



# Toward an understanding of the nature and conceptualization of outsourcing success



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## ABSTRACT

Despite the pervasiveness of outsourcing, many outsourcing ventures have been unable to achieve success. I posit that one explanation for the elusiveness of the achievement of success relates to a lack of consensus regarding what constitutes “success.” This study provides a more complete, multidimensional definition of outsourcing success, which will enable a better understanding of success with a more effective and consistent measure of outsourcing success. The results indicate that practitioners and academics agree on the top criteria used to define success. A quantitative study confirms the conceptualization of outsourcing success as a first-order construct with eight dimensions.

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## 1. Introduction

Since the genesis of IT outsourcing in the early 1960s and the growth of business-centric outsourcing in the mid-1980s [27,69], outsourcing has become a ubiquitous phenomenon [11] and the subject of considerable research [8,29]. Gartner estimates that the worldwide IT outsourcing market will reach \$288 billion in 2013, with some markets growing more than 13 percent in 2013 and 2014 [11].

While the outsourcing market is burgeoning, the focus of this work is on Information Technology (IT) outsourcing. IT outsourcing refers to the practice of shifting one or more organizational activities related to IT to an outside firm [8,1,15] and may involve a variety of options, including domestic, offshore, rural, local, and other emerging online providers in the cloud. Despite the pervasiveness of outsourcing, many outsourcing ventures have been unable to achieve the elusive status of success. A PricewaterhouseCoopers report found that 55% of clients reported that they were not realizing the benefits they had expected from outsourcing, yet an overwhelming 81% stated that they would outsource again [2]. This finding indicates that a majority of clients are not experiencing the benefits that they expected to achieve

from the outsourcing process. When this occurs, we typically expect that organizations will consider the practice a failure, discontinue it, and search for alternative arrangements. However, in the case of outsourcing, most corporations indicate that they will continue with this practice. While this decision may appear paradoxical, it actually indicates a value proposition. Although clients have experienced the cost of not achieving the desired benefits, when the cost is compared to the benefits they hope to receive in the future, they see value in the outsourcing proposition. Therefore, while clients admit to having failed to experience anticipated benefits from outsourcing, they realize the necessity of the practice and hope to eventually achieve potential benefits as they continue in their quest for a successful outsourcing arrangement. Organizations are willing to pay the cost of working on an outsourcing relationship until they determine how to make it beneficial because they perceive value in it. However, less is known about what changes (if any) are necessary to achieve these benefits from outsourcing.

Without possessing the knowledge regarding how to develop a successful outsourcing arrangement, corporations engaged in outsourcing will experience negative consequences that emerge when a successful outsourcing arrangement cannot be achieved. Many examples exist of organizations that were unable to achieve IT outsourcing success including negative resulting effects. For example, the Indiana Family and Social Services Administration’s 10-year, \$1.6 billion privatization contract with IBM ended when

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both parties decided to sue each other in May 2010, which left the client with a large bill and no new services [39]. Some organizations have even made the decision to backsource [71,66] after their outsourcing experiences were deemed to be unsuccessful.

I posit that one explanation for the elusiveness of the achievement of success relates to a lack of consensus regarding what constitutes “success.” A survey by the consulting firm KPMG indicates that 72% of their customers either do not have or do not share criteria for measuring IT outsourcing success [25]. Researchers have utilized many factors to predict IT outsourcing success, and a significant amount of research has been undertaken to develop various models to examine the specific factors that predict outsourcing success. Nonetheless, even with a plethora of studies regarding factors that lead to success [3,49,24,34,35,67,32,26], the achievement of IT outsourcing success in organizations has been elusive due to a lack of focus on articulating the dimensions of the outcome, namely success.

This study will discuss a gap in the literature relating to the complex concept of outsourcing success. Specifically, it will provide a contribution to the literature by offering a more comprehensive understanding of the dimensions that comprise outsourcing success. I will begin with a discussion of the gap in the outsourcing literature. My review of the literature reveals that researchers have accepted a fragmented set of the dimensions of success. Because scant research has been undertaken to increase our understanding of the multidimensional nature of the IT outsourcing success factor [23], we possess a limited understanding of both success and the mechanisms that drive success. By utilizing a subset of the dimensions of success instead of a more comprehensive view, researchers may omit distinct drivers of certain aspects of success that have been previously overlooked.

While researchers admit that it is extremely difficult to define and measure IT outsourcing success [23,13], it is a primary component necessary for the development of successful outsourcing arrangements. Without adequate knowledge of the dependent variable (outsourcing success), the quest to determine the independent variables leading to success will be inconsistent. If one model employs a particular set of success dimensions while another model employs a different set of success dimensions, it becomes difficult to build a cumulative research stream [44,22,63]. To effectively ground, build, and organize research on outsourcing success, we need a common conceptual platform [19,38] – specifically, a common definition of outsourcing success. This study closes the gap in the literature to provide a more complete, multidimensional definition of outsourcing success that is balanced between the views of clients and vendors and is developed through a triangulation of methods to include clients, vendors, and academics. This nexus of thought enables a better understanding of success and will provide a more effective and consistent measure of outsourcing success. To achieve this objective, I will report on a four-phase approach that includes a

triangulation of methods and conceptual development. I will next present an overview of my approach.

## 2. Overview of approach

To achieve the research objective, I utilized a four-phase research approach outlined in Table 1. In Phase 1, I reviewed the extant research that examines outsourcing success, resulting in a framework of the dimensions of success. In Phase 2, I conducted a five-step Delphi study of practitioners and academic experts, resulting in the development of eight dimensions of success. In Phase 3, the results from Phases 1 and 2 were juxtaposed, highlighting how past research has had limited success in incorporating the broad aspects of outsourcing success. I conclude with an empirical investigation of the dimensions, where I investigate the factor structure of the dimensions of success.

Instead of simply utilizing extant literature to inform my development of the dimensions of outsourcing success, I pursue an alternative route by incorporating data from multiple sources – vendors, clients, and academic researchers – to define the dimensions of outsourcing success. Furthermore, I integrate extant knowledge from my review of the literature, thus allowing me to juxtapose existing work with the current thought regarding outsourcing. Utilizing this triangulation of data sources contributes to the literature by providing an alternative lens with which to view success.

This study also provides an updated view of outsourcing success. While previous frameworks have articulated various definitions of success [15,32,14], in the time that has evolved since these frameworks of success were published, outsourcing research has expanded to include additional aspects of outsourcing, including the need for relationship management, thus signaling a need to shift our conceptualization of IT outsourcing success. Moreover, the historical frameworks focused solely upon the perceptions of the client with little input from the vendor's perspective. Given the emergence of thought about the importance of mutual benefits [45], I postulate that the dimensions of success should evolve to include the perceptions of the vendor and to assess mutual (rather than one-sided) benefits.

With the knowledge that this gap exists in the literature and the need for a more complete, multidimensional definition of outsourcing success, I examined the extant literature. Through a review of the research, I discovered a wide range of dimensions utilized to define outsourcing success. Because researchers have traditionally employed a wide variety of definitions of outsourcing success, there has been a fragmentation of the dimensions of success. This fragmentation has come at a cost, which is, namely, that we have failed to build a cumulative understanding of what constitutes success, and, therefore, axiomatically, what contributes to success.

To handle the lack of consensus and/or the gap in the literature regarding updating of the dimensions of success, researchers have

**Table 1**  
Overview of the research approach.

	Phase 1: review of the dimensions from the literature	Phase 2: definition of the dimensions from experts	Phase 3: conceptual sense-making of dimensions	Phase 4: empirical study of the conceptualization of the dimensions
Objective	To summarize prior work on IT outsourcing success	To discover the previously unstudied dimensions of success	To juxtapose the literature review and expert views of success	To investigate the factor structure of the dimensions
Approach	Systematic literature review of extant studies that investigated outsourcing success	Delphi study of practitioners and academic experts	Conceptual sense-making of the dimensions in both the literature and the Delphi Study	A quantitative study of practitioners' views of IT outsourcing success
Outcome	Framework of the dimensions of success	Eight dimensions of success	An articulation of the dimensions of success	An understanding of the structure of the outsourcing success construct

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