SHIFTING SANDS: ORGANIZATIONAL IDENTITY, PARTNERSHIP AND IT OUTSOURCING

Dragos Vieru  
TELUQ Université du Québec  
dragos.vieru@teluq.ca

Suzanne Rivard  
HEC Montréal  
suzanne.rivard@hec.ca

ABSTRACT

This study pertains to the influence of organizational identity and organizational image on the quality of an information technology outsourcing relationship. Organizational identity is conceptualized as the mental representation that organizational members have of themselves as social group in terms of practices, norms, and values and how they understand themselves to be different from members of other organizations. We focus on two key organizational images that are defined from two perspectives: within and from the outside of the organization. From within, it refers to what members believe outsiders perceive the organization's identity (construed external image); from the outside, it represents how outsiders (clients, partners, etc.) actually appraise the organizational attributes (mirroring image or reputation). In an outsourcing context, we conjecture that the degree of proximity between each partner’s respective interpretation of organizational identity and the image the other party has of them influences the quality of the relationship, mainly in terms of trust, understanding, and conflict – or lack thereof. In this research in progress paper, we use secondary data to explore the nature of these relationships.

Keywords: Outsourcing relationship, Organizational identity, Organizational image, Trust, Sensemaking

INTRODUCTION

Research on IT Outsourcing has focused on two means of managing client-supplier relationships: the formal outsourcing contract and the post-contractual relationship management (psychological contract). While early research focused largely on the former, more recent studies emphasize the importance of implementing psychological contracts at different moments during the inter-organizational relationship (e.g. Agerfalk and Fitzgerald 2008; Koh et al. 2004). These studies suggest that trust (Lee et al. 2008), cooperative learning (Westner and Strähringer 2010), and cultural acceptance (Carmel and Agarwal 2002) are key factors for successful outsourcing relationships. Thus, management of outsourcing relationships needs to foster effective cross-boundaries collaboration and knowledge sharing among individuals from both contractual entities (Levina and Vaast 2008). Yet, achieving such collaboration is likely to be challenging since the actors involved abide by different organizational contexts characterized by idiosyncratic norms, values, and practices. Organizational contexts can be defined by the concept of organizational identity (Clark et al. 2010). Briefly, organizational identity represents the ensemble of perceptions shared by organization members about who they are as an organization (Gioia et al. 2000). Organizational identity offers the means with which members assign meanings to their daily practices and it is influenced by their beliefs “which are grounded in and interpreted using cultural assumptions and values” (Hatch and Schultz 2000: p.25). Closely related to the concept of organizational identity is the notion of organizational image that has been defined from different perspectives: from within the organization, as the way organizational members believe others see their organization - construed external image (Dutton et al.
or the image that top management would like outsiders to see the organization - *desired image* (Whetten et al. 1992; Hatch and Schultz 2002); or from the outside of the organization, as the result of the external stakeholders appraisals – *reputation or mirroring* (Scott and Lane 2000a; Bromley 1993). The *construed external image* is considered important by the organizational members, as it represents their “best guesses at what characteristics others are likely to ascribe to them because of their organizational affiliation” (Dutton and Dukerich 1991: p.548). Identity formulation represents a “sensemaking” process that allows organizational members to overlay new events on top of past experiences, and to meaningfully interpret and incorporate new information into a frame of explanatory reference (Weick et al. 2005) that might be useful for purposes of enhancing future predictability, such as what to expect from a daily collaboration with outsourcing partners.

Although IS researchers stress the importance of building a successful relationship in IT outsourcing activities (Bharadwaj et al. 2010), how organizational identity may affect outsourcing relationships has yet to be studied. In this research-in-progress paper, we aim to understand the challenges encountered by organizational members involved in knowledge sharing as part of an IT outsourcing relationship. To do this, we draw on the concepts of organizational identity (Gioia et al. 2000) and organizational image (Hatch and Schultz 2002) and on the “sensemaking” perspective (Weick et al. 2005) to provide the theoretical foundation for a longitudinal field study of a Canadian healthcare centre in which the upper management engaged in a public-private partnership and outsourcing agreement with CNS (a pseudonym), a world leader in IT sourcing solutions. At the time of the writing, the outsourcing project was in the planning phase.
Our partial empirical findings (based on the fact that at this moment the outsourcing project implementation is in the planning phase) will be presented at the workshop.

**TRUST IN OUTSOURCING RELATIONSHIPS**

In order to achieve the expectations and accomplishments of an outsourcing relationship, the organization must trust the outsourcing vendor (Lacity et al. 2009). In this context trust may increase the predictability of mutual behavior through each party sticking to their commitments and allowing partners to deal with unforeseen contingencies in mutually acceptable ways (Sako 1992). Trust is a difficult concept to study as it has been defined and classified in many ways. Most definitions of trust focus on exposing oneself to vulnerability. Trust entails positive expectations regarding the other in a risky situation (Gambetta 1988), and includes adopting a belief, without having full information to confirm that belief (Tomkins 2001). In the context of outsourcing, trust has been defined as “the belief that a party’s word is reliable and that it will fulfill its obligation as stipulated in the agreement, by acting predictably and fairly” (Kern and Willcocks 2000: p.331). Trust represents an aspect of a relationship between contractual parties, in which the parties are willing to accept risk for commitments that will (hopefully) result in a positive desired outcome (Sabherwal 1999).

Several researchers have focused on the role of trust in outsourcing relationships (e.g., Kern and Willcocks 2002; Sabherwal 1999). In this context trust is the result of cognitive processes, decision-making concerning economics, and social relationships (Kishore et al. 2003). Expectation is an important part of trust definitions (Kumar 1996), since trust can be seen in terms of, for example, reliable promises including both
positive expectations and risk avoidance. Trust is essential to the strengthening of the relationship between partners, making the relationship more durable in the face of possible conflicts and encouraging interactions between partners involving knowledge sharing and promotion of each other’s interests (Kern and Willcocks 2000). Trust is a “zipper to bind the client and service provider organizations” (Kishore et al. 2003: p.89).

Trust develops over time through efficient communication mechanisms between the participants (Kern and Willcocks 2002) and cultural compatibility (Sabherwal 1999). Formal communication such as daily interactions to discuss each party’s contractual obligations and weekly/monthly meetings to oversee the whole outsourcing undertaking and informal communication at the personal level leads to greater trust (Beulen and Ribbers 2008). Kern and Willcocks (2000) suggest that the client and the provider might need to engage in cultural adjustments in terms of attitudes, norms, and corporate strategies in order to achieve trust.

Sabherwal (1999) posits that culture is an important element in the inter-organizational relationships during an outsourcing contract. An organization’s culture is composed of values, behaviors, and attitudes (Hatch and Schulz 2002). It provides continuity, structure, common meaning, and order, giving rise to stable patterns of interaction within the organization. In many cases of IT outsourcing, the vendor staff resides in the client company, as it happens that the sends some of its staff to the vendor company. With the development of vast amounts of networks and relationships between the client and vendor companies in a highly tense environment with time constraints, there are inevitably problems associated within the relationship and trust-building process. Kern and Willcocks (2000) state that if the cultural and communications fit is wrong or if support strategies differ, relationships would suffer,
giving occasions for misunderstandings and possible conflicts. Cultural compatibility is deemed a vital component in selecting the correct partner, that is, the client-vendor must have the same objectives and be heading in the same direction; for example, both parties should be able to agree that the task can be precisely specified, that the means of achieving the outcome and performance can be accurately evaluated, and that there are satisfactory means of resolving conflicts.

At the group level, trust is a collective phenomenon based on shared organizational values and norms (Shamir and Lapidot 2003). Individuals’ judgments about others’ trustworthiness are anchored, at least in part, on their prior experiences about the others’ behavior (Kramer 1993). As organizational values are believed to guide behavior, sharing a common organizational culture helps team members to predict each other’s behavior in the future. Shared beliefs and understandings about relatively permanent features of an organization reduce uncertainty, but also determine which types of behaviors, situations or people are desirable or undesirable (Gillespie and Mann 2004). Therefore, organizational culture can be seen as a foundation for “sensemaking” actions carried out by members as “they interrogate themselves on central and distinctive features of their organization” (Ravasi and Schultz 2006: p.434). These actions are defined as organizational identity claims that reflect how members make sense of what they do - as defined by cultural norms, values, and symbols - in relation to their understanding of what their organization is (Fiol 1991).

**DYNAMICS OF ORGANIZATIONAL IDENTITY, IMAGE AND CULTURE**

Most of the literature on organizational identity develops the idea that identity is a dynamic construct formed in interaction with organizational image (Dutton and
Dukerich 1991; Gioia et al. 2000) and organizational culture (Hatch and Schultz 2002; Ravasi and Schultz 2006). *Organizational identity* constitutes mental representations of how organizational members define themselves as social group in terms of practices, norms, and values and understand themselves to be different from members of other organizations. At the individual level, it reflects the shared understanding of what the organizational norms, values and practices are (Albert and Whetten 1985). At the organizational level, identity has been defined either as an organizational asset, something that is durable or as a dynamic process, something that is continuously in a “becoming” phase formed by the amalgamation of the distinctive attributes of individuals (Clark et al. 2010). Through continuous interaction, organizational members reconstruct their organizational identity through interpretive schemes in order to provide meaning to their experiences and practices as part of their membership to a specific organization (Dutton et al. 1994). Therefore, organizational identity is a collectively held frame within which organizational participants make sense of their world (Weick 1995). Similar to legitimacy, organizational identity has a reality independent of individual organization members although it is subjectively arrived at. The more an individual conceives of the self in terms of the membership of an organization, the more the individual’s attitudes and behavior are governed by this organization membership (Hogg and Terry 2000). We underline the *central, distinctive* and *dynamic* nature of organizational identity. The central aspect of identity is based on the core set of beliefs, values and norms rooted in the organizational mission that eventually justifies members’ understandings of who they are. The distinctive character is reflected by members’ perceptions of the differences between their organization and others, usually competitors. The dynamic nature of the
organizational identity is reflected by its recurrent link with organizational culture and image.

A number of scholars recognize the need to make a distinction between the organizational culture and identity (e.g., Fiol 1991; Hatch and Schultz 2002). Organizational culture provides a symbolic context within which perceptions of organizational identity are formed (Hatch and Schultz 2002; Golden-Biddle and Rao 1997), thus identity is part of the belief system (culture) by which organizational members make sense of their actions. Dutton and Dukerich (1991) suggest that, “an organization’s identity is closely tied to its culture because identity provides a set of skills and a way of using and evaluating those skills that produce characteristic ways of doing things” (p.546). Thus, identities represent the behavioral expressions of the aspects of organizational culture interpreted into a specific context (Fiol 1991).

Organizational boundaries are becoming increasingly more permeable to influences external to the organization, and are consequently becoming less clear (Bartel 2001; Hatch and Schultz 2002). As organizations become increasingly exposed to the interests of external stakeholders, and as organizational boundaries become increasingly more penetrable, the way in which outsiders view the organization becomes more critical, as outsiders begin to play a greater role in the formulation of an organization’s image (Hatch and Schultz 2002). Dutton and Dukerich (1991) have characterized organizational image as that which an organization’s members believe others see as distinctive about their own organization, and have argued that identity and image are cognitive constructs that interact dynamically to “actively screen and interpret issues” (p. 550). However, organizational image can be defined from two perspectives: within or from the outside of the organization. From within, image refers to what members
believe outsiders perceive the organization’s identity (construed external image). This image is based on the perceived organizational identity which acts as a mirror, “reflecting back to the members how the organization and the behavior of its members are likely being seen by outsiders” (Dutton et al. 1994: p.249) and tying in to the concept of organizational reputation or mirroring; from the outside, it represents the beliefs outsiders (clients, partners, etc.) actually have about organizational attributes (mirroring or reputation) (Scott and Lane 2000a).

Hatch and Schultz (2002) propose that organizational identity is essentially a product of dynamic and reciprocal interactions between an organization’s identity, its culture and its image (external to organization). Their conceptual model suggest that identity interacts with images that are held by organizational outsiders recursively: identity “mirrors” the images that outsiders have of the organization back to the organization’s identity (“mirroring”), while organizational identity constitutes a “sensegiving” expression of the organization’s identity to external stakeholders (“impressing”). Hatch and Schultz (2002) provides a dynamic definition of organization identity, in which an organization’s identity is constructed throughout the course of continuous social exchanges, and by means of internal and external definitions of the organization self.

OUTSOURCING RELATIONSHIPS AND ORGANIZATIONAL IDENTITY

“SENSEMAKING”

An organization’s identity could be regarded of as a set of “negotiated cognitive images” that emerge out of “complex, dynamic, and reciprocal interactions” (Scott and Lane 2000a: p.43) among people who are both internal and external to the organization.
Issues of organizational identity change arise not only as an organization attempts to answer the question “Who are we?” but also the question of “Who do others think we are?” which means that identity is closely interrelated with *construed external image* and *reputation*. Arising from this comparison is either a sense of discrepancy (“how we see ourselves does not match with how we think others see us”) or a sense of alignment (“we see ourselves in a similar way to how we think they see us”) (Corley and Gioia 2004).

Regardless of whether a sense of alignment or discrepancy arises, identity is reconsidered and reconstructed through processes of *sensemaking* (Weick et al. 2005) as organization members confront the knowledge and implications of others’ views of the organization (the actual external image or reputation) during the outsourcing process. In our study we are interested on how members of both organizations involved in an outsourcing contract make sense of their organization identity and their construed external image and how these cognitive activities affect their trust in their outsourcing partner.

Sensemaking is defined as the development of ongoing retrospective meanings of what individuals are doing in an organizational context (Weick 1995). Although sensemaking is an ongoing process, the need to make sense is intensified in circumstances where organizational members face situations where there is no predetermined way to act, and where a high degree of ambiguity is experienced (Weick et al. 2005). Relevant to this study, an IT outsourcing contract may change organizational members’ current work practices. This type of situation might cause what a ‘shock’ that triggers an intensified period of sensemaking (Weick 1995), which informs action.
Organizational identity construction and the use of plausibility are the two basic properties of sensemaking (Gililand and Day 2000). Weick et al. (2005) suggest that “stakes in sensemaking are high when issues of identity are involved” because “who we think we are (identity) as organizational actors, shapes what we enact and how we interpret” (p.416). Therefore, how organizational members will make sense of their identity will affect how they will think outsiders think of themselves (construed external image). Sensemaking is more about plausible interpretations and expectancies, than about truth, accuracy or getting right (Mills 2003). In the context of outsourcing, individuals will use their interpretations of organizational identity as a guidepost for measuring the importance of the changes in their work practices that outsourcing might bring. They will also make sense of what to expect from their partners (trust) based and their interpretation of the others’ organizational identity. Thus, we conjecture that the degree of proximity between each partner’s respective interpretation of organizational identity and the image the other party has of them influences the quality of the relationship, mainly in terms of trust, understanding and conflict – or lack thereof. We use the two extreme situations for illustrative purposes:

**Proposition 1**: If the client’s identity is very close to: (1) the *mirroring* image the supplier has of the client and (2) the *construed external image* the client believes others have of its organization, one would expect few misunderstandings, few conflicts and a high degree of trust between the partners.

**Proposition 2**: If the client’s identity significantly differs from: (1) the *mirroring* image the supplier has of the client and (2) the *construed external image* the client believes others have of its organization, one would expect misunderstandings or conflicts (because of the difference the client’s identity and the mirroring image
the supplier has of the client) and mistrust (because of the difference between the client’s identity and the construed external image).

This study adopts Scott and Lane’s (2000a) approach to identity in which organizational identity is considered as a set of “negotiated cognitive images” that emerge out of “complex, dynamic, and reciprocal interactions” (p.43) among people that who are both internal and external to the organization. While the main purpose of our conjectures is to examine the quality of the outsourcing relationship, we would also like to shed light on an interesting question of whether organizational identity is “enduring” in a dynamic context such as outsourcing in which individuals engage in practices governed by two different organizational identities.

Researchers in organizational identity have argued that because identity involves answers to fundamental questions such as “Who are we?”, “Who should we be?” and “Who do others think we are?”, it is inherently stable and resistant to change (Fombrun 1996). However, others have demonstrated that quite to the contrary, organizational identity can change over relatively short periods of time (Gioia and Thomas 1996). The underlying means by which identity change is possible while appearing to have endurance or continuity is that organization members maintain consistent labels for elements of their identity over time, but the meanings associated with these labels change to accommodate current needs (Corley and Gioia 2004). Moreover, Gioia et al. (2000) suggest that identity should be viewed as a “potentially precarious and unstable notion, frequently up for redefinition and revision by organization members” (p.64), a perspective rooted in the authors’ position that identity is influenced in part by feedback by others outside to the organization. In the same perspective, Scott and Lane (2000b) argue that organizational identity is neither static nor fluid but “sticky”, due to the
tendencies of an organization toward the preservation of identity (resistance to change) and to cognitive biases.

Clearly, the fluidity and complexity that are the facets of the modern economy have greatly increased the challenges faced by organizations as they search for a clear self-definition. For instance, what happens to an organization’s identity when the organization decides to downsize, acquire a new subsidiary, or outsource a part of or an entire function such as the IT function? Based on the above argumentation, it could easily be argued that the organization’s identity – what is the essence of the organization – has changed. But then, how an unstable identity of an organization that engages in an outsourcing process will affect the creation of trust, the necessary factor for a successful partnership relation?

**METHODOLOGY**

Given the exploratory nature of our research question and the still limited evidence available on the topic that we intend to disclose, we decided to follow a case study approach (Eisenhardt 1989). The setting is a major Canadian public healthcare centre in which the upper management engaged in an outsourcing agreement with an IT outsourcing provider (CNS). We use an interpretive research approach, which gives voice in the interpretation of events to the people actually experiencing those events, so the insiders’ point of view becomes the foundation of the analysis (Van Maanen 1988). The stakeholders of the IT outsourcing relationship will constitute our main source of data. We will use three sources of data: interviews, archives, and participant observation. We will conduct semi-structured interviews with the main stakeholders involved in the IT outsourcing relationship. Specifically, we will assess how members of
the two organizations implicitly and explicitly evaluate how they see the organization (i.e., provide answers to such questions as “Who do we think we are?” and “Who do we think we should be?”) in relation to how they think outsiders (in this case CNS) see it (i.e., provide answers to questions such as “Who do they think we are?” and “Who do they think we should be?”).

Participant observation will be perhaps the most important aspect of our data-gathering strategy, especially for tracking the inter-organizational dynamics of partnership (e.g., by participating to the joint steering committee overseeing the outsourcing venture) and for providing a means of bridging inconsistencies among informants’ views (Miles and Huberman 1994). The participant observer will use a formal research diary to record meeting notes and observations.

We will complement the individual data from the interviews with archival data such as project-related documentation (e.g. minutes of meetings, progress reports, technical documentation pertaining to the outsourcing process, and e-mails) that will fill potential gaps in the interviewees’ memory.

Due to the fact that at the time of the writing of this report (beginning of January 2012), the access to the setting was in the early stages (identification of the participants, getting access to archival data), we decided, for illustrative purposes, to verify our conceptual framework with secondary data. To this end, we used a doctoral dissertation that reports stories told by employees of a software firm that outsourced the vast majority of its IS operations (Dubé 1995).

**Software Corp. and Partner Inc. (Dubé 1995)**

*Context:* With about 3000 employees in 1991, Software Corp. was developing and providing maintenance of information systems (hardware and software) for the travel
industry. The company targeted small business often neglected by bigger systems providers. In 1986 Second Inc. acquired Software Corp. and made it an independent subsidiary. From 1987 to early 1990’s Software Corp. went through a period of aggressive growth and built some important strategic foreign alliances. However, in 1991, due to adverse economic conditions, Second Inc. and Software Corp. were forced to ask for government bankruptcy protection. Following major budget cuts and restructuration, Software Corp. decided to outsource a major part of its operations to Partner Inc. Along with 2,000 employees the development and mainframe operations were transferred to the outsourcing partner. Software Inc. retained internally only the design, development, sales and support of PC products.

*Data:* Dubé (1995) extracted stories from interviews with respondents from Software Corp. and Partner Inc. Eighty-nine stories were compiled from the transcripts that included specific events narrated by organizational members. To illustrate our conjectures we chose five stories.

Several stories from the employees of Software Corp. portray Partner Inc. as a representative of “cold corporate America” despite the fact that this company basically bailed out of bankruptcy Software Corp. For example, in Story #28, an analyst with Software Corp. describes Partner Inc. as playing the role of the “bad” guy.

> "To tell the truth, I wanted to go there. But I’m glad I didn’t. Because of the philosophy they had, the management style, the restrictions they impose on their people. I think it’s like an old philosophy, they are very strict. I don’t think they treat them like professionals”.

Another theme that emerges from the stories is that Partner Inc.’s employees lack the understanding of Software’s business environment. Story #17 shows how this situation caused conflicts that resulted in more work for Software Corp.’s employees.
"I was told that Partner Inc. told them (a hotel company) that they had to move a telephone line and they wanted to cut the line over during the middle of the afternoon, which shuts down my operations to that person. It is not smart from a customer service point of view. So, there are issues that they don’t always think of the implications to us before they are doing something. This happens to be major. We are talking about big money”.

There is also a common understanding among Software Corp.’s employees that working with Partner Inc. has increased the formalization, which engendered delays in getting the work done (“red tape”). For instance:

It’s totally two different companies, so we really can’t tell them what to do. So, everything else is just schedule. Right now, we’re having a meeting next week. I’ve been told we needed a meeting to get some things organized, that if a person is down, especially a contractor, I can’t wait all day for Partner Inc. to come by in the afternoon. The contractor is getting paid $50 or $60 an hour to sit there. That’s not right. So, I’m getting a meeting put together for next week”.

Another emerging theme is that Partner Inc. took for granted Software Corp.’s employees and made unfulfilled promises:

"They promised, like, the benefits were going to be so great and all that stuff. And actually, the benefits are not as good as Software Corp. benefits. [...] 401(k) plan, Software Corp. You know, that’s like a retirement plan. Software Corp. will give you twenty-five cents on every dollar up to six per cent of your wages, so it’s an instant 25 percent profit, the second you put it in the account. Partner Inc. doesn’t do that, you know. Their insurance package, I think is a little more expensive. So they made these huge promises to us and basically they lied. I think they are a bunch of weasels if you ask me".
In Story #19, a manager working for Partner Inc. clearly delineates the differences in rules and regulations between the two organizations that were applied to the same type of tasks. His perception is that there are two organizations with two different cultures that need to reconcile these differences in order to provide the expected level of service.

“They have different rules and regulations in Partner Inc. that no longer apply to Software Corp. There was some change. You may do the same job on a day to day basis but eventually since there is a new management structure they look at things in a different light and they may treat the job or they may change people from doing things one way to another ... contractually all they have to do is to provide the same level of service that they were providing for Software Corp”.

The above stories portray a strained and problematic outsourcing relationship between Software Corp. and Partner Inc. From an organizational identity perspective, we can argue that the differences between the client’s (Software Corp.) identity and the mirroring image the supplier has of the client (Stories #17, 19, 27 and 28) have created tensions and conflicts among the members of the two organizations. Also the differences between the client’s (Software Corp.) identity and the construed external image Software Corp. believed Partner Inc. has of its organization (Story #23) prevented building an appropriate environment for trust.

While rich in insights about the nature of the relationship between the two parties involved in the IT outsourcing contract, Dubé’s (1995) stories provided support for Proposition 2 only. However, this exercise gave us evidence that our organizational identity-based conceptual framework is applicable in the context of outsourcing and that using it to examine the nature of a partnership may allow us to shed new light on a complex phenomenon.
EXPECTED CONTRIBUTION

This study will contribute to the IS literature on outsourcing by providing an in-depth examination of how the building trust in IT outsourcing relationship is related to each party’s understanding of organizational identity; and proposing a sensemaking perspective-based framework for understanding individuals’ mental construction of organizational identity and image affect inter-organizational collaboration effectiveness, especially in the context of outsourcing. We expect that the results of our study will also have implications for practice helping those in charge of managing outsourcing relationships better understand some of the causes of mistrust and even conflict that often arise over the duration of an outsourcing contract. We suggest that a clarification of each partner’s identity for the other party might contribute to increased trust.
REFERENCES


