Title: Offshore Information Technology Outsourcing: The Historical Construction of a Global Business Practice

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Abstract

This dissertation seeks to provide grounds for informed decision-making on offshore information technology (IT) outsourcing. The controversy surrounding this phenomenon in the 'west' and elsewhere attests to the perceived import of the trend which has the potential to affect the competitiveness and well being of individuals, corporations, industries and nations. This dissertation seeks to contribute to our understanding of this phenomenon by taking account of the conflicting interests at play between corporations, IT professionals, governments, the public at large and other institutions in both 'western' and 'developing' nations. To this end, this work recounts a history of offshore IT outsourcing from a multi-stakeholder perspective with particular focus on the relation between the US and India as the two major players in this domain to date. This historical account, constructed through an analysis of discourse (Foucault, 1984) as preserved in texts and informed by interviews with multiple stakeholders, attends to the reciprocal relation between ways of thinking and practices in order to trace the historical process of construction through which we have collectively brought our present into being. On the basis of this history, I aim to provide a structural understanding of the current field of play, attending to existing constraints, practices and the diversity of interests. By highlighting the historical contingency of ways of understanding, such a history further disturbs the obviousness of what we hold to be true and natural in the matter of offshore IT outsourcing. It enjoins us to question our assumptions about the inevitability of the trend and reflect critically on your present, contributing to our ability to think along different lines and envision how we might collectively construct our future.
Introduction & Motivation

Outsourcing information technology (IT) functions offshore has emerged as an increasingly popular configuration for the management of IT in Western nations (Di Carlo 2003). A forceful and impassioned backlash, expressed in a variety of public forums, has accompanied the rise of IT offshoring practices, attracting extensive public attention for a considerable time (e.g. Morgenstern 2003; Dignan 2003a, 2003b; Schick 2004) and political action (e.g. Kripalani, Einhorn, and Magnusson 2003, Parasuram 2004; Sharma 2004).

In response to the crisis, traditional economic arguments have suggested that the logic of the market will prevail in time, giving rise to competition among nations and an efficient division of labour to the benefit of all concerned (e.g. Global Insight 2004; Palvia 2003). Is offshoring then simply a rational approach to securing the best IT products and services available on the global market at an advantageous price? And is the backlash against this practice merely a reflection of the sometimes painful process of change? While such explanations are appealing and may be part of the answer, the situation deserves careful consideration.

The debate in the public forum points to the existence of contradictory views which are the source of considerable anxiety for members of society. It directs attention to the manner in which business practices are embedded in a broader context and lays a claim on societal institutions, including academia, to take account of such interrelations. The importance of taking account of this broader context and the variety of stakeholders affected by offshore IT outsourcing practices has been acknowledged (e.g. Apte 1990) but has in large part remained unaddressed by research in this domain. This research seeks to take account of tensions and contradictions in the offshore IT outsourcing debate to arrive at a holistic understanding of the phenomenon and thus inform both current practice and research.
In what follows, I briefly outline the current state of research on IT offshoring. I offer an overview of the methodology within which I frame the research questions. The approach to data collection and analysis follows. The final section lays out the research contribution I hope to achieve.

**IT Offshoring Research**

Research on offshoring IT services has begun to amass in a number of disciplines, including management (e.g. information systems, organizational studies, international business, strategy, management science), economics (e.g. Farrell 2005; Khanna & Palepu 2004; Mann 2003), geography (e.g. Audirac 2003), public policy and development studies (e.g. Arora & Gambardella 2005; Heeks 1996; Heeks & Nicholson 2004; Patibandla & Petersen 2002). For the most part, management research has pursued practical knowledge toward the achievement of performance outcomes such as efficiency and effectiveness. Building on a larger base of research on outsourcing in the domestic context (see Kakabadse & Kakabadse 2000 for a critical review of strategy, management science, organization studies and information systems research; see Dibbern et al 2004 for a more comprehensive review of information systems research), theoretical arguments generally make the case for offshoring IT services within the context of Transaction Cost Economics and the disaggregation of the value chain (e.g. Apte 1990; McFarlan 1996). Other theoretical approaches that have found their way into the domestic IT outsourcing literature – agency theory (e.g. Cheon et al 1995), resource-based (e.g. Poppo and Zenger 1998), resource-dependence (e.g. Grover et al 1996) and relational theory arguments (e.g. Willcocks and Kern 1998) among them – have gained more limited visibility. With a focus at the level of the firm, this body of work seeks to provide knowledge for the development of effective IT offshoring practices among clients in ‘western’ nations and offshore vendors in ‘developing’ nations (e.g. Carmel & Nicholson 2005; Lacity & Willcocks 2001; Rottman & Lacity 2006; Sahay et al 2003). Strategies for ensuring effective communication and coordination (e.g. Choudhury &
Sabherwal 2003) and bridging cultural differences (e.g. Krishna et al 2004), for example, are of concern. Broader analyses at the national or industry level are rare (Qu & Brocklehurst’s (2003) comparison of India and China is an exception) as are considerations of the broader societal consequences of offshoring IT services (Nicholson & Sahay 2001 is an exception).

International business (IB) research has also examined offshoring in the context of the activities of multinational enterprises (MNEs) in relation to manufacturing but more recently also to services outsourcing (Miozzo & Miles 2002). While there are potential continuities between IT offshoring and outsourcing of manufacturing or other kinds of services, IT labour offshoring has not been a focus of investigation to date (Niederman 2005) though this area has been identified as an emerging theme (Ramamurti 2004). IB research generally addresses governance issues in global operations and sourcing strategies based primarily on economic theory. We can trace a path from the theory of the MNE (Buckley & Cassson 1976) to Vernon’s (1966) product life-cycle model to Dunning’s (1988) eclectic paradigm and the efforts of other scholars who have sought to refine and extend these theories (see Doh 2005 for an overview). In general, the advantages of internalization through subsidiaries in other countries are weighed against the value of other potential modes of conducting global business such as contracts, alliances and partnerships. The emphasis is on the analysis and exploitation of market forces by the MNE. The interests of other stakeholders in the home or host countries, such as employees, local industries and governments, become factors to be considered and manipulated by the MNE toward the creation of shareholder’s value (Meyer 2004). Benefits to local economies are anticipated in terms of spillover effects such as technology transfer and the creation of supplier networks, though the extent to which this occurs is contested (Zanfei 2005).

While such research may inform my examination of the IT offshoring landscape, it provides limited guidance. Doh (2005) indeed has suggested that IT
offshoring poses a challenge to existing international business theories given the mobility of labour (see also Harvey 1990). I believe a more useful approach is suggested by strategy research at the level of industries (e.g. Porter 1990) or policy and development research (e.g. Heeks 1996) which examine the complex interactions between governments, institutions and industry in light of historical, socio-political, cultural and economic contexts. Because of the growing importance of the IT sector in enabling participation in knowledge-intensive industries, there have been a number of in-depth studies on the development of viable IT industries in established and developing economies (e.g. Brock 1975; Moschella 1997; Grieco 1984; Heeks 1996), either at the level of a single nation or on a comparative basis. These investigations make evident the historical process through which nations in conjunction with local businesses, MNEs, the wider public and international institutions shape the nature of IT-related capabilities and economic activity on the national and global stage. What is brought to light is the collective process of ‘construction’ (Evans 1995; cf. Porter 1990) that, over time, leads to the creation of viable industries, their failure or transformation. Such an approach provides a rich contextual understanding of existing conditions and the trajectories that may constrain or enable activities at particular times and places.

**Methodology**

With this broad aim in mind, a theoretical perspective and methodological approach are needed to provide a frame of reference for the investigation. In seeking to come to a holistic understanding of the IT offshoring phenomenon, a qualitative methodology opens the way for a broad ranging inquiry that allows for a deeply contextual and historically grounded investigation. Moreover, the need to take account of the contradictions evident in the public debate on IT offshoring suggests the need for a theoretical perspective that, starting from a logic of contradiction to come to an understanding of the whole, allows for a dialectic relation in the infinite play of oppositions and the coexistence of difference (Robey and Boudreau 1999).
take a broadly constructionist approach (Berger and Luckmann 1967; Critchley 2001) that recognizes reality as the outcome of a historical process that is at least in part something of our own making. In paying close attention to history and the production of the ‘real’ in a contested field of struggle, the work of Michel Foucault provides a methodology well suited to this inquiry.

A Foucauldian perspective takes an interest in the connection between discourse (what is “sayable”) and reality (what is “visible”), or more simply stated, in the connection between “words” and “things” (Kendall and Wickham 1999). This is ultimately the question of the relation of the subject to the objects that populate the world or the question of how we ascribe meaning to the world. As such, a Foucauldian analysis entails an ontological project that critically examines how the ‘real’ is brought into being over time. This examination is accompanied by a sociological concern with the effects that ensue from constituting the real along particular lines. Discourses allow certain visibilities and certain practices. They have “productive” or “performative” (Foucault 2002, p. 120) effects that can significantly impact human affairs (cf. Austin 2001).

In so far as an analysis of discourse is concerned with ‘what can be said’ and, by implication, ‘seen’, it must concern itself with what sets limits to discourse. As everybody knows, it is not the case that anything at all can be legitimately claimed by anyone, anytime or anywhere (Foucault 1984). Discourse is subject to certain mechanisms of regulation which are often institutionalized. Among these, knowledges, which are inevitably historically contingent (Foucault 1984), regulate discourse by providing a form of rationality or a logic upon which certain statements can be made. Knowledges can be drawn into the struggle between conflicting discourses and form part of the conditions of possibility for the articulation of

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1 While in the IS field, a Foucauldian perspective has so far been employed to explore how information technologies function as means of control (e.g. Poster 1990; Sewell and Barker 2001) often bringing in the idea of the iron cage or matrix of control, my own interest is in borrowing from Foucault a conceptual lens and a particular approach to analysis in order to understand how the reality of IT offshoring has come into being.
discourse. Power and knowledge, understood in Foucauldian terms\(^2\), operate in close connection. Power works alongside knowledge in mediating the relation between discourse and its effects, or what is sayable and what is visible. Through their actions, individual and groups bring certain knowledges into play as strategies to attain certain effects upon the actions of others, potentially altering the form of a discourse. To understand the form of a discourse or its alterations – the archaeological and genealogical projects (see below) – we must look in the “power/knowledge nexus” (Kendall and Wickham 1999, p. 48) and unravel the knowledges that are brought into play in everyday struggles that always admit the possibility of resistance (Foucault 1982).

A focus on discourse as a regulated corpus of statements (Kendall and Wickham 1999) turns analysis away from representation and toward material practices. Foucault suggests that we think of discourse as an “event” (Foucault 1991). An event is something that happens and involves things said and things done\(^3\), being discursive and material at the same time (Kendall and Wickham 1999, p. 42)\(^4\). Further, Foucault proposes that we should look at a discourse over time as a “series” (Foucault 1991) of events connected to one another not by an overarching principle that unites them but through “accidents and contingencies” (Burrell 1988).

Considering discourse as a series of events whose path is shaped by “material conditions of possibility” (Foucault 1991, p. 127) including accidents and contingencies, institutional practices and systems of thought that constitutes what appears to us as real and natural entails an analysis that is per force retrospective.

\(^2\)In this sense, power is not something possessed by subjects or institutions but rather something that is exercised and exists only as an “action upon an action” (Foucault 1982, p. 789).

\(^3\)An alternative but equivalent way to think about discourse is as a system of 'signs' (i.e. words) and a set of 'practices' (i.e. “programmes of conduct which have both prescriptive effects regarding what is to be done (effects of ‘jurisdiction’), and codifying effects regarding what is to be known (effects of ‘veridiction’)”) (Foucault 1991, p.75)). ‘Practices’ give substance to ‘signs’, “systematically form[ing] the objects of which they speak” (Foucault 2002, p. 54).

\(^4\)Foucault is careful to note that an event is not a “body” (i.e. a material artifact) but something that arises from material practices; it has a materiality but not in the traditional sense of a physical object (Foucault 1982).
Archaeology and genealogy are the methodological “gadgets” that Foucault (1980, p. 65) recommends to us for this task. Archaeological analysis represents a horizontal slice through the fabric of discourse that attempts to lay out the forms of discourse at a particular time (Foucault 1990). The genealogical project addresses the formation of discourse by slicing vertically through the layers, following the thread of the “accidents and contingencies” that mark shifts and transformations in the fabric of discourse over time (Burrell 1988). Weaving together distinct yet interrelated archaeological and genealogical modes of inquiry (Foucault 1984), historical analysis in a Foucauldian mode follows the emergence and disappearance, interrelation and dispersion of signs and practices over time within and across particular domains, in the context of historically located material conditions of possibility.

This analytical task, which Foucault labels “a general history” (Foucault 2002), is a descriptive project that has as its aim a rich description of the means through which we have collectively constructed the reality of IT offshoring, leading to a “history of the present” (Kendall and Wickham 1999, p. 4) that is not divorced from the past. A general history substitutes for an economy of causes arranged within a timeless explanatory scheme (the traditional aim of historical analysis) a multiplicity of causes, or a process of “causal multiplication” (Foucault 1991, p. 76). Foucault instructs us to “construct around the singular event analyzed as process a ‘polygon’ or rather a ‘polyhedron’ of intelligibility, the number of whose faces is not given in advance and can never properly be taken as finite” (Foucault 1991, p. 77). By following the thread of discourse historically across time and domains of human activity through progressive saturation (Foucault 1991), it is possible to produce an account of the manner in which we have collectively arrived at a particular way of conceiving of a phenomenon, with material consequences for how we conduct human affairs. Such a description does not attempt to integrate and reconcile the analytical findings but rather to shape them into an ensemble or a collage, constructing a complex web of intelligibility around a phenomenon that makes visible
the process through which it has come into being in the present, allowing also for the co-existence of contradictory discourses and taking account of the ‘other’ (Prasad and Prasad 2003) at the outset.

Making this process of construction visible is a critical task. While critique in IS is often associated with Habermasian approaches (e.g. Orlikowski and Baroudi 1991, Brooke 2002) that proceed from a particular ideological position and have an explicitly emancipative aim (e.g. Lyttinen 1992; Ngwenyama and Lee 1997), critique can encompass a variety of positions that do not necessarily share the same presuppositions and goals (e.g. Kincheloe and McLaren, 2000). Critique in a broader sense takes the form of an “act of revelation” (Doolin and Lowe 2002, p. 74) that admits the possibility that “things could have been otherwise” (p. 75) and that people may in future see things differently and choose “to do otherwise” (Giddens 1984). The aim of this type of critical analysis is to disturb the comfortable familiarity of our conceptions to engender a re-thinking, in the hope that such reflection may open up the possibility of a broader understanding and potentially expand the range of options for future action.

Research Questions

From a Foucauldian perspective, offshore IT outsourcing is not an obvious practice that simply exists in the world awaiting description by the research community. Rather, it is a phenomenon that is brought into being historically and kept in place through discourse. We can learn something about how this phenomenon has come into being and how it is kept in place in the present by looking at the elements of discourse – statements, practices, objects, events – and considering their emergence, disappearance, dispersion, interrelations and connections over time as well as by uncovering the background of assumptions that permit their articulation, excluding other possibilities (Foucault 2002). This allows us to dig deep into the foundations of discourse and opens human practices to critical scrutiny.
The research questions that this research will thus attempt to address are:

How has offshore IT outsourcing come into being? What discourses – statements, practices, technologies, events – provided the conditions of possibility for the emergence of the IT offshoring discourse and prevented other ‘realities’ from arising in its place? What are the connections and relations between these different discourses? What systems of thought and underlying assumptions enabled such discourses to emerge? And what accidents and contingencies played a part in altering the form of this discourse over time?

Approach to Data Collection and Analysis

Data collection will entail two complementary strategies: (i) the collection of documents, and (ii) interviews with individuals from multiple stakeholder groups. This approach allows me to explore the discourse of IT offshoring over time using archival sources. Interviews will complement this strategy by expanding my understanding, informing my document collection activities and providing a check on adequate coverage of the domain. Methodologically, it is important that we work our way into the discourse of offshore outsourcing rather than presuppose what it looks like. Thus, rather than tightly specifying what documents I will study or which stakeholders I will interview, I attempt to lay out the broad contours of the project and the process I intend to follow.

The permanence of text allows me to study this discourse retrospectively and trace its historical path. The document collection strategy aims to encompass the discourse of the multiple stakeholders concerned (e.g. consultants, government bodies, associations, businesses and the public at large). A variety of documents including industry reports, government publications, briefs from associations, academic research and articles in the popular and trade press will be collected and examined. I have chosen, as an initial strategy, to focus principally on the discourse of IT offshoring from the US to India as well as the US/India relationship. This
tentative delimiting flows from India’s prominence as a preferred destination for sourcing IT services offshore. I recognize, however, the need to engage the hermeneutic process of discovery as I approach the textual archive and maintain an openness to what I might learn. Similarly, while my interest is primarily in IT services such as system development, maintenance and support, I recognize the seamlessness of the discourse of IT services offshoring and other types of business services offshoring such as call centres. My focus on IT services, as defined, suggests an emphasis rather than an unequivocal delimiting.

Interviews are often used as a complementary strategy to document analysis in historical research (e.g. Porter, 1990; Heeks, 1996) to enrich understanding, inform the search for relevant texts (in some cases facilitating access to them), and provide a check on adequate coverage. My intent is to conduct semi-structured interviews with multiple stakeholders (i.e. clients, vendors, industry associations, government departments, etc.) in the US and India. The questions will address the history of offshoring IT services to or from the US and will be framed in accordance with the role of the interviewee (e.g. providers of IT services, government officials).

Analysis of text will be broadly hermeneutic in method, with an emphasis on understanding texts in context (Prasad 2002). Two aspects of documents are of interest. First, I am concerned with document content as repositories of discourses, with particular emphasis on the logics used in putting certain discourses into play (Kendall & Wickham 1999). Second, I consider the way in which documents (e.g. influential books or reports) are used, how they are invoked to legitimate or undermine other discourses (see also Prior 2003).

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5 Hermeneutics is a long standing research tradition that has embraced different philosophical positions over time (e.g. Palmer 1969; Prasad 2002). In this research, it is not my intention to use hermeneutics as a conceptual lens, relying on its philosophical insights. I only wish to borrow from the methodology of hermeneutics a particular way of understanding the process of textual analysis. In other words, hermeneutics is only relevant to the process and not to the content of the analysis.
The analysis of texts will follow the guidelines of Kendall and Wickham (1999) and will focus on identifying the rules and assumptions that regulate the generation and exclusion of statements across time and domains of human activity. Focusing on the regulation of discourse allows me to trace the practices, logics, assumptions, accidents and contingencies that have appeared over time in the IT offshoring domain shaping our present understanding.

The principle of the hermeneutic circle guides interpretation through iterative consideration of the whole and the parts, emphasizing understanding in context and the expansion of the contextual field both synchronically (i.e. archaeologically) and diachronically (i.e. genealogically) (Prasad 2002). A broadly hermeneutic orientation, as also a Foucauldian perspective, also entails a deeply reflexive stance: a constant awareness of the researcher’s own location in history and the attempt to suspend unexamined beliefs or prejudices (Kendall and Wickham 1999; Prasad 2002).

Conducting this research will necessitate the successive analysis of multiple texts. To provide a useful structure for this process, I intend to routinely synthesize analytical findings in the form of summaries and notes that will be compiled separately for each document. Such analyses, together with other notes or reflections on the findings or progress of the research that may be compiled at various times, will form the basis for constructing a rich description of the discourse.

Research Contribution

This research takes as its point of departure the backlash against offshore IT outsourcing. The hermeneutic rupture or crisis in the IT offshoring field alerts us to an area of concern at the same time as it provides a window into the phenomenon at a point of eruption where contradictory ‘facts' come into visibility. The rupture presents an opportunity for a rich exploration of the IT offshoring phenomenon and its multiple facets.

I approach the quest for a broad understanding of offshore IT outsourcing from a Foucauldian perspective. This theoretical lens and the particular
methodological tools that it places at our disposal leads to the construction of a historical account detailing the manner in which we have come to understand offshore IT outsourcing in the present through our collective discourse, a discourse that includes contradictory claims and brings our present reality into being.

The aim of this research is not prediction or prescription but explanation or understanding. This is not to say that prediction and prescription might not be worthy aims, given our collective interest to guide business practice toward desirable human ends. Prediction might not be an achievable goal starting from a view that takes reality as something that is in large part the outcome of a historically contingent, constantly shifting and collective process of construction. Prescriptions, for their part, might follow from an in depth understanding of the offshore IT outsourcing domain.

I take the view that such prescriptions are a matter for negotiation among a variety of stakeholders whose well-being hangs in the balance. As members of society, of course, researchers may choose to play a directive role in this process of negotiation but I concur with Foucault when he states that “it seems to me that ‘what is to be done’ ought not to be determined from above by reformers, be they prophetic or legislative, but by a long work of comings and goings, of exchanges, reflections, trials, different analyses” (Foucault 1991, p. 84). My intent in conducting this research is to contribute to this collective work by disturbing the taken for granted status of our present understanding of offshore IT outsourcing, engendering a re-thinking among both academics and practitioners. Rather than bringing closure to such reflections by overlaying upon the current discourse a different set of prescriptions, it is my intent to allow what might follow from this critical examination to be “played out in the real” (p. 85) as part of the ongoing process of negotiating the construction of the reality of offshore IT outsourcing. This is not equivalent to abdicating responsibility for the construction of the world to other participants. It is merely to attempt to intervene in this process in a different way, by opening up a problem and creating a space for reflection “where those who may be interested are invited to join in” (p. 74).
References


Appendices, Figures and Tables

Appendix 1: Analytical techniques

As the fieldwork proceeded, preliminary analysis of the empirical material was undertaken to direct the theoretical sampling that would guide subsequent observation and data collection (Locke 2001; Strauss and Corbin 1998). Although not strictly ‘grounded theory’, the process of analysing and conceptualising from the empirical material gathered was certainly evolving and iterative, and over time I came to centre on a subgroup of HR managers and a particular strategic initiative of theirs (their ‘Management Development Strategy’), as these actors and processes encapsulated the legitimacy challenges the department as a whole was facing.

I also examined conceptual work in a variety of paradigms in order to throw light on the emerging picture. It became clear that critical realist ontology, and concepts drawn from institutional theory, together allowed for the most robust and plausible explanations of what I had been seeing. Coding of the fieldwork transcripts and published communications was initially “open” (Strauss and Corbin 1998) and based on initial interpretations of conversations, events, and statements. Analytic coding (Richards 2005), on the other hand, which involved the interpretive task of considering meanings, creating conceptual categories and abstracting from the data was an ongoing, iterative process and continued throughout the lengthy period of data analysis. A qualitative software package 1, was used in the coding process to assign categories to segments of fieldwork data and manipulate coded material later in the analytical process. The software was also used to go ‘back into the data’ during the writing up stages of the project.

The central conceptual category of prescripts was created after the open coding of fieldnotes, media commentary, internal memos and public affairs announcements resulted in a series of codes relating to the representation of the context. This led me to seek theoretical frameworks to illuminate and explain the empirical findings, reading material deriving from institutional theory (Barley and Tolbert 1997; DiMaggio 1997; Sayer 2000), critical realist theory (Jessop 1990; Sayer 2000) social cognition theory (Schank and Abelson 1977) and dramaturgical paradigms (Mangham 1986). The concepts discussed by these authors were then refined and regrouped, and the three prescripts found in this study took shape (see later discussion).

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Figure 1 Overlapping domains of reality.

(Source: Partington 2000 p 98)

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1 QSR NVivo, distributed by QSR Australia.
Figure 2: Sapphire Executive Management Structure February 2001, showing Human Resources function reporting relationships.
Figure 3: Contextual Phases and HRM Legitimation Strategies

REAL DOMAIN

Phase 1

ACTUAL*
- Institutional
  - ‘customer service & ‘high commitment’ logics
  - ‘people-centred values’
  - HR association with CEO
  - Professional endorsement

EMPIRICAL
- CEO change
- Restructuring, downsizing
- Legitimation Strategies
  - Symbolic-institutional politics, rhetorical arguments
  - Relational political actions, impression management

Phase 2

ACTUAL*
- Institutions
  - ‘cost-cutting / airline mgf’ logics
  - ‘financial’ values
  - Relations
  - Erosion of HR-ExCo relations
  - Symbolic & material relations within dominant coalition
  - HR-Customer Strategy (‘joint venture’) reins

EMPIRICAL
- Labour Strategy
- Discursive closure
- Budget cuts
- Legitimation Strategies
  - Symbolic-institutional (mimetic) (People & Service strategy)
  - Relational - alliance building

Phase 3

ACTUAL*
- Institutional (field)
  - ‘cost-cutting logics
  - ‘airline crisis management’ (terrorist attacks, industry bankruptcies, govt intervention)
  - Relations
  - HR-Business Unit management relations

EMPIRICAL
- Downsizing, budget cuts
- Dismantling of People & Service Strategy
- Legitimation Strategies
  - Relational political action
  - Alternative symbolic-institutional
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<th>Table 1: Major Contextual Events during research period</th>
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<tr>
<td><strong>June - August 2000</strong></td>
<td>Discount ‘fare wars’ in Australia following deregulation</td>
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<td><strong>Nov 2000</strong></td>
<td>CEO Richard McCall announces approaching retirement</td>
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<td><strong>February 2001</strong></td>
<td>Steve Bourke, assumes de facto control of Sapphire as “CEO-Designate”</td>
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<td>First downsizing exercise: retrenchment of 1500 employees announced</td>
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<td>Senior management restructure</td>
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<td>Labour Strategy announced</td>
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<td><strong>March 2001</strong></td>
<td>Enterprise Bargaining Agreement (EBA) negotiations commence with unions</td>
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<td><strong>May 2001</strong></td>
<td>Sapphire takes control of budget airline competitor, retaining lower cost-structure and employment arrangements</td>
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<td>Sapphire revealed to be training managers as “strike-breakers” in Manila Philippines</td>
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<td><strong>August 2001</strong></td>
<td>Industrial action over EBA negotiations</td>
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<td>Sapphire announced annual profits of $415.4 million,</td>
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<td>Low-cost Sapphire international subsidiary airline announced, with reduced salary and employment conditions.</td>
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<td>Funding of People and Service Strategy announced, followed by withdrawal of funding two days later.</td>
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<td><strong>September 2001</strong></td>
<td>Terrorist attacks in the United States September 11</td>
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<td>Collapse of major competitor Skyway September 15.</td>
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<td>EBA talks temporarily suspended.</td>
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<td><strong>October 2001</strong></td>
<td>Sapphire criticised by Australian Prime Minister for failure to assist Skyways.</td>
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<td>CEO brings union leaders to Sydney for a “summit” before resumption of EBA negotiations</td>
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<tr>
<td></td>
<td>Sapphire announces $1.5 billion purchase of new aircraft</td>
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<td></td>
<td>Alternative funding and support for Management Development Program secured</td>
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<td><strong>November 2001</strong></td>
<td>Commencement of Management Development Program</td>
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<td>Senior management restructure by CEO Bourke. Corporate HR Unit remains.</td>
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<td></td>
<td>Industrial action continues, wage freezes for some unions agreed</td>
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Table 2: Examples of CEO Communication illustrating the three “prescripts”

| Prescript 1: The Industry is in dire straits | The aviation industry is one of the most demanding in the world, and is particularly tough in the Asia-Pacific market. … THE CHALLENGES WE FACE are: Changing Environment, Fuel Price Soars, Volatile Australian Dollar, New Lower-Cost Competition, [Competitors] in Foreign-Owned Group, Airport Charges Rise, Economic Slowdown, Need for Further Efficiencies  (Staff News, Feb 01)  

The past 12 months had seen the environment in which Sapphire operated; both in Australia and overseas, change dramatically as a result of competition from lower cost airlines, Government-sponsored policy changes and higher costs. (Email to staff March 01)  

It’s not only Sapphire that is experiencing challenging times. All around the world airlines are reporting the toughest conditions since the [first] Gulf War.  (Staff News June 01)  

[it’s] the toughest trading environment for more than a decade…[We] face a battle to save the company from profit deterioration in the year ahead.... (Press Statement August 01)  

After the September 11 attacks: Nothing I have seen in my years in this industry better demonstrates why we have such a difficult task ahead of us. The industry has shed 150,000 jobs in a week. We are not immune from the global [consequences]  

Consider the toll taken…Famous air lines gone. Billions of dollars and hundreds of thousands of jobs lost… (Staff email mid Sept 01)  

The airlines that survive the next 12 months will be those best able to adapt to changing circumstances and reinvent their cost base…..We are one of the very few major airlines not to announce redundancies in the past three weeks. Our challenge is to make sure this stays the case. (Staff news, Sept 01) |
| Prescript 2: Our labour is too expensive | They [low cost domestic competitors] don’t have 80 years of history on the staff side; the entrenched practices and procedures that we have  

It is essential that Sapphire take all the necessary actions to maintain, and where appropriate, improve our competitiveness. We must improve our productivity per employee to match or better our major competitors and bring our domestic airline costs closer to the two new domestic airlines (Letter to staff, Feb 2001)  

As Greenfield operators, they [low-cost competitors] have no legacy costs to contend with, in contrast to established airlines  

Obviously we would need different labour arrangements. We need to get rid of very outmoded labour practices… We do need other opportunities to reduce our costs by employing more people overseas. (June 2001)  

We are facing restructured domestic and international competitors with lower costs. Our competitors boast that their cost structures are at least 25% lower than ours… line maintenance work is undertaken by staff employed under enterprise agreements with rates 50% lower than the equivalent Sapphire line maintenance trade staff. (Early Sept 01)  

We have to be tougher on costs. We are going to have to do things differently. This industry is about costs….. It is productivity, rostering ... we need more productivity. (November 01)  

We have no intention of backing down.... for Sapphire to add to costs without... |
appropriate trade-offs would be, to be blunt, just stupid. If we cannot achieve competitive wage and productivity outcomes with our competitors, we will have to find other ways to do business. *(Staff email – salary negotiations November 2001)*

**Prescript 3:**

*The government is out to get us*

Australia has opened the door to 100% foreign owned airlines like [competitor]. No way would that have happened in the UK or Singapore or the States….These decisions are eating away at Sapphire's long-term viability. That should be of concern to all Australians….We want to be the same as any other company in Australia. And the same as any other airline in Australia. We say to the (Federal) Government ... if you want us to be just straight commercial, well take away all the shackles.

The government’s freeing up competition for international carriers [into Australia]. Half the time they’re government owned. They’re protected. But we don’t get the same rights in other centres [countries].

Sapphire is operating within outdated regulatory constraints…they could render the airline unnecessarily vulnerable at a time of intense global change.

At Sapphire we aspire, not to preservation in the aspic of the past, but a dynamic place in Australia’s global future…it’s how we can nurture the Australian aviation industry. It’s the basis for preserving the jobs of tens of thousands of Australians.

Life without Sapphire as an Australian company would be very interesting. If you really believe Sapphire can sit here and be restricted... on foreign equity, we are kidding ourselves. *(Press statement August 01)*

If our competition is subsidised heavily by Governments, State or Federal, or other bodies such as airports…The national interest cannot be well served by limiting Sapphire’ chances of success in an attempt to artificially prop up less competitive domestic players.

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**Table 3: Key Elements of the 2001 Labour Strategy**

<table>
<thead>
<tr>
<th>Element</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Downsizing: February and November</td>
<td>Middle management and employees across all business units</td>
</tr>
<tr>
<td>Absentee Management program</td>
<td>Cabin Crew, Engineering, Telesales</td>
</tr>
<tr>
<td>‘Payroll Integrity’ (stated aim: “elimination of ‘rorting’”)</td>
<td>All waged employees</td>
</tr>
<tr>
<td>Enterprise Agreements (EBA’s)</td>
<td>Waged employees – changes to rostering, leave entitlements, performance management and pay structures</td>
</tr>
<tr>
<td>Employment Agreements</td>
<td>Level 11-13 waged employees to be moved to individual contracts, annualised salaries and non-prescribed hours. Linked to EBA process</td>
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### Table 3: Contextual Phases: temporal elements of ‘ontology-in-situ’

<table>
<thead>
<tr>
<th>Phase</th>
<th>Approx Time period</th>
<th>Contextual structural features</th>
<th>Key event/experience</th>
<th>Legitimation strategies</th>
</tr>
</thead>
</table>
| 1     | Nov 00–Late Feb 01 | Industry structure: discourses, deregulation, competitor activity. Initial HR congruence of values & logics with outgoing CEO | • CEO transition  
• Restructuring/Downsizing I  
• Commencement of EBA | Selling Up:  
• rhetorical arguments drawing on McCall-era logics and values  
• descriptive reports and business cases;  
• impression management. |
| 2     | Mar–Aug 01 | CEO Prescripts, Discursive closure. Scripted action. Institutionalisation of emergent logics & values. Positioning of HR | • Labour strategy  
• HR Budget cuts.  
• Funding, then defunding, of ‘People & Service Strategy’ | Building Alliances & Managing Meaning:  
• coalition building;  
• symbolic-institutional political strategies  
• isomorphism via consultants & business cases |
| 3     | Sept–Nov 01 | • Enactment of prescripts  
• Institutionalisation of emergent logics & values.  
• HR positioned practice.  
• Business unit logics & values (plurality). | • Downsizing II  
• Sept terrorist attacks,  
• Skyways collapse  
• HR funding from individual business units  
• November launch of management development program | Selling Outwards:  
• HR recognition of changes in dominant logics & values  
• relational political action & resourcing;  
• drawing on alternative logics & values in business units |

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1 Salient to Corporate HR Unit, in terms of priority and time spent [dealing with] the events and their consequences.