THE CLIENT-SUPPLIER RELATIONSHIP IN INFORMATION TECHNOLOGY OUTSOURCING: AN EXPLORATORY STUDY

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ABSTRACT

Information technology (IT) outsourcing has become in the 1990s an important option to consider for handling some or all of an organization's IT requirements. A growing concern among the organizations who are actively involved in IT outsourcing is post-contract management and the ensuing development of what many practitioners and scholars have coined the 'outsourcing partnership'. This paper investigates the outsourcing relationship through the 'nordic schools' powerful dyadic interaction approach. For this the authors undertook preliminary exploratory research into relationship practice in twelve organizations covering both the clients and vendors perspective. The research provides firstly a testing ground for the interaction approach's usefulness and secondly provides significant insights into relationship practice in IT outsourcing. Together the model and the findings present unique insights into relationship practice and management.

KEYWORDS

MIS Management, IT Outsourcing, IT Outsourcing Relationship, Interaction Approach, Interpretivism.

1. INTRODUCTION

Information technology outsourcing describes a process whereby an organisation decides to contract-out or sell the firm's IT assets, people and/or activities to a third party supplier, who in exchange provides and manages these assets and services for a agreed fee over an agreed time period (Loh and Venkatraman 1992; Lacity and Hirschheim 1993). Although not exactly a new approach (Earl, 1991), IT outsourcing in recent years has experienced a steady growth rate of an estimated 20%, thus achieving a global service market size of $86bn in 1996 (IDC, 1998). For many organisations in turn these developments imply performing an in-depth comparison of sourcing IT in the market with the performance of the in-house IT department to assess the best economic, technical and business option (Willcocks, Fitzgerald et al. 1996). For those organisations where the decision to outsource was eventually made and contract negotiations led to an agreement, the ensuing concern for management was: 'how to handle the venture and manage the relationship to achieve the outsourcing objectives'.

Little is known however about the relationship dimension and its management in outsourcing. A few notable exceptions are Klepper, 1994; 1995, Klepper and Jones, 1998; McFarlan and Nolan 1995; Willcocks and Kern, 1998; Willcocks & Choi 1995. These studies provide some interesting findings which we will discuss in the next section, yet their impact in terms of improving client organisations understanding of the relationship dimension has been limited. For many organisations the subsequent post-contract management phase still proves more problematic in terms of management than initially anticipated. BPX (Cross, 1995) and also the Inland Revenue (Willcocks and Kern, 1998) exemplify the problems clients experience in relationship management.

Much of the research in IT outsourcing to date has focused on its determinants, costs, benefits, the decision process, vendor selection and contracting, yet little research has addressed the relationship (see Klepper and Jones, 1998; Willcocks and Lacity, 1998). This disregard seems paradoxical as the relationships impact on the outsourcing initiative has been found to determine the difference between success, less success and even failure of the venture (see Davis, 1996; Klepper & Jones, 1998; McFarlan & Nolan, 1995; Willcocks & Kern, 1998). This research study in turn aims to address this paucity of research, with the particular objective to present a conceptual framework that holistically describes the outsourcing relationship. In addition we present some preliminary exploratory findings in support of this conceptual framework.

The paper in essence covers three phases of research into outsourcing relationships. The first reviews the existing IT outsourcing relationship literature, which leads us to present the 'nordic schools' interaction framework as a potential relationship framework to explain outsourcing relationships. The second part presents a set of exploratory research findings into relationship practice in twelve organisations (both client and supplier's) that were undertaken in parallel to our theoretical research into outsourcing relationships. The resulting findings are then presented and analysed according to the main dimensions of the conceptual framework, which we discuss in detail in the third and concluding section by use of the framework. By employing the interaction approach in this fashion as a heuristic tool we offer some preliminary suggestions for relationship practice in outsourcing. In addition, the discussion provides some indication of the model's representativeness.

2. EXISTING IT OUTSOURCING RELATIONSHIP APPROACHES

The paucity of research on outsourcing relationships was highlighted by the small number of conceptual and empirical studies identified in our review. Only seven studies were found despite an extensive literature search (i.e. Auwers & Deschoolmeester, 1993; Davis, 1996; Klepper, 1994 & 1995; McFarlan & Nolan, 1995; Willcocks & Choi, 1995). Even though many researchers have mentioned the importance of partnering or relationship management in passing, few actually address the issue conceptually or empirically (cf. Fitzgerald & Willcocks, 1994b; Halvey & Murphy, 1995; Lacity & Hirschheim, 1993a; Johnson, 1997; Mylott, 1995).

McFarlan & Nolan (1995), Klepper (1994 & 1995), and Davis (1996) are the only three conceptual studies on the outsourcing relationship, although strictly speaking Davis (1996) and Klepper (1995) did also apply their frameworks to two case studies. McFarlan & Nolan's (1995) approach is more of an aggregation of helpful conceptual pointers, that has strong similarities to a checklist of the evolution, and hence handling, of an outsourcing alliance. They point out firstly, that 'structuring the alliance' is critical, where they include areas to outsource, vendor selection, contracting, and transition problems. Secondly, 'managing the alliance' is the single most important aspect, which needs the involvement of senior management in managing the venture, the measurement of performances and the development of a management infrastructure. The issues they raise seem good management practice, but very general with no empirical support to show how companies have handled the proposed parameters. Moreover, as noted above, their generalisation that outsourcing arrangements are in essence strategic alliances has been shown by Willcocks & Choi (1995) to be a dangerous assumption, as not even total outsourcing ventures entail some of the underlying characteristics that are integral to the alliance concept, such as risk-reward sharing (Child & Faulkner, 1998; Doz & Hamel, 1998; Faulkner, 1995).

Klepper's (1994) first conceptual approach is based on a rigorous framework developed by Anderson & Narus (1990) in the marketing field, which he subsequently amends by integrating the concept of organisational adaptation to explain the dynamic and changing dimensions of the outsourcing relationship. The behaviourally focused model has at its core the dimensions 'outcomes' and 'relative dependence', from which unidirectional trust, influence, functionality of conflict, cooperation, and conflict are suggested to lead to satisfaction - all of which are particularly relevant to the outsourcing relationship (Kern, 1997). The model is clearly restricted though in its focus on behavioural dimensions, thus providing little insights into exogenous and endogenous influences, such as the contract (Willcocks & Kern, 1998). Klepper's model also disregards the bi-directional influence that behaviours such as cooperation-conflict (cf. Axelrod, 1984) and influence-dependence (cf. Emerson, 1962) will have, which empirical findings have revealed (Kern & Silva, 1998; Willcocks & Kern, 1998).

Klepper's (1995) second relationship approach is again based on a conceptual model from the marketing field (by Dwyer, Schurr, & Oh, 1987) which this time addresses the developmental stages of partnering relationships. He presents a life-cycle model of awareness, exploration, expansion and commitment, which are pervaded by processes of attraction, communication, bargaining, development and exercise of power, norm development, and expectation development that supposedly lead to deeper relations. This constitutes an interesting approach with yet again a behavioural focus. One dimension Klepper (1995) neglects this time completely is contracting and its effect on the resulting relationship; nor does he explain how structures and management processes evolve, even though they must surely underpin relationship development. It also seems that relations evolve in a vacuum unaffected by external factors or the other party. The inconclusiveness of the model, as shown by its use in retrospectively analysing two case studies, led Klepper (1995 p.257) to concede that:

> "in the future an effort should be made to combine elements of several theories to obtain a better understanding of the mechanisms by which partnerships evolve and how this process can be managed."

Davis (1996) seems to follow Klepper's advice, elaborating an intricate web of economic and sociological theories to arrive at a 'strawman' model that supposedly aids decision makers in their analysis of the best control mechanism (price, trust, authority) to enforce in an outsourcing relationship. The precursor for the framework is the client's concern for the loss of control and future uncertainties. The resulting framework describes the outsourcing context (both endogenous and exogenous factors), the elements of organisational design (operating processes, structures, management systems and HRM policies) in a matrix prescribed by control mechanisms (price, authority, trust), which combined are suggested to lead to sources of IT value creation. The three parts provide some of the essential ingredients of outsourcing relationships, alluding to the context, intention, structure, management processes, and likely outcome, but he too ignores completely the contract dimension. The outsourcing contract posses probably as one of the most powerful governance and control dimensions in the relationship (cf. Kern & Silva, 1998; Kern & Willcocks, 1999b), and its neglect seriously weakens the framework. Moreover, the reasons behind how the different dimensions were derived, and hence why only these three control mechanism seem appropriate, was not apparent. Davis's theoretical eclecticism is confusing, as he not only relied on theory but also consultancy frameworks, and provides few justifications for his choices. This vagueness became particularly evident in the two case studies used for verification.

Auwers & Deschoolmeester (1993) and Willcocks & Choi (1995) are the only empirically-driven studies that attempt to explain their findings by use of a relationship framework from another discipline. The underlying intention of both was to validate the adopted framework's explanatory potential. Auwers and Deschoolmeester (1993) present a single longitudinal case study of a Belgian chocolate manufacturer that entered into an outsourcing venture in the early 1990s for reasons of organisational restructuring, which they then analyse by use of Dwyer, Schurr, and Oh's (1987) evolutionary development model of a buyer-seller relationship (see above for description). They conclude that the model can be adopted, but only if a number of critical changes are made to its developmental progression and its dimensions. Foremost, relational exchange was far more contractually formalised in outsourcing than in the model. In fact, the contract was of greater importance than indicated throughout the stages of the model. The stages also needed shifting to cater for multiple vendors and the lengthy selection process. Thirdly, the degree of trust also had a greater impact on relational development than considered in the model. Finally, a more general concern to raise about the case is whether it really presents a genuine outsourcing case or an insourcing deal. As it stands, the chocolate company essentially hired a vendor to provide mainframe computing services, which in light of today's understanding would most likely be considered buying-in services or an insourcing deal (cf. Currie & Willcocks, 1998).

On the other hand Willcocks & Choi (1995) present an empirical study into three total outsourcing cases, which they surmise point towards a strategic partnership. To analyse their empirical findings and assumptions, they essentially use Henderson's (1990) strategic partnership framework in an effort to determine the validity of their argument. Henderson's prescriptive model identifies predisposition, commitment, and mutual benefits as factors in the 'context'; shared knowledge, mutual dependence on distinctive competency and resources, and organisational linkage are 'action' factors, that combined with the former determine partnerships. Willcocks and Choi (1995) identify a number of shortcomings of Henderson's framework, including its neglect of contract, difficulty of building mutual dependence in outsourcing, disregard of costs, the downplay of risk-reward arrangements, the influence of exogenous factors, and the lack of discussion on maintaining a strategic partnership. However, they conclude that the approach provides a good starting point for understanding the basis on which total outsourcing relationships can be formed and developed as strategic relationships. No conclusive insights became apparent and the emphasis, as in Klepper's study, is on the need for further research and on the necessity to combine elements from several theories.

The evaluation demonstrates clearly that our understanding of the outsourcing relationship is truly at an early stage - to an extent that no common framework has been identified or formulated upon which knowledge and relationship management can be developed. Secondly, little overlap exist between the different approaches, thus making the elicitation of common elements impossible. Thirdly, the majority of approaches were found conceptually or empirically inconclusive. Conceptually frameworks focused either on the behaviours, management aspects, and/or evolution, yet none truly focused on the interactions, the structure and the context. In turn, when it came to the using the proposed frameworks and approaches they proved inconclusive often to explain the relationship situation. Fourthly, there are two prevailing perspectives underlying existing outsourcing relationships, those being an 'economic view'[2] and a 'partnering view'[3], which neglects though the 'contracting perspective' (Willcocks & Kern, 1998). Most relationship research focuses primarily though on the partnering, i.e. behavioural dimension. Finally, the review also highlights that appropriating other relationship frameworks generally proved problematic, as they tend to require considerable amendments before they can be used to investigate and explain the outsourcing relationship. Therefore, it is worthwhile to examine more carefully the origin and background of the following framework we propose as particularly useful to explore outsourcing relationships holistically, to see whether it lends itself to be applied to outsourcing relationships.

The 'Nordic School's' Interaction Approach

The industrial market and purchasing group (IMP group), also referred to as the 'nordic school', has been particularly influential in providing insights into buyer-supplier exchange relationships. This international group was formed as discrepancies were identified between the basic models of economic and marketing theory and industrial buyer-supplier relationships. In essence existing models were found inconsistent, which in part also corroborates this researchers view that available models do not sufficiently explain the client-supplier relationship in IT outsourcing. In particular, the IMP found that the existing models all assumed competitive, 'free market', and 'adversarial relationships' as being the norm, yet buyer-supplier relations often showed signs of closeness and even social 'embeddedness' (Cunningham and Tynan, 1993; Granovetter, 1985, Uzzi, 1997); relations are not considered

[2] This view is commonly informed by approaches such as transaction cost theory (TCT) or agency cost theory (see Alpar & Saharia, 1995; Aubert, *et al.* 1996; Earl, 1991; Cronk & Sharp, 1998; Grover *et al.* 1995; Lacity & Hirschheim, 1993a; Lacity & Willcocks, 1995; Rao, *et al.* 1994 & 1996).

[3] This view argues that the long-term nature of outsourcing and the uncertainty surrounding these ventures, demands a relationship that provides the flexibility and collaborative benefit of a partnership (McFarlan & Nolan, 1995; Davis, 1996). Therefore, this view commonly tends to focus on the behavioural and sociological issues involved in developing and maintaining a relationship (Auwers & Deschoolmeester, 1993; Davis, 1996; Klepper, 1994 & 1995).

complex, dynamic and as long lasting phenomena (Cunningham, 1980); little research has looked at the interaction process of relations; and buyer-supplier relations commonly lead to interdependence and interlocking, which has become the norm. Together these determined the IMP's research agenda into the "interaction between companies when both parties recognise their mutual interdependence and are interested in each other's resources" (Hakansson, 1982: 14).

Theoretical origin

The interaction approach draws upon inter-organisational theory, marketing and purchasing literature, and transaction cost theory to substantiate the different constructs and dimensions (for more detail refer to Hakannson, 1982).

The inter-organisational research was found classifiable into three categories according to its interplay between the organisation and its environment. First, there are those studies that focus on the organisation as being dependent upon its environment, which encapsulates the notion of open systems (Katz & Katz, 1966). In these instances the organisation seeks to manipulate its dependency by enforcing control over its environment. Second, are the studies where an organisation acts as part of a 'group of interacting units' (Hakannson, 1982: 11). In such situations organisations often become dependent on others and in order to obtain necessary resources the organisation commonly forms relations with a number of others establishing networks of relations. Third, are studies of groups of organisations in a societal context. Organisation form collectives, which in a larger context influence the actions of the organisations involved.

Parallels of the former organisational studies were found in the marketing and purchasing literature, which was similarly distinguishable as organisational, distribution and social system focused. The organisational perspective sees companies as being concerned with adapting their products to suit a changing economic and technological environment (Cunningham, 1980). Their objective is to formulate effective pricing, distribution and promotional strategies. Buyers are seen as passive here and the relationship examined is on the supplier and its market. The distribution perspective focus on marketing channels that are a key part of a system of interconnected institutions which perform economic functions required to bring about exchange of goods and services. Finally, the social perspective looks at the marketing as a social process which evolves and changes to meet the society's needs for effective and efficient exchange of values (Hakansson, 1982).

The third major underlying theory, transaction cost theory, focuses in the IMP's context primarily on the transactions and the points of deficiencies in the markets and organisations which operate in favour of negotiated contracts between buyers and suppliers (Cunningham and Tynan, 1993). The IMP group argues buyers favour the market arrangement over hierarchies, because of the natural interdependence which develops between parties in the market. Generally, the high costs associated with transaction in a very distinct market, in which many buyers and sellers frequently enter and leave, favours mutual adaptation between organisations to facilitate business (Hakansson, 1982).

The Interaction Model

Figure 1 below reproduces the basic interaction model. It focuses both on the short-term episodes and general long-term relationship of dyadic buyer-supplier ventures, which essentially conforms to this studies focus. The model recognises that participants commonly are confronted with a complex pattern of interactions between and within organisations, and that the interactions essentially become institutionalised into a set of roles that each organisation expects the other to perform. Cunningham (1980: 325) notes “the interaction between companies is a dynamic process, varying in intensity and may require significant adaptations by either or both parties.” Thus, it may involve both conflict and co-operation.

Insert figure about here

Four main groups of variables describe and influence the interaction:
- the elements of the interaction process;
- the parties involved, i.e. both the organisations and individuals;
- the environment within which the interaction takes place; and
- the atmosphere affecting and affected by the interaction.

Together these variables comprise what many now consider to be the key element of business-to-business and services marketing, i.e. interaction exchange relationship (Cunningham and Tynan, 1993). The model has proved robust enough to be applied to a wide range of different inter-organisational exchange relationships and has enriched the marketing and business literature with useful insights over the past decade (Ford, 1990). The core part of the model are the four exchange episodes:

- products and/or service exchanges;
- information exchanges;
- financial exchanges; and
- social exchanges

The products and service bought and sold are the core interactions and exchanges, but may entail a number of risks depending on their complexity. Information exchanges is essential, and has several aspects of interests including content (technical or financial), its media of communication and the degree of formality with which it occurs. Financial exchange reveals the importance of the relationship. Social exchange helps to reduce uncertainty, especially in situations of cultural or spatial disparity. Formalisation, trust, understanding, flexibility and integrity are important aspects of social exchange, as Cunningham (1980) suggests.

A number of characteristics of the *parties to the interaction* will have an important affect on the interaction process. Firstly, *technology* determines not only how parties might interaction, but also defines the product and manufacturing process of both parties which in effect ties the two parties together. Secondly, the *organisation size, structure and experience* determines the relative size and power of the participants. This identifies the relative position of the individuals in the relationship. Finally, at least two *individuals*, one from each organisation will be key interface point in the relationship. However, more usual many individuals at different levels in the hierarchy and across the organisation will be involved.

Interactions generally cannot be analysed in isolation from the organisations actual environment. The following aspects of the environment are particularly relevant. *Market structure* determines the rate of change, the concentration of suppliers and buyers, and the number of alternative relationships available for either of the participants. The degree of *dynamism* influences either parties ability to predict and forecast changes in the market that may affect the relationship. Hakansson (1982: 20) also notes it affects the “…opportunity costs of dependence on a single or small number of relationships." *Internationalisation of the market* may influence either organisation's motivation to develop international relationships. The reason being it may affect the organisation's structure, sales arrangements, know-how required technology, language, and trade legislation. Finally, the *social system* surrounding the relationship defines the real barriers to interacting between the organisations. Such aspects as protocols, procedures, experiences and ways of behaving when dealing with particular industries and organisation will influence relations.

Finally, the working atmosphere characterising the relationship will influence the operations. IMP found the atmosphere could be described in terms of power/dependence, the degree of conflict or co-operation and the overall social distance between the contributing organisations. Generally the atmosphere evolves through specific exchange episodes and long-terms exchange experiences with the partner. Cunningham (1980: 328) elaborates "it is a product of the relationship and it also mediates the influences of the three groups of variables [above]".

Research Method

In late 1996 we undertook preliminary research into outsourcing relationship practices in a number of client and supplier organizations. We contacted organizations who had outsourced for at least one year and also contacted their respective supplier(s). In line with the grounded theory (cf. Turner, 1983; Strauss and Corbin, 1990) approach, but not to the letter as exploratory research is often a 'messy and iterative process' (Parkhe, 1993), the author interviewed fourteen participants, including IT managers, contract managers, account executives, general managers, and support managers in client and supplier organisations in the early months of 1997. Questions addressing the contract, post-contract management, relationship management, the nature of a working relationship and the evolution of a relationship were posed, with a strong emphasis on what characteristics influenced relationship operationalisation. These were some of the key questions asked:

- What role does the contract play in the relationship? Have you had to refer, enforce it, or use it in anyway in the relationship so far?
- What are the main process and interactions in relationship between your company and the client/supplier?
- Could you describe the state of the relationship? What operational difficulties have you encountered?
- What were some of the major milestones, achievements and/or developments in relationship? Examples?
- Are you achieving your expectations and outsourcing intentions? Why not?
- What are the upcoming challenges for the relationship?

The interviews were scheduled for one hour but in many cases lasted anywhere up to three hours. All interviewees were assured anonymity to promote openness. Interviews were tape-recorded, transcribed, and posted to interviewees for validation. Findings were further corroborated by the collection and the ensuing analysis of secondary documentation, such as magazine and newspaper articles, internal memos, minutes of meetings, and outsourcing contracts. Tables 3 & 4 present an overview of the client and supplier organizations interviewed, which we disguised to respect their request for confidentiality.

The responses from both parties were then collated and analysed into subject categories by use of broad data matrices (Miles and Huberman, 1994), which in turn represented those features of the data that identified the main areas of commonality in what interviewees found particularly important in their relationships. As Turner (1983: 334) elaborates "these emerging 'grounded' categories and concepts, derived from the data, are then used as basic building blocks of the growing theoretical understanding of the area under study." As patterns were gradually identified during the investigation and analysis, the author began to look for the logic behind these, for which links were drawn to the dyadic interaction model. Generally, this approach to qualitative research promoted the development of theoretical accounts which closely reflected the interviewees concerns.

Table 3 & 4- Research into client and supplier organizations

5.3. Summary of exploratory findings

The findings in many ways supported the models main dimensions. Thus using the model as a guiding framework we structured some of main findings according to the interactions for main four areas.

Interaction Process

Products and/or services

The findings revealed that for client organisations, the exchange of products and/or services formed the core interaction in the relationship. This made it essential that service and/or product requirements are detailed in great depth, which most clients in exhibits such as service level agreements (SLA) and others. All parties, including vendors and lawyers, emphasised the importance of having clear services and/or product requirements in written form, remembering though that the resulting SLAs are often not totally comprehensive and tend to decrease in comprehensiveness over time. For example the manager of Client A noted:

> "the service level agreements we have aren't that comprehensive, they don't cover the entire service we want from [supplier B]. One of the reasons, was that the [client A] team was initially not big enough to agree and then monitor service level agreements with [supplier B]. There were also difficulties in measuring service levels […] So those sorts of issues have stopped us getting to the set of service level agreements that we would be really happy with and we don't tell them anything like this. We don't often say that our set of service levels aren't as comprehensive as they ought to be. But in reality that is the case."

Incompleteness of service support and/or product requirements arises over time and was identified as a result of organisational dynamism and market changes. "SLA's [thus] do not cater for all eventualities", as noted by Client B. So contracts have to include comprehensive change management procedures to cater for any alterations that may arise. Vendors on the other hand, suggested changes can be avoided altogether by defining service provisions in a flexible manner, implying less detailed SLAs and a well working relationship.

However, because the delivery of services and/or products define the key part of the deliverables for which the client contracted the vendor, they tend to be closely monitored and scrutinised. Generally, to ensure SLA's are delivered according to expectations and the agreement, clients and vendors operate an array of hard and soft performance measurement methods. Again depending on the outsourcing intent, customers focused their measures on cost reductions, services deliver, service improvement, specific projects, new technology, and user satisfaction. In the majority cases clients and vendors measured a range of the former to check simultaneous business and user requirement achievement. The Group IS Manager from Client B, noted:

> "you have got to be able to put together an analysis that is partly people's subjective reaction to what's going on, partly objective measures of where their contribution has been … And it's a combination of those different measures all coming together that allows you to do it. You must have some very hard measures in there, more of those hard measures that are output oriented the better."

Hence, Client B tended to measure service delivery according to the SLAs, step changes performance, return on net assets, and other business issues, such as customer responsiveness, output (e.g. On Time In Full). In contrast Client A and Supplier D employed a scorecard scheme, which allowed them to score performances against predefined measures. The business support manager from Client A commented they utilise it to:

> "look at are we on time with the budget, does the user community like the new systems, do the board of directors feel that the new systems are a good thing. We will be looking at measures of how we make programmes succeed […]. So we are going to try to more formally set up a tool for measuring the success of the programme, as we don't have anything similar at the moment for the CSC relationship."

Conversely, vendors explained their performance measures involve an array of objective and soft of methods, including third party auditing. The Executive Director (Supplier D) and the Partner (Supplier C) explained they measure their performance against the SLAs, perform a customer satisfaction survey, undertake an internal quality review of staff, and attain an external auditors assessment of specific contracts. Contrastingly, the Business Director from Supplier E commented:

> "we have every month a service measurement report. So we have clear statements every month on at least the objective measures. That doesn't tell the whole story because it's the subjective measures which are also very important. So if a customer carries out at their expense a survey every year which measures the subjective satisfaction of all the receivers of the service, both managers and technical people - and that's useful guide on an annual basis - we also from time to time commission bits of research from a market research organisation who go to our customers and ask them about services, service values, and so forth."

The subjective measures were discovered crucial as they elicited whether the services delivered satisfy the user community. Clients found that although services were delivered according to agreement, in many situations they did not satisfy the users requirements. This anomaly required rapid attention and adjustment, which in many cases vendors would not undertake without formally increasing costs. Conversely, in the Client D, the supplier employs instead a measurement scheme of customer values and expectations, alongside their objective measures. The Programme Director (Supplier A) explained:

> "it isn't just a matter of asking the customer are you satisfied or not, we have to understand what his expectation is rather than what his requirement is. Then there are some quite sophisticated measurement systems that we deploy to actually take a particular user, look at all the parameters of interest to him…. So you get a picture of what he wants and then how he thinks we are measuring up against that. So that's how you measure the soft issues. And we have to do that on a continual basis across all aspects of the relationship."

User satisfaction is the most common soft measure. Although, extremely difficult - if not near impossible - to measure it was found to be an important indicator of whether vendors are achieving the users service requirements. Most commonly, the measurement involved a likert scaled survey. Vendors find user satisfaction surveys essential. Winslade (Cap Gemini) noted "because that's what actually is going to affect our reputation. That's what, if someone goes through a reference visit, they are not going to tell them that we achieved all these SLA's they are going to tell them whether we are good or not so good. It's going to be perception on a particular subject."

Financial exchanges

It was suggested that everything in the contract at the end of the day winds down to a financial consideration.

> "the case where we do stick firmly to the contract primarily is when it comes to money. If we are duty bound to pay something or if we are not bound to pay for something, we either will or won't depending on what it says. … I think we are softer on service where we are looking for flexibility, but hard-nosed on cost issues where we are very precise" (Client A, Business Support Manager).

The focus in other words is on the payments to be made and vendors profit margin, which receive a lot of scrutiny by both parties. To be able to undertake such in-depth assessments it was argued you need complete access to the costs figures and pricing schedule of your vendor. Arrangement such as open book accounting were identified as providing such access. Client A and G introduced such an arrangement following their re-negotiation to ensure greater clarity of costs and to put incentives in place for CSC to endeavour to reduce costs. This arrangement purported, as explained, to more cost savings and service improvements. The reason is greater control over where the vendor actually makes money.

> "the new arrangement [open book] should make it clearer how [Supplier B] make their money. […] we do want to understand, and we have in the past understood them, where we think they make their money, but it will be clearer with the open book arrangement" (Client A, Business Support Manager).

However, when the vendor suggests such an arrangement because the problem or issue can not be settled through a fixed price, the client essentially gives the vendor control and access to large profit margins. The Executive Director from Supplier D explained:

> "if you want to out-source the other way of doing it is [by] an open pricing arrangement. In other words I say to you I don't know how much this is going to cost, you don't know either, and what we will do is put sufficient people and hardware in and we will write all the costs of those down and you can look at those and make sure you are happy that we are not putting enough people on that problem. It's open. We will agree in addition to that cost that we can charge you a certain figure, a certain percentage, or a certain amount of money. […] then our total charge would be those costs plus our management charges."

Another, means for controlling the costs is through the introduction of a competitive benchmarking process. The Solicitor commented "benchmarking is an important contractual contingency." It protects clients against increasing prices, while the quality of services decreases. It also allows clients to compare prices and services against competitors, and push vendors to match industry 'best practice'. This seemed especially appropriate for commodity processes such as basic computing and telecomms. The Group IS Manager for Client B noted:

> "to ensure cost control you continually set your suppliers of the commodity services at each others throat, demand that they keep to a certain international standard, and request lower and lower prices the whole time."

Cost control is essential for the client, since the driving motivation for the vendor is always to make more money. But, before a vendor can actually make a profit they have to recuperate the initial investment.

> "So the premium payment may be say 30M pounds or what number it might be, but how do you pay for it? You pay for it by charging them back for it. You squeeze a bit more to actually pay for some of that money. Therefore you are putting a tighter squeeze on the situation then you actually enjoy" (Supplier C, Partner).

Moreover, monitoring costs to assure the vendor keeps its commitment to reduce costs over a number of years can turn out to be completely unrealistic. The supplier may have signed up to the deal, but a year or two down the line the changes in the market and the initial calculation do not match to the current cost situation. As a result services were found to suffer and eventually the vendor was forced to terminate the contract. Only renegotiation and/or an inherent contractual flexibility can avoid such problems. It was evident the vendor company has to be able to balance costs with profits or else service delivery and other aspects will suffer.

Information exchanges

Information exchanges are an embedded process occurring expectantly via modern telecommunication methods in relationships, but also involve contractually agreed mechanisms such as regular meetings and exchange of written documents (e.g. service performance reports, accounts, payment schedules, change requests, etc.). Interestingly, both clients and vendors acknowledged the importance of communication and information exchange, but only few addressed the criticality of this dimension in their relationship. The exception being Client B, who noted

> "you have to get a high level of dialogue between yourself and the vendor to really ensure that you've got a supplier who is working hard to understand you and your business, what you are about and where you are heading, so they can respond constructively, and creatively".

Sources of information

Findings revealed two key information sources for the client: firstly, information made available internally by the user community and managers, especially from those who frequently interfaced with the vendor company. Secondly, information acquired externally from the vendor and any other third party, especially those contracted to carry-out an audit. The IT Coordinator from Client F noted:

> "the main way I get feedback on that is from the user areas within the company because they are the front line people, they are the ones using the machines and the support every day. And we have a user group internally where we have quarterly meetings and they can report back on problems they've had etc. […] So obviously we get a feedback from the user areas".

Informal and Formal Information

Client and vendor respondents suggested communication involves both a formal and an informal aspect. For example,

> "the formal aspects really are the reporting on the supply of the facility within the performance measures. […] And any problems and things that have been escalated, so escalation procedures etc. The informal aspect is being really open and honest and saying that even perhaps if it is within performance measurements, and it is a claim contractually, we feel that there could be improvements and things are not being done properly. There are open frank discussions with people, it's the only way" (Client C, Management Services Manager).

Hence both formal and informal communication emerges from the procedural arrangements. For example, formal procedural arrangements may entail contractually specified meetings (i.e. monthly, quarterly, yearly), whereas the informal aspect may be meetings over lunch or a social event. The Business Director from Supplier E found that:

> "meetings are a vehicle for communication. They are both formal and informal. The formal part being minuted, whereas the informal no record is kept. […] There will be a structure of formal meetings, as defined within the contract. We follow that structure."

Social Exchange

Social exchanges in many ways were subsumed in the overall outsourcing relationship. However in a number instances participants elaborated on particular aspects that are integral for social exchanges to occur. For instance client managers suggested that closer relations are generally fostered through social activities. For example:

> "One of the things that I would like to do more often but because of the way CSC works it doesn't really fit in, is some of the management meetings we have I would like to have a sandwich lunch before or afterwards when the meeting ends, because I think you get a lot of information in a short almost informal conversation" (Business Support Manager, Client A).

Such social activities fostered social exchanges which were found an excellent environment for discussing openly problems and exchanging information. The informal settings are in many cases much better for moving relations forward. The inherent problem though is that issues can be decided, and are not written down, making it difficult for others to follow the decisions. Nevertheless, some clients were adamant that spending two to three hours over a good lunch to get to know the supplier is an excellent investment of his time.

> "It is the best way to learn to judge whether you can rely on someone because you know something about that person as a person as opposed to a supplier. I tend to think that as a supplier-customer relationship develops a limited amount of social fraternisation - for want of a better word - actually adds to the relationship and makes the relationship work better because you get to know someone personally. […] then he's going to be more disposed to help you" (Management Services Manager, Client C).

Some vendors fully endorse this concept. It also provided the kind of setting to develop a better understanding of each other's operations. Indeed, both parties explained operational, i.e. cultural differences can be bridged by improving each others business understanding. However, understanding required time as it is impossible for any company to explain all the intricacies of their business during the start up of outsourcing venture. The increased understanding will then allow the vendor to deliver and/or offer extra benefits by applying their expertise to the intricacies of the clients business. This will generally provide both parties with relational benefits.

The Parties – structural issues

A range of background information about the different parties experience concerning outsourcing is provided in Table 3 and 4. However to protect the parties request for strict confidentiality the authors believed it best to limit the amount of additional information to present concerning the participants strategy, technology, structure, and resources. Nevertheless some relevant additional findings concerning management structure of the relationship is discussed below.

Individual Contact Management

In situations where discrepancies and problems with service levels and/or payments arose, clients knew exactly which manager to contact in their vendor partner company. Depending on the severity they would contact different people at different levels in the hierarchy. In most cases clients personally knew the opposing managers in the vendor company. In client companies where people had been transferred, the residual IT group defined the actual contact points. So for example at Client A, the remaining five IT managers who handle the outsourcing deal - which included a senior manager in charge of the contract, two middle managers in charge of the headquarters IT requirements and the overall store systems, and two operational managers in charge of assessing the service levels and delivery, business developments and requirements - are also the main contact points for the vendor. Similarly, at Client D a small remaining client team represented the main interface point for Supplier A in matters of IT. In most cases vendors tried to mimic the clients structure:

> "there tends to be a matching process where you take the structure of the company that you are going to service provide and take the structure of the customer and kind of match it. So our MD matches with their MD and so on" (Business Director, Supplier E).

In most cases contact points in client organisations had many to many relations, varying in the hierarchy of the opposing company. The Business Director from Supplier E explained:

> "it is rarely a simple one to one relationship. In Sema's case in every contract there will be two managers contacting the person on the client's side. One will be a service or customer service manager and the other will be a business development manager."

So there is a set of relations individual managers have with either party. Both parties stressed the importance of staffing the interface points with experienced managers. For the client this entailed retaining a group of managers who have the experience to act as a controlling agent.

Maintaining and building Individual Relations

Maintaining and building individuals relations were found fundamental to making the overall relationship work. To a certain extent personal or closer relationships are expected to evolve. In some deals, especially in those where staff were transferred and then placed to work on their previous employers account, embedded individual relations already existed. However, in most ventures individual relations had to be developed and re-developed as staff on either side changed. Vendor companies explained that their managers on average tend to move every one to two years. These changes were found to cause a lot of problems and can have such drastic effects, that the whole interfirm relationship was found to suffer. The Business Support Manager from Client A exemplified how the effects of the high turnover of its Supplier's people caused a set-back in the relationship.

> "because when people leave that you are used to working with you've then got to start again and build up a new relationship. About a year ago the top person at CSC that we deal with regularly changed. And, it has taken us a while to get used to the new chap […]. And that's just taken time [for him] to understand where we've come from, where we are, and what we should be doing next."

The participants emphasised that the better you got to know your opposing manager the better the overall relationship worked. However, managers had to guard themselves against - and this was the other extreme - developing relations that unconsciously hindered them from possibly terminating the contract:

> "in any customer-supplier relationship the customer has to reserve the right to say at some point in time I've had enough. So there is a dividing line there somewhere, I don't know where it is, it's something you can only measure when you go along. Some how you have to get a relationship which is relatively close and friendly, but on the other hand still gives you the capability to turn your back on it if you want to" (Management Service Manager, Client C).

An additional danger is where two people who work together for too long can become too close or too cosy and you can end up with a situation where Tom and Peter are the only two people who understand what is going on. In such situations, unless these managers are present some problems cannot be resolved because nobody understands the background and the reason behind its *modus operandi*. In Client A this had occurred:

> "if you have that situation you don't necessarily have to change the people you just might need to make it more transparent what the decision-making process is, or how the relationship works. But if you get to the point where there's only two people, one on each side, who know how something works then you are too dependent on those two people" (Business Support Manager, Client A).

Naturally, these kind of situations also need to be avoided. So relations were found to require a code of working practices, defining the level of informality to which relations can be taken.

Individual Skill Resources

Few of the client managers had spent any time on defining their actual skill requirements for handling the outsourcing venture. When confronted they reflected on their skill requirements identifying technical, business, inter-personal, contract, and procurement skills as their job qualifications. Of course it depended on the manager interviewed, but all stressed the criticality of understanding the businesses requirements and the necessity of aligning IT outsourcing with the business objectives. For example, the noted:

> "it's the ability to understand how the capabilities of modern information management fit with the business and drive and contribute to the business, which then becomes an important part of the whole" (Group IS Manager, Client B).
>
> "there are a few people who understand the legal basis and also the service level basis. You need to understand the big picture and also need to have an eye for detail. We get a lot of recommendations where [Supplier B] will do some work and make a proposal and you need to be able to see whether the proposal makes sense in business terms and makes sense in technical terms" (Business Support Manager, Client A).

In many ways it involved skills of a project manager, who oversees the whole operation. The interpersonal dimension played a particularly important role here. It was emphasised you need skilled managers with the ability to set-up processes to develop relationships with key individuals and to be able to communicate the companies business and strategic objectives. The aim is:

> "to understand the potential contribution of the partner enough to be able to guide that process so that the two of them together begin generating real value from the relationship" (Group IS Manager, Client B).
>
> "you are trying to get someone to do something and you don't control his salary. You don't have that power over the supplier, you may have it over the principals because of the contract but you don't have it over the people who actually do the work. So it's inter-personal skills, it's being able to relate to someone, explain to them why something has to be done, explain how it fits in. It's the ability to relate to people, to establish a working relationship and getting them to do what you want" (Management Services Manager, Client C).

In others words have good interpersonal skills were associated with being a good relationship manager. Thus in terms of staffing a group or team to cater for all these skill requirements was found a very difficult undertaking.

> "So, I think the set of skills is awe inspiring and no one person in our team who has those skills. I think in reality what you need is a team that has got the skills you require, a team that works well" (Business Support Manager, Client A).

Even though, skill requirements may be formulated, you still need to find people who also are keen on sharing information and communicating with other members in the team. Internal politics and the pressures to improve upon others to increase ones status caused conflicts and even breakdowns in relations between managers in clients account team.

On the other hand the vendor managers described their management skills involve essentially achieving the clients expectations. This entails understanding the client's business objectives and always keeping up-dated on their requirements. Key to handling the outsourcing venture is the account manager, who in most vendor organisation is also the key relationship manager. The account managers skill set involves:

> "personal skills, commercial skills, sufficient knowledge of the industry to be able to talk to the opposite number within the Rolls Royce industry, in a way where you can actually talk on his agenda rather than on the EDS agenda. […] The kind of people who make this relationship work at the top are built on these people. They've been in this kind of role for a very long time" (Programme Director, Supplier A).

<u>The environment</u>

The findings revealed little in terms of direct external influences on the relationship, such as market structure, dynamism or internationalisation of the market. An issue though that was found particular important for clients and vendors was the cultural, i.e. social system, aspect that pervades the interfirm relationship.

Individual Organization's Culture

Interviewees explained services delivered need to be integrated into the working methods and processes of their business to ensure operational continuation and benefits. The 'embeddedness of operations' were found to be the most evident indicator of the client's culture. Thus to assure services are efficacious the vendor has to understand the client organization's culture. This was found so important that a number of clients emphasised that in their initial 'Request for Information' and 'Request for Proposal', they seek extensive information about the vendors culture. The search for a cultural match was vital to avoid straining relations unduly through the cultural diversity.

Vendors reverberated the importance of cultural fit, and were clearly aware of the difficulty of coping with different cultures. The Partner from Supplier C noted:

> "between the organisations there has to be some sort of cultural match. I think that is the most difficult and most challenging for organisations to get close too. How well are you going to get on with these people. Also recognising that people don't change."

However, even with the best intentions of matching cultures, client managers across the cases encountered significant cultural complexities in their deals. The difficult clearly was in fully understanding another companies culture, without having been part of the organization. As emphasised by the Group IS Manager from Client B:

> "at the end of the day no matter however sophisticated they are, they will never be able to really understand what the business is about. So that is the big gap and adjustments can only be made to a certain extent."

The degree of cultural integration remained minor in most cases, even those operational for a number of years. Cultures remained distinctive and separate. Client A's deal was an exemplary case.

> "We tend to make decisions two weeks after the drop dead date, we tend to change our mind a lot, we won't approve anything, or we won't invest in anything, and on Tuesday it is all right again and we will suddenly be more approachable. I suspect that can be very difficult sometimes. Whereas the [Supplier's B] people can be very structured in their approach which is very typical of IT type people. And sometimes this clashes with [Client A's operations]" (Business Support Manager, Client A).

Regardless though of the differences, clients explained that 'understanding of their business' is the only way of adjusting and achieving closer integration to develop relations. A vendor has to understand the business drivers and where the business is heading. Only this then enables them to be more proactive and receptive to the business needs that essentially define the clients IT requirements.

Advantage and Disadvantage of Cultural Difference

In one respect cultural differences were explained as particularly advantageous in some arrangements, as it provided a completely different and new perspective on issues. For example, the Programme Director for Client A noted:

> "I think first of all the power of the relationship lies in cultures being different. The cultures are radically different. [Supplier A] is very task oriented. It was once described to me as that [Client D] go ready steady aim aim aim aim, and we go bang and then think about aiming afterwards."

On the other hand, cultrual diversity was found disadvantageous when it was evident it strained relations. Client E's Executive outlined a particular situation:

> "we found that they [Supplier B] weren't quite as nimble as we were because they hadn't been through this process and that caused, on both sides caused an awful lot of conflict. They thought we were arrogant and we thought they were archaic, basically, in terms of their management of people and processes."

Consequently, participants clearly emphasised it is ver much dependent on the deal and outsourcing objective, i.e. context.

<u>Atmosphere - Behavioural Dimensions</u>

The client and vendor companies revealed cooperation-conflict, commitment, power-dependency, and trust as the most influential behavioural factors affecting the working atmosphere of the outsourcing relationship. Generally these were said to pervade the relationship individually, simultaneously and some were found cause-effect interrelated.

Cooperation-conflict

The concept of cooperation was never addressed expressly by any of the client interviewees. Only some of the vendors indulged in highlighting that outsourcing is based on cooperation. Most perceived cooperation rather implicit to the venture, so much so that some professed that once it breaks down the overall venture failed.

The principle of cooperation however, was evident in a number of explanations of how both parties handle the deal and work with each other. The Corporate IT Adviser from Client G explained that:

> "by and large they don't have wizards and magicians on their payroll either, and we realise that. So if they get into trouble we understand that, but there is of course a limit to certain things. […] So if you have outsourced something and the supplier gets into trouble, if you kick him out or something like that, that may not be entirely helpful."

Similarly, the Executive Director from Supplier D found that:

> "when you have a problem in front of you that may or may not have been created by one party or the other or may just be something that nobody could ever have predicted. That is an issue. And it's how you mutually work at that problem to get it solved to deliver a service. It's in working through a problem that you look back and say actually we were able to do that because we had a good relationship".

Thus it was suggested, in terms of cooperation in IT outsourcing a balance needs to be struck between contractual strictness and flexibility. The Manager from Client C noted that their contract:

> "only specifies reasonable endeavours which means that if you've got a crisis and you need some help you have got to have a relationship with that supplier which allows you to call upon their help. So there has to be a give and take."

It was this flexibility of give and take that at the end of the day ensured the deal did not falter. Thus, inherent to the relationship has to be a flexibility that allowed people to make an odd mistake without penalisation, and if a mistake had been made, conjoint efforts were focused on solving the problem. Without, cooperation it was often noted both parties would surely pertain towards an adversarial relationship, and disputes or conflicts would be very difficult to resolve.

Both parties accentuated that conflicts or problems frequently arise in outsourcing. Nothing runs smoothly day after day. Two main problem types were identified: (a) the day-to-day problems, and (b) the operational, cultural and contractual problems. Depending on their level of impact, they are either handled by the operational managers or escalated according to contractual procedures to senior managers. It is critical to know who to contact in cases of dispute. However, none of the clients had encountered in recent months a conflict significant enough to escalate it to senior management, nor enforce penalty payments. Still, operation managers spent considerable time and effort on resolving disputes, which without closer relations and a give or take approach would most likely have resulted in termination of the outsourcing venture long ago.

It was generally accepted that working through conflicts and resolving problems strengthens relations at the end of the day. It is a case of co-operating through these conflict situations and finding solutions together that helps bind the relationship.

> "I think you will reach a maturity stage following a success of going through a conflict and coming out with a satisfactory solution. It doesn't have to be a contract re-negotiation, just a very difficult problem of some sort" (Principal Consultant, Supplier E).

Commitment

The issue of commitment was found to arise as early as the selection of the vendor, and then became formalised with the signing of the contract. Therefore, the contract poses as the formal indication of the vendors and clients commitment. And explains why it is essentially 'drafted as a long term commitment'. Thus in the context of the relationship, commitment for the client essentially implies trying to make it work with the vendor(s) and to pay X amount for services and products delivered. Conversely for the vendor, commitment means achieving the contractually stipulated terms. The Business Director at Supplier D exemplified that their:

> "commitment really is spelled out in the contract, and then when a particular piece of work comes up there is a service order, which is in itself a contractual document, and our commitment is quite clearly spelled out in that. So that's our commitment."

Although vendors contractually committed to provide services and people on a reasonable endeavour basis, client's emphasised they still tried to find an extra angle somewhere, because in most cases they actually need slightly more commitment than just the contractual terms. For example, the MIS Executive at Client E highlighted that they expected their suppliers to be more proactive than just reactive as the contract suggests. This expectation of greater commitment, resultantly puts the onus and pressure on the vendor to perform. It also seemed a plausible reason for why some clients explained that following the vendors initial efforts[4], a period of slackness took over. To some this seemed very puzzling, since vendors low performance impacted their possibility of future business opportunities. The Business Director at Supplier D noted:

> "from our point of view our commitment is probably rather greater, in the sense that we are entirely dependent on the client. For example, if we are asked to do a particular piece of work and are being paid to do that, then we are utterly and totally committed to doing that, come what may."

Trust

Assertively, all interviewees stated that the relationship only really works when trust exists in some way or form. It is chiefly associated with creating vendor confidence, and enforcing openness and honesty. Interestingly, vendors were far more explicit about the criticality of trust, than client companies. Some even went so far to suggest that without it, the relationship will wither and surely terminate, while some even suggested the relationship can be built solely on trust. However, trust in relations only works with the knowledge that there is a contractual relationship in place, and that is the basis on which business is done.

> "It's better that both sides understand that [contract vs. trust] fully from the start because you then both know where you are. If you pretend it's not there and you pretend everything is nice and soft and fluffy and cushy, and you will then get a rude awakening when someone says sorry this is what the contract says. You've got to be completely realistic about it and we refer to the contract constantly." (European Strategic Director, Supplier B).

Interviewees stressed that trust does not exist from the start, it is something that is earned over time. So, in the beginning of a deal some suggested there is mutual respect.

> "we might look at the client's culture as they've all done good things in their business. And we think we've done good things in ours. So there is a mutual respect. […] It is pretty good basis for developing trust" (Partner, Supplier C).

In most instances trust was only developed though through a track record. Vendors found that by delivering the contracted services trust, can slowly be developed by building confidence in their capabilities.

Confidence

Trust for clients was largely about confidence in the vendor to deliver the stipulated terms, to attend to problems, and to be fair and honest. Confidence generally evolved on the back of a good track record:

> "if there's a good track record of the outsource partners being able to supply solutions, capabilities and get them implemented, trust goes even higher" (Group IS Manager, Client B).

The onus in turn was on the vendor initially to develop trust. Vendors were clearly aware of this circumstance and often explained that their early efforts in the relationship are aimed at developing this confidence:

> "In business you can only build trust we believe by delivering something hard, delivering particular benefits or maximising the value equation which we prefer to do by maximising the benefit" (Managing Director, Supplier A).

Openness and Honesty

Simultaneously to the efforts of building confidence, interviewees stressed that openness and honesty has to evolve between the individuals handling the outsourcing deal. Openness and honesty was found to be the basis upon which trust was built. Only through openness was either party going to be frank in discussions about problems and difficulties they may have.

> "I think you have to be open. Being absolutely open, being consistent, not telling what they want to hear, but telling them what it is" (Partner, Supplier C).

By being open and honest, managers found they could begin to rely on the other party. As a result openness improved the relationship's chances of success:

> "if they've got a problem they need to tell us, if we've got a problem we need to tell them. There's no point having a relationship unless we are open with each other, it's like being married quite honestly. If you think about it, it's very similar because two parties should be working towards a common goal and if they are not

[4] The honeymoon phase or first year of an outsourcing venture.

talking to each other and don't trust each other they are going to miss, whatever the contract says" (Management Services Manager, Client C).

" trust is a critical success factor really, because you have to be very very honest because as soon as you stop being that then your ability to maintain the programme disappears very quickly. We have to be honest, because when one side of the operation fails then there has to be the trust and the environment in which people can honestly admit that there is something that needs to be attended to, so that we all as a team sort it." (Programme Director, Supplier A)

Power-dependency
Cross case analysis revealed for the client power is reflected in the degree of control over the outsourcing deal, whereas control arose because of the ensuing dependency on the vendor. The crux is they delimited an ongoing concern of client: the loss of control over the outsourced functions. Control was essentially explained as the ability to get what you want done, when you want it done, for an agreed price, and with the possibility to change your mind at a later stage. This intention determined the client's endeavours in the relationship.

"you need a very strong grasp on the steering wheel … and you've got to have it so that it is very clear that there is an imbalance if you like in the relationship that says that the business is in charge and has the capability to drive. Because it's only the business close to its marketplace and its drivers that really understands where the business must go." (Group IS Manager, Client B).

Power conflicts were said to undoubtedly arise at some stage during the relationship. These were unavoidable, but they can be managed by identifying the power sources within organizations. The Managing Director of Supplier A noted:

"we have a term for those people [power holders] called 'foxes'. It's part of our methodology, the mechanism for identifying foxes and then the people that are clustered around a fox are called a power base of people that are lead by that person and represent that persons agenda to the organisation."

Awareness of the power bases, then allows the vendor's to better assess whether their client managers are in conflict with outsourcing or support it, which in turn is likely to determine the level of collaboration to expect.

Dependency emerged as a by product to outsourcing for both parties. The client managers found themselves dependent on the services delivered by the vendor, even though they did have the ultimate power to terminate the contract at any time, but high switching costs tended to prevent that option. On the other hand the vendor found itself dependent on the client for remuneration for services rendered. The Managing Director of Supplier A suggested dependency can be dealt with by trust, because without it no sensible organisation would allow dependency to arise.

6. DISCUSSION (NEEDS REWRITING)

The findings demonstrate the wealth of views on the outsourcing relationship, yet no one seemed to have a definitive answer for how to develop and maintain a successful relationship. In essence, our research elicited the little attention managers had attributed to reflecting about how they manage their relations - many answers were strongly influenced by 'gut feelings'. No common findings became apparent that suggested an indication of what defines a successful relationship. Interestingly, all interviewees were keen to discuss their practices, and generally found the questions raised, helpful to focus their minds. Using the conceptual model, we discuss some of the pointers we picked up from the exploratory research, which may require integration into the model.

Context, Contract, and Structure

Contracting in outsourcing is traditionally seen as the beginning of the relationship. Past studies thus focused on how the contract governs the ensuing relationship, alluding to its dichotomic focus on transactions or relations (Klepper, 1994; Lacity & Willcocks, 1995). Our findings corroborated this concern, which in essence obscures the fact that IT outsourcing by nature enters a client organization into a dependency where a supplier's service delivery infiltrates the organization at both a vertical and lateral level. Although the outsourcing relationship is contractually governed to ensure opportunistic behaviour can at any point be radically regulated by termination, the contract is no panacea nor does it ensure successful relations. Instead, outsourcing has to be understood as a ‘quasi-vertical integration’ of the supplier (Blois, 1972). To this extent outsourcing connotes relationship irrespective of whether the function(s) contracted out was a commodity or strategic (see table 4). As one of the interviewees explained:

> “the contract provides a sub-stratum, it's about getting the foundations right. But to really get the partnership working and delivering you've got to have the confidence in the personal relationships and the ways of working together and these processes of working together are very difficult to capture in the contract. But the things that you are talking about in a outsourcing partnership are more about process and relationships and common visions which are difficult things to track in a contract” (Group IS Manager, Client B).

Conversely, the debate needs to centre on the level of relationship integration - either formalistic or in the ‘spirit of the agreement’. Our model attempts to bridge this debate by outlining conceptually how these may be bridged, whereas the findings into relationship practice corroborate our assumptions. Drawing upon Macneil’s (1974) discussion of transactional and relational contracts, we can clarify that no long-term business contract can be operated as a transactional contract for its incompleteness and inflexibility makes it inherently prone to failure. Instead, such contracts necessarily are relational entailing non-contractual and voluntary dimensions. Granovetter’s (1985) argument that economic action is embedded in social relations is corroborative. Indeed, as alluded to by managers, the true benefits of outsourcing only emerged once the supplier began to understand the client’s business, and in transactional arrangements that would never be possible nor would it be required. Reaching a level of understanding, demands that the service exchanges for which the supplier was contracted are institutionalised, and supplier managers begin to reflect on areas where they could apply their expertise. Reaching this level which we called normative, only evolves over time with the ongoingness of the deal and the adaptation of the supplier to the client’s idiosyncratic operations.

The normative level holds benefits for both parties. For the client it provides potential areas of where the supplier can add true value by applying its specific technological expertise, which in a number of the client organisations researched had resulted in reengineering programmes and new technology investments. For the supplier it entailed potential opportunities for new business and hence increased profits. Some refer to this level of client-supplier integration as a win-win situation, where both parties benefit in their ways from the relationship. Others have explained it as the result of embeddedness, where economic actions become embedded in ongoing social ties that facilitate further exchange relations (Uzzi, 1997).

Findings suggested that outsourcing seemingly is only successful when relations are effective and functioning. To build such relations requires active management involvement beyond what most expect when they contract out. Traditionally, clients expect the supplier to take over and deliver the service while the client managers stand back and monitor. Contrastingly, findings highlighted that 70% of the managers’ time in post-contract management is spent on managing relations. This suggests three considerations - which also need closer integration into the conceptual model: firstly, it is critical for the client to establish an appropriate skilled management infrastructure prior to outsourcing, that it can implement during post-contract management. Recent research by Feeny and Willcocks (1998) suggests that the management group should cover nine core capabilities, including business systems thinking, relationship building, leadership, contract facilitation, supplier development, contract monitoring, informed buying, architecture planning and relationship building. Secondly, the client organization should make it a requirement for the supplier to formalise an account team that mirrors the customer’s management group. In other words, the contact structure should be formalised and both parties should be aware who their respective counterpart is. Thirdly, when evaluating the costs of outsourcing it seems rational to consider the costs of post-contract management, as findings indicated that management may be preoccupied with developing and maintaining relations.

Interactions

Interactions that occur in the relationship seem to vary along a range between contractual and voluntarily exchanges. Service level agreements and prices or costs define the formal contractual exchanges that underlie the exchange relationship. In addition, communication was found to pervade both the contractual and voluntary exchanges by its inherent nature of formality and informality. For example, monthly, quarterly and possibly yearly service performance reports are formal documents - that may or may not be agreed to in the contract - that essential justify clients payment or non-payment. On the other hand, informal communication outlines the essence of day-to-day interactions and is inherent to social events. In turn, it is a crucial building block of the relationship and reflects the kind of managers that are required at the interface points. These managers that ‘span the organizational boundary’ need to be good communicators at both the interpersonal, technical and business level (Katz & Katz, 1966; Feeny & Willcocks, 1998).

Voluntary interactions and hence exchanges were revealed as those factors that enable the parties to adapt to the idiosyncratic working practices. They were investments in resource beyond the contract that were necessary to ensure the relationship’s ongoingness. In short, they sustained the relationship, especially in situations of dispute, conflict and moving of key management personnel. These exchanges conform to Macneil’s (1980) explanation for relational contracts and the non-applicability of classical and neo-classical contracts for such long-term arrangements.

In addition, these interactions and exchanges were found to be responsible for fostering social ties between managers and ultimate closer relations. Key to developing these were informal and social events. As a client manager noted:

> “One of the things that I would like to do more often is some of the management meetings we have I would like to have a sandwich lunch before or afterwards when the meeting ends, because I think you get a lot of information in a short almost informal conversation and learn more about problems” (Business Support Manager, Client A).

In effect, there is another dimension to outsourcing that needs development - interpersonal relations between the two management teams. Their effect on the success of the venture was alluded to by the managers’ suggestion that closer ties are critical for attaining benefits and value added, and developing a win-win scenario. In fact, endogenous to these interpersonal relations are behavioural and attitudinal factors that were found by others to affect the success of the whole interfirm relation (see Mohr & Spekmann, 1994; Ring & Van de Ven, 1992).

In summary, communication is critical to the success of the venture. It was found to be the engine that drives any relationship. To ensure good communication is not an easy process. It needs thorough planning and evidently requires implementing an appropriate communication structure. Thomas (Sema) noted “one thing that we discovered early on was that we weren't doing enough to communicate with the customer right the way across the customer base. … So we've now got a joint newsletter which we do with this group, and every couple of months or so this newsletter goes out right across the company to tell them about progress in IT. … And we actually have a communications plan which we've put in place.”

Behavioural

Intrinsic to outsourcing is cooperation, commitment, conflict, power and dependency from the beginning of the venture. In fact, cooperation and commitment were rarely addressed at all as managers perceived them as implicit. Commitment to the venture is already affirmed by the contract and the service level agreement (SLA). Only in discussions about the contract or the SLA was commitment ever used by interviewees. Cooperation underpinned most interactions and exchanges. Although some relations may be adversarial, without cooperation it would have been impossible to operationalise the contract. The level of cooperation however may vary and develop over time. For example, interviewees revealed that their contracts included dispute resolution procedures that were relied upon especially in the beginning of the relationship, where a number of contract issues required further clarification. However as relations progressed, many of the disputes that arose could now be handled between managers without having to escalate them according to the procedures. We can speculate this was in part due to an increased level of cooperation and understanding.

Trust was often quoted as critical to the relationship, although it was not clear whether managers meant confidence or interpersonal trust, i.e. honesty and openness. Indeed, trust took time to develop and in most cases evolved with the appearance of a good track record of accomplishing stipulated terms. Building confidence seemingly preceded trust. Satisfaction also played a role, but it was not clear how it influenced the relationship. It rather seemed satisfaction was a measure concerned with evaluating the users’ perception of the services, which very likely could lead to confidence in the supplier’s service quality.

7. CONCLUSION

In IT outsourcing settings, understanding the client-supplier relationship is of paramount interest. Little is known about the relationship’s *gestalt* (Kern, 1997) and greater attention must be directed to identifying the dimensions before suggesting management solutions (McFarlan & Nolan, 1995) and exploring its evolutionary development (Klepper, 1995). Drawing on organization theory, social exchange theory, relational contract theory and existing research on IT outsourcing, we have provided a fundamental conceptualisation to capture the constructs and properties of the client-supplier relationship. Building on the notion that exchange relations underpin outsourcing, we identified the core dimensions of the relationship as context, contract, structure, interactions and behaviour. Preliminary research exploring relationship practices in client and supplier organizations gave some insights into these dimensions and the criticality of the relationship to the venture’s success. Outsourcing is driven by economic actions, but embedded in social relations (Granovetter, 1985).

Because of the extraordinary complexity of the client-supplier relationship our model will, without a doubt, need refinement, elaboration and verification. As it stands the model has its limitations in respect to its static view, but its usefulness can be derived from its heuristic and analytical potential, in a fashion that captures both the outsourcing relationship’s contractual, social, and economic characteristics, as well as many additional elements. Although research into the client-supplier relationship is challenging due to a number of constraints including access to both parties, we believe this model has potential to make a significant contribution not only to understanding the outsourcing relationship, but also to understanding other business-to-business relations.

The different categories elicited were in many respects unexpected, as the author thought findings would conform more closely to what others had found important about outsourcing relationships and reflected also the interactions approach more closely. Similarly to the Klepper's (1995) concluding argument, the authors notes further research is necessary that integrates a number of theories to explore outsourcing relationships.

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