

Job Satisfaction, Psychological Contracts, and the Transition to Job Commitment in Outsourced Technology Staff

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Abstract

This paper focuses on developing an understanding of the factors that influence the development of job satisfaction, psychological contracts, and ongoing commitment to an organisation among outsourced personnel. A study was conducted in a very large IT services provider. It identifies additional (from those in the non-IT literature) factors specific to the IT industry that relate to job satisfaction, psychological contracts, and commitment to the organisation. It also proposes and provides evidence of progressive development of the ongoing commitment necessary for retention through successive stages of job satisfaction, psychological contract, and commitment to the employer organisation.

Keywords

Outsourcing, personnel, retention, psychological contract, job satisfaction

INTRODUCTION

The growing global phenomenon of the outsourcing of information systems departments and divisions is significant for both outsourcers and vendors. Outsourcing is closely related to the acquisition and merger scenarios of many major global players, particularly in the information technology sector. What began in the mid-1990's as primarily a cost saving measure, developed into formal joint-venture arrangements or takeovers and, in the high-tech sector, is becoming much more based around developing alliances and synergies. While the foundation of outsourcing is ostensibly the transfer of structural capital and the responsibility for it from an outsourcer to a vendor, other important issues remain about knowledge transfer and intellectual capital.

Both parties benefit from effective transfer of the outsourcer's knowledge (as embedded in its IT personnel) through appropriate transition of personnel to the vendor. Ho et al (2003) identify some advantages of transitioned personnel (which they term transplants) continuing to service their former employers. The focus of research reported in this paper is on developing an understanding of the behavioural dimensions of the transition, rather than on formal contractual arrangements and service level agreements. Ho et al (2003) do address behavioural issues, but from the perspective of the client managers rather than the transitioned (transplanted) employees.

LITERATURE REVIEW

The outsourcing of Information Systems Departments has been a growing phenomenon. Since the mid 1990's significant attention has been paid to this in the literature (Lacity and Hirschheim, 1993; Loh and Ventrakaman, 1992; Kern, 1997; Willcocks and Kern, 2000.) This phenomenon is set to continue as organisations focus more on core competencies. Most studies into IT outsourcing cite Applegate and Montealegre's (1991) study on the Kodak outsourcing, Lacity and Hirschheim's (1993) work, and Willcocks and Fitzgerald's (1994) work, which primarily focussed on the business and contractual elements of outsourcing at the organisational level. This study is different, instead focussing on the behavioural and relational aspects at the individual level. We have developed a conceptual framework of outsourcing (see figure 1), inspired by the framework in Kern and Willcocks (2000, p. 329), which includes individual behavioural constructs including psychological contract, job satisfaction, and ongoing commitment.

Most outsourcing research has been from an American or a European perspective. However, Pinnington and Woolcock (1995, 1997) and Zviran, et al (2001) provide useful practical international research in both the contractual and relational aspects of IT outsourcing, again at the organisational level, but from global perspectives. Beaumont and Costa's (2002) research highlights the lack of research in this area in Australia. The current study is situated in Australia.

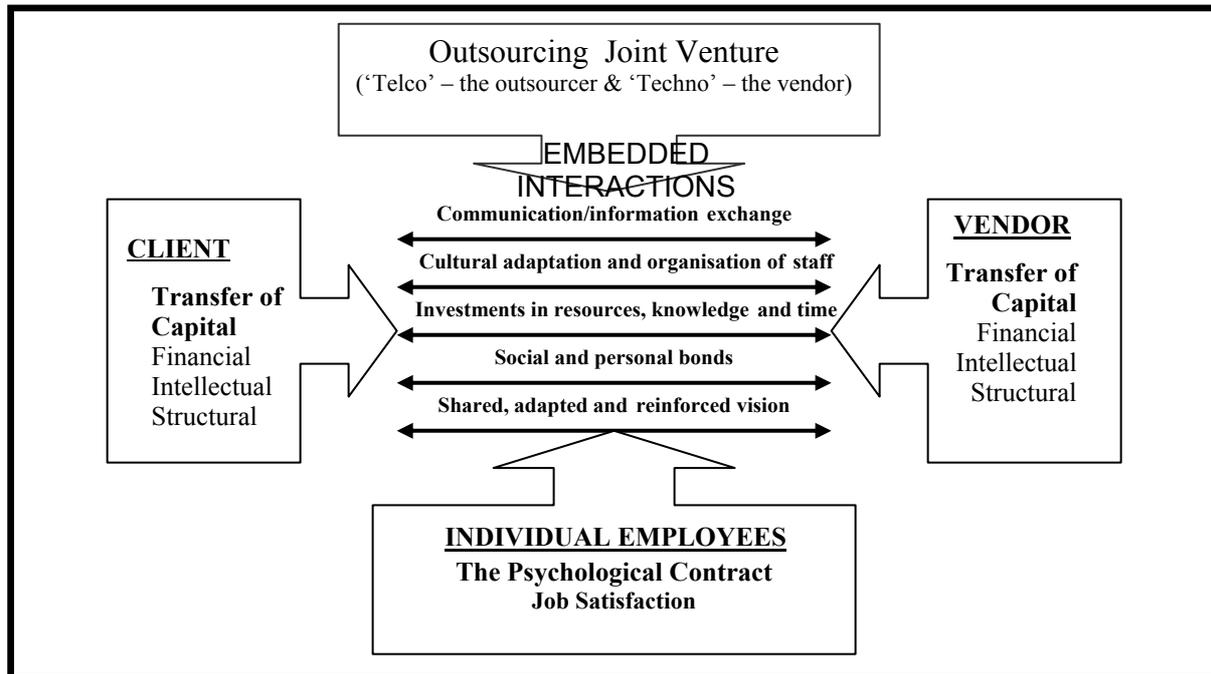


Figure 1: The Adapted Outsourcing Model (adapted from Kerns and Willcocks, 2000, p. 329)

Two main literature streams other than outsourcing provide theoretical foundations for this study – psychological contract theory and transition management.

Psychological Contracts

The behavioural interactions and relational focus of this study are based in the psychological contracts (Argyris, 1960; Schein, 1980) of the outsourced (or transitioned) employees. Psychological contract research has been broad and comprehensive, although with limited application to the IT industry and outsourcing in particular.

A psychological contract is part of an individual's belief system, influenced by the organisation, regarding the terms of an exchange agreement between the individual and their organization or another party (Rousseau, 1989, 1995). The concept of the psychological contract is based in social exchange theory (Thibaut and Kelly, 1959; Blau, 1964), implying some mutually understood reciprocal agreement. It is based in the theory of voluntary transactions between parties and the social actions between them. The behavioural dimensions of the interactions of the two parties are critical to the process (Blau, 1964). The underlying focus of this research is in these behavioural exchanges. Rousseau (1995) and Rousseau and McLean Parks (1992) define two dimensions of psychological contracts (transactional and relational). In addition, they have provided a framework for continued work in the areas of psychological contract breach and violations. There appears to be a large gap in the area of psychological contract research and the IT industry (Davidson, 2002). IT professionals, especially in an outsourcing context, as an occupational grouping provide another area for research.

A key aspect of the psychological contract and its measure (Lester and Kickul, 2001) is that individuals voluntarily assent to make and accept certain promises as they understand them. The perception of a promise or implied agreement is the salient issue. The psychological contract is perceived as potentially idiosyncratic, and often unique to each person who agrees to it (Coyle-Shapiro and Kessler, 1998). The enhanced measure used in this research (Lester and Kickul, 2001) is based in psychological contract theory adapted from Rousseau's (1995) research and modified to fit IT organisations involved in outsourcing and the specific organisational contexts.

Transition Management

There is significant literature emerging in the area of transition management from a practical perspective. Bridges (1991) provided transition strategies from a behavioural perspective, but not specifically focussed in IT

or outsourcing. Buono, Bowditch and Lewis (1985), Buono and Bowditch (1989), Cartwright and Cooper (1990, 1992), and Olie (1990, 1994) contribute to the general acquisition/merger area. Recent literature has focused on the leveraging of intellectual and structural capital (Stewart, 1998 and 2001). Chaudhri and Tabrizi (1999), Quinn (1999) and Ranft and Lord (2000) all contribute practical and theoretical approaches.

Structural and intellectual capital in the high-tech acquisition area is a central concern of this research into the outsourcing transition of systems and staff. Marks and Mirvis (1998, 2000) and Frommer and Wikstrom (2000) provided practical transitioning perspectives. Ranft and Lord's (2000) work provides more theoretical grounding in the knowledge transfer area of acquisitions, as does Quinn's (1999) focus on knowledge leveraging in outsourcing.

RESEARCH METHOD

Research Questions

Our research focus is on the behavioural dimensions of the outsourcing and transitioning processes of systems, technology, and staff in order to better leverage intellectual capital. Based on the literature above, we were interested in several research questions.

- Are there any factors previously not considered in the psychological contract literature that are important to transitioning technical personnel? If so, what are they (e.g. technological factors)?
- What factors predict the establishment of a psychological contract, job satisfaction, and/or ongoing job commitment in transitioning technical personnel?
- Is there a discernable progression in the development of ongoing job commitment? We hypothesise a model of psychological contract before job satisfaction before ongoing job commitment. Can this model be supported?

The Research Context

This study was conducted in the context of a very large information technology services provider (called 'Techno' here). As part of an outsourcing agreement five years previously, Techno had acquired structural IT capital and IT personnel from a major telecommunications organisation (called 'Telco' here). Staff members outsourced from other organisational environments were also included in the study, but these were the minority of the participants. The outsourced staff worked at a number of different locations around Australia.

As part of the agreement for access to Techno and its staff, another aim of the study was to present Techno with some qualitative and quantitative evidence for changing their transitioning approach in the business outsourcing process. The aim of this research was to identify relevant factors and to provide some comparison between internal (non-outsourced) and outsourced staff at Techno.

The relational aspects of the outsourcing arrangements were examined using both qualitative and quantitative data gathered during interviews, focus groups, a survey, and follow-up focus groups. The initial interviews were conducted with various managers and served to get "the lay of the land", obtain managerial perspectives, and to formulate initial questions. The initial focus groups served to obtain more depth as well as the perspective of employees and to identify issues relevant to IT personnel unexamined in the psychological contract literature. The survey served to broaden and enable generalisation of the study, while obtaining detailed data suitable for quantitative analysis. The follow-up focus groups allowed us to seek qualitative (re-)interpretations of the quantitative findings. The use of this variety of techniques allowed us to obtain both generalisable quantitatively based findings as well as rich explanations of those findings. Analysis of the quantitative data used both descriptive and multi-variate techniques. The multiple sources and forms of data also enabled us to triangulate results between multiple perspectives (e.g. managerial and operational). Each of the forms of data gathering is described in more detail in the following sections.

Interviews

Qualitative research was used in the initial stages. Interviews were conducted with the Human Resources (HR) Manager, the HR Transition Managers, HR Operational Managers and Line Managers. These interviews served to establish the basis on which the outsourcing transitions were managed, what issues were of importance for staff in the context of the transitions, and further, what gaps appeared in the process of managing the transitions. Discussions centred on the relational and behavioural aspects of outsourcing and the items that appeared to be important at that time. Given the five-year lapse between the transitions and the research, many people involved had either left the company or moved into other positions and were not necessarily available for discussion. Management staff raised the issue of providing information for various items including superannuation schemes,

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leave entitlements and transferability, pay, benefits and remuneration issues. Little comment was made on work-related operational matters for transition. Transition managers suggested that these ‘hygiene’ factors were the issues that people asked about during a series of road shows co-ordinated and organised by Techno’s staff and/or consultants brought in for the transition purposes. A key comment both by operational human resource managers and line staff was that there was a significant problem during the transition and beyond of outsourced staff either not adjusting or ‘shifting’ their commitment from their previous employer; in essence not making a good psychological transition to the new organization. The research focus is in this area.

Initial Focus Groups

The initial focus groups were run in three locations in Australia. Included staff had been mainly outsourced from three environments, including Telco. Sometimes the focus group members were self-selected while others were invited by management or nominated as the only outsourced employees at a particular location. The purpose of the initial focus groups was to understand in depth the issues and processes that were important in the transition process. They also served as a triangulation mechanism alongside the management interviews.

Discussions were recorded and transcribed, but individual comments remain confidential. Questions focussed on issues of importance to transition, including organisational processes, work style Issues, work style processes, and lifestyle issues. The focus groups were run during lunchtime to avoid the impact on operational requirements. They were informal and consisted of directed questions related specifically to what occurred at transition and to ascertain, from the transitioned employees’ perspectives, what issues were important to them. Findings were used to enhance the survey instrument (discussed below). Items raised as matters of concern by employees included systems accessibility (lack of timely access), superannuation (different heritage schemes), trust (related to agendas and plans), methodologies (processes of doing things), management (conflicting interpretations of policy), change (not seen as happening quickly enough), remoteness (from decision-makers in Head Office), and increasing work hours (accounting for billable time).

The Survey

As with many outsourcing deals, individuals were offered either prospects of staying with Telco, redundancy, or transition to Techno. A key aspect of the psychological contract is that individuals voluntarily assent to make and accept certain promises *as they understand them*. An individual’s *perception* of a promise or an implied agreement is important. A survey was conducted at five of Techno’s sites (all within the one business unit) to develop more detailed information about the relevant factors and to attempt to correlate these factors with the psychological contract, job satisfaction, and ongoing commitment to Techno.

The survey instrument was based on standard measures of psychological contracts (Lester and Kickul, 2001) used in HR practice. The survey instrument was enhanced with additional items to elaborate issues of professional development, group processes, and technology systems interfaces, which arose during the interviews and focus groups. It was also important to measure these additional items in order to add to the standard instrument of the psychological contract literature by adapting it to IT personnel. Some items were standard to the measure in its pure form, but most individual items were rephrased both to ‘de-Americanise’ the content and contextualise it for the Techno organisation. The survey items were grouped under five categories: pay and remuneration issues (individual), job issues (individual), work processes (group), systems/technological issues (organisational) and culture and lifestyle issues (organisational/individual), each comprised of between 5 and 15 items. In total, the survey contained 50 independent variable items. Table 1 (below) shows the categories and items in the enhanced survey instrument used.

For each of the 50 independent variable items in the survey, the individual’s perceptions were sought on three things: (1) whether a promise was perceived to have been made by Techno at the time of transition, (2) the importance of the promise, and (3) the fulfillment of the promise. The first was simply a yes or no question. For the latter two, the respondents were asked to rate them on a Likert scale from 1 to 5.

The survey also included three dependent variable items (which we will call ‘focus’ variables) to measure the respondent’s (1) perceived job satisfaction, (2) personal commitment to the organization, and (3) overall psychological contract being met. These were also rated on a Likert scale from 1 to 5. The intent was to determine whether the fulfillment of the 50 psychological contract items, had strong or otherwise relationships with these three dependent variables. The use of quantitative measures of all items allowed us to perform this analysis.

Pay and remuneration issues (individual)		
Competitive Salary Pay for Performance	Leave Benefits Retirement Benefits	Tuition Reimbursement

Job issues (individual)		
Job security Well defined job responsibilities Challenging and interesting job Feedback on performance Reasonable workload	Opportunity to develop new skills Freedom to be creative Recognition of accomplishments Flexible work schedule Increasing work role responsibilities Job training	Job training Promotion and advancement opportunities. Continual professional training Opportunities for personal growth Career guidance and mentoring
Work processes (group)		
Co-operation & support from co-workers Cross organisation teams mix Participation in group decision making	Multiple project responsibilities Assignment to interesting projects Group support through collaborative technologies	Time for team development Resources for team development Self managed team environment Group performance measures
Systems/ technological issues (organisational)		
Enough technical resources to do job Web-enabled communication interfaces Access to HQ systems	Management interfaces with remote sites Mobile phone & voice mail accessibility Teleconferencing facilities	Video-conferencing facilities Web-casting facilities HRIS access and support On-line training & development
Culture and lifestyle issues (organisational/individual)		
Consultative and supportive Management Trust and respect Fair and just treatment of employees	Open and honest communication Consideration of employee needs Consideration of travel/ Commuting Consideration of lifestyle issues	Flexibility for outside work commitments Flexible work arrangements Induction & ongoing cultural training

Table 1: Survey independent variable items in Grouped Categories

It is important to note that measurement some 5 years post transition was not ideal. One of the critical limitations of the psychological contract measure could be the aspect of limited frames of reference. It is also important in reframing what exactly people remember about what was promised, how important it was at that time, and how and when it has or has not been fulfilled. It is pertinent to be cognisant of the relationship over a period of time and the organisational interventions, both through policy and programs, that have 'changed' or 'shifted' perspectives.

Follow-up Focus Groups

A second round of focus groups was conducted to follow up on issues that arose in the first round and from the survey. The purpose was mainly to clarify what 'promises' had been made to outsourced staff in transition. Questions in the second round were broader in scope and were based around transitions, projects and professions, and teams. They also served to understand the nature of the business unit much better.

ANALYSIS AND FINDINGS

Demographics

The survey response rate was 14.8%, with 250 complete responses (excluding 16 survey responses that were incomplete) from the survey sample of all 1700 operational IT employees of a single business unit distributed across five locations in Australia. The average age was 39.3 years and 28.8% of respondents were female. The average length of service with the vendor was 5.02 years. 51.7% of respondents were non-outsourced, with 48.3% outsourced or transitioned staff. Only responses from transitioned employees are used in the data reported below. No significant differences were found between locations, although ratings of the factor of treatment by management were significantly different at one location. Age was found to be positively related to ongoing job commitment, with older personnel being slightly more committed. No relationships were significantly dependent on gender.

Correlation of Item Ratings

In addition to the raw rating data gathered from each respondent on their perception of whether a promise was made (by Techno at the time of transition) about each item, the importance (to the respondent) of each item, and the perceived fulfilment of each item (by Techno), we also calculated the weighted fulfilment (i.e. the importance x the fulfilment) for each item for each respondent. All of these independent variables were regressed against the three dependent focus variables (psychological contract, the individual's job satisfaction, and ongoing commitment to the organisation) in order to identify correlations. Many items provided correlations significant at the .05 and .01 levels. In most cases the fulfilment ratings provided the strongest correlations. Therefore, we use the fulfilment ratings in comparing averages and in predicting the dependent factor variables. Further analysis of correlations, significance, and causal models would not fit within the space limitations of this paper and will be presented elsewhere.

Average Item Fulfilment Ratings

Table 2 lists the average fulfilment ratings of the items measured in the survey instrument, sorted from most fulfilled to least fulfilled. Techno performed well in terms of fulfilling these items across all employees. Items with an average fulfilment rating at or above a 3.0 (26 items) suggest that the perceived promise of the items was met very well (first column). However, the lower 7 items, falling below a 2.5 average are suggested as areas for improvement for Techno. Note that the specific items in Table 2 (below) are sometimes specific to the research context and that caution must be exercised in trying to generalise these results.

THE TRANSITION TO COMMITMENT

Figure 2 shows a Venn Diagram depicting the overlaps between the three dependent variables across the transitioned respondents. Each response with a rating of 4 or 5 on the Likert scale used in the survey was deemed as being a positive indication of the dependent variable. Summing each oval, overall, 61.51% of transitioned employees are committed, 75.2% are job satisfied, and 70.92% had their overall psychological contract met. A further 7.6% of respondents are deemed as unfulfilled, unsatisfied and uncommitted.

Survey Item Rank & Average Fulfilment			Survey Item Rank & Average Fulfilment		
1	Leave Benefits	3.86	26	Well defined Job Responsibilities	3.06
2	Flexible Work Schedule	3.81	27	Increasing Work Role Responsibilities	3.06
3	Co-operation & Support from Co-workers	3.80	28	Opportunity to Develop New Skills	3.03
4	Mobile Phone & Voice Mail	3.71	29	Web-enabled Communication Interfaces	2.98
5	On-line Training & Development	3.66	30	Freedom to Be Creative	2.94
6	Trust and Respect	3.59	31	Opportunities for Personal Growth	2.90
7	Fair and Just Treatment	3.57	32	Assignment to Interesting Projects	2.83
8	HRIS access and support	3.49	33	Promotion and Advancement Opportunities.	2.81
9	Consideration of Employees Needs	3.48	34	Job Training	2.80
10	Consideration of Lifestyle Issues	3.46	35	Group Support thru Collaborative Technology	2.74
11	Consultative/supportive Management	3.40	36	Participation in Group Dec. Making	2.73
12	Competitive Salary	3.39	37	Access to HQ Systems	2.71
13	Job Security	3.34	38	Cross Organisation Teams Mix	2.66
14	Reasonable Workload	3.33	39	Continual Professional Training	2.62
15	Enough Technical Resources to do the job	3.33	40	Management interfaces with remote sites	2.58
16	Open and Honest Communication	3.33	41	Induction & Ongoing Cultural Training	2.56
17	Flexible Work Arrangements	3.33	42	Retirement Benefits	2.55
18	Challenging and Interesting Job	3.32	43	Multiple Project Responsibility	2.55
19	Feedback on Performance	3.26	44	Career Guidance and Mentoring	2.50
20	Flexibility for Outside Work Commitments	3.25	45	Tuition Reimbursement	2.30
21	Consideration of Travel/Commuting	3.22	46	Time for Team Development	2.17
22	Pay for Performance	3.11	47	Resources for Team Development	2.11

23	Group Performance Measures	3.09	48	Web-casting Facilities	1.88
24	Self Managed Team Environment	3.08	49	Teleconferencing Facilities	1.77
25	Recognition of Accomplishments	3.07	50	Video-conferencing Facilities	1.65

Table 2: Average Fulfilment Ranks of Psychological Contract Components for Transitioned Staff (n.b., Areas highlighted for improvement are toward the bottom of the second column.)

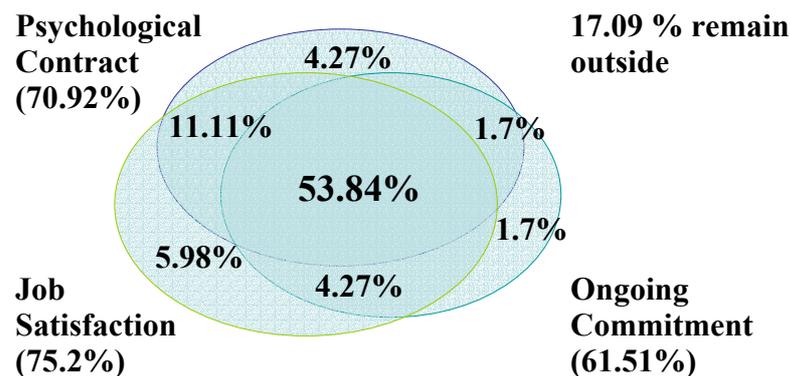


Figure 2: Venn Diagram showing overlaps between the three Focus Variables for transitioned employees

The focus variables strongly overlap with each other but for some respondents they were independent in unexpected ways. When entering this research, we theorised *a priori* that, in transition, outsourced employees would progress through stages toward commitment, where they would first develop a psychological contract, then later develop job satisfaction, and finally develop ongoing commitment, as shown in Figure 3. If this progression were 100% true, those intersections above that show only job satisfaction (5.98%), only ongoing commitment (1.7%), job satisfaction and ongoing commitment (4.27%), and psychological contract and ongoing commitment (1.7%) would all be zero instead. Thus, 13.65% of respondents do not fit this model (but 86.35% do).

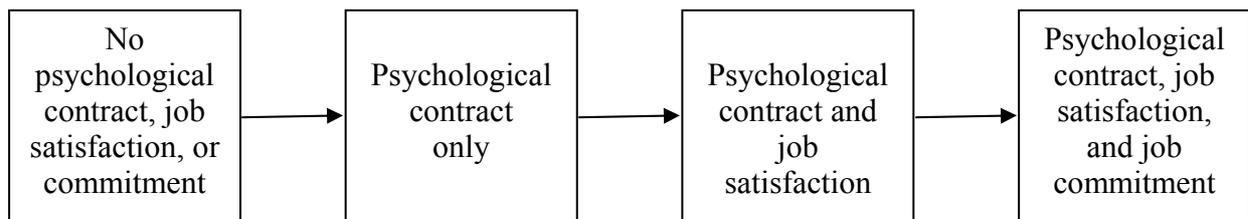


Figure 3: A priori hypothesised transition model

Moreover, if we consider that 5.98% of respondents reported job satisfaction only, while only 4.27% reported psychological contract only, an alternative transition model including the development of job satisfaction before development of the psychological contract (as shown in figure 4) has a better fit (but only slightly), explaining 88.06% of respondents. Note that this model is only slightly better than the *a priori* model.

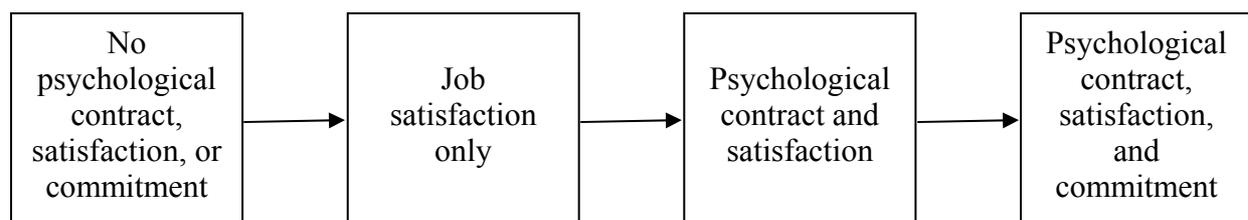


Figure 4: Best fit transition model

IMPLICATIONS FOR PRACTICE

As far as Techno is concerned, from analysing the items performing poorly in average fulfilment (see Table 2), there appears to be a need to enhance the support for project environments that are characteristics of the business unit studied. Project teams need to be better supported in terms of time and resources and a greater focus is needed in developing mechanisms to foster cross-organisation team mixes. Technical resources also need to be improved. Furthermore, it was acknowledged both by HR staff, line managers and employees during Focus Groups that there were certain expectations about Techno's capabilities with the systems and technology infrastructure that had not been met. This can be interpreted as inadequate transition preparation in outsourcing involving information technology. Of course, different organisational situations may have different transition needs than those highlighted by this research Techno.

The general area of outsourced employees' transition to commitment needs careful and ongoing management. In particular, the 17.09% of the transitioned employees whose overall psychological contracts were not met, had no job satisfaction and had no commitment need considered attention. More investigation into the different types of organisational commitment and a further developed job satisfaction survey would clarify issues in this area for all staff employed. Researching the organisational commitment of transitioned staff on a longitudinal basis would enhance practical transition management strategies.

FURTHER RESEARCH AND CONCLUSIONS

The study provides some useful initial evidence related to the behavioural aspects of outsourcing in the high-tech sector in Australia. It also provides initial interesting results in the differing Fulfilment Index for outsourced and non-outsourced employees. Regression analysis indicates a number of items need to be focussed on for management consideration of fulfilment of psychological contracts. Related to this are the findings of the initial hypotheses testing, using regression analysis, regarding the independent focus variables in the study. These outcomes provide conflicting evidence, albeit small, on psychological contract theory.

Further study will be needed across the area of the Focus Variables in order to more adequately explain the variation. Additionally, the findings suggest that there is little variance across the two cohorts, the transitioned and non-outsourced staff, in this area. The implications for different practical transition management are not so clear cut. Based on the study, from qualitative and quantitative evidence, it appears there are issues in the transitioning and integration areas of organisation for the staff that need further investigation. Further statistical analysis needs to be undertaken in the area of Factor Analysis and regressions to establish relationships between the three Focus Variables. This should give clearer guidance on transition management and substantiate initial findings. The study does provide significant qualitative and quantitative evidence of the behavioural and relational dimensions involved in managing outsourcing arrangements. For the client, it provides food for management thought.

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