ABSTRACT

In spite of the fact that IT outsourcing has been repeatedly proven to improve firms’ performance, few studies of the strategic importance of IT outsourcing have been undertaken in Eastern cultural contexts. To better understand IT outsourcing performance in an Eastern culture, the authors draw on the strategic orientation-performance framework as they investigate the unique capabilities of firms that determine IT outsourcing performance. The authors highlight the strategic role of client-vendor relationships, and explain that these relationships are influenced by IT outsourcing process management capacity, core competency orientation, and relationship-specific investment in IT outsourcing practices. The quality of this client-vendor relationship, in turn, affects the performance of the IT outsourcing unit. Empirically examining their research model through structural equation modeling, the authors present new insights for IT outsourcing by emphasizing the role of strategic decision making. The authors’ findings can enable client firms in Eastern cultures to improve the outcomes of their outsourcing decisions.

Keywords: Client-Vendor Relationship, Core Competency Orientation, Eastern Cultural Context, IT Outsourcing, Strategic Orientation

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INTRODUCTION

When the idea of IT outsourcing first began to take hold in the business world, a single organizational function or a single information system would be outsourced, but now entire information management processes can be managed by external vendors. Comprehensive outsourcing agreements aim to provide reliable IT services across the enterprise (Quinn, 1999) as well as maximize resource productivity (Hemplehill, 2004; Quinn, 1999). IT outsourcing has therefore become an important and frequently-studied topic among researchers. Outsourcing has repeatedly been identified as a way to reduce operational costs and to resolve the problem of resource disparity among organizations (Lacity, Khan, & Willcocks, 2009; Rai, Maruping, & Venkatesh, 2009; Smith, Mitra, & Narasimhan, 1998). In addition, researchers have suggested considering IT outsourcing for strategic reasons, including IS improvement, business impact, and commercial exploitation (Lacity et al., 2009).

Thus, the specific ways in which benefits are gained through IT outsourcing remain a major focus of researchers.

Many studies regarding IT outsourcing have focused on ‘why to outsource,’ ‘what functions should be outsourced,’ and ‘how firms should outsource.’ In such studies, various antecedents and outcomes of strategic IT outsourcing have been considered and explained (Dibbern, Gole, Hirschheim, & Jayatilaka, 2004; DiRimualdo & Gurbaxani, 1998; Lacity et al., 2009). Most of these studies, however, have been conducted in Western cultural contexts, with little investigation to indicate if the same factors are relevant elsewhere (Samaddar & Kadiyala, 2006). Restated, the focus on Western contexts means that Eastern ones are relatively understudied. The Asia-Pacific region is one of the growth leaders in the global IT outsourcing market, with IT outsourcing revenue there reaching $10.4 billion in value in 2011 (Clark, 2012). Given the amount of outsourcing business taking place in this region, there is a critical need to examine IT outsourcing there, and to specifically study how outsourcing relationships may differ from those in the West. This paper therefore takes a strategic sourcing perspective to better understand IT outsourcing in Eastern cultural contexts.

To study the strategic role of client-vendor relationships in IT outsourcing in an Eastern culture, we ask two specific research questions in this paper. First, what are the strategic factors that influence the client-vendor relationship in IT outsourcing? The client-vendor relationship refers to the client firms’ experience negotiating, monitoring, and communicating with the vendor over time, in terms of long-term partnerships (Rustagi, King, & Kirsch, 2008). The client-vendor relationship has been identified as a key success factor in IT outsourcing (Grover, Cheon, & Teng, 1996; Kishore, Rao, Nam, Rajagopalan, & Chaudhury, 2003), and we address the unique competencies, capacities, and capabilities of a firm that shape executive decisions about the firm’s outsourcing decisions. We propose that three strategic factors impact IT outsourcing client-vendor relationships: IT outsourcing process management, core competency orientation, and relationship-specific investment. Following from this, our second research question is, how does the client-vendor relationship affect performance in an Eastern culture? It is generally accepted that relationships matter a great deal in Eastern cultures, but little is known about whether this emphasis on relationships influences operational performance. Therefore, we also investigate the strategic factors that influence performance, focusing in particular on how the client-vendor relationship influences performance.

To address these questions, we first review literature regarding the client-vendor relationship in IT outsourcing, and identify a set of strategic factors that may influence IT outsourcing performance. We then develop a model and provide a theoretical explanation of the mechanism by which these strategic factors influence performance through the client-vendor relationship. We test our research model and its accompanying hypotheses with survey data from a sample of 200 South Korean firms. Results indicate broad support for our