Chapter X

Outsourcing Information Technology: The Role of Social Capital

James J. Hoffman, Texas Tech University, USA
Eric A. Walden, Texas Tech University, USA
Mark L. Hoelscher, Illinois State University, USA

Abstract

The current chapter explores the role that one factor, social capital, may have on the success of IT outsourcing. It extends current understanding of outsourcing success and failure by examining the effect of social capital on outsourcing success. The chapter proposes that social capital has potential impact on information technology (IT) outsourcing success. Specifically, it is theorized that social capital has an inverted “U” shape relationship with outsourcing success.
Introduction

Factors that affect the success of the outsourcing of information technology (IT) resources is an important issue since over 90% of U.S. companies outsource some activity and the total outsourcing market in 2004 was over $350 billion (Study, 2004). Firms have now started considering IT outsourcing as a strategic activity. Firms that earlier outsourced only minor information system (IS) services are now outsourcing entire IS departments (Mazzawi, 2002). Because of this senior executives who use to be concerned with whether or not to outsource information technology (IT) resources, are now more concerned with figuring out what factors can lead to the success or failure of outsourcing relationships.

Social Capital Theory

The term social capital first arrived on the scene in the sociology literature. It initially appeared in community studies, highlighting the central importance of networks of strong, crosscutting personal relationships developed over time that provide the basis for trust (Nahapiet & Ghoshal, 1998). The literature suggests that social capital can be separated into five distinct dimensions. They are information channels, social norms, identity, obligations and expectations, and moral infrastructure. Listed below are the separate dimensions and a more complete description of their makeup.

Information Channels

Information channels are social networks within the organization and also are the mechanisms that connect them to the outside world. Information channels are the most obvious example of social capital. They are the directly observable inventory of social capital. Information channels also contain the formal structure of an organization. This dimension of social capital consists of personal relationships that people develop with each other through a history of interaction. The major benefits that a well-developed information channel provides are abundant and strong ties within the network. These ties, in turn, provide closure (Coleman, 1988). Closure can be described as the existence of sufficient ties within a social network to guarantee the observance of social norms. Within businesses, closure provides for more intense adherence to norms, a stronger feeling of obligations and expectations and a heightened sense of identity.
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