



# Information technology outsourcing through a configurational lens

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## ABSTRACT

This paper explores the value of a configurational approach to IT outsourcing by developing a framework for IT outsourcing effectiveness. Taking a process view of outsourcing and drawing on the relational view of the firm, the framework identifies four high-level dimensions that correspond to an organization's resource position in four key areas: organizational IT value position, organizational IT asset position, relational asset position, and relational capability position. A novel structured method is used to identify the congruent outsourcing configurations within the range of possible outsourcing configurations based on the interdependencies among the four dimensions. Three congruent outsourcing configurations, designated asset dependence, relational dependence, and independence, emerge from this analysis. Drawing on the assumptions of configurational theory about organizational change and taking a dynamic perspective, the framework is extended to describe how organizations transition between outsourcing configurations over time. This paper demonstrates how a configurational approach can address three potential problems of the outsourcing literature and advance outsourcing research.

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## 1. Introduction

Over the past two decades, the growth in the practice of outsourcing information technology (IT) has been one of the most widespread developments in meeting organizations' IT needs (Dibbern et al., 2004). As interest in this phenomenon has gained momentum, research has drawn upon a variety of theories to gain a deeper understanding of outsourcing<sup>1</sup> decisions and their consequences. Among these theories, those most commonly addressed in outsourcing research are the resource-based view (RBV), the resource dependence perspective, knowledge-based theory, transaction cost economics (TCE), agency theory, and social exchange theory (Cheon et al., 1995; Dibbern et al., 2004; Goo et al., 2007; Hancox and Hackney, 2000; Kern et al., 2002; Tiwana and Bush, 2007). Attention has also been paid to other theories, such as institutional theory (Vitharana and Dharwadkar, 2007), innovation diffusion theory (Hu et al., 1997), and residual rights theory (Lee et al., 2004). All the above theoretical frameworks have been applied within three streams of research, reflecting a strategic, economic, or social perspective of outsourcing (Goo et al., 2007; Lee et al., 2003).

This theoretical proliferation has been valuable in advancing the understanding of outsourcing as a unique form of inter-organizational relationship. However, this paper suggests that the potential of research to advance the understanding of outsourcing relationships may have not been fully realized because of the gap between the rich theoretical foundations of previous studies and their tendency to rely on a reductionistic approach, which seeks to disaggregate organizational phenomena into unidirectional linear relationships between organizational attributes (Miller, 1981). The paper proposes that the heavy reliance on a reductionistic approach may be associated with three potential problems – unresolved contradictory

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<sup>1</sup> Throughout this paper, the term "outsourcing" refers to IT outsourcing.

findings, oversimplified research models, and paucity of dynamic views – and that a promising avenue to address these problems is to more widely adopt a configurational approach, which seeks to explain organizational phenomena in terms of coherent patterns of multiple organizational attributes (Meyer et al., 1993; Miller, 1986). The potential benefits of a configurational approach to outsourcing are perhaps best illustrated by considering these three problems in the context of outsourcing research.

First, it appears that the outsourcing literature is characterized by contradictory observations that are difficult to resolve by a reductionistic approach (Cullen et al., 2005; Lee et al., 2004). For example, studies have shown that firms with a strategic view of IT – where the firm's IT capability is critical to the implementation of the business strategy and the attainment of business goals – prefer insourcing to outsourcing (e.g., Apte and Mason, 1995; Quinn and Hilmer, 1994; Teng et al., 1995). The theoretical basis of these studies lies in resource theories, which argue against the externalization of strategically valuable resources. In contrast, other studies have suggested that firms may rely on outsourcing to gain a strategic IT capability (e.g., DiRomualdo and Gurbaxani, 1998; Elmuti et al., 1998; Willcocks and Lacity, 1999). This finding is theoretically underpinned by interorganizational relationship theories, which draw attention to the advantages of fostering strategic alliances. These seemingly contradictory predictions, which are based on two distinct conceptualizations, are difficult to resolve without considering the complex interactions among multiple organizational and interorganizational attributes.

Second, the integration of different theoretical perspectives is a challenging endeavor, and one of the ways to surmount this challenge is to use a simple conceptual model to offset the theoretical complexity (Miller, 1981). For instance, an approach sometimes used in outsourcing research is to develop a model that examines the bivariate relationships between a single dependent variable and a set of independent variables, which are grounded in different theoretical perspectives. An example here is the recent attempt of Goo et al. (2007) to investigate the factors that influence the duration of outsourcing relationships by drawing on strategic, economic, and social perspectives. While tapping into different theoretical streams, their research model described the bivariate relationships between the factors and relationship duration. The problem with such a reductionistic approach is its emphasis on simple relationships between independent and dependent variables, i.e., direct, mediation, or moderation effects of isolated variables. This emphasis limits the ability to expose the interdependencies among the different independent variables and, consequently, the complementarities among the different theoretical perspectives.

Third, outsourcing research has frequently invoked theory to underpin static associations between variables. One reason for this propensity may be the underlying theory itself, which sometimes lacks a dynamic dimension. For instance, the RBV has been criticized for not explaining how firm resources are developed and renewed in response to shifts in the business environment (Eisenhardt and Martin, 2000). Another reason may be the difficulties inherent in the longitudinal research designs necessary to validate dynamic hypotheses (Miller and Friesen, 1980), particularly the difficulty of collecting organizational data over time. A third reason may be the focus of some studies on particular stages or events in the evolution of an outsourcing relationship (Lacity et al., 2009). During the greater part of the 1990s, there was a strong focus on the determinants of outsourcing (Dibbern et al., 2004). Naturally, focusing on the outsourcing decision, which takes place in the early stages of an outsourcing relationship, does not require a dynamic view of how the relationship evolves over time.

Against this backdrop, the main objective of this paper is to uncover the potential value of a configurational approach to outsourcing by developing a framework of outsourcing effectiveness. The paper first presents a theoretical approach and then applies this approach to develop a theoretical framework. In so doing, the paper demonstrates how the three problems described above may be addressed by applying a theoretical approach that has yet to be significantly applied in outsourcing research. The remainder of this paper is constructed as follows. First, the configurational approach and its potential benefits to outsourcing research are presented. Next, the configurational approach is applied to develop a framework of outsourcing effectiveness. A novel configurational method and conventional set-theoretic methods are used to structure the process of framework development. Because the framework depicts static relationships, it is extended to incorporate a dynamic perspective of the trajectories of change in outsourcing relationships. The framework draws its predictive value from six propositions that are formulated as part of the static and dynamic analyses. Finally, the implications, limitations, and empirical research directions of this paper are discussed.

## 2. A configurational approach

Configurational theory suggests that organizations are best understood as coherent clusters of distinct attributes that commonly occur together (Miller, 1986; Mintzberg and Lampel, 1999). Because of the tendency of organizational attributes to fall into coherent patterns, configurational theory rejects previously dominant perceptions of organizations as amalgams of multiple attributes that can vary independently and continuously (Meyer et al., 1993). Instead, the theory is concerned with how the configuration (pattern) of multiple independent variables, rather than each individual independent variable, is related to organizational performance (Delery and Doty, 1996). Its key prediction is that a small number of congruent configurations should describe a large proportion of high-performing organizations (Miller, 1986). To describe the unique assumptions underlying configurational theory, Meyer et al. (1993) contrast it with contingency theory. According to Meyer et al. (1993), contingency research perceives organizations as loosely coupled aggregates of attributes. It represents a reductionistic analysis of unidirectional linear relationships between external contingencies and internal attributes. To statistically isolate the effects of each variable, it downplays complex forms of interaction. It views adaptive change as being gradual and

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