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# On the soft side of global IT outsourcing: innovating in relationships, social capital, and knowledge

*Ilan Oshri, Julia Kotlarsky, and Leslie Willcocks*

By 2009, revenues from offshore outsourcing of information technologies (IT) will exceed \$US30 billion, and over the next five years the compound annual growth rate in this industry is expected to be about 20 percent (Willcocks and Lacity 2007). By 2006, over 200 firms from the Forbes 2000 companies had offshored IT and business process outsourcing activities totaling about \$9 billion. The phenomenon of offshore outsourcing is certainly expanding, and indeed at a faster rate than more domestic forms of IT and business process outsourcing. It has become increasingly important to understand the phenomenon, not least as a basis for suggesting what directions it will take, its impacts, how it has been conducted, and how its management can be better facilitated. These issues lie at the heart of the present book.

These points are particularly pertinent because recent evidence suggests that a number of offshore outsourcing relationships have failed to live up to some of their promises (e.g., Aron and Singh 2005; Lacity and Rottman 2008). The reasons for this are many, ranging from poor quality delivered by vendors to rising management costs that result in frustration and disappointment. Collaboration between remote sites and the ability to share and transfer knowledge between dispersed teams have been mentioned by past research (e.g., Kotlarsky and Oshri 2005; Oshri et al. 2008) as imperative to successful IT offshore outsourcing projects. In addition, our own research highlights certain capabilities that vendors and clients should develop, the governing structures they need to put in place, and the bonding activities

they need to promote and make time for (Kotlarsky et al. 2007; Oshri et al. 2007a, b; Willcocks and Lacity 2007).

Drafts of the present chapters were first presented at the First Global Sourcing Workshop, held in Val d'Isere, France, in March 2007. This annual gathering of academics and practitioners offers a stage to discuss and develop cutting edge ideas and research concerning IT and business process outsourcing and offshoring. In 2007, the Workshop focused on services, knowledge, and innovation in IT outsourcing and offshoring. Some 21 papers were presented and, on the basis of the Workshop, and after paper revision and improvement, the present 11 chapters emerged as strong, insightful, and innovative contributions to both academic and practitioner understandings of the emergent field. The Workshop offered us much-needed information and perceptive commentary on how global sourcing trends were developing, what practices were working, and what was not going so well. The majority of the papers also provided rich detailed case studies enabling the processes and management of offshoring to be tracked at the micro-level over time. But looking across the contributions, one major insight stood out above all others: the critical importance of what we call here the "soft side" of global IT outsourcing; in other words, of the social, organizational, processual, knowledge, relationship, and expertise aspects and their impact on offshoring and outsourcing effectiveness.

The chapters of this book give wide and in-depth coverage to the global IT sourcing phenomenon. The research has been carried out in client organizations and suppliers. Most major economic sectors are represented, and the geographical spread and diversity of types of sourcing is considerable. Thus, Chapter 1 looks at German client experiences of outsourcing, Chapter 2 at Scandinavian experiences of using Indian suppliers, while Chapter 3 studies five Dutch clients and Chapter 4 researches Chinese supplier experiences in Japan, Europe, and the U.S.A. Chapter 5 looks at a U.S. company's attempts to coordinate wholly owned sites in Ireland, India, and the U.S.A., while Chapters 6, 7, and 8 look at U.S.A.–India, Ireland–India and Netherlands–India outsourcing relationships respectively. Chapters 9 and 10 have their primary focus on Germany and nearshoring to Poland, but also to Romania and Slovakia as well as offshoring to India. Our final chapter looks at a major Indian supplier delivering services to a Dutch global bank from centers in Mumbai, the Netherlands, Sao Paulo, Budapest, and Luxembourg.

All the chapters make innovative contributions, and advance our understanding of how offshoring, nearshoring, and outsourcing is being, and can be, conducted. Each chapter goes beyond any rhetoric of prematurely declared success, to carefully reveal the ongoing complexity and sheer

hard work inherent in getting human beings of different cultures, in different time zones, often with different levels and types of expertise, and with different incentives to collaborate to achieve IT work. In looking at the 11 chapters we found it relatively easy to organize them into three areas, with each chapter making a primary innovation in at least one of these. The three areas are relationship management, social capital, and knowledge. Let us look at these innovative contributions in more detail.

## **Innovations in relationship management**

The first chapter *Exploring relationships in information systems outsourcing: a typology of IS outsourcing relationships* is by Stefanie Leimeister and Helmut Krcmar. The authors point out several key gaps not considered in the extant research: (1) research on relationship management in interorganizational contexts has enumerated a great number of relationship factors, but has failed to integrate these factors into an overall outsourcing context; (2) Social Exchange and Expectation Confirmation Theory can help to foster a comprehensive view on outsourcing relationships, including an exchange perspective between individual actors, as well as involving market interactions and context; (3) classifications from other business-to-business relationship management approaches are not that applicable to IS outsourcing relationships due to the specific nature of information systems in an organization; and (4) classifications of relationships in information systems outsourcing are often one-sided and do not provide an exhaustive set of dimensions for describing an outsourcing relationship type. The authors use social exchange and expectation confirmation theory to develop an innovative, research-based, fivefold classification of effective relationship types dependent on context.

The second chapter *offshore middlemen: transnational intermediation in technology sourcing* is by Volker Mahnke, Jonathan Wareham, and Niels Bjorn-Andersen. It explores the highly interesting, potentially valuable, and under-researched role of the “middleman” in offshore outsourcing. The researchers show that in recent years we have seen the emergence of this new breed of entity, operating as an offshore intermediary. Such entities specialize in bridging cultural, expertise, and communication gaps between a vendor and a client. The chapter examines the experiences of I-Technologies, a Scandinavian company specializing in assisting Scandinavian clients to find and work with offshore suppliers. The chapter pinpoints the boundary-spanning capabilities needed, and explores the cultural, distance, pre and postcontractual management aspects involved in operating as an intermediary transnational offshoring relationships.

The third chapter by A.G. Plugge, G.M. Wijers, and R.W. Wagenaar is entitled *IT outsourcing from a client perspective: exploring client developments and their impact on supplier capabilities*. Their research on five client organizations demonstrates that the Social Interaction approach's main focus on environmental, atmosphere, and exchange developments in a relationship do in fact impact meaningfully on a client's experiences of outsourcing. These developments also impact on supplier capabilities. The 12 supplier capabilities identified in Willcocks and Lacity (2007) do have to be strengthened to meet present and future client demands. The authors find that the newly identified capability "business market knowledge" needs to be added to the capability set of suppliers.

The fourth chapter is *Operational capabilities development in mediated offshore software services models* by Sirkka L. Jarvenpaa and Ji-Ye Mao. It examines the capabilities developed by Chinese vendors operating according to the mediated offshoring business model. The chapter focuses on understanding the capabilities needed by such vendors to deliver services successfully. In particular, they examine the development of operational capabilities, which are those involved in the provision of a service or a product. These consist of three types: client-specific capabilities, process capabilities, and human resources capabilities. Jarvenpaa and Mao conclude the chapter, based on data collected in four Chinese firms, by suggesting that human resources capabilities are the most important in this specific context.

## **The role of social capital**

The section focusing on social capital begins with *Integrated collaboration across distributed sites: the perils of process and the promise of practice* by Gary C. David, Donald Chand, Sue Newell, and João Resende-Santos. The authors deal with the issue of collaboration between offshore and on-site teams. By applying World-Systems Theory, the researchers are able to examine collaboration across their case study organization as the relationships between all remote sites, instead of using the traditional approach in which the research focus has been on a single site or a group of sites. As a result, this chapter innovates by highlighting the role that the socio-political organizational context plays in creating relationships and generating tensions between sites. The chapter concludes that tensions and breakdowns are also the result of how members of a globally distributed team perceive themselves: as core or periphery. Consequently, the key issue is power, and not just culture or the information and communication technologies

deployed, thus explicitly introducing political issues into applications of the concept of social capital in offshoring contexts.

There follows a chapter by Joseph W. Rottman entitled *Successful knowledge transfer within offshore supplier networks: a case study exploring social capital in strategic alliances*. The chapter considers social capital as the vehicle through which value is created in offshore outsourcing relationships. Rottman argues that it is important who the supplier knows in the client organization and vice versa. Through these social relationships, knowledge can flow and value can be created for both client and vendor. A case from a Fortune 100 manufacturing firm illustrates the importance of social capital and its impact on knowledge transfer and on the management of global IT suppliers.

The social capital theme is continued in the next chapter, *Risk, anxiety, and the production of comfort/trust in the context of globalized modes of working: the case of an Ireland-India IS offshoring relationship*. Here, Séamas Kelly and Camilla Noonan focus on the “relationship work” required to produce and sustain a sense of emotional comfort on the part of a client in the context of, or what was perceived as, an extremely unfamiliar and risky venture. In so doing, they innovate by synthesizing a novel theoretical perspective for illuminating key aspects of the phenomenon in question, by drawing mainly on Anthony Giddens’ ideas on risk, trust, and globalization, supplemented by important contributions from other authors. A striking feature of their analysis is the amount of effort, care, and attentiveness that was required to establish productive social relations, notwithstanding the apparent value congruity of the two firms involved. These efforts, however, contributed to the creation of important social capital that gave the project a new robustness which sustained it during difficult periods.

Our final chapter focusing primarily on social capital issues is *Requirements analysis in offshore IS development: remote bridging of differences in understandings*. Here, Paul C. van Fenema, Vinay Tiwari, and Paul W.L. Vlaar use a financial services offshore development project to illustrate how organizations need insight into strategies for dealing with coordinating various domains and varying levels of understandings, and the situations in which they should be deployed. The innovative strategies found in this study – translation, specialization, and generalization – represent alternatives for cooperating across sites, and for investing in capabilities.

Translation aims for a transactive interaction pattern, aimed at the correct execution of comprehensively defined requirements by offshore team members. This strategy would match situations of high time pressure, high precision, or high levels of turnover. Specialization is likely to fit best with

projects calling for great depth of expertise. Second, specialization calls for offshore organizations to invest resources in developing technical expertise among on-site team members, who are encouraged to remain involved in a project for a prolonged period of time. Third, generalization further extends the need for offshore personnel to actively participate in the global team. When such a strategy is deployed, customers are expected to pay a premium, which enables on-site and offshore team members to enhance value creation by jointly exploring new opportunities. The authors' findings allow practitioners in offshore settings to better assess the options they have for developing sufficiently similar understandings among members of on-site and offshore vendor teams – an extremely critical aspect in offshore ISD.

### **Knowledge and outsourcing**

In Chapter 9 *Global expertise and quality standards in ICT offshore projects*, Esther Ruiz Ben focuses on two German-based case studies of nearshoring and offshoring to Poland, India, Rumania, and Slovakia. Her innovative work shows how the knowledge and expertise needed in offshore IT projects are related to quality management systems and time. The research suggests that temporal norms and regulations are related not only to working practices but also to project deadlines as essential links to customers in software development. In practice, temporal norms constitute important dimensions of expertise definition. Moreover, her analysis emphasizes the important role that quality standards have in structuring expertise. Quality standards also play a very important role as internal controlling and timing instruments of knowledge, working, and communication processes, as well as an external mechanism beyond the ICT network to gain market advantages. The research suggests that establishing domains of practice from a long-term perspective in the client organization supports the expertise transfer in offshore projects and the engagement of experts in the improvement of quality management systems.

Michaela Wieandt's chapter is also concerned with knowledge and expertise transfer. In *Step by Step: the development of knowledge transfer and collaboration in a nearshore software development project*, she shows how employees of onshore and nearshore sites of a medium-sized German software development company established a transactive-memory-oriented knowledge base in an incremental manner. Important factors enabling collaboration included the arrangement of the division of labor, a high social and organizational integration of the nearshore workers, as

well as equal control mechanisms for all sites. The author concludes that it is more useful when a company's management communicates the near-shore concept to all its employees. Incentives for the on-site employees are important for raising their dedication to putting the concept successfully into practice. In particular, project managers play a key role and should be adequately supported. Project managers' ability to structure work, to lead, and motivate employees are basic factors for the success of a near-shore project. Furthermore, the establishment of a Transactive Memory System appears to be very important because it eases knowledge transfer and communication. Similarly, team-building processes in dispersed working situations are key. This is effectively supported by an integration of, and equal treatment of, the nearshore employees through a comprehensive socialization into the organizational context, work procedures, and routines encompassing on-site on-the-job-training, joint company training programs, and team rotation.

The knowledge, expertise, and collaboration themes of this section are examined again in the final chapter, in which Ilan Oshri, Julia Kotlarsky, and Leslie Willcocks describe their study of a major outsourcing arrangement between ABN AMRO Bank and Tata Consultancy Services. In *Managing dispersed expertise in IT offshore outsourcing: lessons from Tata Consultancy Services*, the authors show how a large Indian supplier organized its knowledge and expertise to service its global client from bases in the Netherlands, Sao Paulo, Budapest, Mumbai, and Luxembourg. The study concludes that all global suppliers are going to need to develop similar knowledge systems and processes if they are to continue to compete effectively in the near future. The authors also point to four challenges for clients. They must understand the benefits they will receive from a provider's expertise management strategy. Clients must understand their own costs implicit in a provider's expertise management strategy. Clients must safeguard their intellectual property. And finally, clients need to leverage the relationship advantage. If TCS and other major IT outsourcing providers do go down the expertise management route, as described in this chapter, then clients could reap one significant, but unanticipated, benefit: they could learn how to better manage their own expertise and knowledge.

## **Conclusion**

The book brings many innovative, key insights together into the relationship, social capital, and knowledge themes that are only just emerging as critical for effective use of offshoring, nearshoring, and outsourcing.

The chapters show that global IT sourcing should be treated as a context-dependent scenario. What is critical for the American middleman might not be imperative for the Chinese mediating firm. Second, the chapters bring together vendor/client capabilities, along with the broader picture of the supply network, and also the micro-processes involved in managing knowledge transfer and globally distributed collaboration. These are indeed the building blocks of any global sourcing relationship. But, beyond this, the chapters illustrate in rich detail that the essentially human, “soft” side of outsourcing is critical to researcher insights and understanding, and also to practitioner management effectiveness. In putting together this book our intention is to make valuable contributions to these communities, and their objectives.

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