The Key Role of Interfaces in IT Outsourcing Relationships

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ABSTRACT

Many IT outsourcing operations fail, and when they do not fail they often impose renegotiations over the life of the contract between outsourcers and service providers. Possible remedies include the improvement of knowledge-sharing processes over organizational boundaries between partners, who may learn more about the problems that occur while looking at possible solutions together. Ensuring the right flow of knowledge in the two directions is central to the success of IT outsourcing operations, particularly in the transition stage of the relationship. However, these solutions do not fully acknowledge the different interrelationships between the main factors affecting knowledge transfer in outsourcing relationships in a dynamic way. In this paper, previous research on modeling knowledge-sharing across boundaries is applied to IT outsourcing contracts during the transition phase of the IT outsourcing relationship. Simulation experiments suggest that four reinforcing processes play key roles in the progress of the outsourcing relationship: trust, outsourcers’ and providers’ knowledge, commitment, and interfacing.

Keywords: Collaboration, Interfaces, IT Outsourcing, System Dynamics, Trust

INTRODUCTION

Information technology outsourcing has become a multibillion-dollar industry since Kodak Company farmed out its IT systems to IBM in 1989 (Cong & Chau, 2010). Despite this growth, effective management of IT outsourcing remains a challenge for contemporary organizations, and the percentage successful IT outsourcing relationships remains low (Lee et al., 2008; Cong & Chau, 2010; TPI, 2010). Some of those failures are due to poor knowledge-transfer processes between clients and outsourcing providers (Lee & Kim, 1999; Lee, 2001; Levina & Vaast, 2005). However, the literature still does not present a clear view of the different interrelationships between the main factors that affect knowledge transfer in outsourcing relationships in a dynamic way. This paper examines the role of knowledge sharing in building trust and commitment during the transition phase of an IT outsourcing relationship. We highlight the importance of
interfaces, which have proven to be effective in other knowledge-intensive tasks across professional and organizational boundaries (Black, 2002; Black, Carlile, & Repenning, 2004; Luna-Reyes, Black, Cresswell, & Pardo, 2008). Our model provides dynamic explanations for the success and failure of IT outsourcing operations at the transition stage at the beginning of the relationship between outsourcers and their IT service providers. The paper addresses the following research question: what are the dynamic factors that account for the success or failure of IT outsourcing relationship during the initial transition stage? Simulation experiments suggest that four reinforcing processes play key roles in the progress of the outsourcing relationship: trust, outsourcers’ and providers’ knowledge, commitment, and interfacing.

We first present a review of the development of those four processes in the literature and their importance in IT outsourcing relationships. Then we present an integrative systems dynamic base model that combines those dimensions and a series of simulations. We analyze and comment on the model and the simulations in the discussion and present the limitations of this study and future research directions in the conclusion.

LITERATURE REVIEW

The relationship between the outsourcer and the service provider unfolds over several stages in which objectives and outcomes are constantly negotiated: before the contract, over the duration of the contract, and after the end of the contract (for potential renewals and extensions) (Cullen, Seddon, & Willcocks, 2005). This process of continuous negotiation helps partners develop a mutual understanding about the work to be done and how to correct mistakes based on common experiences. We consider IT outsourcing as a project, focusing on the successive phases of transition and adjustment between a client and a service provider that occur before the service can be considered in a “steady-state” (Cullen & Willcocks, 2003; Tiwari, 2010).

Articulating IT outsourcing requirements in that context often requires addressing many issues associated with knowledge sharing, collaboration, and communication problems between partners as they seek to reconcile differences in practices, languages, culture, and worldviews (Levina & Ross, 2003; Levina & Vaast, 2005). Knowledge exchange in outsourcing relationships is facilitated by the creation of interfaces as a bridge between the outsourcer and the provider during the different phases of the outsourcing relationship (Levina & Vaast, 2005).

Boundary Objects and Interfaces in Outsourcing Relationships

To be successful, outsourcing relationships require the creation of new specific interfaces as a bridge between the outsourcer and the provider at the different phases of the outsourcing relationship (Levina & Vaast, 2005). It is necessary for both parties to agree on the criteria that will be used to evaluate actions and the type of information to provide, especially as it relates to the activities of the other party. Those interfaces rely on the active participation of personnel acting as “boundary spanners,” who work on issues such as problem identification, evaluation of systems, control, specification of parameters, mediation, and consulting (Aldrich & Herker, 1977; Tushman & Scanlan, 1981; Parker & Anderson, 2002). In addition to these “transition managers” who work at cross-organizational boundaries, companies may use boundary-spanning objects and processes, such as steering committees, codified manuals of procedures, intranet forums, timeline charts, standardized report forms, contracts, enterprise resource planning systems, and organizational charts to manage the relationship (Levina & Vaast, 2005; IBM, 2007).

However, setting up boundary-spanning procedures does not guarantee success; success also depends on the quality of these procedures (Barthélemy, 2001). Carlile (2002) proposed three characteristics of effective objects for sharing knowledge across boundaries: boundary...
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