

# **Outsourcing, Productivity, and Input Composition at the Plant Level**

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## **Abstract**

Outsourcing or subcontracting is increasingly used by firms as a production alternative, which would be expected to affect productive performance as well as input mix. To evaluate outsourcing relationships for plants in a less developed country, we first estimate within-industry proportional differences in various performance indicators between plants that subcontract inputs or outputs and plants that do not engage in outsourcing activity for Turkish textile and apparel manufacturing plants. We find that plants that outsource internationally exhibit better performance than plants that choose to outsource in the domestic market, especially for plants that subcontract outputs. We then evaluate labor productivity gaps before and after outsourcing, and find that more productive plants tend to engage in input and international outsourcing but also increase their relative productivity after beginning outsourcing. We further explore the relationships among outsourcing and productivity, input composition, and trade by estimating a flexible transformation function model by methods that control for simultaneity and selection bias. We find that the higher productivity of plants that engage in input subcontracting and foreign outsourcing involves greater skilled labor intensity, and that the reverse is true for output subcontracting plants.