Organization Culture: A Barrier to IT Outsourcing

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Abstract

Globalization has impacted the business in many aspects such as structure, architecture, internal/external strategies and sourcing management. Outsourcing is one of the recent business strategies used to provide IT needs via external agent. IT outsourcing is the use of external service providers to effectively deliver IT-enabled business process, application service, and infrastructure solutions for business outcomes. Outsourcing enables businesses enterprises to reduce costs, accelerate time to market, and take advantage of external expertise, assets and intellectual property. Organization culture is a pattern of shared assumption that the group learn as it solves its problem of external adaptation and internal integration. Due to benefits associated with outsourcing most organization are adopting and implementing IT outsourcing. This paper seeks to explore the influence of organization culture on IT outsourcing and provide insight on key elements of organization culture impacting IT outsourcing. The study finding show that organization culture key element such astrust, communication, culture compatibility, organization openness, commitment, and collaborationif not properly managed can be a great barrier to IT outsourcing.

Keywords: Organization culture, IT, outsourcing

Organization Culture

Organization Culture is a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation andinternal integration that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problem (Hofstetter & Harpaz, 2015). Every organization is influenced by the existing culture which varies from organization to organization. Researchers like Schein (2004) argue that the productivity of an organization decision is greatly affected by its culture. Robbins and Judge (2011) point out that organizational culture has direct relations 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. It presents the features which differentiate one organization from other organization. Despite members of organization coming from various background, organization culture in calculate common perception among organization members. Organization culture influences organization profitability, effectiveness and performance because it defines how organization to relate with its internal and external environments. Laudon and Laudon (2007), established that organization culture has great impact on the speed and levels of organization staffs and management accepting and adopting new technologies within the context of organization. In a study using regression analysis in a single company with twenty divisions, Flamholtz (2001) found out that there is a statistically significant relationship between corporate culture, financial performance and outsourcing.

Organization culture is a critical ingredient for business enterprise to integrate internal processes and to adapt to external environmental conditions. However, there are also the dysfunctional aspects of culture inside a business enterprise. Culture can be a barrier to organization change and issues related with culture compatibility can influence new acquisitions and merges inside an

organization (Robbins & Judge, 2011). Luthans and Doh (2011) point out that organization culture occasionally can create coordination problems for multinational corporations. The reason for this is that organizational culture can differs strongly among subsidiaries located in different countries in relation with the organization culture found in the company's headquarters. This study seeks to identify organization culture attributes which can barriers to successful IT outsourcing if not properly managed.

IT Outsourcing

In the current globalized business landscape, business enterprise are integrating IT into their core businesses and enterprises are experiencing increasing IT needs, IT services, IT products, IT resources, IT strategies and this signifies the importance of IT outsourcing. IT Outsourcing is the use of external agents to perform one or more organization functionalities (Dibbern et al., 2004). Hirschheim and Lacity (2000) define IT outsourcing as using of an external firm or a third-party to provide the main company the IT services instead of performing them internally. Chaudhury et al. (1995) concurs by defining IT outsourcing as the contracting of various information systems' sub-functions by user firms to outside information systems vendor. On the reasons for IT outsourcing studies have established varied reasons which includes: Focusing on strategic issues, which make it easier for business organization to focus on their core competencies (Willcocks et al., 2006). Increased flexibility, business enterprise can use outsourcing as a strategy to achieve flexibility during restructuring or re-organization process (Hayes et al., 2000).

Improvement in quality of services, through outsourcing a business organization/ enterprise can have at their disposal high quality IT services and knowledge (Lee et al., 2008). Technology access enablement, through IT outsourcing business enterprise can have access new, modern and state of the art technology. Reducing the risks of obsolesce, this problem can be

minimized through technological outsourcing, since the technology accessed is owned by the provider, which means that this risk is assumed by the latter and not by the former. Firms can increase their level of flexibility through a process of continuous redesign of the contracts that will help them to cover their information requirements (Udo, 2000). Saving staffs cost, Outsourcing paves the way to a more specialized IT management, as the provider firm finds itself in a better position to select, train and manage its technological staff; in this way, clients can have at their disposal high-level specialists without them having to be permanent members of their staff (Alner, 2001). Following the fashion, firms decide to adopt outsourcing in order to copy the success of other organizations that have already outsourced their IT resources (Lacity et al., 1994).

Role of Organization Culture on IT Outsourcing

Despite the significances associated with IT outsourcing, organization culture is a critical influencer in the success of IT outsourcing. Studies by Lane and Lum (2010) established that business contracting is influenced by each partner's vision, values, goal, culture and ethical principles (Culture). They pointed out that the success in partnership is dependent on the compatibility of the organization's culture and that a problem may arise when two organization do not have understanding for each other culture.

Swar et al. (2010) in their studies on the quality of relationships in IT outsourcing, established "cultural compatibility" as one of the key influencer to quality of cooperation, trust, and mutual understanding in IT outsourcing relationship. Goles and Chin (2005), defines cultural compatibility as the degree to which partners can relate with each other's beliefs, values, behaviors, goals and policies. The authors further argue that parties with discordant organizational culture create difficulties or barriers in the relationship and organizations with

compatible culture will have more chances to have a successful relationship and even improve the quality of the relationship.

Study by Schein point out that organization culture influences IT outsourcing and organization change because it impacts on all organizational domains, strategy, structure, and operations which are key actors for organization change and IT Outsourcing. Effective change within the organization is dependent on the way organization deals with the individuals' beliefs, values, assumptions, and attitudes (Organization culture). Studies by Realo, Allik, and Greenfield (2008) and Huff, Couper and Jones (2002) have also established a relationship between organization culture and IT outsourcing.
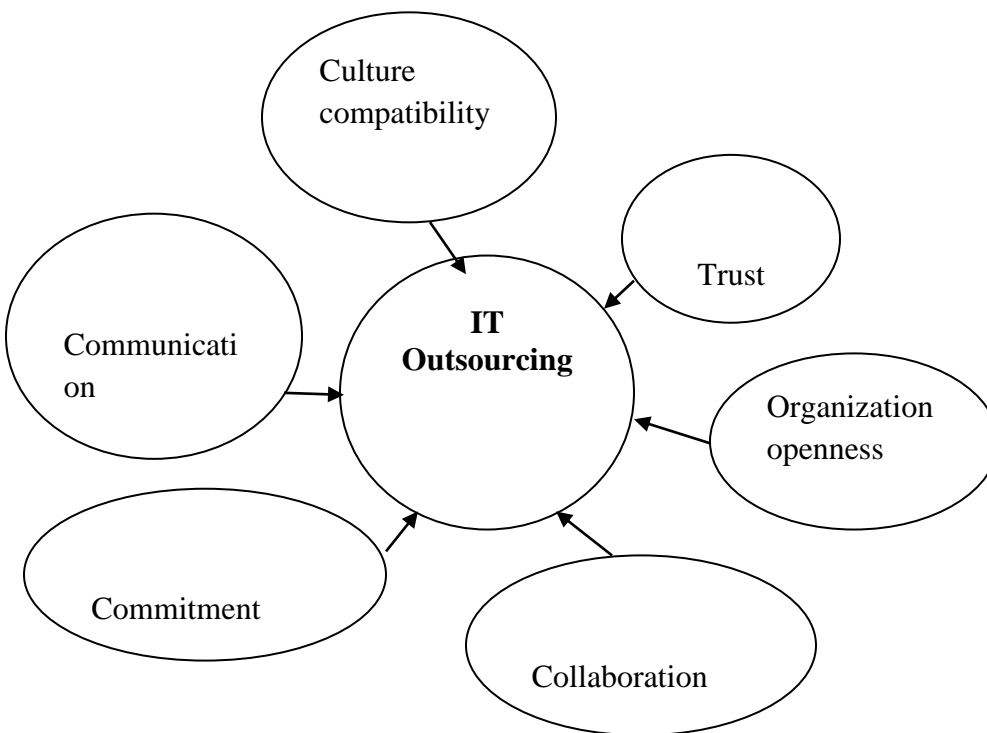

Figure 1: Organization culture components affecting IT outsourcing

Study Methodology

The study focused on small and medium enterprises within Nairobi, Kenya, based on the assumption that Small Medium Enterprises adopts IT outsourcing as a cost reduction strategy. In order to achieve the objective of the study which was to determine the influence of organization culture as a barrier to information security outsourcing, a total of 102 questionnaire was administered to information system managers and other staffs who are involved in IT outsourcing, of the total questionnaires presented 97 were returned representing 95% response rate. The study also adopted empirical review through studying of published papers on the culture and IT outsourcing domain.

Findings

The findings from the study established organization culture components which include culture compatibility, organization openness, trust, communication, commitment, and cooperation/ collaboration have great impact on IT outsourcing.

Trust is a factor of behavioral dimension; trust is the belief that 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. Majority of the study participant confirmed that trust is the cornerstone for success in IT outsourcing, that there should be on hidden clauses in the IT outsourcing contracting agreement. The study affirms the need for the parties involved in outsourcing to put in places strategies, advices, and behavioral patterns that build trust. The study findings echoes the findings by Kern and Willcocks (2000), who identify trust as a key components in IT outsourcing framework.

Collaboration denotes the willingness of the parties involve in outsourcing to work with each other in order to make a helpful relationship between them and advance the association they

need for work. The study established that strong and honest collaboration do eliminate probability of opportunistic behaviors that may derail IT outsourcing process among the parties. On the collaboration frontier the study finding anchors Swar et al. (2010) and Kern and Willcocks (2000), who pointed at collaboration as one of the common issue forming the characteristics of relationship atmosphere.

The study established that communication is a strong agent for culture compatibility and promotion of stronger relationships in IT outsourcing. The participant confirms that communication if properly managed can promote high homogeneity among the parties in IT outsourcing resulting to its success. Similar findings on communication have been established by Hamid and Suberamany (2009), who identify communication as a determinant of IT outsourcing. The study also pointed at culture compatibility and organization openness as key influencers of IT outsourcing finding that have been supported by Goles and Chin, 2005; Greenfield, 2008; and Etzioni, 1993).

Conclusion

The study finding identified organization culture elements: trust, communication, collaboration, culture compatibility, organization openness and commitment as key determinants which need to be managed for success or failure in IT outsourcing. The study established the need adoption of quality strategies, advices and behavior to manage the organization culture attributes.

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