Does Organizational Culture Matter in IT Outsourcing Relationships?

Parisa Aasi  
Department of Computer & Systems Sciences  
Stockholm University  
parisa@dsv.su.se

Ivan Nunes  
Royal Institute of Technology  
ivancn@kth.se

Lazar Rusu  
Department of Computer & Systems Sciences  
Stockholm University  
lrusu@dsv.su.se

Georg Hodosi  
Department of Computer & Systems Sciences  
Stockholm University  
hodosi@dsv.su.se

Abstract

IT Outsourcing (ITO) is used widely by Multinational Companies (MNCs) as a sourcing strategy today. ITO relationship between service buyer and provider then becomes a crucial issue in achieving expected objectives. This research shed light on the influence of organizational culture (OC) of the buyer company on its ITO relationship with the provider. More specifically, the influence that OC can have on four significant dimensions of trust, cooperation, communication and commitment in ITO is studied through a qualitative analysis. IT managers of six MNCs were interviewed which exposed the connection between OC and ITO relationship factors. An open communication culture, speed of adaption to change, receiving innovative solutions, flat or hierarchical structures and responsibility degree appeared as the most visible differences between OCs of MNCs influencing ITO relationships. The results can be used for improving the ITO by considering the influence of OC to gain more benefits from outsourcing.

1. Introduction

In the globally working world today, the Multinational companies (MNCs) are expanding their operations all over the world and different people are working for them. The managers’ concerns are in variant issues such as resources, use of IT and organizational characteristics. This is a change in both users’ and providers’ approach to the business. The companies operating in a global environment are experiencing new structures, job definitions, internal/external relationships and correlation strategies, which are: business strategy, IT strategy and organizational strategy [1]. One of the new business strategies that has arisen as a consequence of globalization is outsourcing. Outsourcing refers to the use of external agents to perform one or more organizational activities [2]. Outsourcing is usually used by companies aiming to do cost saving and quality improvement. Outsourcing has been reported to have both success and failure results for the organizations at the same time [3]. In addition, a driving factor in the firms affecting many aspects of the firms is the organizational culture (OC). OC can be defined as “the set of shared values and norms that control organizational members’ interactions with each other and with suppliers, customers, and other people outside the organization” [4, p.177]. The social aspects affecting different relationships in organizations have recently attracted the attention of academics and also industrial researchers. They believe that factors such as trust, commitment and even employees emotions can affect the IT implementation and adaption to new IT decisions [5], [6]. Orlikowski & Barley [7] indicate that Organizational studies can be beneficial for the information technology research. The authors also highlight that IT management, organization and the decisions on IT sourcing are very strategic issues and they affect the entire organization. They also emphasize that the researchers within the field of managing IT resources find the consideration of organizational theories useful in their research [7]. Recent research suggests that there is a relationship between OC and the adoption, management and use of IT. In their study of IT strategy and public organizations in India, Kanungo et al. [8] suggest that the culture existing in a company can affect the efficiency of the organization. The OC can be considered as a common restraint on the changes and especially in technology changes [9]. According to Palvia & Pinjani [10], OC subjects are currently the key IT/IS global management challenges since they can influence IT practices in elusive ways. Therefore, culture impact in the area of IT needs to be studied by using a variation of different models and
cultural dimensions. Luftman et al. [11] emphasizes that not all the IT outsourcing projects get successful results and there have been many failures reported as well. This brings up the importance of understanding the affecting factors on IT outsourcing relationships. To fill the gap in the previous studies, this research will study the influence of OC in ITO relationships. The four most important factors in ITO relationship including trust, cooperation, communication and commitment are selected to be focused in this research. Therefore the influence of OC is studied specifically on those four factors of ITO relationships. The results presented in this paper are based on the empirical investigation in six multinational companies in Sweden concerning the OC influence on ITO relationships. The results can be used to mitigate the impact of problems originated by OC in an ITO relationship.

This paper is organized as follows: Theoretical background regarding ITO, OC and the importance of OC in ITO relationships, the theoretical framework, research method, analysis of the empirical data from six MNCs in Sweden based on the theoretical framework discussing the influence of OC on each of the four critical factors of trust, cooperation, communication and commitment, and the last section includes the conclusions and future research areas.

2. Literature review

2.1. IT Outsourcing

IT outsourcing is defined as “the commissioning of a third party (or a number of third parties) to manage a client organization's IT assets, people and/or activities (or part of them) to required results” [2, p.9]. Hirschheim & Lacity [12] also stated that IT outsourcing is using an external firm as a third-party to provide the main company the IT units, assets, human resources or even managerial decisions and duties instead of performing them internally. Chaudhury et al. [13] also define IS/IT outsourcing as the contracting of various information systems' sub-functions by user firms to outside information systems vendors. One of the crucial aspects that should be considered while the companies outsource their IT is the relationship between the buyer and provider companies. In a study by Kim et al. [14] it is indicated that the quality of such relationship between buyer and provider companies affects the performance of IT outsourcing unit. The authors suggest that the companies need to consider some changes in their strategic orientation when they decide to outsource and how to arrange a constructive relationship with the provider company.

2.2. Organizational Culture

According to Robbins & Judge [15] OC is related with the value system shared by members of an organization. This value system contains the main characteristics in which a group of people understand each other and behave; in other words it presents the features which differentiate one organization from other organization. The culture in those organizations is internalized by its employees. One of the perspectives in the field of organizational culture is introduced by Schein [16]. His model of the three levels of culture developed in 1988 is an important tool for managers. The model is divided as following:

“1. Artifacts: visible organizational structure and process;  
2. Espoused values: strategies, goals, philosophies;  
3. Basic underlying assumptions: unconscious, taken-for-granted beliefs, perceptions, thoughts, and feelings” [16, p.25].

The three levels contain very tangible and visible elements together with elements that can be realized only due the fact that they are unconscious or embedded.

Janssens et al. [17] also found out the three most important aspects which should be considered in order to determine MNCs’ OCs, these three aspects are summarized as follows:

1. The overall relationship among the personnel and their firm;  
2. The hierarchical classification of authority describing the roles of managers and juniors;  
3. The overall opinions of staffs regarding MNCs’ plan, destiny, aims, and their place.

The three aspects mentioned above are considered as OC elements in this research in order to extract and categorize the cultural findings from the MNCs studied.

2.3. The Importance of Organizational Culture in IT Outsourcing Relationships

The influence that culture can have on IT management and IT outsourcing has been specified in some previous research as well. Culture has been considered in different levels such as national and organizational in those studies. Sherer et al. [18] for instance explored how culture of different countries affect the way one single company can implement timing and strategy for its different global partners. Based on their research the authors concluded that the national culture affects the collaborative planning, forecasting and replenishment for each partner considering their location. To sum up, the role of the national and organizational culture in various aspects of IT in companies have received attention by many researchers (for instance [2]; [18]; [9]; [10]). Considering the studies of Tsotra et al. [19] and another one by Zhang & Lowry [20], most of the
researchers have used the taxonomy from Hofstede et al. [21] when they focus on national culture. However what appears as a more untouched topic is OC and its impact on IT management criteria. As described in next section, the potential role that OC may have on the IT outsourcing relationships formulates the theoretical framework for this research.

2.4. Theoretical Framework

The theoretical framework in this research designates the potential effect that the OC of the buyer company can have on four key factors of ITO relationship. Since the approach of this research is to find the critical factors that the companies are seeking while having an IT outsourcing relationship, we went through various sources. For instance, in a study about ITO relationships, Alborz et al. [22] found out 50 different management controllable factors which can affect the success of an ITO relationship. In another study by Goles & Chin [23], the authors mentioned 24 different factors all involving in IT outsourcing relationships. In the process of finding the critical attributes, a compilation of all the relevant factors associated with the ITO relationships were produced, then four most cited factors among the number of factors found from literature were selected. The four most cited factors are: trust, communication, commitment and cooperation (Table 1). This selection was based on the previous work of Aasi et al. [24] on the IT outsourcing relationship factors through which the complete list of ITO relationship factors are listed with their references.

Table 1. Four main cited ITO Relationship factors [24].

<table>
<thead>
<tr>
<th>References</th>
<th>ITOR Main Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goles &amp; Chin [23]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Dibbern et al. [2]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Alborz et al. [22]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Lane &amp; Lum [25]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Swar et al. [2010]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Kern &amp; Wilcocks [27]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Solli-Sæther &amp; Gottschalk [28]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Hamid &amp; Suberamany [29]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Lambe et al. [30]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Artz &amp; Brusch [31]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
<tr>
<td>Kern &amp; Wilcocks [33]</td>
<td>Trust: √, Cooperation: √, Communication: √, Commitment: √</td>
</tr>
</tbody>
</table>

What is Trust in ITO Relationships? Trust is defined by Kern & Wilcocks [33] as the belief that each party has on the word of the other party that they will fulfill their promises and obligation as they have agreed and stipulated on the contract and in the right time. In fact, trust is indicated in variant direct and indirect ways by authors in context of IT outsourcing relationships indicating its importance in ITO relationships.

What is Cooperation in ITO Relationships? Swar et al. [26] count cooperation as one of the three determinants of relationship quality between service buyer and provider companies. Moreover in their research on exploring IT outsourcing relationships, Kern & Wilcocks [27] point to cooperation as one of the most common issues forming the relationship atmosphere.

What is Communication in ITO Relationships? Regarding communication in IT outsourcing relationship, Hamid & Suberamany [29] induce communication as one of the first determinants of it. Kern & Wilcocks [27] also mention the communication and information exchange as an interaction between the service buyer and provider companies that influences the working climate and behavior of individuals in an outsourcing relationship.

What is Commitment in ITO Relationships? From an interactive approach to the relationships of service buyer and provider of IT services, trust and commitment are interdependent; the greater commitment leads to greater trust and vice versa [33]. Commitment is the willingness of the parties to exert effort and devote resources in order to sustain an ongoing relationship [23].
In order to develop the theoretical framework, the possible correlations among the OC and the four most cited factors related with ITO relationship found in the literature were formulated through four propositions:

1. The influence of OC on the degree of trust in the ITO relationship between the service buyer and provider companies.
2. The influence of OC on the level of cooperation in the ITO relationship between the service buyer and provider companies.
3. The influence of OC on the grade of communication in the ITO relationship between the service buyer and provider companies.
4. The influence of OC on the degree of commitment in the ITO relationship between the service buyer and provider companies.

Based on the four main selected factors of ITO relationships, the theoretical framework is divided into four parts which are analyzed to find out the influence of OC of the buyer companies on each of the four factors of ITO relationships.

3. Research Method

In this research a deductive approach is used to develop the theoretical framework introduced in the previous chapter based on the four main factors of ITO relationships coming out from the review of the research literature in ITO relationships. The qualitative approach used in this research brought the possibility to understand the social and cultural contexts from the point of view of the people involved in the phenomena under study [34]. Data collection was done by conducting semi-structured interviews with IT managers of six MNCs with branches in Sweden. The interviews were recorded and transcribed and each of them last for about one hour. Due to the rights of participants and the liability of an ethical research all the interviewers were aware of the purpose of this research and were assured their anonymity.

In order to select the companies to have interviews with their IT managers, the following characteristics were considered for all of them: they are all involved or have been involved in ITO for a number of years, they are multinational, they are large in number of employees and they are from different industries. The reason for such a selection is that there can be a comparison of these companies with different cultures and how it can affect their ITO relationship.

The scope of this research is on the companies doing outsourcing, in other words the focus is on the buyer sides of ITO relationship. The reason is that failure in an ITO relationship would be more harmful and crucial for the buyer company, since it may affect the whole companies job and cause them costs, but for the provider company it is just losing one customer and they would still have other customers.

The collected data from interviews were transcribed and then analyzed by looking for patterns, themes and categories and their inter-connections in order to interpret the data in relation to the four main parts of the research theoretical framework. Furthermore, through a qualitative analysis, the collected data were categorized based on the three most important aspects mentioned by Janssens et al. [17] which were considered for determining MNCs’ organizational culture to inspect the specific areas and their direct or indirect influence on ITO relationship. Regarding the validity of the results, following the claims by Oates [35], it is possible to generate some conclusions which could be not unique and in this case, can be found again in other context. Even if the OC and the level of ITO relationships are not the same for two companies, some assumptions like the correlation of free communication and the structure of the company (hierarchical/flat) can be used as a ground for a theoretical framework. Issues regarding the reliability of the research are related with the quality of the conclusions based in the quality of the data collected. As limitations of this research we can mention that the collected data may be different if the interview is done in a different time or with another manager, so it is limited to the specific time and manager interviewed. In addition, the interpretation of the information in a qualitative analysis is highly dependent on the researcher's background and approach.

As mentioned before the data is consistent, but still it is possible to repeat the study and get different conclusions in the qualitative analysis.

4. Data Analysis of Six MNCs Based on the Theoretical Framework

Two sets of questions were designed for the interviews. One with questions related with ITO correlation with OC and one with questions related with OC only. The interviews were done with managers involved in ITO projects from six companies. The information about the companies is demonstrated briefly in Table 2. Following the confidentiality of the companies’ information they are referred as Company A, B, C, D, E and F.
The total empirical data which was sound recorded and sorted based on the four parts of theoretical framework and also organizational culture findings categorized according to fragments introduced by Janssens et al. [17].

The analysis is based on the comparison between the results gained from company A, B, C, D, E and F to draw an overall sketch of their organizational culture in relation with the IT outsourcing relationship dimensions which is the goal of this research. In of the following sections the role of culture on one of the ITO relationship factors (trust, cooperation, communication and commitment) is analyzed.

### 4.1. Trust: The Influence of Organizational Culture in Trust between the Buyer and Provider Companies

For the Company A, the idea of trust is connected with the idea of having an open mind and do not hide problems. This reveals a crucial point in continuing a successful ITO relationship: the hidden problems do not get solved and their source will not be discovered.

Company B pursues an IT strategy to minimize costs, this way they chose the cheapest and experienced providers and make short time contracts which reflects the degree of trust in their relationship with their provider. This can be observed in a stronger manner in Company C in which they do not have any trust on their provider at all. The main reason for that are the bad incidents from the past through which the company experienced some unwanted changes in their systems from the provider or even misusage of them.

Opposite to the last point mentioned in Company C, all the roles, behaviors and responsibilities in Company D has been studied and published for the whole company through a document called “The Cookbook”.

In Company E, there are two main aspects of OC that affects the trust between them and their provider. First of all it is their centralized structure in which all the decisions are made by the headquarters of the company and this caused them to have problems when it came to the subsidiaries of Company E working with the provider. The other OC aspect is that Company E, as a medical device manufacturer, is not a risk taking company and they always choose the most expensive and experienced one as their provider. These together with the patients’ data legislations and low quality of service made them take back home IT.

The attitudes of individuals also play a role in the degree of trust between buyer and provider. In company F, the degree of trust also dependents on the employees mind sets and how much they are used to outsourcing. OC impacts the trust between the buyer and provider in IT outsourcing relationships. Additionally trust for the company is a consequence of good communication in all levels.

### Table 2. The profile of the six Multinational Companies for data collection.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Core Business</th>
<th>Companies area</th>
<th>Number of employees</th>
<th>Company’s outsourcing experience</th>
<th>Interviewee positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Energy</td>
<td>North Europe</td>
<td>About 20,000</td>
<td>Over 10 years.</td>
<td>IT manager, global strategic &amp; business developer</td>
</tr>
<tr>
<td>B</td>
<td>Transportation</td>
<td>North America</td>
<td>About 40,000</td>
<td>Over 5 years.</td>
<td>Project manager</td>
</tr>
<tr>
<td>C</td>
<td>Telecommunications</td>
<td>North Europe</td>
<td>About 70,000</td>
<td>Over 10 years.</td>
<td>Sourcing area manager</td>
</tr>
<tr>
<td>D</td>
<td>Transportation</td>
<td>North Europe</td>
<td>About 10,000</td>
<td>Over 8 years.</td>
<td>Director of Business IT Solutions</td>
</tr>
<tr>
<td>E</td>
<td>Medical device</td>
<td>North America</td>
<td>About 10,000</td>
<td>Over 6 years.</td>
<td>Director of Information Technology</td>
</tr>
<tr>
<td>F</td>
<td>Delivery Services</td>
<td>North Europe</td>
<td>About 20,000</td>
<td>Over 9 years.</td>
<td>Vice-president of service and infrastructure management</td>
</tr>
</tbody>
</table>
4.2. Cooperation: The Influence of Organizational Culture in Cooperation between the Buyer and Provider Companies

In some companies cooperation was thought and planned and there were some activities done based on it but in other companies it was not so visible the planning for improving cooperation. In Company A there are both formal and informal meetings between the two companies and the informal meetings are very important in order to build a personal relationship, which will be a part of the professional relationship.

There are many training programs for employees inside the company approaching to improve the ITO relationship and profitability. Innovation is vital for Company A, therefore they are open to accept new technologies, ideas and procedures presenting by the providers and adapts to changes. In Company B on the other hand, there are some learning and cooperation specially when it comes to solving problems, but in general the degree that the buyer company B makes changes or learns from provider is less. The reason for that can be found in the OC they have in which cost is the most significant factor. Another fact which was evident in both Company C and Company F was the period of outsourcing and whether it is the first time or the second time. Based on this factor, the OC of the buyer will be changed and consequently this affects the cooperation between buyer and provider. In Company F it was noticed that after first time IT outsourcing, the employees’ positions and attitudes have been changed which affects their cooperation in the next outsourcing relationship. In Company D the situation was a bit different since they sold the whole IT department to the provider and there were a level of loyalty still existing from the IT provider staff. The opposite thing happened in Company E, since the cooperation there was only defined in the contract which was written by the headquarters of the Company E and made problems for other subsidiaries involved staff in IT outsourcing relationship. Therefore impact of OC on the level of cooperation between the IT service buyer and provider is observed.

4.3. Communication: The Influence of Organizational Culture in Communication between the Buyer and Provider Companies

The majority of the companies in our study have a communication channel with the provider which reflects the internal hierarchical structure. In Company B this internal hierarchy is followed in order to avoid conflicts. In Company E, the communication is very centralized in the headquarters outside Sweden.

Company A and Company D are in contrast with the other companies in our study. The two companies have a mix of hierarchical and flat structure. In Company A, for instance, the OC of the company stresses that employees are able to take initiatives freely, this behavior reflects in the ITO relationship. The company’s OC is focused on close and personal relationship. Only when the subject becomes very critical, the communication turns to another channel where few people are involved. In Company D all the communication is based on the “cookbook”, a manual where the company and the provider wrote down all the responsibilities and agreements related with the contract like an appendix of the contract.

Company F and Company C are firms with a mixture of flat and hierarchical structure. In Company C for instance, the employees do not have direct contact with the provider. However, these were only companies in our study which have some mechanism for receiving feedback from the employees about ITO.

Based in the analysis above it is found that the OC can affect the grade of communication in the ITO relationship between the service buyer and provider companies.

4.4. Commitment: The Influence of Organizational Culture in Commitment between the Buyer and Provider Companies

Two cases were different from the other ones regarding the commitment. First, company F is a company which signs contracts with four years duration and never renewed a previous contract since the company began to outsource its IT services. The company is always looking for better providers and high quality services, so it does not have the willing to work with the same provider after a contract expired. The reason behind this attitude is the fact that the IT services outsourced could be provided by many companies in the market. In this way the company is using the “buyer’s power” which is one of the competitive powers described by Porter [36]. Here the “threat of substitute products or services” does not exist, because the company outsources standard IT services which can be provided by many other providers, the buyer does not lose a lot of money if it changes provides.

Second, company E is the only company in our study that performed “back-sourcing” (i.e. the company took back the IT in-house) although they had a 10 years contract. The main reason was constrains imposed by legislation, but the company was not satisfied with the IT services provided as well. However, we can also notice the fact that the company has a hierarchical and centralized structure contributed to the way the contract was written, i.e. it was a top-
down decision which has been taken by the company’s headquarters in USA without considering the views of the Swedish division. This can be considered a reflex of the company’s OC.

Based in the analysis above we can see the influence of OC on the degree of commitment in the ITO relationship between the service buyer and provider companies.

In Table 3, the correlation between the influence of OC on Trust, Cooperation, Communication and Commitment factors in ITO relationships in the six companies is shown.

Table 3. Elements of OC affecting each of the four ITO relationship factors in six buyer companies.

<table>
<thead>
<tr>
<th>Organizational Culture influence</th>
<th>Trust</th>
<th>Cooperation</th>
<th>Communication</th>
<th>Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovative organizational culture</td>
<td>Culture of open discussion</td>
<td>Communication channels in internal hierarchical or flat structures</td>
<td>Strategy of contract extension with providers and longtime contracts</td>
<td></td>
</tr>
<tr>
<td>Culture of open communication in all levels</td>
<td>Learning and training programs</td>
<td>The degree of companies control on the relationships</td>
<td>Culture of looking for innovative solutions</td>
<td></td>
</tr>
<tr>
<td>Roles clarification, structures and responsibilities</td>
<td>Speed of accepting and adapting to the changes</td>
<td>Degree of documenting and clarifying instructions</td>
<td>Clear task definitions through clear communication</td>
<td></td>
</tr>
<tr>
<td>Cultural differences between headquarters and subsidiaries in centralized organizations</td>
<td>Communication of exchanged staff between companies</td>
<td>Existing mechanisms for receiving feedback</td>
<td>Changing internally avoiding the costs of conflicts</td>
<td></td>
</tr>
<tr>
<td>Week feedbacks and Hidden problems</td>
<td>Documented behaviors and cooperation instruction</td>
<td>Conflict handling method in companies</td>
<td>Choosing the cheapest providers</td>
<td></td>
</tr>
<tr>
<td>Choosing the cheapest providers</td>
<td>Formal and informal meetings of companies agents</td>
<td>Internal relationships between the staff</td>
<td>Centralized decision making on contracts</td>
<td></td>
</tr>
</tbody>
</table>

5. Conclusions and Future Research

The primary contribution of this research is improving and composing existing knowledge on the ITO relationship considering the OC aspect. Depending on the tendency of the companies, their strategies and OC, they have different identifications of four main elements of trust, cooperation, communication and commitment in IT outsourcing relationships. The collected data supported that OC have an effect on those factors and also communication inside the company arose as the base factor lying in the organizational culture, which links all the ITO relationship dimensions together. However, it was also found that some external factors such as MNC’s previous experience of ITO, contract period, buyers control and IT governance in buyer companies can also influence the ITO relationships.

The interpretation of the results of the work would of course be limited to the scope of the research which includes the characteristics of the chosen companies and the buyer side approach. Also a clear limitation of this research is focusing on four main factors of ITO relationships that can be more or different in other studies. This research opens up several potential branches of further studies. The first reflects which attitudes of OC can be used to make improvements in the ITO relationships. Second, since we are facing the second and even the third ITO generations, it is necessary to understand in deep the new generations’ issues related with OC and ITO. This work uncovers many external factors, for instance contracts and previous experience of companies in ITO which have unique influences in relationships and can be studied carefully. Besides that, issues related with IT governance correlation with ITO can be also a potential research field in the future.
6. References


