The Role of Absorptive Capacity in Information Technology Outsourcing and Innovation Performance: A Moderated Mediation Analysis

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Abstract

This study extends the view that transaction cost and dynamic capability theory function as complements rather than substitutes. As IT innovations have been growing over the last few years, more organizations are considering innovation in their IT outsourcing decision making process. Guided by transaction cost theory (TCT) and dynamic capability theory (DCT), an exploratory model was developed and tested. We integrate a central construct in the dynamic capability theory – absorptive capacity as a moderator variable of the relationship between transaction attributes (asset specificity and uncertainty) and innovation generation and performance. Data collected through a case study method. Results from these three case studies support the fundamental propositions of the model. The implications of these findings for both researchers and practitioners are discussed.

1. Introduction

Information Technology (IT) outsourcing is the transfer of a part or all of IT services to an external service provider [1]. The most common motive and proclaimed benefit of IT outsourcing is cost reduction which is due to suppliers’ superior economy of scale. Until recently, it was widely believed that firms can extract business value simply by focusing on a cost leadership strategy or on product differentiation [2]. However, an emerging rationale for IT outsourcing is to become more innovative through increased focus on market and by getting access to suppliers’ competencies [3]. With the emergence of IT outsourcing as a ubiquitous business imperative, in addition to the increased global competition and role of technology in bridging firm boundaries, firms are realizing the importance of IT innovation in ultimately realizing and sustaining a competitive advantage [4].

Nonetheless, most studies on IT outsourcing have neglected innovation, a phenomenon that is at the core of the Schumpeterian view of economic exchange [5]. Oliver Williamson who is credited with the development of transaction cost theory and its applications to markets and non-market decision making admitted that, contrary to what happens in the static case, transaction costs emerging uniquely from asset specificity and uncertainty would be less than persuasive explaining vertical structure in an innovative environment [6].

Innovation is of major relevance for firms, as it can be the source of additional revenues from new products or services and, can help to save costs or improve the quality of existing processes [7]. There has been substantial research in the area of innovation, which is widely regarded as a powerful weapon to create competitive advantage [8]. The extant literature shows consensus that innovations span over a broad spectrum from self-generation to adoption. Accordingly, innovation refers both to an organization’s invention of a novelty combined with its subsequent exploitation as well as to the cognitive and affective initiation of the first introduction of a novelty within an organization combined with its subsequent implementation [9].

In IT outsourcing, many CIOs enter into outsourcing arrangements with an expectation that the supplier will not only live up to the letter of the contract, but by virtue of being a service provider, will bring something more to the table. Yet, there’s a good deal of dissatisfaction in the market right now. The biggest gap between outsourcing benefits sought and achieved exists around innovation, according to an Albridge survey of 300 buyers of IT services [10]. The same company found that suppliers themselves indicated that the inability to apply innovation to client requirements is their number one challenge by a four to one margin. Another survey conducted by CIO magazine found that nearly a quarter of respondents were dissatisfied with the level of innovation provided by their domestic services provider and almost half were unhappy with the innovation provided by offshore outsourcers [10].

Nevertheless, researchers argue that dynamic capabilities are directed toward enabling firms to
reconfigure their resource base and adapt to changing market conditions in order to achieve a competitive advantage [11]. In recent years researchers have used absorptive capacity (ACAP) as a dynamic capability pertaining to knowledge creation and utilization that enhances a firm’s ability to gain and sustain a competitive advantage. Most empirical studies show significant relationships between ACAP and innovative output [7]. This paper aims at filling a gap in IT outsourcing literature by examining the following research questions:

*How absorptive capability play a role in the relationship between IT outsourced transaction characteristics (specificity and uncertainty) and innovation generation and performance?*

The contribution of this paper is twofold. First, this study attempts to integrate putative economic (transaction cost theory – TCT) and strategic (dynamic capacity theory – DCT) constructs – specificity and uncertainty and the moderating role of absorptive capacity of the supplier on their effect on innovation generation and performance. Second, this study examines a comprehensive validation and etiology of these constructs used in our framework. In this regard, we expect that our findings offer new insights into the management of IT outsourcing projects.

The remainder of the paper is organized as follows: first we present the theoretical foundation and research propositions. Next, we discuss our research methodology. We conclude with a discussion of the implications for practice and expected contributions.

### 2. Theory Development and Propositions

The research model of Figure 1 depicts the moderating role of absorptive capacity of the supplier on the effects of IT outsourced transaction attributes (specificity and uncertainty) on innovation generation and performance.

![Research Framework](image)

**Figure 1. Research Framework**

### 2.1 Innovation Generation and Performance

A well-known innovation taxonomy was introduced by Henderson and Clark [12] that consists of four main types of innovation: incremental, modular, architectural, and radical. Incremental innovations are those where there are no changes in core concepts or in the linkages between core concepts and components. Modular innovations exhibit changes in the core concepts...
but no changes in linkages. Architectural innovations change the way in which the components of the product are linked together while preserving the core concepts and design principles. Hence, they destroy the usefulness of the firm’s architectural knowledge, for example by linking the components of a system in a new way. Finally, radical innovations involve changes on both the core concepts and the linkages with components. This type of innovation requires a completely new set of knowledge as compared with incremental innovation. The authors also note that incremental innovation tends to be competence-enhancing while radical innovation is likely to destroy existing competencies in the firm (competence-destroying). In the last decade the literature on innovation has emphasized the significant importance of incremental and radical innovations. This paper focuses on these two important innovation types.

Innovation generation is necessary but not sufficient. It needs to be linked to innovation performance which consists of innovation efficacy and innovation efficiency. Innovation efficacy reflects the degree of success of an innovation. Innovation efficiency reflects the effort carried out to achieve that degree of success. Hence, as pointed out by [10], clients and suppliers alike are having difficulties achieving innovation objectives when IT transactions are outsourced. In this paper we introduce a contingency element by proposing that a supplier’s absorptive capacity exerts a positive moderating effect on the relationship between IT outsourced transactions that are characterized by a high degree of specificity and uncertainty and innovation generation and performance.

2.2. Absorptive Capacity

We use a central concept of the dynamic capability theory- the absorptive capacity (ACAP), to build a conceptual framework that links IT outsourced transaction characteristics or attributes and innovation generation and performance. ACAP is considered a dynamic capability that influences the firms’ ability to create and deploy the knowledge necessary to build other organizational capabilities [13]. More precisely, ACAP refers to the set of organizational routines and processes, by which organizations (here suppliers) acquire, assimilate, transform, and exploit knowledge to produce dynamic organizational capabilities [11].

Previous studies have found individual [14, 15], group [16], and organizational factors as well as external environment [17] to influence the development of ACAP [18]. To the best of our knowledge, none of the studies has examined ACAP in the context of IT outsourced transaction characteristics and their effects on innovation generation and performance. In this study, we complement the absorptive capacity perspective [11 with the transactional view of the firm [19].

Several studies showed that accessing technological knowledge held beyond the focal firms’ boundaries improved their innovativeness [20]. ACAP is generally developed through continuous engagement in R&D over time [14], it requires a substantial research capability to understand, interpret and to appraise knowledge that has been placed upon the shelf-whether basic or applied. The extent to which a firm can screen, value, and utilize externally sourced technologies depends on the level of its ACAP [14]. ACAP, therefore, allows a firm to identify and value new knowledge that originates from beyond its boundaries, and to assimilate and integrate the new knowledge with the firm’s existing knowledge [21].

In this paper ACAP is conceptualized into potential and realized absorptive capacity of the supplier, where potential capacity comprises knowledge acquisition and assimilation capabilities, and realized capacity centers on knowledge transformation and exploitation [11]. Knowledge acquisition and assimilation capabilities are built through external technology sourcing, whereas knowledge transformation and exploitation capabilities are created as by-product of internal technology sourcing [21].

Firms focusing on acquisition and assimilation of new external knowledge are able to continuously renew their knowledge stock (potential absorptive capacity), but they may suffer from the costs of acquisition without gaining the benefits of exploitation. Conversely, firms focusing on transformation and exploitation (realized absorptive capacity) may achieve short-term profits through exploitation but fall into a competence trap [11]. Prior research affirms that firms with a higher level of ACAP exhibit higher internal technological competence [22]. When a firm possesses an adequate level of ACAP, it tends to not only be more sensitive to opportunities that present themselves in their technological environments, but also more proactive in exploiting those opportunities through combining internal and external sources of knowledge [14].

Therefore, the ability to innovate has become increasingly central as studies have revealed that
innovative firms tend to demonstrate higher profitability, greater market value, super credit ratings, and higher survival probabilities [23]. Firms increasingly build innovation capacity by tapping into external knowledge sources. The capacity to absorb knowledge has become crucial. In their seminal paper, [14], not only include recognition of knowledge, but also link ACAP more strongly to innovation. They suggested that ACAP is related to firm’s innovation as well as their performance. [14] argued that sustaining an ACAP over time requires investments, but results in the ability to not only exploit new, valuable developments, but also to envision better their emergence.

2.3. Specificity

The literature widely investigates the transaction cost explanation for firms’ boundary choice versus market governance under asset specificity conditions, and provides this explanation with considerable empirical support [14]. Transactions that are characterized by high asset specificity should be kept in-house. However, the literature overlooks the TCT’s implications for outsourcing in the presence of relationship-specific investments and their effect on innovation generation and performance. This study fills this gap by raising the question of what happens to those firms that do choose to outsource under relationship-specific investments conditions.

Asset specificity or relationship-specific investments refers to the transferability of the assets that support a given transaction to a service provider. A specific asset is significantly more valuable in a particular exchange than in an alternative exchange [19]. An asset under TCT is defined as any valuable aspect of a firm. It can be a site, a physical asset, a human asset, or a dedicated asset [19]. In other words, it is the extent to which the investments made to support a particular transaction have a higher value in relation to that transaction than they would have had if they had been used for any other purpose. [25] suggested three forms of specific investments – core, transactional and relationship-specific investments. Core specificity refers to the extent to which resources contribute to the competitive advantage of the firm [26, 27].

Transactional specificity refers to specific assets with dimensions of site, specific product/service, human resources, dedicated assets, brand and temporal specificity. Relational specificity is the extent to which resources must be developed to deal with a particular supplier [28]. When a firm entrusts service provider with an activity, business process assets dedicated to this particular relationship are developed [29]. Relational specificity has human, procedural [29], and process dimensions [30].

Despite this cogent economic logic, which seems consistent and almost universally accepted by organizational economic theorists, we observe in business practice that in some IT outsourcing relationships it is common that one firm makes unilateral relationship-specific investments in which reciprocal commitment from the other firm is neither expected nor forthcoming [31]. [32] confirm that ‘it is obvious that organizations increasingly engage in small number bargaining and outsource IT activities with high degree of specificity’ with expectation of innovation from the supplier. Firms are increasingly outsourcing valuable and difficult-to-replicate business functions, such as R&D, product design, and IT services [33]. It is the access rather than ownership or control of assets and resources that is being central to firms’ strategies [34].

TCT argues that specific assets invested in a partnership increase the hazards of opportunism. On the other hand, asset specificity enhances the trust between partners, which in turn leads to more cooperative behavior and higher partnership performance [35]. As asset specificity increases, the likelihood of higher involvement in the supplier management of processes increases [25] and, in turn, its absorptive capacity level becomes critical to the success of the client’s innovation objectives. Hence, the supplier’s ACAP allows a firm to identify and value new knowledge that originates from beyond its boundaries, and to assimilate and integrate the new knowledge with the firm’s existing knowledge [21].

2.4. Uncertainty

Studies often cite a wide variety of uncertainty definitions. For example, uncertainty is defined as a perceived inability to predict accurately [36], or a condition in which one cannot ascertain the probability of an event and therefore cannot insure against its occurrence [37], or as unpredictability of environment change, complexity and diversity of external factors [38]. According to TCT, uncertainty refers to the degree that decision makers in firms are able to accurately predict situations that affect the planning and adaptation of a transaction [19]. This can include a variety of factors, such as demand for the product, changes in technology, and ability to effectively monitor performance of the agent [19, 39]. Hence, one can neither foresee
all future eventualities nor specify how to resolve issues in all possible contingencies.

In this study, we posit that IT outsourced transactions that are characterized by certain degree of uncertainty are common in innovative markets for products and services. We distinguish three types of uncertainty. The first is environmental volatility or the rapidity of market and demand changes. Environmental uncertainty has been characterized and studied in terms of three dimensions: dynamism, heterogeneity, and hostility [38, 40]. Dynamism is the rate and unpredictability of environment change (rate of product/service change, unpredictability of competitors’ moves). Heterogeneity is the complexity and diversity of external factors (customers’ buying habits, diversity in the nature of competition, and diversity in product lines). Hostility involves both the availability of resources and the degree of competition in the external environment. Environmental uncertainty diminishes the ability of partners for planning effectively and, therefore, increases the transaction costs surrounding the exchange [41].

The second dimension of uncertainty is tied to technological discontinuity (technological changes and breakthroughs that may render the technology of the original contract obsolete). Such changes may force the parties to amend their contract, at a certain cost [42]. The volatility of information technology has the effect of rapidly making IS skills obsolete and creating IS skills shortages [43].

Many IT outsourcing contracts were rendered obsolete by changing markets and technological and business forces. Changes in the IT industry or in the world of business are the last things partners usually consider when drawing up the technical details of a long-term outsourcing deal. Yet, it is rare that an outsourcing arrangement goes full term without a significant event—a new business structure, new technology or different economic environment-substantially affecting the contract. For instance, the complexity of technologies, such as networking, has grown beyond the ability of many organisations to deal with it. Major computing platform changes can drive IT outsourcing. This uncertainty surrounding changes in IT may lead to reconsider the terms of the contract which in turn will increase costs of contractual amendment.

The third dimension of uncertainty or behavioral uncertainty is related to the nature of the outsourced activities and the supplier’s associated behavior. An activity will be said to have a high level of uncertainty when it is difficult to describe with exactitude the outputs it should produce [19]. Research on user requirements analysis has demonstrated how difficult such an activity is in the context of information system development. Hence, any increase in uncertainty provides an incentive for opportunistic behaviour when contract clauses need to be amended [19]. Under such circumstances and, in order to achieve the client’s innovation objectives, suppliers need to have a high absorptive capacity to contain such uncertainty. The above discussion suggests the following propositions:

Proposition 1: Absorptive capacity moderates the effect of specificity on innovation generation.

Proposition 2. Absorptive capacity moderates the effect of uncertainty on innovation generation.

Proposition 3. Innovation generation mediates the relationship of specificity and uncertainty and innovation performance.

3. Research Design & Method

3.1. Instrument development and data collection

We use a multiple-case study design. Our sample consists of three case studies. This multiple-case design is adopted with real-life events that show numerous sources of evidence through replication rather than sampling logic. According to [44], generalization of results from case studies, stems on theory rather than on populations. By replicating the case through pattern-matching, a technique linking several pieces of information from the same case to some theoretical proposition [45], multiple-case design enhances and supports the previous results. This helps raise the level of confidence in the robustness of the method. The selection of the first case (Case A) is based on low level of specificity and low uncertainty surrounding the IT outsourced transaction. The second case (Case B) is selected based on high level of specificity and low uncertainty of IT outsourced transactions. The third case (Case C) is selected based on its high specificity and high uncertainty.

Prior theorizing constitutes an essential component of explanatory case design [46], we laid out a general orienting frame to more clearly specify what we were looking to achieve in interviewing managers. We derived propositions from the theoretical framework adopted and we then compare the deductions (the predictions) of each proposition against case data. These propositions not only reflect important
theoretical issues, but also begin to tell us where to look for relevant evidence. Hence, as emphasized by [46], rigorous explanatory case research presumes that the theory of interest is stated explicitly in the first place and that predictions following from the theory are also explicitly stated by the researchers. As was shown by [47], in a review of positivist case study research in the field of management information systems (IS), all of the explanatory case studies they reviewed in top journals in the area explicitly stated the theory of interest, while 94% stated the various predictions deduced from the theory itself. Following these guidelines and TCT and DCT predictions, we integrate the measures of our research model’s constructs as shown in Table 1.

<table>
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<th>Construct</th>
<th>Dimensions</th>
<th>Source</th>
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| **Innovation Performance** | Efficacy  
                        | Efficiency                                      | [8]    |
| **Innovation Generation** | Incremental innovation  
                        | Radical innovation                              | [8]    |
| **Absorptive Capacity** | ACAP  
                        | Potential ACAP (acquisition and assimilation)  
                        | Realized (transformation and exploitation)     | [11]   |
| **Uncertainty** | Environmental uncertainty  
                        | Dynamism                                        | [40]   |
|                        | Heterogeneity                                    |        |
|                        | Hostility                                        |        |
|                        | Technological discontinuity                      |        |
|                        | Behavioral Uncertainty                           |        |
| **Specificity** | Core specificity                                 | [25]   |
|                        | Transactional specificity                       |        |
|                        | Relational specificity                          | [27]   |

Three firms were selected for this study. We conducted interviews at Case A (in Netherlands), Case B and, Case C (in Canada). Due to confidentiality reasons, we omit the real names of these firms. In semi-structure interviews, we asked IS managers to answer questions about the nature of IT outsourced activities, the client-supplier relationship, the supplier’s absorptive capacity and whether there were any realizations of innovation generation and performance. The qualitative data collected was then analyzed using a pattern-matching logic. In conducting the analysis, we used a combination of inductive and deductive analysis. Indeed, we attempted to identify core themes inductively by carefully reviewing the data from each interview. Subsequently, each theme was assessed using a deductive approach where the data were analyzed according to an existing framework. Once the various patterns band themes were established through inductive analysis at each level of our research constructs and propositions, the final, confirmatory stage was deductive in testing and affirming the authenticity and appropriateness of the inductive content analysis which included assessing deviate data that did not appear to fit the research propositions.

Case A is Europe’s largest manufacturer of consumer electronics, medical equipment and lighting with sales totaling into 23.2 billion euro. The firm’s financial agenda for 2010 and 2011 is to relentlessly manage the cash balance and to capitalize on growing demand in healthcare and energy-efficient consumer products. Core to this strategy is to outsource all non-product related activities, or in other words to relocate the burden of activities that don’t have any direct value-creating ties with its healthcare, consumer lifestyle and lighting core businesses.

In total, we conducted 13 interviews with different IT executives at Case A: 5 outsourcing engagement managers, 1 vice-president of outsourcing, 7 line-of-business managers (sourcing specialists, commodity managers and
service-level managers). The thirteen interviews were conducted over a course of 5 months.

The project we researched is designed to globally consolidate the provision of: (1) the firm’s IT service desk, (2) desktop services, (3) LAN services and (4) process management services. Supplier A was selected as the winner of a rigorous tender procedure. The contract duration for the project was 3 years. Unfortunately, we are not allowed to communicate the exact total contract value - TCV of the project but it is valued above 100 million euro.

Case B is a Canadian company from the insurance sector, which is very IT intensive. Case B is very large in terms of size, structure and turnover. It is the sixth largest life and health insurance company in Canada. It insures over 1.5 million Canadians, employs more than 2,000 people and manages over $17 billion in assets.

Case C is the eleventh largest airline in the world with passenger and freight operations to more than 160 destinations on five continents. The airline employs 33,000 people worldwide serving 31 million customers annually with a fleet of more than 300 aircraft maintained at major facilities across North America.

3.2. Data Analysis and Results

In conducting the analysis of the data, we used a pattern-matching logic as described in [44]. Pattern-matching is possible as long as a different pattern is stipulated for each variable proposed which is indeed the case for each of the model’s constructs.

In an effort to analyse the responses to the questions, we developed codes after an initial exploration of the data. We began with a first-level coding whereby we summarized segments of the data reported by the interviewees. These codes consisted of tags or labels for assigning units of meaning to the information gathered from the study. We largely restated the facts and statements that occurred the most in order to stay as close as possible to the data. As a second step, we conducted what is referred to as pattern coding which is a way of grouping the initial set of codes into a smaller number of sets, themes, or constructs [48]. We recoded them to further conceptualize the original codes. The entire data analysis process was iterative as we took advantage of multiple opportunities to review the plausibility and consistency of the logic underlying the data analysis with regard to the underlying framework in constantly going back to the raw data and immersing ourselves in it, as suggested by [48].

As Table 2 shows, Case A shows low on asset specificity and uncertainty and high on ACAP. Most respondents have stated that innovation provided by Supplier A is mostly aimed at improving process efficiency rather than e.g. the inclusion of value-added products or services. Case A has adopted contractual arrangements to achieve such goals.

<table>
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<th>Table 2. Cross-Cases Analysis Results</th>
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<td>Specificity</td>
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(*) shows no innovation outcome was realized

Case A management is risk-averse when it comes to service-desk or IT infrastructure service outsourcing. A fundamental tension we encountered in interviews is that innovation is seen as something that necessitates “room” for failure whereas continuous reliability is paramount in infrastructure and helpdesk outsourcing. The IT outsourced transactions are not specific to Case A nor are they associated with high degree of uncertainty. Nevertheless, technological know-how was required. The new processes could not be implemented without a major revamp of the systems in place. Document and contract management had to be implemented to ensure that all processes could be conducted from end to end without paper. It meant also that the new technology had to interface with many other systems used by Case A, while still providing a unified interface.

The predominant objective of ‘innovation’ at Case A is an improved bottom-line, overall reduction in supplier reliance and especially a continuous ambition to curb ‘supplier opportunism’ (originating from a supposed lack of key information from suppliers about potential volume-reducing innovations).

The supplier is totally responsible for providing IT services and infrastructure to Case A. This
includes a transfer of Case A employees to supplier A who previously performed service management activities. The employees who had valuable Case A specific knowledge on service provision/ticket resolution/IT infrastructure were taken over by the supplier (approximately 100 employees).

IT outsourced transactions are characterized by low (IT infrastructure) to medium (human resources) level of specificity and low uncertainty. Supplier A shows a high level of ACAP since the company has a strong record servicing clients for similar transactions. Supplier A has provided an incremental innovation generation and performance to Case A services. These findings from our first case study validate our propositions.

Case B shows high asset specificity and low uncertainty. A major IT outsourced project was undertaken by Case B with the major IT Canadian supplier. Supplier B took responsibility of developing a management system for the sales force network of Case B. Salespeople, among other activities, can communicate instantly with the main central system and respond to their clients requests 24/24 h. This project was considered a strategic initiative by Case B. Supplier B show a high ACAP and innovation generation and performance were observed as stated by VP information technology: “It is essential that our business-critical applications are accessible at all times. That's why we needed a partner we could trust and why we decided to do business with Supplier B”. Innovation generation was radical and innovation performance was high on both efficiency and efficacy.

Case C and Supplier C has signed a large (1.4 billion) 7-year IT outsourcing contract, under which Supplier C managed Client B’s entire global IT infrastructure, including application development and maintenance. The agreement expands the IT outsourcing relationship in that the client and the supplier started working together on pursuing new business opportunities in the areas of customer service and leading-edge travel industry solutions. For that matter, the parties established a joint project management office, and the jointly-developed solutions will be offered to other companies through a marketing alliance created between Case C and Supplier C.

Results show that, for a high relationship-specific investment by Case A in conjunction with high environmental and behavioral uncertainty surrounding this arrangement, coupled with low ACAP by supplier C has led to low innovation generation and performance by the supplier. A senior executive at Case C has summarized the situation “we suffered a significant damage especially among business travelers.”

The moderated mediation propositions were tested by qualitative pattern analysis. Each instance found for constructs-related patterns within and across the three case studies was counted. First, innovation performance was not predicted by specificity and uncertainty with 10% instances (2 out of 19 instances). After introducing the mediator (innovation generation) and the moderator (ACAP), innovation performance was no longer isolated from specificity and uncertainty, but was predicted by innovation generation (mediator) and ACAP (moderator), accounting jointly for 42 % (8/19) of innovation performance. The significant interaction effect supported the research propositions (1 and 2) of moderated mediation.

From this summarized analysis, we conclude that (1) multiple-case design replication enhances and supports our results and helps raise the level of confidence in the robustness of the method. Guided by the suggestion of [47], the level variation in outsourced transaction characteristics provides a better understanding of our research propositions, (2) the level of specificity and uncertainty of outsourced IT transactions is conditioned by the level of the supplier’s ACAP as of their impact on innovation generation, (3) innovation generation mediates the relationship between transaction attributes and innovation performance.

4. Practical Implications and Expected Contributions

The present study examines the moderating role absorptive capacity on the effect of IT outsourced transactions attributes on innovation generation and performance. More specifically, we focus on relationship-specific investments and uncertainty surrounding the IT outsourced transaction. Our model draws on transaction cost theory and dynamic capability theory and offers contention that absorptive capacity of the supplier plays a significant role moderating the effects of IT outsourcing on innovation. We tested our model by using data on three case studies (we note that this research is in-progress and a survey approach is underway). We are in the process of collecting data from a large sample of IT outsourcing arrangements. We intend to finalize data collection and analysis this fall. The preliminary analysis results of the three cases suggest that absorptive capacity moderates the
effect of IT outsourced transactions on innovation generation and performance.

This research has important practical implications. We demonstrate that absorptive capacity can be seen as a multidimensional construct, as suggested by [11]. This conceptualization is supported by a growing agreement in the literature that ACAP should be measured by potential and realized ACAP. Moreover, from a theoretical standpoint, this study shows that both specificity and uncertainty constructs are of second-order factors. Despite many empirical studies using these two constructs, their conceptual and operational definitions have showed limited validity (defined as one dimension and measured by three to five items). Furthermore, previous studies used innovation generation as a dependent variable; this study integrates the impact of innovation generation on performance.

This study contribute to the practice of IT outsourcing by stressing the moderating role of ACAP on the relationship between IT outsourced transactions and innovation generation and performance. More organizations are outsourcing IT transactions that are characterized by high level of relationship-specific investments and uncertainty. Hence, any innovation generation and performance sought from the supplier should take into account the role of ACAP of that supplier. Depending on the degree of the supplier’ ACAP, client organizations may or may not be able to achieve their innovation objectives. In this regard, we expect that our findings offer new insights into the management of IT outsourcing projects.

5. References


