

# Chapter 5.1

## Outsourcing Information Technology: The Role of Social Capital

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### 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.

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.

### 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

### 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.

### **Social Norms**

Social norms provide for social control in an organization. They are general, internalized sets of accepted behavior for members of the social network. Social norms are a common belief system that allow participants to communicate their ideas and make sense of common experiences (Adler & Kwon, 2000). They are shared strategic visions, systems of meanings, and normative value orientations (Nahapiet & Ghoshal, 1998). Social norms increase efficiency of action and reduce external

unknowns. They also contain shared knowledge and history for an organization. They are the accumulated history of the organization in the form of social structure appropriable for productive use by any member of the social network in the pursuit of his or her interests (Sanderfur & Laumann, 1988).

### **Obligations and Expectations**

Lesser (2000) viewed this dimension of social capital as the positive interactions that occur between individuals in a network. These interactions have been viewed as positive largely because of the levels of trust and reciprocity that they engendered (Putnam, 1993). The existence of these obligations and expectations of future benefit are nurtured in an organizational environment containing strong social ties and are hampered by the absence of these ties.

Within a network, obligations and expectations lead to collective trust, which becomes a potent form of expectational asset (Knez & Camerer, 1994; Nahapiet & Ghoshal, 1998). Collective trust allows group members to rely on each other more generally to help solve the everyday problems of cooperation and coordination (Kramer, Brewer, & Hanna 1996). With collective trust present, group members can rely on one another to follow through with things expected of them and obligations owed by them. Group members are then more willing to work for the group with the knowledge and expectation that the group will work for them when the time comes. Collective trust strengthens obligations and expectations.

### **Identity**

Identity occurs when individuals see themselves as one with another person or group of people (Nahapiet & Ghoshal, 1998). The individual takes the values or standards of other individuals or groups as a comparative frame of reference (Merton, 1968; Tajfel, 1982). Identity with a group or collective

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