December 2007

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Stefan Blumenberg
Frankfurt University

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Dissertation Outline: Success Factors of Organizational Relationships between Business and IT Entities

Stefan Blumenberg, Frankfurt University
blumenberg@wiwi.uni-frankfurt.de

The literature has shown that relationship management between and within different entities is crucial in manifold contexts. Particularly, the relationship on an interpersonal level is underrepresented in research. Based on IT business alignment and outsourcing relationship literature, I aim to identify a sound construct of interpersonal relationship quality as well as its drivers and inhibitors. This model should be applied in an intra-organizational context (alignment between business and IT units) as well as in an inter-organizational context (relationship between customer and vendor in an outsourcing relationship).

Problem and research question

The literature has shown that relationship management between and within different entities is crucial in manifold contexts. Particularly, relationships between business and IT entities are challenging with regard to different cultural backgrounds (Harris 1994). Depending on the organizational context, IT business relationships can appear within or between organizations (intra- vs. inter-organizational relationship). The latter is addressed by outsourcing literature (Dibbern et al. 2004), whereas the former is addressed by IT business alignment literature (Henderson et al. 1993).

Contracts are a prerequisite in most recent IT outsourcing arrangements between customers and vendors (Poppo et al. 2002). In turn, the day-to-day business in IT outsourcing exchanges has to be managed on a social level between involved individuals. I refer to this interpersonal level as outsourcing relationship in the following. Besides the importance of a thoroughly defined outsourcing contract, the outsourcing relationship is a crucial success factor that is underrepresented in research (Dibbern et al. 2004). In several studies, around 25% of the responding outsourcers reported a “relationship failure” which lead to a break-down of the outsourcing relationship (Goles et al. 2005). The emerging trend of business process outsourcing (BPO) enhances the complexity of relationships between customers and vendors. In contrast to IT outsourcing (ITO), where (parts) of the IT infrastructure are managed and provided by an external provider, BPO is defined as outsourcing of complete business functions including related resources (Dayasindhu et al. 2004).

Comparable to outsourcing relationships, connections between business and IT entities within organizations are differentiated in an intellectual and a social dimension (Reich et al. 1996; Reich et al. 2000). The intellectual dimension focuses on content of formal plans whereas the social dimension investigates the interaction between actors (Reich et al. 2000). In the following, I refer to the social linkage between IT and business entities within organizations as alignment. The social dimension of
alignment has been recently identified as an important driver of performance (Reich et al. 2000; Wagner et al. 2006). Although, research that focuses on the social dimension of alignment is scarce (Wagner 2006).

I pose that both research strands, outsourcing relationships and alignment, focus on the same artifact, namely relationship quality, in different organizational contexts. The manifoldness of relationships between business and IT entities as described above as well as the scarceness of literature on both topics lets me pose the following research questions:

*RQmain: What are the driving and inhibiting factors influencing relationship quality?*

- **RQ1:** How can relationship quality be operationalized?
- **RQ2:** What are the differentiating factors between intra- vs. inter-organizational relationships?
- **RQ3:** What are the differentiating factors of ITO vs. BPO relationships?

From a theoretical perspective, I aim to show the overlap between the literature strands of outsourcing relationships and alignment and the respective remainder. By conducting group-wise comparisons between outsourcing relationships and alignment as well as between ITO and BPO relationships I will be able to dig deeper into a generalized understanding of relationship quality. Further, I will offer insight on the impact of outsourcing on alignment.

From a practical point of view, this research approach will assist liaison units, process owners, relationship managers, and retained organizations in setting the appropriate screws to reach and sustain successful relationships between business and IT units as well as between client and vendor.

**Literature Review**

Research on IT outsourcing mainly focused on outsourcing determinants, benefits, vendor selection, and contracting so far (Dibbern et al. 2004). Nevertheless, some authors recognized outsourcing relationships as a complement to formal contracts (Klepper et al. 1998; Lacity et al. 1998; McFarlan et al. 1995). Grover et al. (1996) showed the importance of a good relationships for outsourcing success and identified a first set of four relationship determinants (Grover et al. 1996). Lee et al. (1999), Goles (2001) and Goles et al. (2005) added further determinants that influence relationship quality in outsourcing deals (Goles 2001; Goles et al. 2005; Lee et al. 1999).

Besides the prevalent focus on alignment at an intellectual level (e.g. (Kearns et al. 2000; Reich et al. 2003)), some literature identified a first set of drivers of social alignment (Reich et al. 2000; Tiwana et al. 2003). These drivers have been applied to an empirical context to demonstrate the importance of social alignment to overall IT business alignment by (Beimborn et al. 2006; Wagner 2006).

Further, relationship and alignment literature have almost never referred to each other or have not explicitly incorporated findings from the respective other side (one of the very few exceptions is (Sääksjärvi 2002)), although both measure the same artifact.

Since outsourcing relationships are regarded as a complement to written contracts, I draw on the incomplete contract theory. Contracts are inherent incomplete, especially in complex environments (Beulen 2003). In turn, good relational governance can mitigate this shortcoming. Relationships between business and IT entities, irrespective if they focus on an intra- or inter-organizational context, refer to a mutual exchange. Relational exchange theory is also helpful as it argues that parties in an exchange find a mutual agreement so that the resulting outcomes of the exchange are better than could be attained in any other way (Dibbern 2003; Klepper 1995).

**Theory development and model**

Based on the preliminary findings from outsourcing relationship and alignment literature, I will build a model that will exemplify drivers and inhibitors that influence relationship quality.

In a first step, the dependent variable relationship quality has been developed (figure 1).
Shared Knowledge

Communication
- Conflict Resolution/Coordination
- Commitment/Interdependence

Cognitive Dimension

Consensus

Flexibility

Cultural Compatibility

Figure 1: Relationship quality

Shaded boxes are derived from the outsourcing relationship literature, while white boxes stem from the alignment literature. White boxes with bold lines are alignment dimensions enhanced with elements from the relationship literature. I believe the dimension of cultural compatibility to be only relevant in an inter-organizationally context. Hence, it is not part of the core model (i.e. dotted lines).

Literature on alignment reported dependencies between the alignment dimensions that are depicted in figure 1 by connections between the white boxes (Nelson et al. 1996; Reich et al. 2000). So far, I did not find any empirical evidence of impacts between the dimensions derived from relationship literature. Nevertheless, there may be further relations between the different dimensions. Flexibility, for example, might influence the cognitive dimension, as mutual flexibility to improve a relationship might increase trust between both parties.

Research methodology

The current research step consists of conducting a thorough literature review to develop the model. Constructs of drivers and inhibitors of relationship quality are theoretically developed and integrated into a unified model. In order to get insights about what are the relevant facets and factors of relationship quality, I will refine and test the model during a sequential data collection process of both case studies and a subsequent quantitative approach, which will incorporate findings from the case studies. Applying such dual approaches in IS research is claimed for by Mingers (2001) who found that only a small minority of all empirical research works applied more than one research method (Mingers 2001).

For the aim of this research I intend to conduct a multiple case study since different scenarios (firms with IT outsourced to a third-party vendor vs. firms with IT cooperatively sourced to a joint data processing center vs. firms with in-house provision of IT) have to be compared. To reduce the impact of further organizational factors, which might affect the constructs, I will restrict the case sample to one particular (and furthermore rather homogeneous) industry, i.e. the German banking industry. Many German banks have outsourced or cooperatively sourced their IT many years ago which allows me to choose from a sufficient number of possible cases and to draw comparative inferences in a quite controlled setting.

Preliminary findings of the conceptual work

In a first step, alignment and relationship literature have been matched (figure 2). Both offer a couple of constructs to measure the relationship quality between business and IT units, whereas alignment literature shows the smaller fraction.
I identified two identical constructs (communication and trust), four complementing constructs (conflict resolution, coordination, commitment, and interdependence) and three constructs that are unique for each of the research streams. Consensus and flexibility, derived from outsourcing relationship literature, both offer new insights to the measurement of social alignment, while shared knowledge, an integral part of alignment literature, can contribute to the measurement of outsourcing relationships.

This matching will contribute to the identification of drivers and inhibitor of relationships by providing the dependent variable. In the next steps, this dependent variable will be empirically tested with case studies.

References


