

The Impact of Knowledge Sharing and Partnership Quality on Outsourcing Success

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Abstract. Knowledge sharing is seen as a strategic element in organizations, and the management of knowledge sharing is considered to be critical to organizational success. The main purpose of this study is to examine the relationship between knowledge sharing and success in outsourcing. Grounded in available literature on outsourcing relationship, a conceptual model was composed and the hypotheses were defined. These were tested using a sample consisting of public and private sector organizations in Turkey. The findings indicate that knowledge sharing (implicit and explicit) is one of the predictors for success in outsourcing and partnership quality (partnership satisfaction, trust, business understanding and conflict) is a significant factor on outsourcing success. The results of this research provide strong evidence for the moderating effect of partnership quality as it significantly increases the strength of the relationship between knowledge sharing and success in outsourcing.

Keywords: Knowledge Sharing, Partnership Quality, Success in Outsourcing.

1. Introduction

Theoretically; research on outsourcing can be viewed from three perspectives; namely, strategic management, economic and social perspectives [1]. The social perspective is differentiated from the other perspectives by its underlying assumption that there are shared norms and a harmony of interests between the parties that influence their interactions, leading to considerations of the issues like trust, equity, and cooperation [2]. On the other hand, outsourcing is a commonly accepted and growing practice [3, 4]. But despite the growing trend toward outsourcing, few organizations report to have success. Thus providers and client organizations are under increasing pressure to exhibit the value of their outsourcing. Improving the quality of the relationship between the organizations is suggested to be the best way to meet this challenge [4, 5].

Lee examined the relationship between knowledge sharing and success in outsourcing and revealed statistically that there is a significant positive relationship between knowledge sharing and outsourcing [6]. In the literature five outsourcing relationship models are reviewed prior to proposing an extended outsourcing relationship model [7-12]. These researches provide an improved understanding of the factors affecting the success of an outsourcing agreement and partnership quality is adopted as a key predictor of outsourcing success. There are five factors, which are identified from the literature on inter-organizational relationship and partnership. These factors are trust, commitment, business understanding, conflict and benefit and risk sharing [6, 8]. Fleming and Low added partnership satisfaction to these five factors but there isn't any empirical study on this topic [12]. One of the aims of this research is to test the relationship between partnership satisfaction and outsourcing success. On the other hand our study has tested the context in Turkey to determine whether the results reflect the unique outsourcing situation in Korea and environment or similar findings would occur in our country, too.

2. Literature Review and Hypothesis

2.1. Outsourcing Success

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Grover et al. describe the concept of success in outsourcing as the satisfaction with benefits from outsourcing gained by an organization as a result of deploying an outsourcing strategy [13]. Lee and Kim defined success in outsourcing as “the level of fitness between service receiver requirements and outsourcing outcomes delivered by the service providers” [9]. It is extremely difficult to define and measure success in outsourcing [10]. In line with these suggestions in this study success in outsourcing is measured with 9 items which was adopted by Lee [6].

2.2. Knowledge Sharing

Lee examines the knowledge sharing as a determinant of partnership quality [6]. Knowledge sharing can be defined as the deployment of knowledge in communication with others [14]. This study focuses on explicit and implicit knowledge sharing between the service receiver and provider. Explicit know-what that comprises concepts and theories captured in organizational databases or documents is a product of knowledge articulation and systematization attempted to transfer knowledge among organizational members. Explicit know-how that includes rules and methods stored in model databases and manuals, or embedded in organizational procedures is an output of reinforcement and routinisation [15].

Implicit knowledge is defined as knowledge that cannot be expressed in verbal, symbolic and written form, while explicit knowledge is knowledge that exists in symbolic or written form. By sharing knowledge between the service receiver and provider, they are able to sustain a more effective outsourcing relationship over time [6]. Based on these, we, the researches would like to propose the following hypotheses:

- *H1a: Explicit knowledge sharing is positively related to success in outsourcing.*
- *H1b: Implicit knowledge sharing is positively related to success in outsourcing.*

Explicit and implicit knowledge sharing are independent variables and they are measured by using 6 items which was adopted by Lee [6].

2.3. Partnership Quality

Partnership quality is based on the social exchange and the relational exchange theories [16]. In this study, partnership is defined as an inter-organizational relationship to achieve shared goals of the participants. Also, partnership quality refers to how well the outcome of a partnership matches the participants' expectations [8]. Partnership quality is adopted as a key predictor of success in outsourcing from the literature on inter-organizational relationship. Trust, business understanding, conflict and partnership satisfaction are identified as the most important partnership quality factors [6, 8, 12, 17, 18].

“**Trust**” is an important factor in many social interactions involving uncertainty and dependency [19]. It is defined as existing one party has confidence in an exchange partner's reliability and integrity [20]. Mayer et al. point that trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustier, irrespective of the ability to monitor or control that other party [21]. On the other hand, trust is the most important factor that will tend to ensure that relationship will be hold a long period of time [12]. Consequently, lack of trust and confidence ends up with unwillingness to perform to the service provider, so trust is crucial factor of partnership quality. In this study Han's et al scale will be used, which contains 4 items on trust [5].

“**Business Understanding**” is defined as the degree of understanding of behaviors, goals and policy between partners [22]. Gautam et al. point that business understanding refers to the shared domain knowledge and common understanding between the IT and line managers about a specific business process and how IT can be used to improve the performance of that process [23]. The parties can increase their partnership quality by understanding the business goals of their partner's, how partner's business process penetrates or their responsibilities and roles [24]. Therefore, business understanding is one of the key indicators of partnership quality. In this study business understanding will be measured by the 3 items scale of Daityari et al. [25].

“**Conflict**” has traditionally been defined as opposing interests involving scarce resources and goal divergence and frustration [26]. Anderson and Narus explain conflict in organization as an effecting factor that impressed partnership quality [27]. Also, conflict avoidance increases partnership quality and gains a

competitive advantage, so it is a crucial parameter of partnership quality. In this study conflict will be measured by the 5 items scale of Mohr and Spekman [28].

“*Partnership satisfaction*” is defined as “a positive affective state resulting from appraisal of all aspects of a firm’s working relationship with partner” [26]. In line with the lack of investigation and suggestions of many authors that partnership satisfaction should be considered as one of the key dimensions of partnership quality [6, 8, 17, 18] the concept has been added to the research model. Partnership satisfaction will be measured by the 5 items scale that was adopted by Lui and Ngo [29]. Here, we would like to propose the following hypotheses:

- H_2 : *Partnership quality is positively related to success in outsourcing.*
- H_3 : *Partnership quality moderates the relationship between knowledge sharing and success in outsourcing.*

3. Methodology

This study examines the impact of knowledge sharing and partnership quality on success in outsourcing. To test the research model, a field survey using questionnaires was conducted on medium and large scale enterprises in Istanbul. The questionnaires were distributed to the recipients by mail and e-mail. 150 usable questionnaires were analyzed using SPSS statistical program and the hypotheses were tested through correlation and regression analyses.

The current research is useful to management in the way that it provides an improved understanding of the factors that affect success in outsourcing. This research aims to provide a preliminary validation of the proposed model within the Turkish context.

To test the propositions predicted by the model, the correlations among the variables were calculated; these are portrayed in Table 1, together with the means, standard deviations and correlations. As indicated in the table, success in outsourcing is positively correlated with knowledge sharing and partnership quality dimensions.

Table 1: Correlation matrix, means and standard deviations (n = 150).

	Mean	Std. Dev	1	1a	1b	2	2a	2b	2c	2d	3
1. Knowledge Sharing	3.27	0.65									
<i>1.a. Implicit KS</i>	3.45	0.81									
<i>1.b. Explicit KS</i>	3.08	0.75									
2. Partnership Quality	3.55	0.53	0.52*								
<i>2.a. Trust</i>	3.51	0.81	0.53*	0.39**	0.49**						
<i>2.b. Business Understanding</i>	3.67	0.74	0.39*	0.39**	0.50**						
<i>2.c. Conflict</i>	3.30	0.64	0.31*	0.27**	0.38**						
<i>2.d. Partnership Satisfaction</i>	3.70	0.55	0.38*	0.22**	0.30**						
3. Outsourcing Success	3.58	0.67	0.42*	0.33**	0.37**	0.56**	0.47**	0.40**	0.24**	0.61**	
Cronbachs' Alpha (0.93)			0.78	0.81	0.72	0.90	0.85	0.83	0.79	0.87	0.92
% of variance explained Total = (69.21)				7.58	7.12		8.89	7.80	8.59	11.38	17.85

** Correlation is significant at the 0.01 level (2-tailed).

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.861

Bartlett's Test of Sphericity: Approx. Chi-Square = 2,889, df = 465, Sig. = 0.000

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Results for the relationships between implicit and explicit knowledge sharing and success in outsourcing show a positive significant relationship at the 0.01 level between them ($r = 0.39$ and 0.49 respectively). Thus hypothesis H_{1a} and H_{1b} are accepted.

Partnership quality is positively related (significant at the 0.01 level) to success in outsourcing ($r = 0.56$). Thus hypothesis H_2 is accepted.

Finally, the hierarchical regression analysis to test the moderating effect of partnership quality between knowledge sharing and success in outsourcing are presented in table 2. Model 3 supports this moderating effect. Therefore, hypothesis H_3 is accepted.

Table 2: Results of hierarchical regression analysis (n=150)

Variables	Outsourcing Success		
	Model 1 β	Model 2 B	Model 3 β
Main effect variables			
Knowledge Sharing	0.416***	0.172*	-----
Partnership Quality		0.465***	0.307*
Interaction variables			
Knowledge Sharing x Partnership Quality			0.302*
R^2	0.173	0.330	0.338
ΔR^2	0.173***	0.157***	0.008*

Notes: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

4. Conclusion

Outsourcing has become an increasing practice. Literature review reveals that relationship quality is one of the important factors of success in outsourcing success. Some researchers have examined the insights of outsourcing relationships but they are limited to context of their country. On the other hand, we know that more knowledge is shared through informal than formal channels, and much of the process is dependent on the culture of the work environment. One of this paper's aim was to determine whether their results reflected their countries' unique outsourcing situation and environment or similar findings would occur in Turkey, too. The results show that similar findings occur in Turkey, too. Another aim of this study was to determine the relationship between partnership satisfaction and success in outsourcing. According to the findings of the research; partnership satisfaction is significantly associated with the success in outsourcing. This study confirms the widely held belief that knowledge sharing (implicit and explicit) is one of the predictors for success in outsourcing. Beside this partnership quality (partnership satisfaction, trust, business understanding and conflict) is a significant factor on success in outsourcing. The results of our research provide strong evidence of the moderating effect of partnership quality as it significantly increases the strength of the relationship between knowledge sharing and success in outsourcing. Partnership can create competitive advantage through sharing of the information. A service receiver and provider can expect to sustain a more effective relationship over time by sharing information and by being knowledgeable about each other's organization. Moreover, knowledge sharing allows partners to assign and complete their tasks more effectively.

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