buyer–vendor relations, and contractual characteristics. We believe that training directors are in a unique position to report on these items because they are normally responsible for collecting information on training vendors, verifying references, participating in professional associations, developing contractual agreements, and working directly with the training vendors.

Respondents were asked to provide ratings about their external vendors as a group (as opposed to rating a particular vendor). While this approach may result in a restriction of range and, thus, more conservative estimates, this limitation is preferable to limitations associated with feasible alternatives. At an early stage of this project, we found that few respondents were willing to participate in a study where a particular vendor would be named and then rated. Since multiple respondents from the same firm cannot rate a particular vendor unless that vendor is identified, the major alternative to the approach taken here would be to have a single respondent evaluate a particular vendor. Because this introduces common method variance issues, we opted for the approach used here.

Because there has been little empirical work in this specific context, it was not possible to rely on existing scales to measure the variables examined here. Instead, scales were developed by modifying items used in studies in related areas or, where appropriate, developing new items. All items used in the final analysis were measured on a 5-point scale, Strongly Disagree (1) to Strongly Agree (5), and are presented in the Appendix A.

**Client Satisfaction** was measured based on responses from HR directors to a six-item, Likert-type scale (α = .92) designed to broadly assess customer satisfaction with the reliability, responsiveness, and quality of services provided by outside training vendors. **Socially-Oriented Trust** between the organization and their training suppliers was assessed.
using responses from training directors. This scale consisted of four items (α = .89) and was designed to reflect how socially-oriented trust has been conceptualized within the literature on inter-organizational relationships. Contractual Specificity (α = .90) measured the level of detail and explicitness in the contractual agreements between a customer and its suppliers. This scale consisted of six, Likert-type items and was completed by training directors.

Relationship Tenure (α = .87) was measured using responses from training directors to three items asking about the typical length of relationships between the firm and its training vendors. Vendor Dependency (α = .75) was measured using responses from training directors to three items asking about the degree to which their vendors are dependent upon their firm for business. Communication Behavior (α = .84) was measured using a six-item scale designed to assess the frequency, accuracy, and openness of the communication process between customers and outside training suppliers. The scale Idiosyncratic Training (α = .79) was designed to measure the degree to which training programs provided by outside vendors were customized to meet the unique requirements of the firm. Three items were used for this scale. The scale Outsourcing KSAs (α = .79) consisted of six items designed to assess the outsourcing KSAs of the customer. These items dealt with the outsourcing experience of the customer, the ability to monitor vendor performance, and customer knowledge regarding alternative suppliers. The scale Uncertainty (α = .88) was measured using six items written for this study. These items assess uncertainty about how to evaluate and monitor vendor performance—uncertainty that is created when substantial ambiguity exists about how a task should be performed or expected deliverables.

Data Analysis

The two-step approach to structural equation modeling recommended by Anderson and Gerbing (1988) was used to test the proposed model presented in Figure 1. Because of the relatively small sample size and the large number of estimated relationships, procedures recommended by Mathieu and Farr (1991) and Moorman, Blakely and Niehoff (1998) were used to reduce the number of indicator variables in this study. Specifically, all latent variables were limited to three indicator variables to reduce the number of parameters estimated. Where more than three survey items composed the measure, composite subscales were created to reduce the number of indicator variables. These subscales were constructed by first fitting a single-factor solution to each set of survey items. Next, survey items with the highest and lowest loadings were averaged to form the first indicator, items with the next highest and lowest loadings were averaged to form the second indicator, and so on. This process allowed us to use all of the survey items in each measure, but to also restrict the indicator variables to a reasonable number.

Results

The Measurement Model

Descriptive statistics for the variables examined in this study are presented in Table 1. To estimate the fit between the proposed measurement model and the data, three fit indices were
| 1. Client Satisfaction | 3.88 | .63 |
| 2. Socially-Oriented Trust | 3.36 | .76 | .51*** |
| 3. Contractual Specificity | 3.22 | .79 | .37*** | .34*** |
| 4. Tenure | 3.21 | .84 | .30*** | .65*** | .28*** |
| 5. Vendor Dependency | 2.83 | .80 | .22** | .35*** | .20** | .37*** |
| 6. Communication Behavior | 3.39 | .68 | .30*** | .70*** | .37*** | .61*** | .33*** |
| 7. Idiosyncratic Training | 3.22 | .87 | .26*** | .40*** | .40*** | .34*** | .34*** | .39*** |
| 8. Uncertainty | 2.60 | .61 | .29*** | .36*** | -.26*** | .39*** | .20** | .54*** | .28*** |
| 9. Outsourcing KSAs | 2.99 | .80 | -.08 | -.10 | .37** | -.01 | .15 | .00 | .00 | .00 |

Correlations are based on an N that ranges from 151 to 155.

** Significant at .01.
*** Significant at .001.
reviewed. First, the ratio of the chi-square value to the degrees of freedom was examined (Kline, 1998). Hoetler (1983) suggests that if this ratio is less than 2.0, one can assume a relatively good fit of the model. In this analysis, $\chi^2$/df was 1.43 (412.73/288), indicating that the fit between the measurement model and the data was acceptable. Next, the non-normed fit index (NNFI) (Bentler & Bonnet, 1980) and the comparative fit index (CFI) (Bentler, 1989) were examined. These two indices are generally preferred when dealing with samples with fewer than 200 observations because they are less likely to produce biased estimates (Bentler, 1989; Kline, 1998). As a general guideline, values over .9 for both of these indices indicate an acceptable fit. In this analysis, NNFI was .9434 and CFI equaled .9535. Thus, these indices provided evidence that the fit between the measurement model and the data was acceptable.

Convergent validity was also assessed by examining the factor loadings of the indicator variables (Anderson & Gerbing, 1988). A non-significant factor loading (i.e., a factor loading with a $t$-value less than 1.960) indicates that the indicator variable is doing a poor job measuring the latent variable and should be dropped (Hatcher, 1994). However, in this model, $t$-values ranged from 5.42 to 15.10, indicating that all indicator variables should be retained.

The Structural Model

Figure 1 represents the structural model that was tested during the second step of the S.E.M. analysis. While the CFA allowed each of the latent variables to covary with one another, in this step only the unidirectional relations specified in Figure 1 were examined.

To assess the relationship between the structural model in Figure 1 and the data, we first reviewed the fit indices. The ratio for $\chi^2$/df was 1.44 (429.66/299), while the NNFI for the model was .9429 and the CFI was .9513. Thus, there was evidence across each of these indices that the theoretical model provided an acceptable fit to the data.

Next, using one-tailed tests, we next examined the path coefficients for each of the proposed casual relationships in Figure 1. In Hypothesis 1, it was predicted that greater tenure between a customer and its vendors would be associated with higher levels of socially-oriented trust. Consistent with this hypothesis, the coefficient for this relationship was positive and significant ($p < .001$). Hypothesis 2 suggested that where suppliers were more dependent on customers, there would be higher levels of trust. However, this hypothesis was not supported as no significant relationship was found. Next, in Hypothesis 3, it was predicted that more effective communication behaviors between customers and vendors would be positively related to levels of trust. As anticipated, the path coefficient for this relationship was significant ($p < .001$) and in the expected direction. Support was also found for Hypothesis 4 ($p < .05$). Where idiosyncratic training was outsourced, levels of trust were higher.

A positive and significant relationship ($p < .001$) was found between levels of socially-oriented trust and outsourcing satisfaction. Where the training director perceived greater levels of trust in the vendor, HR directors were more satisfied with the outsourcing services provided.

Thus, Hypothesis 5 was supported. In Hypothesis 6 it was suggested that—with levels of trust and contractual specificity held constant—outsourcing more idiosyncratic training
would lead to lower levels of client satisfaction. However, the path coefficient for this relationship, while in the predicted direction, was not significant.

Hypothesis 7 posited that where idiosyncratic training was outsourced, contracts would be more detailed and explicit. Consistent with this hypothesis, the path coefficient was positive and significant \( (p < .001) \). In Hypothesis 8, it was predicted that more uncertainty regarding outsourced training programs would lead to less specific contractual agreements. The path coefficient for this relationship was significant \( (p < .001) \) and in the expected direction. Support was also found for Hypothesis 9 \( (p < .001) \). Where customers had more outsourcing-related KSAs, contracts were more explicitly written. Finally, in Hypothesis 10, it was proposed that contractual specificity would be positively related to client satisfaction. Support was found for this relationship as well \( (p < .001) \).

**Discussion**

HR outsourcing has traditionally been most heavily focused within transactional activities (e.g., payroll) that do not represent core competencies within most firms (Greer et al., 1999). However, increasingly, outsourcing is being used in the training and development area. And because at least some parts of training and development are more closely linked to efforts to achieve sustainable competitive advantage (Bassi & Van Buren, 1999), questions exist about the likely effects associated with reliance on outsourcing in this area. Questions also exist about the conditions under which training and development outsourcing is most likely to generate benefits for organizations. In this study, we identified a number of factors that we believed would be influential in determining client satisfaction with outsourcing in training and development. The results indicate that our proposed model provides an acceptable fit to the data. More specifically, of the 10 relationships hypothesized in the model, 8 received substantial support and 2 were not significant.

Consistent with TCE, we found a significant and positive relationship between contractual specificity and satisfaction with outsourcing. While some perspectives argue that efforts to protect oneself from opportunism through contractual detail and specificity may ultimately harm the development of a productive outsourcing relationship (Ghoshal & Moran, 1996; Harrigan, 1986), we found no evidence to support this. The positive relationship observed here suggests that—within training and development—the benefits associated with contractual specificity may very well offset any negative effects.

Also consistent with TCE, we found that characteristics of the training services being outsourced affected contractual specificity. For example, when uncertainty was high, firms were less likely to form specific contracts with vendors—presumably because doing so would be more difficult. We also found a positive relationship between contractual specificity and outsourcing KSAs. This suggests that customers with more experience and knowledge in outsourcing relationships were more likely to avoid incomplete contracting by recognizing and preventing provisions that would give vendors too much latitude in providing training programs.

Our results also supported the predicted, positive relationship between socially-oriented trust and client satisfaction with outsourcing. This relationship is consistent with the idea that trust in a relationship deters opportunistic behavior, encourages client receptivity regarding
vendor advice, and reduces monitoring costs for clients. Additionally, consistent with social exchange theory, trust was found to be related to relationship tenure and communication behavior. Relationship tenure is important to building trust because trust evolves over time as customers and suppliers become more attuned to each other’s behaviors and desires (Lewicki & Bunker, 1996). Similarly, frequent, accurate and open communication between customers and training suppliers leads to greater trust because the more parties interact and exchange quality information, the more likely they are to understand each other’s needs and develop norms of behavior (McAllister, 1995).

It is important to note that two predicted relationships were not supported in this study. First, we believed that where idiosyncratic training was entrusted to outside suppliers, client satisfaction levels would be lower. Both TCE and the resource-based view of the firm suggest that when idiosyncratic training is outsourced, customers are made vulnerable to opportunism and to an increased risk of imitation (Ulrich, 1996; Williamson, 1983). However, no support was found for the hypothesized negative relationship between idiosyncratic training and satisfaction.

One explanation for this finding is that there may be significant limitations on a firm’s ability to imitate another firm’s efforts in the training and development area. Key business processes that contribute to core competencies are often viewed as a complex web of knowledge, skills, technologies, and experience (Barney, 1995; Prahalad & Hamel, 1990). Thus, while one seemingly insignificant aspect of an organization’s approach to training may have played an important role in an organization’s success, this reality may not be easily understood by other firms.

Another explanation is that client firms did not feel as vulnerable to opportunistic behavior from training vendors because they engaged in adaptive behaviors to reduced concerns. As noted previously, idiosyncratic training was positively related to trust in the client–vendor relationship. It may be that firms that outsource such training may strive to build strong, trusting relationships in order to encourage vendor cooperation and to minimize opportunistic behavior. And since trust was found to be positively related to client satisfaction, adaptive responses may affect outcomes resulting from reliance on outsourcing in the training area. The positive relationship between idiosyncratic training and contractual specificity is also consistent with the idea that firms that outsource idiosyncratic training may often take greater steps to protect themselves through contractual means. This suggests that while asset-specificity may be indicative of the potential for a firm to become vulnerable to opportunism, firms may often recognize this and take proactive steps to limit their risks.

This is not to suggest, of course, that the utilization of outsourcing even when asset-specific investments are required will necessarily result in benefits that offset the associated costs. Rather, our findings simply suggest that within the training and development area, adaptive responses by firms may help limit the risks associated with outsourcing even where an asset-specific investment is needed. And this potential may explain why substantial growth in training and development outsourcing has been observed even though the transaction itself may not be ideally suited for outsourcing.

Another possible explanation for the lack of support between idiosyncratic training and client satisfaction is that the investment of resources by the client to enable the supplier to provide idiosyncratic training may have resulted in biased evaluation by client representa-
tives. Further, it is possible that the resources necessary to provide idiosyncratic training were provided primarily by the vendor. This may have negated the negative relationship between idiosyncratic training and client satisfaction that was anticipated.

The second predicted relationship that was not supported in this study was the anticipated relationship between vendor dependency and trust. It was anticipated that suppliers who were reliant on a particular customer would voluntarily make adaptations to meet the customer’s needs. And because adaptive behavior is a key foundation upon which trust is built, it was thought that trust would increase as a result. However, it is possible that when a vendor is highly dependent, adaptive behavior is not seen as an indicator of genuine concern for the other. It is possible that adaptive behavior is instead seen as behavior calculated to serve the vendor’s own interests. If true, the client would be less likely to reciprocate by engaging in adaptive responses on behalf of the vendor. And such reciprocation is needed if socially-oriented trust is to emerge. It is important to also note that our measure of trust emphasizes socially-oriented trust and it is this type of trust that depends on each party—in a reciprocal fashion—engaging in adaptive behavior aimed at being responsive to the needs of the other. Cognitive-based trust relates to whether a party believes that the other side will conclude that it is in their best interest to behave responsibly. We did not focus on cognitive-based trust and it is possible that vendor dependence is, in fact, related to this very different type of trust.

It is important to consider our findings in light of several limitations associated with this study. First, because this was a cross-sectional study, our ability to draw causal inferences is limited. In fact, some research suggests that the relationships proposed in this study may be more complex than suggested in our theoretical framework. For instance, research has suggested that as trust improves, parties are more willing to communicate, thus creating an iterative, interlocking process between these variables (Anderson & Narus, 1990). Additionally, one could argue that a firm might be unwilling to outsource idiosyncratic training needs until they have sufficient trust in a vendor. While subsequent analysis did not support the mediating effects of the predictors of trust in Figure 1, it is possible that some associations are more complex than the unidirectional relationships proposed in this study. Larger samples that allow for testing non-recursive models and longitudinal research designs focusing on changes in organizations over time may allow for greater confidence in our understanding of the causal relationships examined in this study.

Second, this study was designed to examine outsourcing of training and development and, as such, care must be taken when drawing inferences about outsourcing in areas outside of HR or even to other areas within HR. According to institutionalists such as Williamson (1996) transaction characteristics and other institutional factors may vary across different contexts and these differences may affect the relationships observed.

Third, limitations relating to measurement issues also warrant attention. In this study, training directors and HR directors in the same firm were questioned. While, this approach reduces common method variance concerns in regard to variables directly related to client satisfaction, the exclusive use of HR staff to assess training vendors provides a somewhat restricted view of the client–vendor relationship. Beyond this, respondents were asked to provide overall ratings on the vendors they work with (rather than ratings on specific vendors). Thus, it is important to acknowledge that because not all vendors that firms rely on are homogeneous, it is possible that substantial variation exists within firms regarding
their perception of training vendors on certain measures (e.g., *client satisfaction*). And, it is also possible that such restriction of range may have led to more conservative coefficient estimates. Measurement issues are also raised by the fact that we dropped several items from the original survey because they did not significantly correlate with other items. As such, it is possible that reliability estimates may be somewhat overstated. This is a relatively new line of research, and clearly, there is a need for future research to refine the measurement of key constructs.

Finally, this study was limited to firms that had both a training manager and a HR director. As such, firms that are too small to employ such specialists were excluded from the sample. Thus, questions can be raised about whether our findings would generalize to such organizations.

Despite these limitations, this study contributes to our understanding of how organizations might increase their satisfaction levels when outsourcing the design and delivery of training programs. Specifically, this study suggests that client satisfaction with the outsourcing of training and development will depend on characteristics of the training services themselves, factors associated with the client–vendor relationship, and adaptive responses by firms which engage in outsourcing. While prescriptions for practice would be premature at this point, to the extent that the findings observed here receive continued support, they would have significant implications for firms as they make choices about which types of services to outsource and how to minimize the risks associated with outsourcing in this area.

### Appendix A

**Client Satisfaction (α = .92)**

Our outside training suppliers:
- consistently meet expectations. 1
- are pleasant to work with. 1
- provide quality services in a timely manner. 2
- make a genuine effort to meet our needs. 2
- provide a high level of satisfaction. 3
- are dependable. 3

**Socially-Oriented Trust (α = .89)**

Managers in our firm and our outside training suppliers:
- share a sense of loyalty to one another. 1
- look out for each others’ best interests. 1
- feel a sense of responsibility to each other. a
- understand each others’ behaviors well. a

**Contractual Specificity (α = .90)**

The agreements with our outside training suppliers:
- clearly outline the responsibilities of each party. 1, b
- describe penalties if requirements are not met. 1
- are specific and detailed. 2, b
Appendix A (Continued)

are a little ambiguous in places. (R)², b
are as complete as possible.³, a
provide clear descriptions of required performance levels. ³, b

Relationship Tenure (α = .87)
Managers in our firm and our outside training suppliers:
- have a lot of experience working together.
- have been associated with each other for many years.
- do not have opportunities to build long-term relationships. (R)

Vendor Dependency (α = .75)
Our outside training suppliers:
- rely on our business to remain profitable. a
- depend on our business for continued success. a
- have invested substantial resources to provide us training. a

Communication Behavior (α = .84)
Managers in our firm and our outside training suppliers:
- communicate frequently. 1
- tend to share information cautiously with each other. (R) ¹, c
- talk to each other often. ²
- trust that the information they receive from each other is correct. ², c
- exchange information in a timely manner. ³, c
- feel confident that the information they exchange is reliable. ³, c

Idiosyncratic Training (α = .79)
The training provided to us by outside suppliers:
- is tailored to fit the nature of our business. a
- is specifically designed to meet our needs. b
- is off-the-shelf training that could be used by many other businesses. (R)

Outsourcing KSAs (α = .79)
The managers here who work with outside training suppliers:
- have a lot of experience dealing with vendors in the training area. ¹
- are able to spend a lot of time monitoring these suppliers’ performance. ¹
- devote a great deal of time evaluating the performance of these suppliers. ²
- have worked with many different training suppliers. ²
- are aware of alternatives to these training suppliers. ³
- know other vendors that could replace these training suppliers if necessary. ³

Uncertainty (α = .88)
Our outside training suppliers:
- could take advantage of us without us knowing it. ¹
- have a lot of freedom in the way that they provide our training. ¹
could be deceptive in their business dealings without us finding out.  
provide the type of services that cannot easily be evaluated.  
work in a way that is difficult for us to monitor.  
could engage in self-serving actions without our knowledge.

Items represented by the same number (1, 2, 3) within measures were bundled together in the S.E.M. analysis.

a Item based on Klaas, McClendon and Gainey (2000).
b Item based on Nooteboom et al. (1997).
c Item based on Mohr and Spekman (1994).

References


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