Chapter 9

An Integrated Model of Success in IT Outsourcing Relationships: Implications for the Public Sector

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**ABSTRACT**

Possible remedies for the possible failure of IT outsourcing in the public sector 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. 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 chapter, the authors apply previous research on modeling knowledge-sharing across boundaries to IT outsourcing contracts during the transition phase where both partners initiate an 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. The authors propose future research directions to conduct empirical test of the conceptual model in the context of the Mexican Public Administration.

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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 and give a more realistic picture of such on-going relationships in comparison to cross sectional more static views. This chapter 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 chapter 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. Finally, we develop future research directions proposing a specific application of our model in the context of public administration in specific institutional settings in Mexico.

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). This approach applies both to private firms and public administration outsourcing.

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