ABSTRACT

There is a delicate dance between outsourcing vendors and the secure management of their knowledge resources at play. The challenge for the vendor stems from their need to earn their clients trust by engendering high levels of confidence in their abilities to effectively deliver goods and services sought by the client without compromising the security of their knowledge resources. The potential for the outsourcing vendor project teams to interact with a diverse set of clients adds and even greater level of complexity. However, some IT/IS outsourcing vendors manage to successfully execute this balancing act. Given the socio-technical nature of this phenomenon the authors will look to institutional, resource-based view and managerial control theories as avenues via which they seek to gain some understanding as to how they secure their knowledge resources.

Keywords: Institutional Theory, Knowledge Security, Outsourcing, Resource-Based View (RBV), Service Provider

INTRODUCTION

The practice of IT outsourcing originated over forty years ago when Electronic Data Systems (EDS) successfully negotiated a contract to manage the data processing services for Blue Cross of Pennsylvania (Dibbern et al., 2004). IBM’s announcement of the procurement of a contract to build and operate a data centre for Eastman Kodak in the 1970’s further concretized this form of inter-organizational collaboration as an invaluable IT sourcing strategy and relationship in the minds of business executives (Loh & Venkatraman, 1992b).

Since then, several factors have contributed to an on-going and increasing interest in and use of outsourcing. These include, but are not limited to, defensive arrangements occasioned by the inability of firms to quantify IT business value and the perception of some senior executives in non-information technology firms to view their “in-house” IS functions as non-core and hence as an additional source of risk (Dibbern et al., 2004). Increasingly though, outsourcing relationships have been established for the more affirmative needs to overcome deficits in technical expertise available to organizations, for cost reduction, and to establish strategic
alliances through knowledge sharing in order to enhance competitive positioning.

At the core of outsourcing relationships, therefore, are interconnected sets of organizations in which one set (the client organization) relies upon the knowledge assets of another (the outsourcing vendor firm) in order to achieve some strategic business objective (Soper, Demirkan, & Gould, 2007). In such an arrangement, there is significant interchange of unsecured knowledge assets with significant knowledge transfer and management consequences. We view the knowledge management implications of IT outsourcing arrangements as a potentially significant problem because of the increasing strategic importance of knowledge and its management to organizations. This fact was first underscored by Churchman (1971) who viewed knowledge as a complex interaction between the users of information and the collection of information. Harris (1996) concurred with this perspective in his characterization of knowledge as a combination of information, context, and experience. It is not only viewed as a fundamental building block of decision making processes (Holsapple & Joshi, 2001; JinKyu, Shambhu, Rao, & Raj, 2005), but also as a key business resource, which is pivotal to obtaining competitive positioning, generally, and particularly for knowledge intensive firms (Apostolou & Mentzas, 1999; Grant, 1996b; Randderee, 2006).

Barney (1991) suggested that their exists relationship between sustained competitive advantage of a firm to the inability of other firms, operating in the same industry, to duplicate the benefits of the innovations it creates and implements. In outsourcing relationships, vendor firms are able to extract value from their knowledge resources and capabilities that are translated into the products and/or services they developed and offer to a client firm. The degree to which those internal processes and know-how (knowledge assets) are imitable and immobile endows the outsourcing firms with a source of competitive advantage (Alavi & Leidner, 2001; Teece, 2000).

Typically, outsourcing vendors and clients are involved in many-to-many relationships (Fink, 1994). Majchrzak (2004) alluded to the fact that many corporate executives cite the (inadvertent or deliberate) sharing of information about corporate “jewels” by their employees as a major concern. In a bid to alleviate these concerns, various contractual arrangements (social/relational, output-based and/or performance-based) have been employed in order to ensure that both sets of stakeholders demonstrate appropriate behaviours. The literature on agency relationship is strewn with cases that reflect this concern (Basu & Lederer, 2004; Eisenhardt, 1988; Mahaney & Lederer, 2003).

Still, the threat of loss of competitiveness persists in this domain and highlights the need for an holistic approach to guaranteeing the security of knowledge resources (Soper et al., 2007). Many heuristics and recommendations exist to assist outsourcing clients protect against potential indiscretions of vendors and, typically, in outsourcing arrangements it is the client organizations that initiate non-disclosure agreements; however, there seems to be insufficient attention to the implications for the vending organization and particularly the potential threat to its knowledge attributes. We make the argument (which is not frequently articulated) that outsourcing vendors are also tremendously exposed to knowledge losses and as a consequence vulnerable to the erosion of competitive positioning that such losses can engender. We therefore seek to identify and explain the factors that affect the secure management of knowledge resources of vending organizations in an outsourcing arrangement and how they effectively maintain the delicate balance between the protection of their competitive knowledge assets and the continued confidence of clients in their ability to perform well.

It has been a long held belief in information systems security research that the human element presents the greatest opportunity for the manifestation of associated negative risk (Aytes & Connolly, 2005). We must therefore examine research phenomenon from a social perspective in order to explicate any factors driven by behavioural influences. To achieve this we combine, elements of institutional theory, the resource-based view of the firm, and relevant
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