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# Evaluating Relational Taxonomies of IT Offshoring and IT Offshoring Success: When Success and Failure are One and the Same

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## ABSTRACT

When can an information technology (IT) offshoring relationship be considered a success and failure at the same time? The literature is rich with offshoring relationships that have been described as being successful or as a failure. However, success or failure is often in the eye of the beholder. When evaluating offshoring success we propose that both process and outcome criteria be considered, where offshoring outcomes can be evaluated as a “failed success” (process success + outcome failure), or as a “successful failure” (process failure + outcome success), in addition to pure successes and failures. Building on buyer-seller relationship research, this dissertation develops dimensions that characterize the manner by which offshoring clients and vendors relate and evaluate their IT offshoring relationships. The dissertation will develop an empirically based classification of different types of offshoring relationships and investigate if success and failure depend on the emergent offshoring relationship taxonomy.

## Keywords

IT Offshoring, Outsourcing, Success, Failure, Outsourcing relationships

## INTRODUCTION

IT offshoring refers to an extension of IT outsourcing where the responsibility for management and delivery of information technology services is delegated to a vendor who is located in a different country from that of the client (Sabherwal, 1999). It must be pointed out that throughout this dissertation we will be using the terms IT outsourcing and IT offshoring interchangeably, since IT outsourcing and IT offshoring are similar in their overall definition with the location of where the work is being performed distinguishing between the two terms. We also recognize that there are factors unique to IT offshoring (i.e. culture, legal systems, etc.), which will be considered throughout the dissertation. However, where a specific distinction between the outsourcing and offshoring term is needed we will use the appropriate term. IT offshoring has received increased attention recently and rightfully so given the controversy it generates. However, despite the controversy generated by IT offshoring, it is evident that IT offshoring is not going to disappear in the foreseeable future. Gartner predicts that 25% of traditional IT jobs in developed countries will be offshored to emerging markets by 2010. Spending on IT offshoring was estimated to be \$16 billion in 2004 and is expected to grow to \$46 billion by the year 2007 (Surmacz 2004). Clearly, IT offshoring is an irreversible trend, and an increasingly important issue within the IS discipline requiring increased attention.

Even though an abundance of research has examined various aspects of domestic outsourcing, the lessons learned cannot necessarily be applied directly to offshoring since offshoring encompasses the complexity of international environments absent in domestic outsourcing. These inherent complexities may make the relationship between the vendor and client even more critical to success. The potential interplay of these environments complicates offshoring and thus highlights the need to address the relative lack of research in this area. In addition, despite over a decade of research into IT outsourcing and now the emerging offshoring environment, we still lack a consistent model to explain outsourcing/offshoring success or failure. This leads us to the following research questions:

1. How can IT offshoring relationships be classified based on client-vendor relationship dimensions?
2. What are the key relationship dimensions that impact success of an offshoring relationship?
3. What are the relationship dimensions that contribute to offshoring failed-successes and successful-failures?
4. How should IT offshoring relationship dimensions be managed in order to ensure offshoring success?

## WHAT IS OFFSHORING SUCCESS?

Currently there is a lack of a common agreement among IS researchers as to what IT outsourcing success represents (Dibbern, Goles, Hirschheim, and Jayatilaka, 2004; Lee, Miranda and Kim, 2004), and inherently a lack of agreement for defining the IT offshoring success construct. The use of inconsistent outsourcing success constructs limits the opportunity for comparison among existing studies and challenges research to be able to build upon the body of knowledge. Dibbern et al. (2004) attribute disparate conclusions on outsourcing success in part to the lack of an accepted outsourcing success construct. In addition, Lee et al. (2004), suggests that the metrics of outsourcing success needs further development: “As outsourcing grows in complexity, researchers need to develop more sophisticated metrics to assess the success of outsourcing ventures” (p. 127). The complexity of the initiative and varied user perceptions contribute to the challenge of agreeing upon a uniform definition of IT outsourcing success. Lacity et al. (1996) found that the criteria that primarily drove an organization’s perception of success varied between organizations. Lacity and Willcocks (2001) state that the outsourcing outcomes are more appropriately assessed relative to each organization’s goals rather than assuming that all organizations under study want the same things to the same degree (i.e. cost savings). Grover, Cheon, and Teng (1996) define outsourcing success as the satisfaction with the benefits derived from outsourcing that are gained by an organization. With this variance, researchers have been challenged to identify a consistent construct for addressing outsourcing success that can be applied throughout. Criterion measures of outsourcing success would allow researchers and practitioners to compare an organization’s level of outsourcing success and determine what factors are significant to achieving outsourcing success.

However, success is a multi-dimensional construct that is only meaningful if discussed from the point of view of a given stakeholder (Seddon, 1997). Different stakeholders will have different evaluations of outsourcing success (Lacity and Willcocks, 2001). Thus, when evaluating IT outsourcing success one must remember that success is in the eye of the beholder. When evaluating outsourcing success the objective is to develop an indicator of success based on participants perceptions of whether the outcome of their IT sourcing decisions met their expectations (Lacity and Willcocks, 1998). As a result, different stakeholders will have different evaluations of outsourcing success (Lacity and Willcocks, 2001). Therefore, the success of an offshoring relationship must be examined based on the view of the stakeholders involved, both client and vendor firms, and thus requires the balancing of the conflicting needs of the client and vendor organizations while ensuring that the outcome is beneficial and satisfactory to all.

## PROCESS VS. OUTCOME SUCCESS

Previous research has failed to distinguish between process-oriented success (high trust, commitment, benefit and risk sharing, fewer conflicts), and outcome-oriented outsourcing success (cost saving, competitive advantage gain, high user satisfaction) (Lee and Kim, 1999). Project management research suggests that when evaluating project success both process and outcome criteria should be included in order to evaluate project success (Nelson, 2005). Similarly, IT offshoring success can be considered in the project management realm of evaluating IT offshoring success and benefit from a process and outcome perspective (Figure 1). When both process and outcome criteria are considered a more comprehensive view of offshoring success can be obtained, where success can imply failure and vice versa. In this research a “failed-success” implies that an offshoring initiative is perceived as successful from the process perspective (i.e. achieved a level of trust, shared benefits/risk), but could be or is seen as a failure from the outcome perspective (i.e. lack of cost savings). A “successful-failure” will be defined as an offshoring initiative that is perceived to have failed on the process criteria (i.e. lack of trust or commitment) but seen as successful according to outcome criteria (i.e. cost savings achieved, user satisfaction). Many projects would be judged to have failed at least one of the process or outcome criteria based on a review of previous research. By incorporating both the process and outcome stakeholder evaluations of outsourcing success a broader understanding of outsourcing success will emerge.

## RESEARCH MODEL

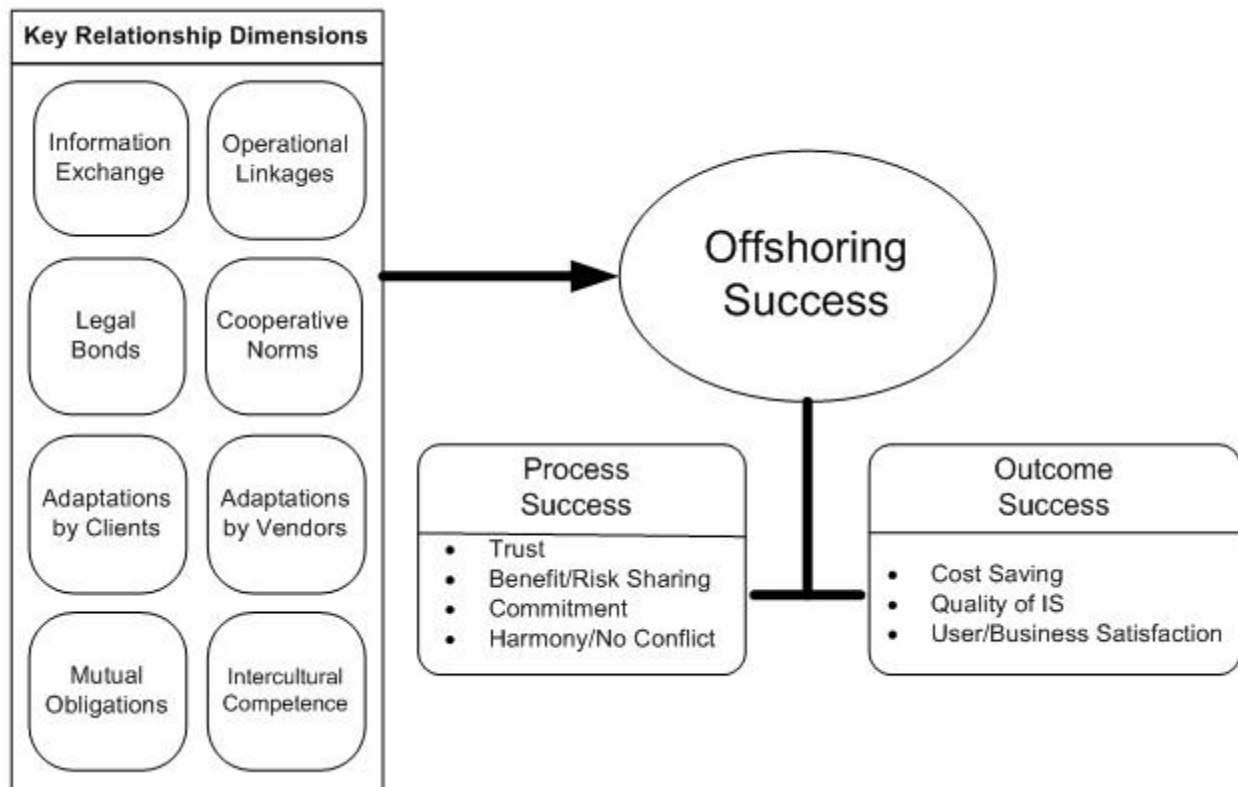


Figure 1. Key Constructs Relevant to IT Offshoring Relationship Success

## THEORETICAL BACKGROUND

In order to structure the concept of outsourcing success through a process and an outcome perspective, relationship and economic theoretical frameworks will be introduced. Based on our separation of outsourcing success into process and outcome successes a series of theoretical thought can be combined to explain the resulting perception of outsourcing success. In an economic explanation of exchange, the most efficient relationship structures are those that enable firms to remain independent, use the market, or gain control to exploit their power over partner firms. The key variables in the economic school of thought are price, power, risk avoidance and opportunism. If these are present to a high degree in a relationship, it is unlikely that mutuality and collaboration will exist. The economic schools of thought will focus on the outcome evaluations of outsourcing success. In this research transaction cost theory (TCT) (Williamson, 1975) will be used to examine the economic aspects of IT outsourcing. In TCT, cooperation is seen as a marketplace imperfection and necessary only to the extent that it facilitates the transaction. The transaction approach focuses on the transaction efficiency of the exchange relationship. Relationships are only efficient in an inter-organizational market exchange when they represent a cost efficient management structure. Additionally, a resource based view (RBV) (Barney, 1991) of the firm will be applied to frame the view of the IT outsourcing relationship as a valuable resource to be leveraged by the firm to achieve competitive advantage.

The other frameworks, which are based more on the process and the behavioral relationship brings history, social structure and interdependence into the study of relationships. These behavioral schools of thought will dominate one's perception of process outsourcing success. Theoretical schools of thought that will structure the process success framework include social exchange (Cook and Emerson, 1978) and a relational view of the firm (Dyer and Singh, 1998). Behaviorists have focused on the social processes of exchange, whereas economists focus on the transaction content. The behavior or process variables are characterized in research studies to consist of trust, commitment, cooperation, mutuality and equity and will be included to provide additional insight into the impact relational factors have on process and outcome offshoring success.

## KEY RELATIONSHIP DIMENSIONS AND THEIR IMPACT ON OFFSHORING SUCCESS

Recent outsourcing literature suggests that outsourcing is more relational in nature rather than the terms delineated through the formal contract. The main differentiator between success and failure of an IT outsourcing agreement may be the relationship between the outsourcing vendor and the outsourcing client (Feeny, Lacity and Willcocks, 2005; Kern and Willcocks, 2001, 2002; Lee and Kim, 1999, 2005; Willcocks and Kern, 1998). Outsourcing customers recognize the limitations of legal contracts and have begun to seek flexible relationships with their service providers based on relationships and mutual trust (Lee and Kim, 2005). As the scope of offshoring explodes, relationship management will be a key to achieving offshoring success.

Relationship Dimensions	Definition
<b>Information Exchange</b>	Information exchange is defined as expectations of open sharing of information that may be useful to both offshoring parties.
<b>Operational Linkages</b>	Operational linkages capture the degree to which the systems, procedures, and routines of the offshoring vendor and client organizations have been linked to facilitate operations.
<b>Legal Bonds</b>	Legal bonds are detailed and binding contractual agreements that specify the obligations and roles of both parties in the relationship.
<b>Cooperative Norms</b>	Cooperative norms reflect expectations the two exchanging parties have about working together to achieve mutual and individual goals jointly.
<b>Adaptations by Offshoring Client</b>	Relationship-specific adaptations are investments in adaptations to process, product, or procedures specific to the needs or capabilities of an offshoring vendor.
<b>Adaptations by Offshoring Vendor</b>	Relationship-specific adaptations are investments in adaptations to process, product, or procedures specific to the needs or capabilities of an offshoring client.
<b>Mutual Obligations</b>	Include the psychological contract, describing an individual's mental beliefs about his or her mutual obligations in a contractual relationship, which are not formally and explicitly stated.
<b>Intercultural Competence</b>	Consists of: relational competence (a managers ability to develop interpersonal relationships with culturally different business counterparts), conflict resolution competence (management requires sufficient knowledge of culturally different approaches to conflict), and commercial competence (a managers ability to produce agreement with his or her counterparts from other cultures).
Cannon and Perreault (1999), Koh, Ang, Straub (2004), Dyer and Singh (1998), Huang, Rayner and Zhuang (2003)	

**Table 1. Key Relationship Dimension Definitions**

In order to classify the client vendor relationships inherent in the IT offshoring relationships we will follow a similar approach to Cannon and Perreault (1999) in specifying the underlying dimensions that characterize the manner in which offshoring clients and vendors relate to and conduct offshoring relationships. Relationship dimensions (Table 1) reflect the behaviors and expectations of action in the client-vendor relationship. Relationship dimensions have emerged in the outsourcing literature as a key to achieving outsourcing success (Feeny, Lacity and Willcocks, 2005; Kern and Willcocks, 2001, 2002; Lee and Kim, 1999, 2005; Willcocks and Kern, 1998). In view of the space constraints of this abstract submission, only the relationship dimension of mutual obligations will be briefly expanded on to demonstrate the relationship between mutual obligations and offshoring success. Mutual obligations are represented through a psychological contract (referring to an individual's mental beliefs about his or her mutual obligations in a contractual relationship). These mutual obligations may not be formally stated in the offshoring contract, but be expected to be fulfilled based on perceived promises in the reciprocal exchange. The underlying principle is that outsourcing success requires that customers and suppliers understand and fulfill their mutual obligations. These mutual obligations by definition may directly impact process level success evaluations through a greater feeling of trust, commitment or risk sharing between client and vendor. Sample mutual obligations from a client perspective include: clear authority structures and effective interorganizational teams. Sample mutual obligations from a vendor perspective include: clear specifications, and close project monitoring. These mutual obligations are a key ingredient in the IT outsourcing relationship, where the perceived fulfillment of the mutual obligations between the client and vendor explained a significant amount of the variance in perceived outsourcing success (Koh, Ang, Straub, 2004).

Based on our investigation of the key relationship dimensions, a number of meaningful taxonomies of relationship dimensions may emerge based on the key client-vendor relationship dimensions. These emergent classifications based on the

key relationship dimensions identified in the literature will be applied to identify the critical relational dimensions requiring effective management to ensure offshoring success.

## CONCLUSION

IT offshoring is clearly a phenomenon that will not disappear in the near future. To expand our knowledge of IT offshoring, the goal of this research is to identify and classify different emerging types of IT offshoring client-vendor relationships and identify the link between IT offshoring relationship categories and levels of offshoring success. Such knowledge could provide substantive insight into how IT offshoring relationships can be planned and addressed by managers to result in higher levels of success for all involved stakeholders.

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