The Impact of the IT Outsourcing Relationship on the Success of the Venture: A Research Agenda

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Abstract

The paper proposes a conceptual model based on the Interaction Approach - a relationship framework that is used to further engage research into IT outsourcing relationships. It is the nature of interactions and the exchange processes embodied in the social aspect of the relationship that is the focus of this paper. By drawing on an extensive literature review of outsourcing research the paper offers to advance knowledge and understanding of IT outsourcing relationships. The framework is advocated as the most appropriate instrument for the management of and investment in outsourcing relationships in the contemporary business environment. The aim is to generate scholarly discussion and to set a research agenda, not to offer definitive answers. Several research studies have emphasized the importance of the outsourcing relationship for outsourcing success yet they lack the clarity about how relationships could be managed effectively and leveraged for business advantage. This paper addresses this gap in IT outsourcing literature and argues that it is in the creation of social capital - how the actions, attitudes, consensus and cooperative mechanisms of management and staff in interaction with their counterparts in partner organizations - influence and affect the outsourcing relationship and the evolving social structure that determines success in the venture.

Keywords: Outsourcing relationships, outsourcing success, social capital, interaction approach.
1 INTRODUCTION

This conceptual paper proposes a research agenda to explore the information technology outsourcing (ITO) relationship between the client and vendor organizations to understand the impact of the relationship on the success of the venture. ITO decisions abound with little consistency or agreement amongst studies of the phenomenon (Willcocks et al. 2006); hence it is important that we begin with a clear definition of the phenomenon. We define IT outsourcing as the practice of contracting for mutual benefit and exchange, an organization’s IT assets, people and/or activities to one or more third party vendors contractually charged with the provision of some or all of the organization’s IS functions (processes or services) for monetary payments over an agreed, future time period (Kern et al. 2002, Kern and Willcocks 2002, Goles and Chin 2005). Our definition emphasizes neither the client’s nor the vendor’s perspective yet makes clear that the outsourcing arrangement is a relationship based on inter-organizational exchange characterized by a series of ongoing interactions.

Our definition further emphasizes that the outsourcing relationship is the manifestation of the underlying philosophy of the contract, which stipulates the roles to be played by each party; yet remains limited by virtue of its uncertainty about the unknowable future (Goles and Chin 2005). We therefore define the outsourcing relationship as an ongoing future-term linkage between an outsourcing vendor and client arising from a contractual agreement to provide one or more comprehensive IT activities, processes, or services whereto the benefits attained by each firm are at least in part dependent on the social bonds created through interaction between each other (Goles and Chin 2005, Jahner et al., 2006). Implicit in our definition is the notion that an IT outsourcing relationship is an inter-organizational arrangement for the exchange of IT services (Gottschalk 2006).

1.1 A Brief History of Research into the Outsourcing Relationship

The IT research literature records the decision by Eastman Kodak during 1989-1990 to outsource its IT services provision to a consortium led by IBM as a landmark event in the evolution of the phenomenon that is IT outsourcing. The ITO literature as a genre got its official start in 1991 (Willcocks et al. 2006); since then there have been numerous studies that document the motivation for outsourcing; numerous conceptual models for understanding when firms should outsource; what the scope of the outsourcing should be; how firms should outsource; outsourcing best practice; etc. Seddon et al. (2007) identify ten studies or categories of study that illustrate the range of insight into IT outsourcing, of which the sixth identifies the four main theoretical bases underpinning most IT outsourcing research. One of these theoretical bases is identified as social exchange/trust/relationship theories which form the focus of this paper.

ITO literature in the period from 1995 to 2000 was characterised for example, by studies related to the management of IT outsourcing alliances (McFarlan and Nolan 1995, Kern 1997); cooperative partnerships and strategic alliances (Willcocks and Choi 1995) and the effect of service and partnership quality on ITO (Grover et al. 1996). McFarlan and Nolan (1995) identified that success in ITO ventures was determined by managing the relationship less as a contract and more as a strategic alliance. Willcocks and Choi (1995) built on this concept of strategic alliance in examining how relationships evolve and the degree to which relationships might be sustainable within the context of total IT outsourcing. Their study combined the business strategy and IS literature within a conceptual framework of cooperative or strategic partnership.

Kern (1997) acknowledged previous studies (Klepper 1995, McFarlan and Nolan 1995, Willcocks and Choi 1995 and Willcocks and Kern 1997) as the only research up to 1997 to explicitly recognise the importance of the ITO relationship and to have attempted an explanation at partnering in IT outsourcing. Kern’s (1997) study, in turn, marked a significant break in ITO research which examined the effect of partnership quality on ITO success from just the client’s perspective. Kern (1997) focused
his study on the dyad as characteristic of relationships in IT outsourcing, however his study lacked the insight to be gained through the construct incorporation of a rapidly changing external environment in which the organizations in his unit of analysis functioned and operated. The relevance of the associated contextual factors is important for the experience of outsourcing should not be examined in isolation of the wider business imperatives, such as different market and business conditions existing in a given time period (Currie 1998).

So, despite the recognition of the importance of the relationship dimension in business-to-business interaction, as evident in the business and management literature of the time - the start of the current millennium - IT literature paid scant attention to the criticality of the outsourcing relationship which in consequence led many researchers to understate the value of the relationship dimension in IT outsourcing (Kern and Willcocks 2000). This marked a period of significant weakness in the area of outsourcing relationships both in IT literature and outsourcing arrangements, that in part, led to the failure of approximately 35% of total outsourcing arrangements up to 2000 (Kern and Willcocks 2000). To understand the outsourcing relationship required more than solely an economic view (Kern and Willcocks 2000; Hutt et al., 2000); hence the concept of human capital came to the fore with research focused on specific managerial capabilities to accommodate the new organizational forms emerging through the phenomenon of ITO. This marked a gradual shift in the governance of organizational IT infrastructure away from pure hierarchical mechanisms toward hybrid and partnership modes (Loh and Venkatraman 1992). In their seminal paper which sought to explore the sources of influence in the adoption of IT outsourcing, Loh and Venkatraman (1992) acknowledged the relevance of incorporating the effects of social structure to explain diffusion of IT outsourcing, for example, they state that diffusion of IT outsourcing within the US economy may be channelled by structural characteristics of the social relations that link adopters of the phenomenon.

Adopting such a social system perspective, Kern and Blois (2002) posited that the nature of social relations and exchanges that occur between people within business relationships can vary a great deal, for example, the relationships at senior levels may be more relaxed than relationships at a junior level or vice-versa. Kern and Blois (2002) go further to state that the roles people play in organizations may strongly influence the interactions that occur. That is to say, more efficacious negotiation appears to result when the counterpart teams of both organizations are comprised of people of similar roles and designations, such as IT managers and IT managers, lawyers and lawyers, etc. This signified that values of professions and common language may be more important than the organizations’ view of the relationship (Kern and Blois 2002).

Thus we had two prevailing perspectives that characterised most IS research into IT outsourcing, namely an economic view and a partnering view however all proved mostly inconclusive (Kern and Willcocks 2002), as IT outsourcing research neglected the relationship dimension and focused on determinants, costs, benefits, the decision process, vendor selection and contracting (Kern and Willcocks 2002). In addition to providing a rich background context, these streams of research produced a number of interesting challenges. For example, the IT literature and business and marketing literature discuss relationships in different contexts (for example dyadic relationships in IT literature and networked relationships in business literature); yet the different streams of research tie together the underlying similarities in the phenomenon of IT outsourcing relationships, that are not normally associated with each other. This paper therefore seeks to integrate and leverage the knowledge potential to be gained from multiple streams of research to the phenomenon of IT outsourcing.

2 PHENOMENON OF IT OUTSOURCING

Although we attribute the Kodak-IBM outsourcing deal to mark the beginning of IT outsourcing, the phenomenon of outsourcing itself is not really new. Its roots can be traced back to the traditional time-sharing and professional services of the 1960s and 1970s (Grover et al. 1996). The practice of outsourcing, historically, has arisen through numerous businesses having enlisted the help of outside
experts to assist with tasks too cumbersome to complete in-house (Hormozi et al. 2003). Tasks such as facilities management which involved high externalisation of human resources, and time sharing which involved high externalisation of technical resources had been around since the 1970s (Cheon et al. 1995).

Yost and Harmon (2002) attribute Enrol Corporation with having initiated the first significant IT outsourcing relationship in a deal worth US$750 million in 1989, followed by the Kodak-IBM led consortium’s US$250 million contract in 1990. Total worldwide expenditure on IT Outsourcing exceeded one trillion US dollars in 2001 and was predicted to grow at about 10% per annum compound (Seddon et al. 2002). A recent study by Seddon et al. (2007) suggests that IT outsourcing revenues worldwide were in excess of US$200 billion by the end of 2005.

The economic impact of IT outsourcing is certainly huge, and IT outsourcing has become a major IS phenomenon; it is recognised as an important means of managing IS, as evidenced by the ever increasing trend in large-scale outsourcing deals today.

3 IMPORTANCE OF THE OUTSOURCING RELATIONSHIP

The selection of the relationship dimension in IT outsourcing as the focus of this paper derives from the lack of a consistent understanding and presentation of the characteristics and dynamics of outsourcing relationships in the current literature (Kern and Willcocks, 2002, Goles and Chin 2005). Given the rising number of long-term outsourcing contracts there exists a critical need for research into the relationship issue of IT outsourcing (Klepper, 1995; Kern 1999).

Better relationships lead to greater net benefits from ITO (Alborz et al., 2004); thus maintaining positive client-vendor relationships is critical to achieving benefits from ITO. Many outsourcing deals fail to live up to their expectations (Jahner et al., 2006) with failure deemed to be a result of failed outsourcing relationships (Logan, 2000).

Several studies have emphasized the importance of the outsourcing relationship for outsourcing success yet little research is directed toward a thorough examination and analysis of outsourcing relationships (Jahner et al., 2006). The many empirical studies of ITO arrangements point to practitioners’ intellectual acknowledgement of the importance of relationships (Kern and Willcocks, 2002), yet lack the clarity about how relationships could be managed effectively and leveraged for business advantage.

4 A RESEARCH CHALLENGE

The IT outsourcing research to date has acknowledged the criticality of the relationship to the success of the venture. Where the relationship dimension in previous IT outsourcing research comprised its main construct, the outcome was a presentation of a number of normative management pointers isolated from the context of the outsourcing relationship taken as a whole (Kern and Willcocks 2000). The recognition of the embedded business contexts within which IT outsourcing relationships are forged today has led many researchers to new challenges that have emerged in consequence. One of those issues and challenges, identified in the IT literature and particularly relevant to this paper is: ITO entails the externalization of a client organization’s people, systems and institutional knowledge, the very human and structural components amongst which the organization’s intellectual capital is created. How then does outsourcing represent a greater advantage to the client, given today’s trend of increasing outsourcing deals? (Willcocks et al., 2004) Is it the client organization’s attempt to duplicate the imperfectly observed success of others? (Loh and Venkatraman 1992); or are client organizations encouraged, for example, by supplier rhetoric offering a streamlined service at reduced costs (Currie and Willcocks 1998). There is a real need to discard myths and simplistic belief in outsourcing arrangements and to develop acumen about claimed benefits (Cullen et al., 2005).
5 RESEARCH FOCUS

We adopt the Interaction Approach which is based on social exchange theory, as a launch pad for exploratory investigations into client-vendor relationships in IT outsourcing. This ‘launch-perspective’ on the relationship dimension in ITO is complemented by combining elements of agency theory (based on economics) and social capital theory to explore the phenomenon in greater depth.

This paper is structured in agreement with Kern and Willcocks (2002) that the disregard of the relationship dimension in IT outsourcing research seems paradoxical as the relationship’s impact on the overall outsourcing venture makes the difference between success, less success and even failure. The situational context in which the outsourcing agreement is forged represents the environment aspect of the Interaction Approach. Specifically, we define the environment as the arena typically referred to in the business literature as mergers and acquisitions. Unanticipated events such as changes in business direction or the replacement of the CEO/CIO or board members, which can result from mergers and acquisitions, eat into the health of an outsourcing deal (Cullen et al., 2005).

Taking its cue from Hakansson and Snehota (1995) this paper focuses on the ‘structural’ (that is, the importance of the outsourcing contract) as well as the ‘process’ aspect of the outsourcing relationship, where by the term ‘process’ we refer to specific connections in the relationship between vendor and client and which are characterised by the context of the interactions, social bonds, exchange processes, combination capability, etc., for how these connections are handled matters greatly for relationship development and ultimately for success in the venture.

6 RESEARCH OBJECTIVE AND QUESTIONS

With this focus, our objective is to understand the impact of the outsourcing relationship on the success of the venture. We want to understand the formation, on-going interaction and dissolution of outsourcing relationships. We seek to investigate the shared norms and interests of the outsourcing partners that influence their interaction leading to success in the venture.

Our overall research question is:

How does the outsourcing relationship between the vendor and the client organizations impact each party’s recommitment to the deal?

The research question leads to a number of sub questions:

1. What are the factors of exchange and combination that shape and develop the client-vendor outsourcing relationship?

   Before investigating the impact of the outsourcing relationship, it would be prudent to understand the factors that constitute exchange and combination as indicators for harmony of interests between the parties and to which both parties ascribe equal significance. Also, to gain insights into how these factors contribute to the development, evolution and decay of the outsourcing relationship.

   Second, a definitional question to understand the concept of success in IT outsourcing:

2. What constitutes success in IT outsourcing?

   And consequently:

2a. How does ‘recommitment to the deal’ by the vendor and client parties imply, the measure of success in IT outsourcing ventures?

   We use pointers in existing research to explore the concept of success in IT outsourcing.
Thirdly, from the main research question we derive a more exploratory and descriptive sub-question. The goal is to describe the phenomenon of IT outsourcing and the ensuing relationship dimension together with its predictive probability for determining success in the venture (Yin 1994).

3. What is the impact of the outsourcing relationship on the success of the venture?

The question seeks to explore and describe the effects of the relationship quality on the ability of the parties to work together in making a success of the venture. The final and main question representing causal inquiry (Yin 1994) is explanatory. That is, the focus is on some real life phenomenon, set in current times, and over which the researcher has no control, in terms of the development of events (Yin 1994).

4. How does the outsourcing relationship between the vendor and client organizations impact each party’s recommitment to the deal?

This question focuses not only on explaining, but also exploring and describing the impact of the outsourcing relationship. We seek to understand how the success of the outsourcing venture, measured in terms of each party’s recommitment to the deal, is affected or conditioned by the combination and exchange capability acting in concert with institutional logics of harmonious behaviour between the client and the vendor.

7 NATURE OF THE RESEARCH QUESTIONS

The research is aimed at understanding a contemporary phenomenon within a real life context; consequently the main research question is explanatory in nature. This is because the question deals with a series of interactions as operational links that are traced over a period of time, to understand its impact (Yin 1994). Given this research direction and the research rationale, we adopt a complementary exploratory nature of enquiry that underlies the main explanatory case study approach (Yin 1994). A systematic interviewing technique is proposed as a research strategy for examining the contemporary phenomenon over which the researcher has no control.

8 RELEVANCE OF THE RESEARCH

With changing business environments, the locus of value creation no longer resides within the boundaries of a single firm, but occurs instead at the nexus of relationships (Gottschalk 2006). Many alliances failed to meet the rich expectations of future prosperity, because little attention was given to nurturing the close working relationships and interpersonal connections that unite the partnering organizations (Hutt et al. 2000). Economic theories of exchange virtually ignored the role of people and their importance in the management of inter-organizational relationships, with human or people factors appearing to remain unconsidered or at worst, dismissed in the research tradition (Hutt et al. 2000). An economic view is therefore wholly insufficient to explain the outsourcing relationship; we need an understanding of the exchange events from an individual’s stand point (Kern and Willcocks 2000). This understanding of the outsourcing relationship is critical as it comes about not only through the operationalisation of the contract, but also as a natural consequence of the resulting issue of dependency (Kern and Willcocks 2000). Clarifying the different expectations and capabilities to be leveraged from the outsourcing relationship is a crucial pre-condition of a successful partnership for both the client and vendor organizations (Jahner et al., 2006).

Thus an understanding of the management issues surrounding the client-vendor relationship is of paramount importance to the success of the undertaking (Kern and Willcocks, 2000). The value of this research is therefore realized in the practical contribution to be achieved, for example, in providing management advice to vendor and client organizations which require guidance, when it comes to developing contracts and relationships because “… knowing what defines a relationship will not only improve our understanding, but also ensure effective planning and management by enabling
practitioners to focus their attention on particular dimensions that are critical to the relationship” (Kern and Willcocks, 2002). The evolution of IT outsourcing as a management option to handle today’s extensive information management agenda is beset with lessons of best practice however a theoretical underpinning of the phenomena is clearly lacking (Kern, 1997); this paper however is underpinned by a strong theoretical basis that serves to emphasize the relevance of the research.

9 THE INTERACTION APPROACH TO STUDY ITO RELATIONSHIPS

The application of the dyadic ‘interaction approach’ (IA), (originally developed by Hkansson, 1982), delineates the context, parties, structure, interaction and behavioural dimensions of the client-vendor relationship. Kern and Willcocks (2002) advocate the use of this ‘interaction approach’ to launch an investigative analysis into IT outsourcing relationships, as the IA is based on the economic and sociological foundations that provide a comprehensive, consistent and holistic set of constructs to study the relationship dimension in IT outsourcing. As Kern and Willcocks (2002) state: “applying the interaction approach shows that there is always a complex relationship dimension that needs to be managed if IT outsourcing is going to be effective”.

The IA is comprised of a pattern of interactions, characterised by an exchange process which in turn is characterised by a rather precise focus on the interactions that define and pervade business relationships and takes place as interactions within the context of ‘atmosphere’ and ‘environment’, between the client and vendor parties. Kern and Willcocks (2002) have found the exchange process to be a key operational effectiveness measure in outsourcing relationships.

9.1 Interaction and context

Interaction is described in terms of the short-term exchange process, which represents the core part of the model, and the long-term exchange process characterised by institutionalisation and adaptation of processes, procedures, etc. The short-term exchange process consists of four exchange components, namely: Product and/or service, information, financial and social components. The long-term exchange process consists of a complex pattern of interactions that occur between and within client and vendor organizations over a long period of time, and become institutionalised into a set of roles that each organization’s stakeholders expects the other to perform (Kern & Willcocks, 2002).

The interaction process is described and influenced by two main groups of contextual factors, namely:

- the environment defined in terms of market dynamism, market structure and the internationalisation of the market, within which the interaction process takes place, and,
- the atmosphere defined in terms of power/dependence, the degree of conflict/cooperation, closeness and commitment between client and vendor organisations (within a scope of the outsourcing relationship, e.g. a specific outsourcing deal) affecting and affected by the interaction.

9.2 Criticism of the Interaction Approach

The strength of the Interaction Approach, applied in analysing ITO relationships, lies in its recognition of the fact that a signed outsourcing contract does not make for an instant relationship. The relationship develops through strong formal exchange processes that become less formal as the relationship matures, through the experience of client and vendor working together and building confidence in the relationship, through improved performance levels that ultimately feed back into superior ways of exchange (Kern and Willcocks, 2002).

The Interaction Approach focuses on the process dimension of ITO relationship; in particular, it looks in depth into short-term exchanges and atmosphere of an ITO relationship (Kern & Willcocks, 2002). However, it does not take into account a contractual aspect of the relationship which defines initial
conditions from which the relationship starts evolving. Furthermore, it addresses social dimension in the light of social exchanges between individuals but lacks a broader view of social structure of the evolving relationship. Finally, the Interaction Approach is limited in addressing consequences of long-term relationships such as institutionalisation and adaptation. As most large-scale ITO deals signed nowadays are characterised by 3-5 years duration, it is important to study in depth the consequences and impact of the long-term relationship on vendor and client organisations and the evolution of the ITO relationship.

10 AGENCY THEORY APPROACH TO STUDY ITO RELATIONSHIPS

Agency theory identifies two parties to a business relationship, the one being the principal (the client) who delegates work to the other, the agent (or vendor) who performs the work, and uses the contract to describe the relationship between both parties (Logan, 2000) in terms of the three dimensions of the relationship as identified by Kern (1999): (1) economic (e.g. the two parties having different goals), (2) competitive (e.g. differences in risk preferences) and (3) partnering (e.g. uncertainty in the exchange process). Thus agency theory views the contractual relationship in terms of the contract being either behaviour-based or outcome-based.

*Behaviour-based* contracts are characterised by the client bearing the risk of the venture as the vendor is rewarded (paid) regardless of the results attained. The client has little or no knowledge of the activities of the vendor which may encourage the vendor to act opportunistically. Also if the client has no knowledge of the activity of the vendor then the client cannot effectively evaluate the vendor’s performance. Thus, for the vendor, reputation for quality and client responsiveness, take on ever increasing importance in the successful outcome of the outsourcing venture.

*Outcome-based* contracts are characterised by the vendor being more likely to behave in the interest of the client and the client having more information about the activities of the vendor. In this scenario, the application of agency theory to IT outsourcing determines in what way the client can encourage quality service and fair treatment by the vendor, eg encouraging resource/asset investment for specificity of service and cultural closeness including the provision for physical integration (on-site offices for the vendor) (Logan, 2000).

10.1 Contribution of agency theory to ITO relationship analysis

The importance and characteristics of relationship factors (such as governance mechanisms, strategic intent, the structure and conditions of the outsourcing arrangement etc.) depend very much on the type of outsourcing arrangement (Jahner et al., 2006). Agency theory captures the centrality of the outsourcing contract to the outsourcing relationship, a feature clearly lacking in the Interaction Approach. Contracting is the beginning and foundation of the outsourcing relationship. It facilitates regulation and monitoring of services, payments and other operational requirements (Kern and Willcocks, 2002), and as the basis for the existence of the relationship it is fundamental to an analysis of that relationship.

11 SOCIAL CAPITAL THEORY APPROACH TO STUDY ITO RELATIONSHIPS

*Social capital* is defined as the sum of the actual and potential resources, including the cultural element, embedded within, available through, and derived from the outsourcing relationship (Nahapiet and Ghoshal 1998). Applied to ITO, social capital therefore comprises the assets of the outsourcing relationship that may be mobilized through the existence of that relationship. In institutions that operate in contexts characterized by enduring intra- or inter-organizational relationships, with relatively high levels of interaction (such as in the ITO relationship), social capital constitutes an
important facet of that relationship (Nahapiet and Ghoshal, 1998). In particular, two common characteristics of social capital, identified by Nahapiet and Ghoshal (1998) are relevant and applicable to any ITO relationship, that being: (1) Social capital constitutes an aspect of the social structure of the deal, and (2) Social capital facilitates the actions of individuals within the structure.

The engagement of the client and the vendor in IT outsourcing connotes relationship - driven by economic actions yet is embedded in social relations (Kern and Willcocks, 2000). The concept of social capital is centrally concerned with the significance of relationships as a resource for social action – personal relationships developed over time that provide the basis for trust, co-operation and collective action – but has increasingly become applied in terms of its role as an influence on the economic performance of firms (Nahapiet and Ghoshal 1998). The role of social capital as applied to the ITO venture is described here in terms of the two key dimensions of the concept, combination and exchange, which according to Kern (1999) serve to provide a more in-depth understanding of the interaction dimension of the ITO relationship.

11.1 Combination and exchange dimensions of social capital

Combination refers to the process of combining the knowledge and experience of the vendor and client organizations for purposes of joint effort expended toward achieving success in the venture. Combination of client and vendor resources and assets is gained through the establishment of the outsourcing relationship. In this study we apply the concept of combination to the partnership engendered by the outsourcing contract to the achievement of the outsourcing objectives by joint effort of the client and the vendor. The following factors represent the combination dimension: social bonds, obligations, culture and adaptation in rules and norms of behaviour.

Exchange involves the transfer of knowledge both at the individual and organizational level identified in the IA. The concept of exchange is defined by the process of combining the knowledge and experience of the client and vendor (demonstrated for example, in the concepts of shared language and vocabulary, shared narratives and trust) for the specific purpose of achieving the outsourcing objectives. The exchange of information, for example, emphasizes the importance of communication, whilst social exchange stresses the importance of developing a relatively close and friendly relationship but with the capability and business foresight to sever ties, if necessary.

11.2 Contribution of social capital theory to ITO relationship analysis

The Interaction Approach neglects the social structure that exists between client and vendor organizations which social capital theory addresses through the concepts of combination and exchange. Social capital resides in relationships and relationships are created through exchange; thus knowledge and meaning are always embedded in a social context – created and sustained through the ongoing relationships (Nahapiet and Ghoshal, 1998). Combination and exchange therefore enable both parties to establish an appropriately skilled social structure prior and throughout the outsourcing relationship which serve as the basis for success in the venture (Kern and Willcocks 2002).

Furthermore, social capital extends the potential of the IA for relationship analysis, to the management structures defined in the relationship between client and vendor organizations by enabling the deployment of the outsourcing configuration. The outsourcing configuration in ITO is defined as the result of activities performed and business decisions made in setting up the outsourcing arrangement at the beginning of the venture (Alborz et al., 2004). The outsourcing configuration is analogous to the network configuration in social capital theory. Network configuration determines the social ties that provide the channels for information transmission, through properties of the structure itself (such as density, connectivity and hierarchy of the network). Similarly, outsourcing configuration determines the outsourcing structure or arrangement, which shapes the flexibility of the contract and the ease of information exchange, through the influence of the activities performed in the outsourcing.
configuration in determining the accessibility by client and vendor organizations to each other (Nahapiet and Ghoshal, 1998). Alborz et al., (2004) posit that “a sound outsourcing configuration is important for the successful development of a quality relationship between parties”.

12 THE MEASURE OF SUCCESS IN IT OUTSOURCING VENTURES

Nahapiet and Ghoshal (1998), suggest that social relationships influence the development of intellectual capital, that is, the knowledge gained by the client and vendor organizations in the outsourcing venture. According to Kern and Willcocks (2002), the outsourcing relationship, which takes its true shape in the post-contract management phase, determines the success or failure of the overall outsourcing venture. And, for example when the parties involved do not share the same social and cultural traits and norms, problems arise in the relationship potentially leading to its dissolution and the termination of the outsourcing contract (Kern and Willcocks, 2000). However recommitment to the outsourcing venture by both the client and the vendor, over the duration of the outsourcing contract, ensures success in the undertaking – that is, recommitment by both parties undertaken throughout the duration of the existing contract as this would serve to strengthen the relationship, particularly following episodes of conflict. A social structure reinforced by continuous recommitment by both parties displays a high-level of trust in the relationship and thus people will be willing to engage in social exchange in general, and cooperative interaction in particular (Nahapiet and Ghoshal, 1998). Social relationships die out if not maintained, and therefore continuous recommitment throughout and over the duration of the outsourcing contract, like social capital, constitutes a form of accumulated history that promotes stability and continuity of the social structure defined in the relationship between the client and the vendor (Nahapiet and Ghoshal, 1998).

Kern and Willcocks (2002) argue that the success of IT outsourcing ventures is contingent upon the operational effectiveness of the ensuing client-vendor relationship (i.e. the coming into operation of the working relationship between the client and the vendor and its efficacy to achieve the outsourcing goals) as defined in the outsourcing arrangement. Therefore, in terms of agency theory, success in the outsourcing venture is characterised by the design of the outsourcing contract being based on both behaviour and outcomes – marked by changes in the ITO relationship that signify a move from contractual to cooperative relationships. A contractual relationship is embodied in the legal connotations of the contract, whereas a cooperative relationship goes beyond contractual obligations and defines a relationship based on cooperation between the parties that is not limited by the governance mechanisms defined in the contract. In this way the client-vendor relationship will be enhanced by profitability and satisfaction for both parties. From the vendor’s perspective getting this right would establish a competitive advantage over other service providers who become forced by market dynamics to be more efficient and to provide competitive services (Logan, 2000). From the client’s perspective, it provides potential areas of where the vendor can add true value, for example, by applying its specific technological expertise.

13 THE CONCEPTUAL RESEARCH FRAMEWORK

The conceptual research framework is depicted below, in Figure 1. The framework integrates the main elements of the Interaction Approach with the contractual aspects (based on agency theory) and social structure (based on social capital theory), defined in the relationship between client and vendor organizations. It depicts that the interaction process takes place through the exchange of product or service, information, financial and social factors. The relationship between client and vendor organizations evolves from these exchange processes and can be characterised (or assessed) by the capability of the organizations for combination and exchange.
The conceptual research framework addresses some of the major criticism in the study of IT outsourcing relationships by:

- Establishing a line of continuity and overlap with existing studies to make possible the elicitation of common elements (Kern and Willcocks 2002),
- Enabling consistent understanding of the operational characteristics of ITO relationships (Kern and Willcocks 2002),
- Broadening existing studies into the relationship dimension of IT outsourcing (Kern 1999),
- Adding new theoretical perspectives to existing relationship frameworks to enhance the study thereof (Kern 1999; Klepper 1995).

A triangulated fusion of perspectives derived from the interplay between the Interaction Approach with social capital and the agency theories achieves the contention expressed in the criticism above. The application of the framework is equally relevant to both the client’s and vendor’s perspectives of the evolving ITO relationship. The importance of the ITO relationship to the outsourcing venture is described in the research model, specifically in terms of the characteristics of a high quality relationship (combination, exchange, interaction, etc) upon which ITO success is predicated.

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