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Vinay Tiwari

Erasmus University of Rotterdam, vtiwari@rsm.nl

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TRANSITION DURING OFFSHORE OUTSOURCING: A PROCESS MODEL

Social and Organizational Aspects of Information Systems

Vinay Tiwari

Decision and Information Sciences

Rotterdam School of Management, Erasmus University

Email: vtiwari@rsm.nl

Abstract

In recent years, outsourcing has become a ubiquitous phenomenon. Despite extensive research, several examples of outsourcing failure are prevalent. In this paper, complimenting the strategic and economic studies on outsourcing, we focus on the operational execution challenges by examining transition phase, which starts immediately after contract signing and involves the critical transfer of outsourced activities from client to vendor firm. We conceptualize and illustrate transition as interplay of three connected organizational processes: transfer, learning and adaptation. Using an in-depth, longitudinal case study of an offshore outsourcing engagement, we develop and explain a transition process model, consisting of three phases – familiarize, adapt and accelerate. For each phase, the model identifies dominant organizational processes, key factors and triggering condition for progression to the next phase.

Keywords: IS offshore outsourcing, transition, transfer, learning, and adaptation

Introduction

In recent years, offshore outsourcing has been high on the CIO agenda (Gartner 2004; McKinsey 2004), with its market size exceeding US \$25 billion (Willcocks and Lacity 2007). Complimenting the existing research, this study focuses, on hitherto overlooked but critical execution challenges related to offshore outsourcing, immediately after the contract is signed. It examines the transition stage, which promptly succeeds contract signing and involves the critical process of transferring the ownership of outsourced activities from client to vendor firm (Carmel and Tjia 2005; Dibbern et. al. 2008; Lacity and Willcocks 2000; Oshri et al. 2007). Industry sources suggest that two-thirds of all failed outsourcing relationships can be traced back to transition (CIO, 2007). Despite its significance for the success of an outsourcing relationship, transition has received limited academic attention.

We conceptualize and illustrate transition during offshore outsourcing as a phenomenon that represents a culmination of three interrelated organizational processes: transfer (Szulanski 1996), learning (Argote 1999) and adaptation (Williams 2007). Based on an in-depth longitudinal case study, capturing transition in real-time and following the guidelines for process theorizing (Langley 1999; Mohr 1982; Van de Ven and Poole 1995), we inductively develop and explain transition process model consisting of three phases – *familiarize, adapt and accelerate* (see Figure 4). For each phase, we depict dominant organizational processes, determine key factors influencing success, and present the triggering conditions for progression to the next phase.

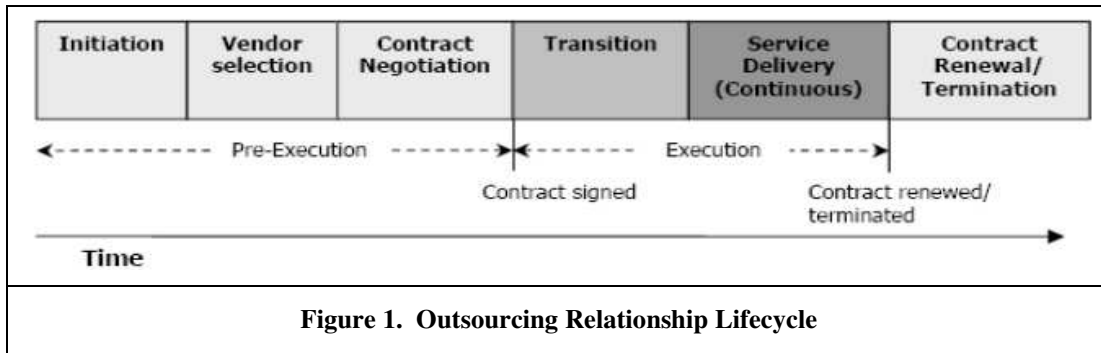
Background

While outsourcing refers to contracting certain (or all) activities to an external vendor (Loh and Venkatraman 1992), offshore outsourcing involves a vendor locating these activities to another, usually low-cost, country (Lewin and Peteers 2006). An (offshore) outsourcing relationship can broadly be divided into six stages (see Figure 1) – initiation, vendor selection, contract negotiation, transition, service delivery and contract renewal/termination (adapted from Lacity and Willcocks 2000). Although each stage presents several challenges, transition is considered

particularly significant, due to its unique character and timing, for the overall success of the relationship (Carmel and Tjia 2005). Transition immediately succeeds contract signing stage and includes the first few joint operational steps from client and vendor firms to manage the handover of outsourced activities and related roles and responsibilities (Oshri et al. 2007). These operational steps “are significant in that they create an initial perception of outsourcing... [That] can be difficult to change at a later date” (Sparrow 2003: 108). Transition is aimed at allowing vendor to successfully takeover outsourced activities and to “establish operational performance” in the new arrangement i.e. post-outsourcing period (Lacity and Willcocks 2000: 368).

Building on the foundations of outsourcing, knowledge management and organizational learning literature, we conceptualize transition as a combination of three significant and inter-related organizational processes – transfer, learning and adaptation because it possesses key elements of each of these processes. For instance, after an outsourcing contract is signed, client personnel need to transfer knowledge, experiences and routines to vendor personnel (Carmel and Tjia 2005), who need to absorb these and learn to replicate outsourced activities. Learning, during transition, takes places on two dimensions: learning to perform outsourced tasks such as client-specific application development activities (Chua and Pan 2008) etc. and learning to adapt organizational setting, for example, restructuring retained organization (at client firm) (Feeny and Willcocks 1998) or mirroring client’s structure (at vendor firm) (Oshri et al. 2007). Adaptation, which manifests from learning and involves “modifying or combining practices”, plays a significant role to integrate the knowledge transferred and learning acquired during transition (Williams 2007). Furthermore, transition involves smoothly performing these processes till a pre-defined operational performance (as agreed in the contract) is achieved (Lacity and Willcocks 2000) but each of these processes involves significant challenges that need to be overcome, for a successful transition. Transition involves not only transfer of broader organizational knowledge related to outsourced activities, for instance, best practices (Szulanski 1996) but also and more importantly, specific routines related to performing these activities. Transferring these operational routines, in an inter-organizational setting, such as transition, is difficult mainly because they are highly contextualized, have an emergent quality (such as, accumulated experience) and partial inarticulacy (difficult to articulate, such as, tacit knowledge) (Cohen and Bacdayan 1994; Cyert and March 1963). Furthermore, vendor personnel face difficulties with learning as client personnel, who possess much of the knowledge that needs to be transferred lack motivation (for instance, due to job insecurity) (Cullen and Willcocks 2003). Finally, with limited transfer and insufficient learning, adaptation – in the form of modified structures or processes at either firm is -challenging to perform, increases risks and can lead to costly mistakes (Williams 2007).

Although, IS scholars have productively focused on other stages of the outsourcing lifecycle, academic research on transition is scarce. Therefore, to advance current understanding, a detailed academic inquiry is needed on: *how transition stage proceeds and why?* This research answers the question, by capturing longitudinally and in real-time, the transition stage of an offshore outsourcing project between a utility firm and a global IT vendor.



Methodology

Due to the limited research on transition and in order to capture its theoretical richness, an in-depth, longitudinal and qualitative single case study approach was chosen to generate fresh insights from the data (Eisenhardt 1989). This approach provided an appropriate fit with the objective of understanding transition, as case studies are ideally suited when boundaries of a complex phenomenon (i.e. transition) are closely linked with the context (i.e. offshore outsourcing) (Yin 1994). Furthermore, the case represented a unique opportunity (Yin 1994) to get an exclusive access to longitudinally, and in real-time, capture an entire transition stage, involving three distributed locations and allowing multiple and comprehensive interactions with personnel having key roles and responsibilities (see Table 1).

Case Selection and Description

While discussing with several practitioners (from IT vendor and third party consulting firms) about transition, an ideal case was being searched with two strict selection criteria. First, to answer the research question with high data quality, we had to study transition longitudinally and in real-time i.e. a transition that we could trace over its entire lifecycle as it unfolds rather than studying transition from retrospective accounts. This required data collection to take place throughout the transition stage and with informants with several diverse roles. This meant that the access to the case needed to be substantial to allow us an extensive data collection. Second, the case must have an offshore component i.e. the vendor needed have some members of the project based in an offshore location, which should be involved in carrying out some (or all) outsourced activities. Furthermore, we wanted to keep India as the offshore location as it is one of the mature offshore destinations (Kotlarsky and Oshri 2008) and this reduces confounding effects arising, mainly, due to the inexperience with offshore outsourcing.

Although transition is part of every outsourcing project, it is extremely challenging to get access to transition for academic research, which could partially explain the lack of studies on it. Moreover, additional selection criteria, while significant for making a theoretical contribution, further constraint the opportunities available. The challenges arise, primarily, due to three reasons. First, identifying potential outsourcing projects that are about to begin transition requires tracking several projects that might currently be in contract negotiations stage, which firms are generally not willing to share until the deals are closed. Second, the delay introduced while getting access to a case (due to any bureaucratic or hierarchical approval process, which are very common) can lead to transition stage already more than half-way finished. Finally, client and vendor practitioners are usually not keen to approve a study of their transition stage in order to avoid highlighting any errors or mistakes made by their firms. After searching and discussing with several practitioners about a possible case to study for over 12 months, we selected “CUSTOMER” project, which involved “Utilco”, a European utility company and “Global Vendor”, a global IT vendor – all pseudonym to protect the identity. It satisfied the selection criteria and provided a rare opportunity to study transition during offshore outsourcing, thereby, representing a revelatory case (Yin 1994).

Utilco is a leading European utilities firm. It employs a total workforce of over 10,000 and serves around 2.5 million customers. Global Vendor is a global IT outsourcing vendor. It is a US-based organization but has significant presence in India (with several delivery centers) and employs over 150,000 people globally in around 50 countries. Utilco had a previous relationship with Global Vendor, where the latter was hired for certain IT projects. In 2005, Utilco began to implement a multi-vendor sourcing strategy. The CUSTOMER project, focus of this study, was signed in August 2007 and involved outsourcing (with a significant offshore component) of specific application development and maintenance activities to Global Vendor. It marked Utilco’s first experience with offshore outsourcing and the contractual amount was over several million dollars for a period of two years. Till now, within Utilco’s IT function, majority of personnel performing these activities were third party contractors, who had been working with Utilco for around a decade. According to the contract, Global Vendor had to be responsible for the outsourced activities and several contractors were to be released. These activities were to be performed in a distributed setting from three locations¹ (see Figure 2) – Utilco’s own location, referred as *Onsite*, based in Europe Union (EU); Global Vendor’s delivery centre based in the same country as Onsite in EU, referred as *Onshore* and Global Vendor’s delivery centre based in India, referred as *Offshore*. In terms of the size of the project, it was expected to utilize around 25 personnel i.e. full time equivalents (FTEs) during service delivery stage, in total, from Global Vendor and around 40 contractors from Utilco were to be released.

Data Collection and Analysis

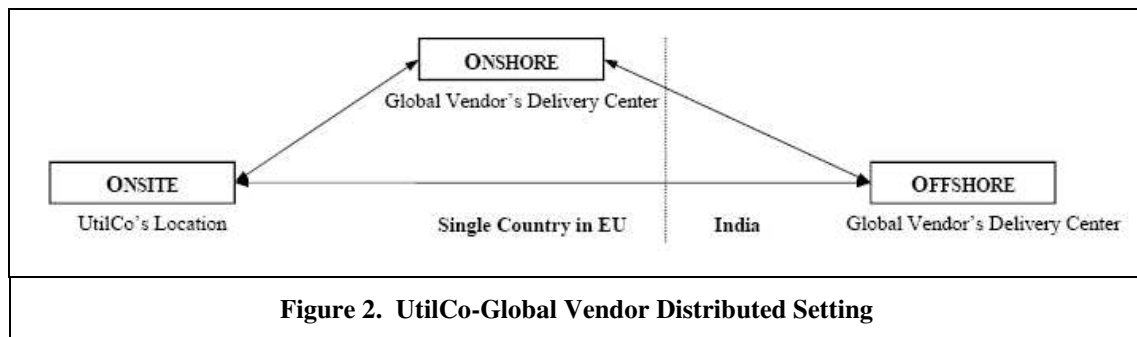
Data collection began in August 2007 and was completed around May 2008, along with a follow-up session in November 2008. The approval to study the project came from senior IT managers at both Utilco and Global Vendor, who allowed comprehensive access necessary to answer the research question. The data was collected through semi-structured interviews, notes from informal discussions, extensive project documents, observations from visits to the sites, workshop (organized six months after transition period ended) and e-mail correspondence. From Aug 2007 to May 2008, throughout the transition stage, several formal interviews and informal discussions with CUSTOMER project personnel having diverse roles and responsibilities were held. Formal interviews were conducted using semi-

¹ It is important to note that we distinguish between Onsite and Onshore. While the former refers to client-site i.e. UtilCo IT function’s location, the latter refers to Global Vendor’s delivery center in the same country but a different city as client-site.

structured interview protocol, which was provided to informants in advance, and lasted from 40 minutes to over 3 hours (average 1.25 hour). Twenty-nine of these interviews (see Table 1) were audio taped with permission, along with extensive notes taken during the interview. All taped audios were fully transcribed for data analysis purposes. Informal discussions and interesting observations from spending time at project sites were not audio taped but were written down as notes, mostly after the conversation or visit on the same day. Key informants were interviewed, formally or informally multiple times and during various phases of the transition to understand major developments in the CUSTOMER project. In Nov 2008, a three-hour workshop with Utilco personnel was conducted, insights and significant conversations from this workshop, about UtilCo’s transition experience, were also noted down.

Table 1. Details of Informants²

Firm	Location	Role	Formal Interview Date(s)
Global Vendor	Onshore	Partner	18-01-08
	Onshore	Onshore Transition Lead	13-09-07; 28-01-08; 17-03-08
	Onshore	Onshore Project Lead	16-01-08; 12-03-08
	Onsite	Onshore Transition Coordinator-1 (Sep-Oct 2007)	14-12-07
	Onsite	Onshore Transition Coordinator-2 (Nov-Dec 2007)	30-11-07
	Onsite	Onshore Transition Coordinator-3 (Jan 2007-)	12-03-08
	Onsite	Functional Consultant	17-12-07
	Onsite	Technical Consultant-1	5-12-07
	Onshore	Technical Consultant-2	15-02-08
	Onshore	Technical Consultant-3	15-02-08
	Offshore	Offshore Transition Lead	11-12-08
	Offshore	Offshore Project Lead	10-01-08
	Offshore	Offshore Team Lead	5-12-07; 17-01-08
	Offshore	Functional Consultant-2	5-02-08
	Offshore	Technical Consultant-4	8-02-08
Offshore	Technical Consultant-5	5-02-08	
UtilCo	Onsite	IT Delivery Manager	21-03-08; 04-11-08
	Onsite	Client Transition Lead	23-11-07; 28-03-08; 04-11-08
	Onsite	Client Project Lead	28-03-08; 30-04-08
	Onsite	Functional Consultant	31-03-08
	Onsite	Technical Consultant	28-03-08



² Due to request from both the firms, identity of informants is not included.

The data access along with the real-time longitudinal data collection forms a key strength of this study, primarily, due to the inclusion of several informants with diverse and relevant roles, from both UtilCo and Global Vendor (onsite, onshore and offshore sites, Figure 2) and at different phases of the project. All the informants based at onsite and onshore in EU were interviewed face-to-face, while those based at offshore (in India) were interviewed on the phone. The interview protocol focused on soliciting current situation, challenges faced (at that point in time), solutions adopted, key learning points, and transition performance (in terms of budget, delivery time and quality).

Initial data analysis proceeded along with data collection (Eisenhardt 1989). While conducting and summarizing an interview, insights revealed were converted to conceptual themes and potential propositions on transition process model. Due to the longitudinal nature of data collection, modifications of these themes and propositions were then included in the next interview for confirmation or rejection (and the reasons behind it). Next, with the entire set of transcribed interviews, narrative strategy (Langley 1999; Pentland 1999) and timeline (Mason et al 1997) was used to organize the enormous data and to chronologically arrange the data respectively. This led to a condensed summary of how the project proceeded. Along with the descriptive story, visual mapping (Langley 1999) was used to highlight various events, dimensions or issues, parallel activities and to aid in development and confirmation of high-level theoretical themes (Pettigrew 1990). Next step in analysis involved, moving from facts to first-order concepts to generate new or confirm prior themes (Van Maanen, 1979), using several qualitative analysis techniques such as open, axial coding and constant comparison (Miles and Huberman 1994). Finally, rewriting, comparing and re-analyzing the data from multiple angles led to fine tuning of the theoretical themes.

Findings

In this section, we illustrate the progression of the transition stage in three phases – *familiarize*, *adapt* and *accelerate*, along with the key factors in each phase, challenges faced and solutions adopted, phase outcomes and conditions that triggered progression to the next phase.

Initiation and vendor selection stages for CUSTOMER project started in the last quarter of 2006. In Dec 2006, interested vendors responded to UtilCo's tender and were evaluated on the financial and functional solutions (i.e. how they will take over outsourced activities, how they will reach cost levels they have stated etc.). In Feb 2007, detailed proposals were sent to selected vendors for a comprehensive solution response and full-day workshops were conducted with each of them to discuss their solution (including transition overview and approach) and UtilCo's concerns. Their primary concern, with outsourcing (and specifically offshore outsourcing), was related to shifting the control, on outsourced activities, from their managers to vendor personnel and the risk of losing this control. These workshops reinforced UtilCo's initial preference to adopt a staged approach (vs. big bang) to shift control slowly as the vendor gains experience of their operations and organization.

Initial Conditions: Contract Signed and High-level Project Plan

In Jun 2007, Global Vendor emerged as the front-runner for CUSTOMER project, primarily due to their willingness to incorporate UtilCo's concerns and tailor the solution to mitigate control related risks. In Aug 2007, the official contract was signed between UtilCo and Global Vendor for a two year period, with a possibility of extension for three years subjected to performance conditions. In the period leading up to contract signing, mainly June and July, high-level project planning (incl. transition plan) started, in which senior managers from Global Vendor's onshore and offshore (esp. Transition Leads³ and Project Leads) teams along with UtilCo's senior managers were involved. This planning had two aspects front-end – relationship between UtilCo and Global Vendor (irrespective of the locations) and back-end – relationship between Global Vendor's onshore and offshore sites. While the former included discussions between Global Vendor (represented by onshore personnel) and UtilCo about financial model (potential cost savings etc.), service level agreements (SLAs), operating model, number of personnel and their experience levels; the latter included similar discussions internally between Global Vendor's onshore and offshore teams. The two conditions – a signed contract and availability of a high-level project plan – served as the initial conditions for transition to begin from 1st Aug 2009.

³ It is important to not here that Transition Lead was higher in hierarchy than Project Lead. Transition Leads were usually focusing on multiple projects while Project Leads were dedicated to a single project.

Phase I: Familiarize

Although a high-level understanding of activities to be outsourced was present, lack of clarity about the specific activities to be performed and the division of roles and responsibilities at operational level characterized the early period of the transition process. The first phase is referred as *familiarize* – because its objectives were: (a) for both UtilCo and Global Vendor to align expectations and, (b) for the latter to gain an initial understanding of the outsourced activities. This phase lasted for around two months from early-Aug to early-Oct 2007.

In the first-half of Aug, just before knowledge transfer started, several meetings and conferences were held between UtilCo's and Global Vendor's onshore and offshore Transition and Projects Leads. These meetings allowed both firms to align expectations by examining the actual scope of activities and determine the way forward:

"We were giving Global Vendor a feeling of our [UtilCo] current operational level...the main question was how are we performing and what are the things we can improve easily and what are the things we cannot improve very easily but are working on it, those were made visible... [by] setting up interviews, getting process descriptions, giving them insight in our impact analysis and the level of estimation etc" [UtilCo, Project Lead]

"I joined full-time in Aug... it was a stage wherein planning was going on, a lot of things were not clear. There were a lot of ambiguities regarding the execution, regarding the overall plan of the project, how we are going to go about it" [Global Vendor, Project Lead - Offshore]

Getting Started: Knowledge Transfer

During Aug, Global Vendor internally started searching for technical and functional resources to join the project and found it challenging to identify and allocate expert resources on a short notice. Around end-August, 8 onshore and 4 offshore personnel were identified (and flown from India) to work on the project. In early-Sep, knowledge transfer sessions started for both application development and maintenance activities. Most sessions took place at onsite, while some were conducted at onshore. While 5 onshore and 3 offshore personnel took lead for maintenance project, the other 3 onshore and 1 offshore personnel (who would later become Team Lead – Offshore) were responsible to grasp application development activities. Three significant challenges related to knowledge transfer emerged: limited availability of UtilCo's contractors, uncooperative attitude of these contractors, and the lack of application of appropriate tracking tools. While resources from Global Vendor were ready to receive knowledge transfer, UtilCo's management had not sufficiently planned for the availability of their contractors, especially as these contractors had to continue working on their operational activities along with conducting knowledge transfer sessions. While the knowledge transfer for both maintenance and development activities was initially planned in two stages of one month each, but it was hastened because of increased pressure as key contractors from UtilCo were leaving and were not inclined to transfer their knowledge:

"It [knowledge transfer] was planned for 2 months and then they [UtilCo] wanted to do it in 2 weeks but that didn't happen...well, because of course those contractors were leaving, first of all they didn't really want to cooperate. They didn't care, they were leaving. Then we had a problem where all the knowledge transfer had to be crammed into a limited amount of time... but of course for contractors operational activities were going on as usual... so we really had some problems getting the contractors to free up time in order to do the knowledge transfer... in the end we did get knowledge transfer (KT) for about one month I think. The other problem we had was that as soon as we had the KT, their [UtilCo's contractors] mindset was, 'ok, so you know everything, you solve it'...so it was a pretty difficult period to get this whole show running." [Global Vendor, Technical Consultant-2 – Onshore]

Furthermore, lack of the usage of necessary tools to track knowledge transfer activity due to expedited planning, coupled with several unplanned, arbitrary sessions, created complications for both organizations in monitoring the current knowledge levels of Global Vendor's personnel and was alleviated by developing and using temporary tools:

"Another major issue was that this activity [knowledge transfer] was not tracked in any tool or template...I had some experience of such projects so I picked up a template and on my own basis, I used to talk to my people [offshore personnel] there [at onsite] and tell them to fill up the tracker daily...it included what activities they've worked on daily basis. I knew that we do not capture whatever we are being told... UtilCo can come back tomorrow and say that we already provided you the budget and you have already burned it and there's no knowledge lying around"... that could put us in trouble." [Global Vendor, Project Lead – Offshore]

As knowledge transfer proceeded, offshore team in India was increased by 5 new resources, which were planned to work on application development activities. Meanwhile by end-Sep, discussions on operating model – referring to task division, communication structure and delivery processes among prospective onsite, onshore and offshore teams – between Global Vendor’s onshore and offshore Project Leads were also finalized. But UtilCo grew a little apprehensive with onshore-offshore delivery model as they had never worked in such a setting, were not sure about how to handle it and hence, were anxious to relinquish control:

“Basically, what we initially discussed with UtilCo was that maintenance work will be done from onshore and development work will be done from offshore after knowledge transfer but they wanted to do some pilots for two to three weeks and we said, well this is not going to fly as that is too short. We need to have some volume. I mean, we don’t need 40 people to work on it but three weeks is too short...so we are now going to have a number of pilots.” [Global Vendor, Transition Lead – Onshore]

Eventually, as knowledge transfer completed with some hiccups and offshore personnel went back to India, in early-Oct, two major pilots were decided to be launched – one for maintenance activities (referred as Pilot-M) and other for development activities (referred as Pilot-D). The initiation of these pilots, with the entire project moving into the operational performance mode involving actual delivery of activities, marked the end of *familiarize* phase.

Phase II: Adapt

After allowing operational personnel from both firms to interact and achieve a certain level of understanding about each other’s organizational setting, outsourced activities, and delivery processes, pilot projects (from both development and maintenance areas) were initiated. This involved moving *low complexity* and *low volume* of work to explore and determine a suitable operating model between UtilCo and Global Vendor. This phase is referred as *adapt* – because its objectives were: (a) for both UtilCo-Global to critically evaluate and modify the operating model between them, (b) for Global Vendor, to gain in-depth knowledge and understanding of UtilCo’s specific applications and (c) for UtilCo, to reorganize and redefine the roles and responsibilities of its retained personnel. This phase lasted for over four months from early-Oct 2007 to early-mid 2008.

Modifying Operating Model: Task Division, Communication Structure, and Delivery Processes

In early-Oct, two pilot projects – Pilot-M and Pilot-D began. Pilot-M was planned to last around two months i.e. till end-Nov 2007, while Pilot-D was planned till early-Jan 2008. Both involved relatively simple work from application maintenance and development activities and were to be executed from onshore and offshore locations respectively. As these pilots started, several challenges related to Global Vendor’s planned operating model, primarily communication structure, were revealed.

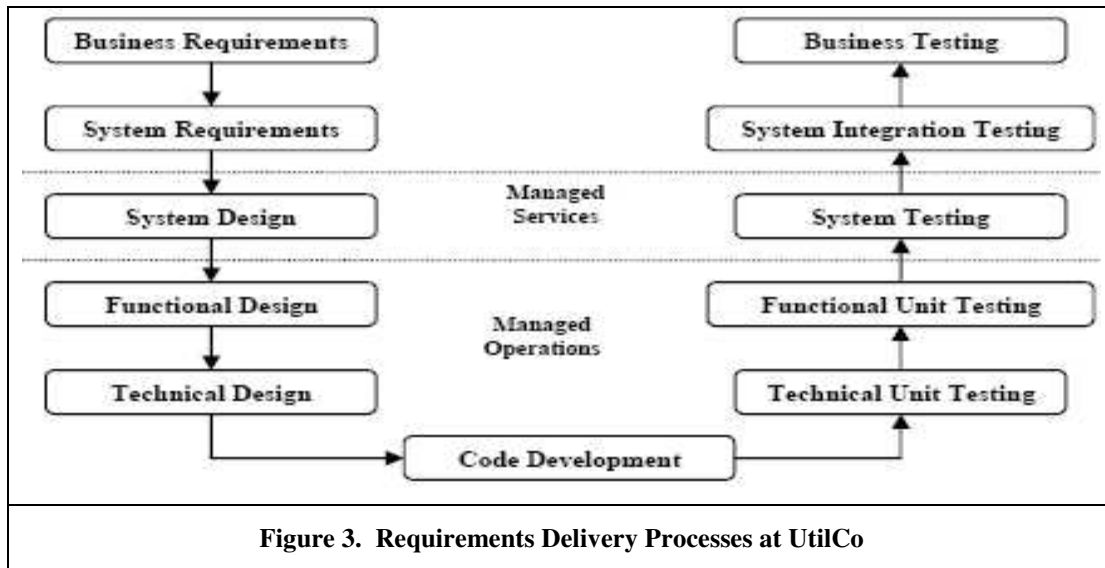
As performing maintenance activities required higher functional knowledge and understanding of application, along with greater urgency for communication with the client, onshore was chosen for Pilot-M. Since these requirements were relatively lower for development activities, hence, these were sent to offshore with Pilot-D. While previously, UtilCo’s personnel and contractors used to work on the entire delivery process (see Figure 3), Global Vendor decided to split this process across three sites – onsite, onshore and offshore (see Figure 2). Onsite hosted Design Team and with the help of UtilCo’s contractors worked on Functional Design and Functional Unit Testing, while offshore hosted Development Team, which worked on Technical Design, Code Development and Technical Unit Testing. Onshore, as stated earlier, worked on maintenance activities and hosted Maintenance Team.

For Pilot-M, the team consisted mainly of 5 onshore personnel, while the 3 offshore personnel were back in India for the month of Oct (due to visa-related issues). Meanwhile, the onshore team still did not have enough clarity about how the Pilot-M work was divided among them, whom to approach for issues or queries within UtilCo, and who has the responsibility of communicating these queries. These challenges exacerbated the tension within the onsite team, specifically, due to the quick response time needed and strict SLAs associated with maintenance activities.

Pilot-D consisted of 3 onsite and 1 offshore personnel (Team Lead – Offshore), who were now in India, along with 5 more resources that were included into the team. It involved activities from Functional Design to Functional Unit Testing (see Figure 3). Onsite personnel worked, along with the help of contractors, on Functional Design, while Technical Design, Code Development and Testing work was sent to offshore. Initial stage of Pilot-D also presented several challenges between onsite and offshore related to communication overload and misunderstandings:

“There is difference between how onsite team works and how offshore works... offshore I think is a kind of more mature in terms of communication protocols. If I am the project manager, I have a one team lead and then a set of developers. So we have a set of protocols that this is how the communication would flow... wherein, I felt that this was a little bit missing in our counterparts at onsite. During the pilot, I would say there was an overload of communication which we raised and got resolved later” [Global Vendor, Project Lead – Offshore]

“For me it was difficult to explain to them [offshore] how we think about it [Component Design]...because when I came up with a design, I talk it through over the phone and they are going to develop it... but when you get back the code, you can see something that is quite different...I think communicating with them is very hard...normally when we create a design here and if you have any question you just walk over and talk with the person...but through email and phone it’s much harder.” [Global Vendor, Technical Consultant-1 – Onshore]



Furthermore, the communication between Global Vendor and UtilCo for discussing any queries related to both Pilot-M and Pilot-D was arduous due to extremely complicated structure at UtilCo:

“One thing that I observed is that their [UtilCo’s organizational] structure internally is very, very complex... because till now I am not able to understand how the communication is flowing from top to bottom or bottom to top. The diagram they [Onshore Project and Transition Lead] showed me was horrible. I think there are lot of decision making steps, if you see how their IT department is arranged you’ll find that it’s not a normal structure with one boss and two people under him who are responsible but that there are different people with overlapping and unclear roles...if it is normalized...a lot of decisions can be easily taken or acted upon... instead of struggling or sticking up into bottle-necks.” [Global Vendor, Project Lead – Offshore]

After a few weeks into the pilots, around early-Nov, to address the communication-related challenges and to improve the delivery processes between Global Vendor and UtilCo, three specific adaptive measures were taken: (a) introduction of a single point of contact (SPoC), (b) clear responsibility for initiating discussion during any communication and (c) several review checkpoints in the delivery process. First, the SPoC was designed to channel and monitor the communication flowing between onshore and offshore and between Global Vendor and UtilCo, it proved very effective:

“We have three teams working during these pilots - we have our Design team at onsite, a Development team at offshore and a Maintenance team at onshore. There are two ways that offshore can get new work shifted to them. One is from the Design team and the other is from Maintenance team, both these teams have a single point of contact (SPoC) towards India, which also has a SPoC [i.e. Team Lead - Offshore]. So, that’s how we currently supply our work to India and it’s one of the responsibilities of these SPoCs to verify that all the steps according to the operating model are taking place... this model is something that we discussed with the key resources at both onshore and offshore team and changed.” [Global Vendor, Project Lead – Onshore]

“What we said is that I acted as the single point of contact (SPoC) for the offshore team at Onsite. AP [Team Lead - Offshore] had the same role offshore, so whenever there were questions about either our program or the offshore programs, the questions always ran via AP or me. Obviously when it got too much into the details then we were happy enough with allow them to continue, but it was important that we always were in the loop of what was going on, not to be surprised about strange situations or something. The official or the formal way of communicating was always via AP and me.” [Global Vendor, Onsite Coordinator-1 – Onshore]

Second, in the operating model that was developed during earlier months, further modifications at detailed level were needed related to communication, in order to avoid misinterpretation. These adjustments included, at a lower level, directions of communication flow during various stages of delivery process, for instance, defining clear responsibilities of initiating interaction i.e. who should take the lead during specific conversations:

“We had an operating model described but once we got started, one thing that we did not describe earlier was whose responsibility it was to initiate which step. What happened was that during discussions ... design people said that this is what we want please pay attention to this area, etc. and development team said yes, yes ...In the end, it was a classic mistake they said yes but misinterpreted what was requested. So, when the delivery was there, the result was not what as requested... So, what we did is that after we discussed with the key resources from onshore and offshore team, we decided that during any calls between Design and Development team, an important thing within that call is that the developer takes the lead... he is going to explain what he or she is going to develop. This is one thing that we did have to learn which is to make sure that we know whose responsibility it is to plan which stage and whose responsibility is it to initiate certain calls and to plan those calls...well we've now set in place and shared with all people here.” [Global Vendor, Project Lead – Onshore]

Finally, to further counter the misunderstandings arising by dividing the delivery processes across two distributed sites (for design and development activities), several additional review steps were introduced between Global Vendor's onsite and offshore teams to provide them with opportunities to rectify any misconceptions:

"After discussing the functional design with the onsite team, they [offshore] are going to create a technical design [pseudo-code before Code Development].... this technical design is again reviewed by the Design team onsite before they [offshore] start actual code development. So, there is now a handover moment in which they [onsite] review the technical design to verify the quality of what offshore are going to develop... but more importantly to find out that what they [offshore] are going to develop is indeed what is requested in the design... As soon as approval is given, code development starts and then the developed and tested code is sent to onsite...Onsite team again reviews the code and does functional unit test to validate the functionality that has been delivered by the offshore and then passes it to UtilCo” [Global Vendor, Project Lead – Onshore]

Increasing Knowledge and Understanding: High Complexity Work

With several modifications to the operating model, the pilots were successfully completed – Pilot-M⁴ ended around end-Nov 2007 and Pilot-D ended early-Jan 2008. Along with the end of these pilots, majority of contractors (around 30) had left UtilCo. Now, the challenge for the project was to function in *managed operations* (MO) state (reached around early-Dec), which in terms of delivery processes referred to UtilCo's having the official management responsibility of the entire delivery process (i.e. from Business Requirements to Business Testing, see Figure 3) but using Global Vendor for all their activities from Functional Design to Functional Testing (instead of contractors).

Although managed operations state was reached in Dec, in order to perform successfully in this state, Global Vendor needed to work on more complex requirements within both development and maintenance activities. So, around ear-Jan 2008, along with an increase in onshore (from 5 to 8) and offshore team size (from 6 to 10 – personnel working on development activities, while 3 separate resources continued working on maintenance activities), the second set of pilots (with short 2-3 weeks duration) was launched. The new pilots were designed to push *high complexity* but *low volume* of work from UtilCo to Global Vendor with the objective to increase the competence – by increasing knowledge and understanding – of onshore and offshore personnel, with UtilCo's applications:

⁴ The three offshore personnel – who had earlier returned to India, in early-Oct (due to visa issues), after knowledge transfer – came back to onshore, in early-Nov (again for four weeks), to work alongside onshore personnel and gain further knowledge and experience with application maintenance. They returned to offshore as Pilot-M finished around end-Nov.

"We are now trying also to involve the Indian team in difficult maintenance work, combining more of functional consultancy along with technical development activities... we know that they would not be really very productive but at least they could learn from the system.." [Global Vendor, Transition Lead – Onshore]

"What we have done with both our onshore and offshore is that we are extending the teams and extending the areas for which we are responsible, for example, onshore team was responsible for billing, but now they are also responsible for e-messaging... team size has increased from 5 to 8 people...also new work package has been delivered to offshore, which was enough deliverables for now" [Global Vendor, Project Lead – Onshore]

As these new pilots proceeded, they provided Global Vendor's onshore and offshore personnel the opportunity to further experientially learn about Utilco's application and compensate for the accelerated knowledge transfer earlier.

Restructuring Retained Organization: Roles and Internal Processes

From UtilCo's perspective, from the initial months of the first pilots, they were constantly reviewing the situation with weekly meetings involving Global Vendor. Around end-Oct, they had already released over 30 contractors but a few still remained. After assessing the situation carefully, UtilCo's management learned and understood the need for several changes in their retained organization in order to adapt it for successfully working with Global Vendor. UtilCo's primary concerns were about the loss of expertise (with the contractors) and adapting their IT organization to operate in a complex distributed setting (i.e. onsite, onshore and offshore). So, in early-Jan 2008, with the initiation of the second set of pilots – functioning in managed operations state and requiring intense cooperation with Global Vendor – UtilCo began to evaluate two modifications to its retained organization: requisite roles and responsibilities of its retained personnel and better internal processes.

Two challenges were encountered related to roles of retained personnel. First, as UtilCo's had never experienced offshore outsourcing, their internal organization was still learning to operate and communicate in such a setup:

"For pilot [Pilot-D], offshore only does a part of the delivery process... but all the steps [up to System Design, see Figure 3] before offshore can actually develop need to be finished... and you lose some flexibility there which you can have when everyone is onsite so that designer is next to developer and they can request that, 'Although my design is not entirely finished, you can maybe start with that [development] and I will explain to you the rest which I haven't written yet'. This you cannot do when we work offshore, your design have to be finished or have to be in such a state so that they can start development. And that is something that we see that UtilCo is struggling with" [Global Vendor, Project Lead – Onshore]

"Normally we would just go to the programmer and tell how it work, now we have to make a document and describe in very good detail that what is happening, what is the problem, how it can be solved, so it takes a lot more time and then send it to SI [SPOC-Onsite] and he will distribute it to India, and we will get a date for when he says it is ok and we will look into it over one or two days and you will get an answer back about what costs are and what solution we have picked to solve the problem... for a lot of programs which had major errors there were no documents but it did not matter because you know how it works and you can explain it to the programmer that it works like this and you show it on the monitor...now you have to describe it on paper and it is very very difficult and it will take a long time to get used to." [UtilCo, Functional Consultant]

Second, UtilCo's management realized that a broader fundamental shift was required, in retained organization's perspective, from *actually doing* the activities themselves to *monitoring* that the Global Vendor acceptably performs these activities. This led UtilCo to work on redefining their retained organization. By mid-Feb, a new portfolio of roles and responsibilities was developed and ready to be implemented:

"That [reorganization] is really indeed the difficult part. One of the starting points from our angle is to build a director's organization, for example, now we get a lot more into a situation where the Global Vendor is doing the design and ours is much more of a review role.... so, our work goes from creating these designs to reviewing them. So, we have identified and made new role descriptions for the entire IT supply organization... we call them specialists and professionals. Specialists are the people who will work on design activities, and have to do with designing the systems, while Professionals are the ones who work on service level control etc. Besides that, forecasting becomes much more important, so we have what we call a forecasting professional, as the person who creates the work forecast for our vendors... These roles are more a description of what we saw ourselves doing and now we're going to implement them. Based on the definition of those two dimensions,

these roles become clear now...and were latent earlier when we started the project, evolving in a natural way.” [UtilCo, Transition Lead]

Along with these changes in the roles within retained organizations, improvements were needed in some internal processes, specifically, forecasting of workload. This was needed in order for UtilCo to keep Global Vendor updated on the workload and to assist the latter in planning and maintaining its capacity:

“One of the key issues for UtilCo is forecasting... it is our responsibility to forecast the work and say that for the next month we will have the following changes in these projects and Global Vendor will say ok we will need about 10 people for that and we say yeah, that is okay... we are not good at that yet. I am happy that the bigger projects starting now are feasible because I know exactly what we are going to do and I can forecast it well but two months ago, I wasn't able to do that and we should have done it.” [UtilCo, Project Lead]

So, during the period from mid-Oct 2007 to mid-Feb 2008, after completing several modifications in the operating model, gaining significant experience with complex requirements and determining the roles needed in the retained organization, the relationship between UtilCo and Global Vendor advanced to the last phase of transition.

Phase III: Accelerate

By mid-Feb 2008, the second set of pilots was completed and the project was running smoothly in the managed operations state. With adaptations conducted at both the firms for improving the collaborative performance, a set of final pilots were executed with the new setup involving *high complexity* and *high volume* of work between UtilCo and Global Vendor. This phase is referred as *accelerate* – because its objectives were: (a) to swiftly validate the recent modifications at both the firms with simulated service delivery stage conditions (i.e. with performance level expectations as in actual service delivery, see Figure 1) and (b) to allow both firms to acquire sufficient experience and maturity with the setup (i.e. modified roles and delivery processes) to expedite reaching service delivery stage. This phase lasted for around two months from mid-Feb to mid-April 2008.

Validating Modifications: Pseudo Service Delivery and Ramp-Up

While conducting the second set of pilots, from early-Jan to mid-Feb 2008, UtilCo and Global Vendor constantly discussed about maintaining requisite performance levels of managed operations and progressing to *managed services* (MS), which referred to the end of transition and beginning of the actual service delivery stage (see Figure 1) – contractually it meant that Global Vendor would bear official responsibility for all the activities from System Design up to System Testing in the delivery process (see Figure 3). Till now, mid-Feb 2008, Global Vendor was only handling activities from Functional Design up to Functional Testing, according to the contract, and did not have the official responsibility for these delivery processes. But with the first and second set of pilots, Global Vendor's personnel, specifically onsite team, had acquired substantial understanding of UtilCo's applications. Both firms agreed that it was an appropriate juncture to advance to the next step. So, from mid-Feb onwards, in order to promptly reach managed services and to validate modifications carried out, a final set of pilot projects were launched that involved working in the simulated managed services conditions:

“... Global Vendor did not take over anything yet. We are still in MO, so UtilCo is the responsible party. We are though working very intensively with Global Vendor, they're not in-charge yet but most technical and functional consultants now are Global Vendor personnel (instead of contractors). So, to be exact, no responsibilities have shifted yet but in practice, we have been working on several pilot projects, pilot MO, pilot MS, pilot statement of work kind of way of working...there are official differences between MO and MS. But, for example, for the MS pilots, we kind of, act as if we have shifted the responsibility... So we say well these are the requirements, please do a system design on that, make a technical design, build and test your code... do the system test and send it back [MS way of working]... So what we do now in practice, for some of the coding we say please do the testing yourselves and for some of the projects we say well please do the design yourselves and for some of them already we say do both... So we have some projects that we are working on in the MS way of working and for that part we have shifted responsibility to Global Vendor” [UtilCo, Project Lead]

From Global Vendor's perspective, these pilots aimed at not only strengthening knowledge level of its personnel but also providing significant experience of managing the delivery processes with UtilCo. In the period from mid-Feb to mid-Apr 2008, ramp-up started i.e. to handle increased *volume* of work, new personnel were added to the teams. While Global Vendor's onsite team size remained same, onshore increased from 8 to 11 and offshore from 10 to 15.

This ramp-up of new personnel, mostly junior developers, who had just joined the project presented a challenge, as they had to quickly, in a very short period, absorb knowledge related to outsourced activities and delivery processes and become productive. Although, there were no serious issues reported, there were some concerns related to the inexperience of Global Vendor's new personnel as compared to contractors that they were replacing:

“Global Vendor very easily replaced programmers with a lot of knowledge [i.e. contractors] on our side with their people with a lot less knowledge... and that did not work well, we had two incidents that almost caused system failure issues because the new programmer was on it with less knowledge and he started an application that should not have started and later tried to manually correct it but could not and changed some things in the system, we had to take help of our experienced contractors to fix it” [UtilCo, Functional Consultant]

From UtilCo's perspective, to reach managed services, it was critical to implement and test the redefined roles in its retained organization. Therefore, from mid-Feb onwards, these roles and responsibilities were *unofficially* applied for administering operations during the simulated managed services state. This was implemented in parallel with the ramp-down of the few remaining contractors, which further increased pressure on the retained personnel. Initially, applying this reorganization presented two challenges: it created anxiety among UtilCo's retained personnel with regard to their job security and it required them to, for a certain period, manage twin roles (earlier one as well as the redefined one), thereby somewhat overwhelming them. Although, it took longer than expected due to modified roles and increased workload in a novel setting (offshore outsourcing) but both these issues subsided and allowed retained personnel to develop their new skills sets:

“In reorganization, several people got taken out of their place [previous roles], ...so this job insecurity came from the reorganization...and that had an enormous effect on the ongoing projects...it [reorganization] is more or less a big bang scenario...and there is continuous tension between project management and the organic process of change [modified roles], I think we gave less stress on the project aspect by allowing them to take lot of time to grow into their new roles...which can be debated...as I see now that people have got so much space... and they still say I have to grow in my new role and they keep on growing in their new role and somehow that process doesn't come to end...but it was important to give them the space” [UtilCo, Transition Lead]

Outcome: Service Delivery Stage

With two months of working in the simulated managed service environment or pseudo service delivery stage, both UtilCo and Global Vendor validated their structural arrangements and acquired the critical experience in jointly performing delivery processes. By mid-Apr, without any further significant complications, actual service delivery stage was successfully achieved, with both firms satisfied with the performance.

Transition Process Model

In this section, we introduce and explain our process model of transition developed from the longitudinal case study (see Figure 4). A process model focuses on explaining how and why a certain outcome state is achieved by a preceding sequence of actions, events or phases (Markus and Robey 1988; Mohr 1982; Sabherwal and Robey 1995; Van de Ven and Poole 1995). For this study, we adopt a process model approach for two reasons. First, due to its appropriateness to answer our research question: *how transition stage proceeds and why?* Second, as Markus and Robey (1988: 593) suggest that empirical process models compliment variance models (by capturing certain social phenomenon, which are challenging to study with the deterministic approaches) and allow for better generalizability as their predictions “may correspond more faithfully to actual events in organizations than do the typical predictions of variance formulations”. In addition to determining the sequence of phases, by following Sabherwal and Robey's (1995) joint application, our model also identifies temporal order of key factors that influence the success of each phase and the subsequent phases, thereby, overall transition. In explaining our transition process model, we proceed in two steps. First, we explain each phase by discussing their dominant organizational processes, key factors and triggering conditions, while grounding these in the relevant literature. Second, we explain the logical progression (i.e. order and sequence) of the phases by using Van de Ven and Poole's (1995) life-cycle archetype as the foundation for transition process.

Phases: Organizational Processes and Key Factors

As stated earlier, based on the foundations of knowledge management and organizational learning literature, transition is conceptualized as a culmination of three organizational processes: transfer, learning and adaptation. Although, these processes are present in all the phases and are closely inter-related, each phase has a distinct characteristic depending upon its dominant organizational processes and key success factors.

The objective of the first phase, *familiarize*, is for both firms to align expectations and specifically for the vendor to achieve a sufficient level of knowledge and understanding of outsourced activities to start performing simple tasks. Therefore, majority of this phase is dedicated to transferring knowledge, experiences and routines, making transfer (Szulanski 1996) the dominant organizational process, which assists in obtaining the objective. Knowledge transfer is identified as the key success factor for this phase with three challenges: expert (referring contractors) availability, expert motivation (Ko et al., 2005) and methods and tools (Oshri et al. 2007). Although the second challenge is common to several transfer scenarios (where the expert has negative incentive to transfer knowledge), the other two challenges gain prominence due to aggressive timeline in which the transfer needs to be implemented during transition. Expert availability needs to be jointly and cautiously planned well in advance as during this period experts need to conduct knowledge transfer along with carrying out their normal operational workload. Methods or mechanisms (such as job shadowing) (Chua and Pan 2008) and tools (such as, some knowledge management system) (Alavi and Leidner 2001) are required to effectively transfer and track knowledge under a constrained time period. The phase ends when vendor personnel achieve reasonable knowledge levels to start operational performance mode, involving low complexity and low volume of work.

The objective of the second phase, *adapt*, is for both firms to finalize post-contract structural arrangements (Lacity and Willcocks 2000) and to perform high complexity work before entering a simulated service delivery stage. While learning is dominant early in the phase and primarily occurs on two dimensions: performing actual outsourced activities and managing these activities, adaptation is dominant throughout the phase. Building on the knowledge, experience and routines transferred during familiarize phase, vendor personnel perform pilot projects, which increases their knowledge and understanding due to experiential learning (Argote 1999; Kolb 1984). Along with performing pilot projects, in order to determine the best possible structural arrangements, both client and vendor firms constantly keep learning, evaluating and modifying current arrangements, which represents adaptation (Fiol and Lyles 1985; Willams 2007). Operating model and retained organization are identified as the key success factors for this phase. Operating model (which can also be referred as governance model) involves task division (Mirani 2007), communication structure (Sabherwal 1999) and delivery processes. Based on the experiences accumulated while performing in the project, these elements are adapted to clarify roles and responsibilities (Mahring 2002), coordinate and control activities across distributed locations (Carmel 1999; Choudhury and Sabherwal 2006) and reduce instances of miscommunications (Cramton 2001). Retained organization refers to the arrangements related to post-contract IT function at the client firm (Cullen and Willcocks 2003). Based on the changes due to outsourcing and learning from the pilot projects, roles and responsibilities of retained personnel and internal processes (such as forecasting workload) are modified to improve vendor management (Feeny and Willcocks 1998). The phase ends when both firms, to a large extent, are confident in their structural arrangements and vendor personnel achieve reasonable knowledge and experience levels to start pseudo (simulated) service delivery mode, involving high complexity and high volume of work.

The objective of the third phase, *accelerate*, is for both firms to validate modifications of structural arrangements and to produce performance levels required for service delivery stage. The latter objective involves ramp-up (or scale-up), which refers to quickly increasing the volume of work done and requires a rapid increase in the number of vendor personnel. Although, this phase focuses on validating and routinizing adaptation from the previous phase, learning becomes dominant in this phase as new personnel strive to achieve higher knowledge and experience levels. Ramp-up is identified as the key success factor for this phase and involves two significant challenges: learning capacity and role practice. New vendor personnel are required to quickly become productive, in a short period, placing a high demand on their learning capacity. Client personnel, on the other hand, while managing increased workload, require additional time and practice to settle their new roles. The phase ends when modifications are reasonably routinized and the joint performance of both firms reach satisfactory levels, as agreed upon in the contract, to begin actual service delivery stage.

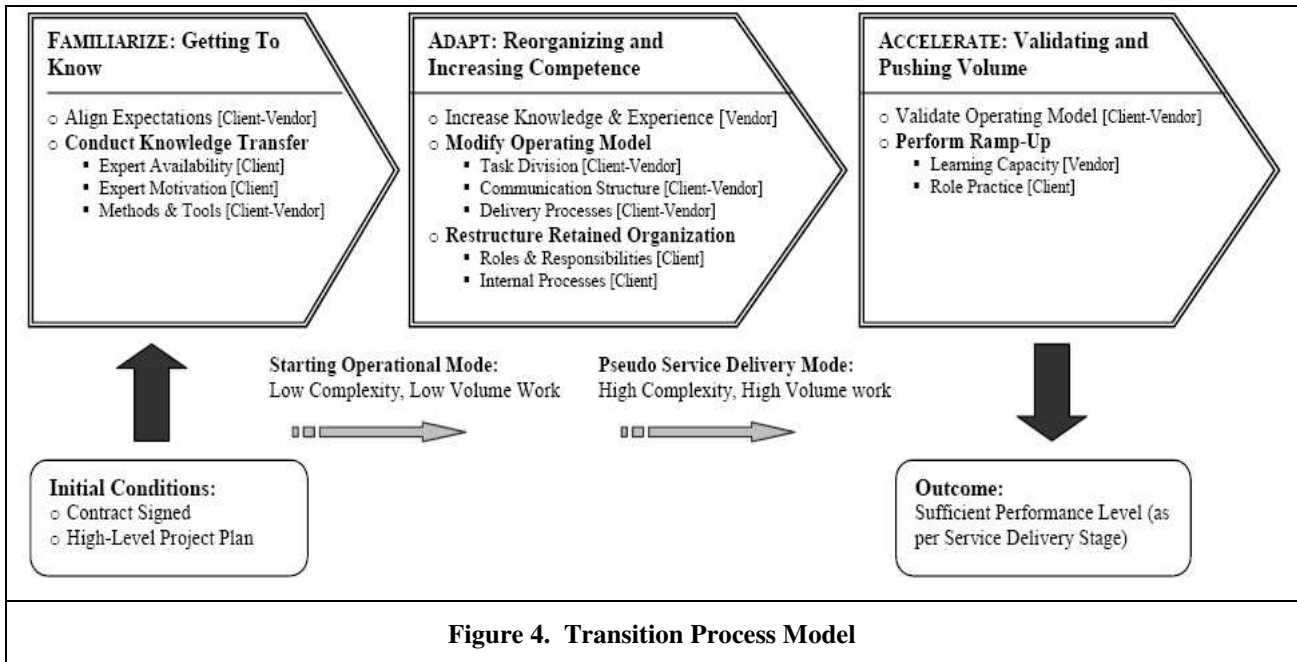


Figure 4. Transition Process Model

Phases: Order and Sequence

In their highly cited, conceptual article on explaining organizational change, Van de Ven and Poole (1995: 511-512) introduce “four basic types of process theories that explain how and why change unfolds”, each with “fundamentally different event sequences and generative mechanisms”, which they refer as motors. Among the four, life-cycle archetype, which explains the organizational development from initiation to termination, closely fits with transition, which has an initiation (contract signing) and contractual termination (reaching service delivery stage). The next paragraphs show how transition process model satisfies life-cycle archetype’s criteria related to event sequence (i.e. how phases proceed) and generative mechanism (i.e. why phases proceed in a particular way).

Van de Ven and Poole (1995: 514-515) suggest that for life-cycle archetype, events progress in “a single [linear and irreversible] sequence of stages or phases” and where “characteristics acquired in earlier stages are retained in later stages”. The transition process model fulfills these two conditions as the three phases *familiarize*, *adapt* and *accelerate* follow a linear sequence (rather than recurrent or discontinuous sequence that belong to other archetypes) and characteristics acquired in each phase such as knowledge gained in the *familiarize* phase or modifications made to operating model in *adapt* phase are retained in later phases.

The generative mechanism for life-cycle archetype, according to Van de Ven and Poole (1995: 515), is governed by “an underlying form, logic, program, or code that regulates the process of change and moves the entity from a given point of departure toward a subsequent end”. For transition process model, the goal i.e. performance conditions for reaching the final-end state of transition (referring to service delivery stage) is known (stated in the contract), this goal determines the underlying logic that guides the process to achieve the final-end state. Furthermore, they suggest that the progression of stages follows a certain sequence because achieving the final-end state “requires a specific historical sequence of events”, suggesting that “each stage of development is seen as a necessary precursor of succeeding stages” (515). Transition process model conforms to this criterion, as each phase in the model is necessary and focused on cumulatively adding features required to achieve the final-end state. The *familiarize* phase involves transferring knowledge and understanding of outsourced activities and forms the foundation on which the subsequent phases and the overall transition is established. Without this phase, it will be challenging to perform even simple operational work. Next, the *adapt* phase involves making critical modifications in structural arrangements and increasing knowledge levels to handle complex work. Without conducting these activities, however minor they may be, high complexity work cannot be executed, thereby *accelerate* phase or service delivery stage cannot be achieved. Finally, *accelerate* phase allows increasing capacity and routinizing processes to handle high volume of work. Without doing these activities, again however minor they may be, requisite efficiency and performance levels

needed for service delivery stage cannot be achieved. Therefore, to complete transition and achieve service delivery stage, these three phases must not only be present but also follow the suggested sequence.

Conclusions

In this study, we focus on a significant, complex and under-researched stage of an outsourcing relationship – transition, which occurs immediately after contract signing and before service delivery stages. Utilizing an in-depth, longitudinal and real-time case study, we conceptualize and illustrate transition as a combination of three interconnected organizational processes: transfer, learning and adaptation. Furthermore, we develop and detail a transition process model with three phases: *familiarize*, *adapt* and *accelerate*. For each phase, the dominant organizational processes, key factors influencing performance and conditions triggering progression to the next phase are discussed. From the theoretical perspective, this study contributes to the outsourcing literature by comprehensively capturing the transition stage and explaining how its outcome is achieved. From the managerial perspective, by longitudinally capturing transition, we illustrate the challenges inherent and solutions adopted during each phase of this critical stage.

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