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A Contingent Approach to Facilitating Conflict Resolution in Software Development Outsourcing Projects

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ABSTRACT

With the wide spread of IT outsourcing, internal IT personnel have been required to change their roles from system development to organizational change agents such as securing software development outsourcing (SDO) success. Conflict resolution is critical to secure the SDO success, but the understanding of how IT personnel facilitate conflict resolution as change agents is limited. The purpose of this study is to understand the negative impact of conflicts on SDO outcomes and to investigate the moderating effect of IT personnel's conflict resolution facilitation (process facilitation, content facilitation) between conflicts and two SDO outcome dimensions (project efficiency and system effectiveness). In order to test the model, data was collected through a cross-sectional field survey using questionnaires, and a total of 144 SDO projects were used in the final analysis. Research results show that conflicts have a negative impact on both of the SDO outcome dimensions, and the effect of conflict resolution facilitation by IT personnel is contingent on the dimensions of SDO outcomes.

KEYWORDS

conflict resolution facilitation, conflict, IT outsourcing, IT personnel, project performance, software development

1. INTRODUCTION

"Even operational conflicts (in outsourcing arrangements) that seem quite small—typically over contracts and service—can lead to underperformance, damage relationships, and in a highly connected business eco-system, disable strategy." (Lacity and Willcocks, 2017, p. 81)

Nowadays IT (Information Technology) outsourcing is an important alternative for modern enterprises. The scope and impact of IT outsourcing has been expanded increasingly. Modern IT outsourcing includes software development, IT function outsourcing, data center, cloud service, and offshore outsourcing (Bapna et al., 2010; Gregory et al., 2009). This widespread of IT outsourcing has been making internal IT functions change their roles. Their roles have been changing mostly from delivering information systems for their organizations to system analysis, network management and especially strong change agents in their organizations (Laudon & Laudon, 2016). They play a vital role in aligning technological developments with organizational planned changes. This paper focuses on their new emerging roles of change agents in acquiring organizational IT outsourcing success.

Despite the various types of IT outsourcing have been emerging and IT outsourcing has become a viable alternative, the effective management of IT outsourcing is still a challenge for many internal

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IT functions (Lacity & Willcocks, 2017). This challenge has been widely documented in prior studies. Some sources estimate that more than 50% of IT outsourcing fail or perform very poorly (Ditmore, 2012; Keiser, 2014). In the context of SDO (software development outsourcing) relationships which this study focuses on among the various types of IT outsourcing, only 29% are successful, and 71% are considered failures or challenged (Wojewoda & Hastie, 2015). Many SDO projects have failed to meet customer expectations as well as been reported to result in delayed schedule, budget overrun, and failure to business needs (Wojewoda & Hastie, 2015; Gefen et al., 2008; Tiwana and Keil, 2004).

This high failure rate of SDO originates from the highly complex risks of SDO tasks (Choudhury & Sabherwal, 2003; Wallace & Keil, 2004). SDO tasks wherein external service providers (or vendors) technically implement the information requirements of their client companies generally involve two types of distinct risks. The first is performance risk, that is difficult to achieve performance goals such as project schedule and budget, caused by very high complexities of software development task; the other is relational risk, wherein the parties involved in outsourcing relationships seek to achieve its own interests and exhibit opportunistic behaviors (Gefen et al., 2008; Choudhury and Sabherwal, 2003). This complex inherent risks of SDO make internal IT difficult to handle the inter-organizational development issues and prone to conflict. If the SDO risks are not effectively managed, conflicts generally arise. Therefore, the inability to resolve conflicts that arise in SDO relationships is a major cause of poor outcomes (Goo et al., 2009; Lacity and Willcocks, 2017; Rai et al., 2012).

Defined as a serious dispute between client and external service provider (e.g., Lee and Kim, 1999), the subject of SDO conflict remains an important issue in IS research. While prior research has examined the types of inter-organizational conflicts and conflict resolution styles in joint ventures, networks, consortia, alliances, and trade associations (Barringer & Harrison, 2000; Cropper, Huxham, Ebers, & Ring, 2008) and in various inter-organizational contexts such as natural resource rights, labor relations, international relations, volunteering, and manufacturing alliance networks (e.g., Dyer and Nobeoka, 2000; Mandell and Keast, 2009; Molnar and Rogers, 1979; Renner et al., 2007), relatively little research has examined inter-organizational conflicts in the SDO context (Lacity and Willcocks, 2017).

Prior studies on conflict in IT outsourcing mostly discovered that the capability to resolve conflicts in outsourcing relationships was significantly correlated with outsourcing outcomes (e.g., Goo et al., 2009; Lacity and Willcocks 2017; Ndubisi, 2011, 2013; Swar et al., 2012; Winkler et al., 2008; Rai et al., 2012). In these previous studies, notably some studies examined the impact of conflict resolution styles between the two outsourcing parties (e.g., integrating, accommodating, and compromising) on outsourcing outcomes (Lacity and Willcocks 2017; Ndubisi, 2011, 2013). These studies provide valuable insights into approaches to handling conflicts and managing outsourcing relationships, but they fail to consider the inherent triangular relationship comprised of vendor, client users and client IT group.

They regarded outsourcing relationship as a dyadic one comprised of client and vendor rather than a triangular one. However, if you look at the outsourcing relationships more deeply, you notice that there are three typical stakeholders comprised of vendor, client users and client IT group. On client side, user group and IT group have their own unique positions and interests that are not easy to negotiate. In the software development outsourcing, client user group has their own unique system requirements and client IT group has the intermediary and managing roles for SDO projects (Gregory et al., 2009; Choudhury and Sabherwal 2003). It is often the case that client IT personnel interact with vendors, and client users do not have many chances to directly interact with them. Therefore, system developmental issues and concerns that client users have tend to be communicated and handled through internal IT personnel, and the conflict between client users and vendors may be resolved by the intervention of internal IT rather than the direct conflict resolution between them (Goo et al., 2009). This type of conflict resolution facilitation by IT personnel has been scarce in previous studies although it is a very vital method for SDO success in practice.

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