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A Combined Model of IT Outsourcing Partnerships and Success

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ABSTRACT

Outsourcing has the potential to decrease costs, increase focus, improve productivity, add flexibility and innovation, and increase operating income by taking advantage of another organization’s expertise, innovation, or cheaper labor. However, many managers have admitted that outsourcing initiatives have not fulfilled many of their expectations. Furthermore, studies have reported that more than half of outsourcing relationships fail within the first five years of implementation. This paper introduces a comprehensive theoretical model that combines two models proposed previously by Lee and Kim (1999) and Alborz, Seddon, and Scheepers (2003). Both models include sets of factors believed to influence the quality of the outsourcing partnership and, in turn, influence outsourcing success. This paper also extends these two works by proposing two important missing factors: Process Factors and Cultural Factors. The model presented in this paper should be of interest to both practitioners and researchers. For managers in an organization, the proposed model attempts to reduce the complexity of an outsourcing relationship so that both partners can focus on the most important factors that have the greatest potential to increase the likelihood of success. For IS researchers, this paper provides a new theoretical model grounded upon previous research to offer a more comprehensive framework to guide discussion and future research.

Keywords: Outsourcing, outsourcing partnership, outsourcing success, partnership quality

INTRODUCTION

Globalization provides organizations with more options than ever before. Business leaders are continuously encouraged to adapt, reevaluate, and strategically improve processes and approaches. Best practices are reinvented rapidly in an attempt to keep up with market trends. The quest to recognize new methods for increasing revenue has become the inspiration for exploring new management techniques and strategies. Outsourcing is a trend that continues to rise, especially in global markets. Common purposes for outsourcing include improvements to performance, cycle time, cost-savings, market share, productivity, customer service, and quality (Elmuti & Kathawala, 2000) in industries such as information systems/technology, human resource, logistics and administrations, real estate, transportation, marketing, sales and finance (Logan, Faught, & Ganster, 2004). Outsourcing benefits are publicized and cited in business
journals and among professional management circles, leading to the commonly held perception that outsourcing holds the key to cutting costs and maximizing productivity. What is less commonly understood, however, are the underlying relationships that exist between outsourcing partners and how the quality of this relationship impacts outsourcing success.

Outsourcing is a strategy whereby companies decide to utilize outside resources for activities that were previously accomplished using internal staff and resources (Elmuti, 2003). As global supply markets have continued to increase, businesses now have the opportunity to reassess which functions are best to remain in-house and those that are suited best for outsourcing (Barthélemy & Adsit, 2003). Most often, the purpose of such a decision is a strategy to reduce cost, improve service, and allow management more time to commit to activities more directly tied to the firm’s core strategic goals (Logan et al., 2004).

Outsourcing, however, is not without its challenges. In fact, 75% of U.S. managers admitted that “outsourcing initiatives do not necessarily fulfill all their expectations” (Barthélemy & Adsit, 2003, p. 87). Furthermore, 55% of outsourcing relationships fail within the first five years of implementation and, of the remaining 45%, 12% are unhappy and regret the decision to outsource in the first place (Elmuti, 2003). To add to these bleak statistics, it is often the case that customers express dissatisfaction with the outsourcing decisions as well. Inevitably, a host of factors plays into the lack of success in outsourcing endeavors. Many IT companies consider outsourcing as a quick fix budget cut and select offshore vendors on the basis of cost alone. Although savings can be made by outsourcing, it takes a great deal of effort to have a quality relationship and a successful outcome. Many companies often fail to realize that offshore outsourcing encompasses much more than just the hope to reduce operating costs. Despite the potential benefits, reductions in costs are often unmet and a growing trend toward backsourcing is taking place despite the penalties and costs associated with bringing a process back in-house (Benaroch, Webster, & Kazaz, 2012).

According to project statistics from Aberdeen Group (Drodenbaugh, 2010, paras. 8-10):

- Reducing IT costs is the primary driver behind outsourcing for 82% of companies in the U.S. But, as Aberdeen continues,
  - Nearly 50% of outsourced projects fail outright, or fail to meet expectations
  - 76% of companies said that vendor management effort and costs were much higher than expected
  - 30% reported ongoing issues with outsourcer management processes (e.g., inadequate governance and conflict resolution procedures)
  - 51% reported that outsourcer was not performing to expectations

In the end, the average cost savings for projects was a mere 26%.

With outsourcing strategies on the verge of becoming saturated and a continued pressure on profit margins, outsourcing service providers are building even more innovative and often riskier engagement models, including joint ventures, business-outcome based pricing, revenue-sharing arrangements, and dedicated centers of excellence. Most outsourcing companies today are rejecting single source deals in favor of more pragmatic outsourcing models that use a variety of specialized firms.
It can be inferred from the literature that while many organizations view outsourcing as a strategic necessity, a majority of outsourcing initiatives fail or end up costing more than what was expected mainly because of a poor relationship between partners. Therefore, this paper proposes a theoretical model that combines two models proposed by Lee and Kim (1999) and Alborz et al. (2003). Both models propose sets of factors believed to influence the quality of the outsourcing partnership and, in turn, influence outsourcing success. Moreover, this paper also extends these works by proposing two important factors missing from these previous works: Process Factors and Cultural Factors. A description of the relevant research supporting the proposed model is provided in the next section.

The model presented in this paper should be of interest to both practitioners and researchers. For managers in an organization, the proposed model attempts to reduce the complexity of the outsourcing relationship so that both partners can focus on the factors that have the most potential to increase the likelihood of success. Subsequently, increased outsourcing success can lead to greater organizational success for both partners.

In addition, the model proposed here should be of interest to IS researchers. The proposed model combines two models that are grounded in previous research and subsequently extends this work to offer a new and more comprehensive framework to guide discussion and future research.

**RELEVANT RESEARCH**

The outsourcing of the IS function or portions of an IT project requires a shift from a hierarchical governance structure to a more market form of governance (Loh & Venkatraman, 1992). In addition, the decision to outsource has moved from a short-term cost reduction perspective to a strategic perspective aligned with the overall strategy of the organization (McIvor, 2000).

However, early outsourcing frameworks focused on the economics of outsourcing. Williamson (1975), for example, proposed a combination of economic theory with management theory called transaction cost analysis in order to recommend the best type of outsourcing relationship an organization should develop. Transaction cost analysis suggests that properties of a transaction influence the choice of a market, hierarchy, or alliance governance structure. However, factors such as bounded rationality (our rationality is limited by our ability to process information), opportunism (acting in self-interest because of an opportunity), small numbers bargaining (infrequent situations or that involve small quantities where the cost of full information is prohibitive), and information impactedness (asymmetrical information or power between parties).

Moreover, Williamson (1985) contends that the properties of the transaction define the governance structure. Asset specificity (transactions that require large investments), uncertainty (ambiguity of transaction definition and performance), and infrequency (transactions not frequently made) determine the difficulty and cost of the transaction. For example, transactions will be governed by markets when asset specificity is low, uncertainty is low, and the number of transactions is frequent. On the other hand, an alliance between partners would make sense if
medium levels of asset specificity and mutual dependence exist. In short, an organization would be better served outsourcing activities that are too expensive to do internally.

Prahalad and Hamel (1990) provide a connection between core competence and outsourcing by contending that regardless how innovative physical assets may seem at the time, they can be replicated easily or soon become obsolete. Real competitive advantage, however, arises from a collective learning within the organization and management’s ability to harness the skills, knowledge, and technologies on which its success depends. In this case, outsourcing makes sense when an organization does not possess a level of competence internally to maintain or develop a strategic position.

McIvor (2000) provides a review of outsourcing frameworks in the literature and identifies cost analysis, risks, supplier influences, and strategic perspective as consistent themes. Based upon the review of the literature and interviews with senior management, McIvor proposes a four-staged model to make an effective outsourcing decision. This framework combines transaction cost analysis with the concept of core competencies and includes: (1) Define the core activities of the business, (2) Evaluate relevant value chain activities, (3) Total cost analysis of “core activities” and (4) Relationship Analysis.

However, forming and managing a successful outsourcing relationship for many organizations in the 1990s became a real challenge as the outsourcing relationship service provider and receiver evolved from a contractual relationship to the more preferred strategic partnership relationship (Fitzgerald & Willcocks, 1994; Grover, Cheon, & Teng, 1996; Konsynski & McFarlan, 1990; Lasher, Ives, & Jarvenpaa, 1991; Lee & Kim, 1999).

Lee and Kim (1999) argue that economic approaches to outsourcing fail to address the fact that economies of scale and scope achieved by IS outsourcing are often dependent on environment, structure, and strategy factors. Moreover, studies that attempt to examine partnership quality by correlating variables based on economic theories have reported inconsistent conclusions with few implications for business. The authors contend that much of the existing literature failed to distinguish between the antecedent conditions leading to partnership quality and subsequent outsourcing success. Moreover, Lee and Kim maintain that viewing the relationship between organizations from an economic viewpoint is myopic because organizations enter repeatedly into transactions with each other and that interorganizational relationships create a social learning experience based on these interactions. Based on social exchange theory and power-political theory, Lee and Kim propose and empirically test a model for partnership quality. Based on the results of 74 outsourcing relationships, the study reports that partnership quality may serve as a key predictor of outsourcing success. In addition, partnership quality was found to be positively influenced by antecedent factors, such as participation, communication, information sharing, and top management support.

Alborz, Seddon, and Scheepers (2004) also propose an IT outsourcing configuration framework that was tested using in-depth interviews with 28 client and supplier managers in four pairs of client and supplier organizations. Their model is based on previous research (Alborz et al., 2003; Cullen & Willcocks, 2003; Gartner, 2002; Kern & Willcocks, 2001), and suggests that two groups of factors, Configuration and Operationalization, affect the quality of the outsourcing
partner relationship. In turn, the perceived quality of the relationship between the outsourcing client and supplier directly influence outsourcing success as perceived by the client and supplier.

According to Alborz et al. (2004), an outsourcing configuration arises from the way an organization sets up or shapes the outsourcing arrangement in terms of activities performed and business decisions made at the outset. This includes outsourcing intent, the results of due diligence, the contract negotiated and agreed upon, as well as the skill and style of the governance arrangement. On the other hand, operationalization is the result of the activities and business decisions made from the day-to-day management over the life of the contract. However, management’s choices during Operationalization can become constrained by the Configuration. As the partners increasingly invest more time and resources in configuring their outsourcing relationship appropriately, the operationalization of the relationship goes more smoothly and the satisfaction of the outcomes increases. Operationalization should also include a feedback loop so that appropriate changes can be made to the Configuration.

The Outsourcing Relationship model was first proposed Alborz et al. (2003). The configuration factors of the model were tested by Alborz et al. (2004) and the operationalization factors later confirmed using a single case study by Gong, Tate, and Alborz (2007). Based on the work of Lee and Kim (1999) and Alborz et al. (2003), a theoretical model is proposed in Figure 1 that combines and extends both works. Two additional factors, Process Factors and Cultural Factors, are proposed as extensions. Each component or factor of the Outsourcing Quality/Success model is discussed in the next section.

**Figure 1: Outsourcing Quality/Success Model.**
THEORETICAL MODEL

**Partnership Quality**

Henderson (1990) defines a relationship as “a long-term commitment, a sense of mutual cooperation, shared risk and benefits, and other qualities consistent with concepts and theories of participatory decision-making.” Relationship and partnership are generally used interchangeably (Alborz, Seddon, & Scheepers, 2005; Grover et al., 1996; Lee & Kim, 1999). At the core of both the Lee and Kim (1999) and Alborz et al. (2004) models is the relationship between outsource partners called Partnership Quality and is considered an antecedent of outsourcing success. Lee and Kim define Partnership Quality in terms of how well the outcome of a partnership matches each partner’s expectations. While a high Partnership Quality may be a necessary condition for Outsourcing Success, it may not be a sufficient condition for success. For example, if the primary goal for outsourcing is to reduce costs, the outsourcing project could be considered a failure if that expectation was not met, regardless of the quality of the partnership between the client and the provider. Therefore, they feel it is important to distinguish between Partnership Quality and Outsourcing Success. In their model, Lee and Kim posit that Dynamic, Static, and Contextual factors influence the quality of the partnership relationship and, in turn, Partnership Quality influences Outsourcing Success.

Alborz et al. (2004) contend that maintaining a positive client-supplier relationship is imperative to achieving the promised benefits of IT outsourcing. While these relationships are influenced, in part, by the actions and attitudes of the individuals of each partner organization, they believe that they are also determined, in part, by the Configuration of the outsourcing arrangement. They posit that the quality of the relationship is the degree by which the partners regard the relationship as being positive and constructive. Alboz, Seddon, and Scheepers define an outsourcing Configuration as “the way an organization sets up or shapes the outsourcing arrangement in accordance with the business needs from the beginning.” Configuration includes outsourcing intent, due diligence, contract, and government arrangement factors, while Operationalization focuses on transition, performance management, contract management, the working relationship between partners, and knowledge exchange. Operationalization focuses on the day-to-day interactions between the partners and is constrained by the Configuration. In addition, Operationalization provides a feedback mechanism for revisions to the Configuration. For example, both partners should review and revise the Configuration of the outsourcing arrangement if the situation or environment changes or when the performance does not meet contractual requirements or the other party’s expectations.

In this paper, two additional factors believed to impact the Partnership Quality are proposed: Process Factors and Cultural Factors. Process factors focus on the capability and maturity of project management and product development processes. Both partners should have mature processes to both manage the outsourcing project, while the partner responsible for delivering the IT solution should have a capable and mature set of development processes. For example, while the partners may have all of the aforementioned factors in place, the quality of the partnership may be jeopardized if product requirements and project objectives such as schedule, budget, and quality are not met. Ultimately, this will impact Outsourcing Success and tenure of the relationship.
On the other hand, many outsourcing relationships take place between partners that are geographically dispersed. Subsequently, cultural differences such as time zone differences, language barriers, and cultural misunderstandings can create tensions between the partners. Therefore, it is important to understand and include Cultural Factors as an antecedent to Partnership Quality.

**Dynamic Factors**

*Participation.* The Dynamic, Static, and Contextual factors of the model were proposed, hypothesized, and tested by Lee and Kim (1999) and are antecedents to Partnership Quality. Participation provides a social element and was defined by Brown and Moberg (1980) as “a remedy when there is conflict, frustration, and vacillation in the group. Outsourcing partners must play an active role in enhancing and improving the sustainability of the relationship. In testing the hypothesis (H1) that there is a positive relationship between participation and partnership quality, Lee and Kim report that participation was significantly associated with trust, business understanding, and commitment, while benefit and risk and conflict were not.

*Joint action.* Joint Action is defined as “the degree of interpenetration of organizational boundaries” (Heide & John, 1990). This component conveys the idea that organizational activities such as long-range planning, product design, value analysis, quality controls, training, and education can provide an impetus for negotiation, agreement, and creating a common goal. The hypothesis (H2) posits a positive relationship between joint action and partnership quality exists because of the expectation that a partnership will become more effective as the scope and frequency of joint activities increases. Lee and Kim (1999) report that a significant relationship was not found to support this hypothesis.

*Communication quality.* It is logical that effective communication between partners is essential so that intended objectives are achieved. More specifically, frequent communication should keep both parties informed and, in turn, more confident in the relationship. Lee and Kim (1999) hypothesize (H3) that there is a positive relationship between communication quality and partnership quality. While a significant relationship was reported as a major determinant in trust and business understanding, there was no evidence to support the effect on benefit and risk sharing, conflict, and commitment.

*Coordination.* Lee and Kim (1999) contend that coordination is important to maintain the stability of the relationship between outsourcing partners, especially in a dynamic environment. Therefore, they posit that “successful working partnerships are marked by coordinated actions directed at mutual objectives,” and hypothesize (H4) that there is a positive relationship between coordination and partnership. Lee and Kim report that coordination was positively related to trust; however, they did not find a significant association with business understanding, benefits and risk, conflict, or commitment. Subsequently, this hypothesis was not supported by the data.

*Information sharing.* Information sharing is defined by Lee and Kim (1999) as the extent to which critical or proprietary information is communicated or shared with another partner, and it is believed that competitive advantage can be created and a sustained relationship maintained through the sharing of key information between the outsourcing partners. Subsequently, they
hypothesize (H5) that there is a positive relationship between information sharing and partnership quality. Lee and Kim report that information sharing was significantly related to partnership quality. More specifically, information sharing was negatively related to conflict and positively related to commitment. However, there was no significant association with trust, business understanding, and benefit and risk share.

**Static Factors**

*Age of relationship.* Partners will only continue the relationship only as long as it continues to serve their needs. Lee and Kim (1999) reason that long-standing relationships are more likely to continue than newer ones because the partners have had the opportunity to establish a mutual understanding through the adjustment of their formal agreement over time. They believe that the quality of the partnership will increase as the duration of the partnership grows and therefore hypothesize (H6) that there is a positive relationship between the age of the relationship and partnership quality. Interestingly, they found a negative effect on the partnership quality, where age of relationship was significantly associated with conflict and commitment, positively related to conflict, and negatively to commitment.

*Mutual dependency.* It is suggested that dependency between organizations will arise when participants perceive mutual benefits from their interactions. Lee and Kim (1999) hypothesize (H7) that there is a positive relationship between mutual dependency and partnership quality, especially when the size and importance of the exchange between partners are high, when a partner is considered to be the best alternative, and when there are few alternatives for other potential partners. They report another contradicting hypothesis as mutual dependency was negative associated with partnership quality, suggesting that the degree of partnership quality was lower when mutual dependency was higher.

**Contextual Factors**

*Cultural similarity.* Lee and Kim (1999) view cultural similarity in terms of organizational culture or as shared values and beliefs that influence the norms and behaviors of individuals within the organization. They posit that outsourcing partners with similar cultures should have more trust in each other, while divergent values can create a rift and eventually diminish the relationship. Subsequently, they hypothesize (H8) that there is a positive relationship between cultural similarity and partnership quality. Unfortunately, there was no support for this hypothesis as cultural similarity was not significantly associated with any of the partnership quality constructs.

*Top management support.* Top management support has been an axiom for just about all IS endeavors and is a critical factor to gain and sustain a partnership. Therefore, Lee and Kim (1999) hypothesize (H9) that there is a positive relationship between top management support and partnership quality. They found support for this hypothesis as top management support was significantly associated with trust and business understanding.
Configuration

Outsourcing intent. Alborz et al. (2004) define outsourcing intent as “the extent to which the organization’s business and IT objective are supported by the IT outsourcing arrangement.” They contend that these objectives should be long-term since the decision to outsource will have a lasting impact on the organization. Therefore, they posit that a client’s business objectives must be aligned with their outsourcing objectives; otherwise, the supplier’s solution will not meet their expectations and the relationship will encounter difficulties. It follows, then, that the greater the alignment, the greater the expected quality of the partner relationship. The authors report that the client organizations studied did not consider its business objectives before signing a contractual agreement. As a result, the clients’ outsourcing intent led to a poor configuration and a soured relationship ensued.

Results of due diligence. Due diligence is a set of pre-planning activities that the client and supplier partners undertake before entering into a contractual agreement. Alborz et al. (2004) contend that due diligence for the client includes determining the size and complexity of services, evaluating and selecting the right supplier, and considering the cultural fit of the potential partners. On the other hand, a supplier’s due diligence should focus on verifying the accuracy of the client’s information so that the supplier can put into place an appropriate resource structure, initial proposed solution, and pricing. The authors posit that failure of either partner to perform a thorough due diligence will create issues and jeopardize the relationship as hidden costs and discrepancies surface later during operationalization. Moreover, this construct includes three subcomponents: Size (e.g., the number the client’s physical locations, transfer of employees, the infrastructure, applications, etc.), Complexity (the type of services and level of support required), Evaluating and selecting a supplier (the process of finding a supplier that meets the client’s needs), and Cultural fit (the commonality of shared values and beliefs of the partners). Cultural fit in the Alborz et al. (2004) model is similar to Cultural Similarity in the Lee and Kim (1999) model. For future research, it may make sense, then, to include culture similarity or cultural fit as a single construct in Contextual Factors in the combined model. Alborz et al. found that due diligence influenced the quality of the relationship in three out of four outsourcing arrangements.

Contract. Alborz et al. (2004) posit that having a poorly defined contract between outsourcing partners will have a negative impact on the quality of their relationship. In particular, a comprehensive contract requires considerable time, effort, and resources so the prospective partners should focus on two main areas: Flexibility (the ability to make changes in the contract’s provisions efficiently) and Service level agreements or SLAs (to document a joint understanding of realistic and agreed upon levels of service). Alborz et al. report support for influence of the contract and quality of the relationship in three out of four cases.

Governance arrangement. Alborz et al. (2004) define governance arrangement as “the management structure set in place to manage all aspects of the outsourcing relationship.” This generally requires a joint management team representing both partners, as well as the IT professionals responsible for providing the contracted support or services. The authors posit that governance arrangements have an impact on the quality of the outsourcing relationship in terms of Skill (the ability of the individuals responsible of providing the support or services) and Style
(behavior patterns of the individual managers). Alborz et al. found support in three out of four cases where three clients did not define their roles and responsibilities clearly and did not have a clear indication of who was accountable for managing the relationship. As a result, this led to poorer relationships.

**Operationalization**

*Transition.* Under Operationalization Factors, Gong et al. (2007) define transition as “the outcome of the process in which the client’s environment, infrastructure, workload, and often resources are moved to the control and management of the supplier.” The goal of transition is for the client to receive the expected services, while the supplier assesses how well the services provided meet the terms of the contract. The authors employ a qualitative case method to understand better the Operationalization Factors and their influence on relationship quality. Based on interviews with a client and supplier engaged in an outsourcing relationship, the authors confirm the importance of transition with the model and previous research. Moreover, Gong et al. suggest that transition be identified as a separate phase since it acts as a temporary step in an ongoing relationship.

*Performance management.* A supplier’s performance must be monitored continuously against the service level defined within the outsourcing configuration to assure the client that the terms of the contract are being met. Gong et al. (2007) confirm the relationship of performance management with the quality of the outsourcing relationship.

*Working relationship (style).* Although Gong et al. (2007) suggest renaming this construct to Working Style for clarity, this factor focuses on the characteristics of the social and human interactions between the outsourcing partners. A working style between partners begins to form at the outset of the contract and continues to develop. The authors report that the client in their case study found that the quality of their working style with the supplier positively affected the quality of their relationship.

*Knowledge exchange.* Gong et al. (2007) define knowledge exchange in terms of “the result of activities that a client organization consciously undertakes to formalize and capture the knowledge and experience gained through interacting with individual knowledge workers from the supplier or third party consultancy firms.” The authors contend that this knowledge can be leveraged to improve the client’s organizational performance. Gong et al. confirm knowledge exchange is inevitable in the exchange of business and technical knowledge and demonstrates the existence of trust. The client in the case study reinforced that knowledge exchange is a key determinant of relationship quality.

**Process Factors**

In a recent study, Plugge, Bouwman, & Molina-Castillo (2013) identified a recurring outsourcing problem has been the lack of sustainability in the continuous delivery of high-quality services due to a lack of capabilities of the IT provider and/or the way they are organized. Therefore, the capability and maturity of the processes of services the outsourcing provider may have a direct influence on the quality and longevity of the outsourcing relationship.
Process capability and maturity. It is the contention of this research that factors related to the ability to properly manage and develop an effective IT solution is missing from the previously proposed models. Therefore, Process Factors should be considered in terms of process maturity and capability. A supplier or service provider whose project management and software development processes that are mature and predictable should have a positive impact on the quality of the relationship because the needs and expectations of the client are more likely to be met.

A maturity model, such as the Capability Maturity Model (CMM) can provide guidance to outline key process areas that can be applied to the factors that support supplier’s ability to deliver an IS product, service, or solution. Paulk, Curtis, Chrissis, and Weber (1993) outline the objectives of the CMM and suggest how an organization can best control its project management and IS development processes. As an organization’s software process maturity increases, the difference between expected results and actual results narrows. In addition, performance can be expected to improve when maturity levels increase because costs and development time will decrease, while quality and productivity increase. This includes:

- **Software process**—a set of activities, methods, or practices and transformations used to develop and maintain software and the deliverables associated with software projects. Included are such things as project plans, design documents, code, test cases, user manuals, and so forth.
- **Software process capability**—the expected results that can be achieved by following a particular software process. More specifically, the capability of an organization’s software processes provides a way of predicting the outcomes that can be expected if the same software processes are used from one software project to the next.
- **Software process performance**—the actual results that are achieved by following a particular software process. Therefore, the actual results achieved through software process performance can be compared to the expected results achieved through software process capability.
- **Software process maturity**—the extent to which a particular software process is explicitly and consistently defined, managed, measured, controlled, and effectively used throughout the organization.

In addition, key process areas can define and be used to measure capability and maturity and may include:

- **Software configuration management**—supports the controlling and managing of changes to the various project deliverables and software products throughout the project and software life cycles.
- **Software quality assurances**—provides project stakeholders with an understanding of the processes and standards used to support the project quality plan.
- **Software project tracking and oversight**—ensures that adequate controls are in place to oversee and manage the software project so that effective decisions can be made and actions taken when the project’s actual performance deviates from the project plan.
- **Software project planning**—establishes realistic plans for software development and managing the project.
- **Requirements management**—ensures that a common understanding of the user’s requirements is established and becomes an agreement and basis for planning.
Peer reviews—promotes the prevention and removal of software defects as early as possible and is implemented through code inspections, structured walkthroughs, and so forth.

Intergroup coordination—allows for an interdisciplinary approach where the software engineering group participates actively with other project groups in order to produce a more effective and efficient software product.

Software product engineering—defines a consistent and effective set of integrated software engineering activities and processes in order to produce a software product that meets the users’ requirements.

Integrated software management—supports the integration of software engineering and management activities into a set of well-defined and understood software processes that are tailored to the organization.

Training programs—facilitates the development of individuals’ skills and knowledge so that they may perform their roles and duties more effectively and efficiently.

Organization process definition—supports the identification and development of a usable set of software processes that improve the capability of the organization across all software projects.

Organization process focus—establishes organizational responsibility for implementing software processes that improve the organization’s overall software process capability.

Software quality management—establishes a set of processes to support the project’s quality objectives and project quality management activities.

Quantitative process management—provides a set of quantitative or statistical control processes to manage and control the performance of the software project by identifying assignable cause variation.

Process change management—supports the continual and incremental improvement of the software processes used by the organization in order to improve quality, increase productivity, and decrease the cycle time of software development.

Technology change management—supports the identification of new technologies (i.e., processes, methods, tools, best practices) that would be beneficial to the organization and ensures that they are integrated effectively and efficiently throughout the organization.

Defect prevention—supports a proactive approach to identifying and preventing software defects.

Cultural Factors

In addition to the processes to manage and create the IS product or solution, a set of cultural factors may impact the quality of the outsourcing partnership. Although Lee and Kim (1999) include Culture Similarity as a Contextual Factor, their construct focuses more on an organizational fit between partners. Today, many partnerships exist between global partners so a set of national cultural factors are present and may impact the quality of the partnership. This may not be in terms so much as fit, but rather in terms of understanding and accepting differences in cultural norms as they relate to such things as work, religion, language, traditions, and time differences. For clarity of the model, it may be better to maintain a separation between these two factors; however, all culture-related factors could be combined into a single construct later on to simplify empirical testing.
Time zone differences. Effective communication is important and can be made challenging because of time zones differences between partners. For example, there may be a necessity for increased communication between offshore and onshore partners, especially during the initial stages of the project. If a question arises with respect to requirements or scope, schedule, or budget changes, it may take more time if both partners have different working days and times. This can lead to either an increase or reliance on direct communication where partners talk at off hours such as early morning or late evenings or indirect communication such as email that will create a period of slack between responses. Moreover, the scale of service and geographical distance between the customer and provider locations may also increase both control and coordination costs (Handley & Benton, 2013). As a result, time zone differences can impact the efficiency and effectiveness between partners and therefore could impact the quality of their relationship.

Language barriers. Even though outsourcing partners may share a common language, it may not be the first language for either partner and cultural differences and accents may lead to misunderstandings, confusion, and a toll on the quality of the partnership unless these barriers are understood and addressed.

Cultural differences. Understanding the culture of a company located in a country which is culturally diverse is not only complex but also is time consuming. For example, often western managers find it difficult to understand the culture of the partner company located in India or China, which are culturally diverse from the western countries. These managers may find it challenging when western norms of business cannot be applied in countries like India or China. For example, Bill Gates, the founder of Microsoft, created a cultural misunderstanding on a recent trip to South Korea when he met with the country’s new president, Park Geun-hye, and was photographed shaking her hand with his right hand while his left hand was in his pocket. The cultural meaning of a “one-handed shake,” in that country infers that you are hiding something. On a less grander scale, acceptable introductory questions in India may include: Are you married? What is your salary? How much do you weigh? While being innocuous questions in India, many people outside this culture may find them intrusive (Wax, 2013). Without a good understanding of the culture of the offshore company, it is very easy to misinterpret or misunderstand. As a result, this could impact the quality of the outsourcing partner’s relationship.

Outsourcing Success

Lee and Kim (1999) posit that the quality of the partnership between outsource participants will allow them to achieve organizational objectives and build a competitive position that each could not attain on their own. They hypothesize (H10) that there is a positive relationship between Partnership Quality and Outsourcing Success. Success is reflected in terms from both the business and user perspectives. The Business Perspective is defined as the achievement of strategic, economic, and technological benefits thereby allowing the client organization to focus on its core business, achieve economies of scale, and manage its cost structure effectively. From the User Perspective, the Outsourcing Success is achieved from an increased level of quality and value of services provided. Lee and Kim report a strong positive relationship for both Business Satisfaction and User Satisfaction, as well as with overall Outsourcing Success. They also report
that trust had a strong positive relationship with Business Satisfaction, but no effect on User Satisfaction. On the other hand, Business Understanding was significantly related to User Satisfaction, but not a good predictor for Business Satisfaction. Benefit and risk, moreover, had a strong positive relationship with both Business and User Satisfaction along with overall Outsourcing Success. Their findings also show conflict was a predictor of Business Satisfaction, while having no effect on overall Outsourcing Success and User Satisfaction. Lastly, commitment had a significant and positive relationship with Business Satisfaction, User Satisfaction, and overall Outsourcing Success.

Although the model proposed and tested by Aborz et al. (2004) includes the outcome variable, Outsourcing Success as Perceived by the Client and the Supplier, their study did not test or report on the relationship between Quality of Relationship Perceived by the Client and the Supplier and Outsourcing Success as Perceived by the Client and the Supplier.

CONCLUSION

Outsourcing allows companies to access expertise, experience and expensive technologies not available in-house. However, organizations outsourcing IT projects to a different country will encounter and have to deal with various challenges in order to make the partnership and agreement work to both party’s expectations and satisfaction.

This paper combined two theoretical models by Lee and Kim (1999) and Alborz et al. (2003). Moreover, it also extends these works to include service provider factors and cultural factors missing from the two proposed models. The outsourcing relationship between partners and the ultimate success of that relationship is complex. However, the proposed framework in this paper attempts to reduce this complexity by identifying salient factors that may have an impact on this relationship.

The proposed model in this paper is only a beginning. While the model by Lee and Kim (1999) was tested more extensively than the few case examples provided by Alborz et al. (2003), Alborz et al. (2004), Alborz et al. (2005), and Gong et al. (2007), further empirical research to test the validity and influence of the factors is needed for further refinement. This includes developing a comprehensive set of hypotheses and a set of valid constructs for data collection and analysis. Future research should also confirm many of the hypotheses tested by Lee and Kim, but also offer additional insight into some of the contradictory findings as well.

Outsourcing, especially on a global scale, will remain a viable option at least for the near future. Although global outsourcing, or offshoring, has and remains a controversial political issue, it has the potential as a rising tide to lift all boats in a global economy. Improving upon the relationship between outsourcing partners may be a key difference in attaining success.
REFERENCES


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