THE *GESTALT* OF AN INFORMATION TECHNOLOGY OUTSOURCING RELATIONSHIP: AN EXPLORATORY ANALYSIS

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THE *GESTALT* OF AN INFORMATION TECHNOLOGY OUTSOURCING RELATIONSHIP MODEL: AN EXPLORATORY ANALYSIS

ABSTRACT

Recent market indicators point once again towards a substantial growth of Information Technology (IT) outsourcing in the developed economies. Outsourcing has now become a major option considered for handling some or most of an organization’s information systems and technology requirements. The growing concern however, of organizations either evaluating or actively involved in IT outsourcing, is the management and ensuing development of what many researchers in the literature have coined the Outsourcing Partnership. The envisaged relationship between the client and the vendor, has been found to take on a certain *gestalt* which when formalised, consists of two key parts: the contract and its operationalisation. The uniqueness however of the IT outsourcing relationship is defined by the sum of its parts. In this context, we developed a model that is based on Exchange Theory and Contract Law, which provides an overview of what an outsourcing relationship entails. The model is substantiated, through research into client and vendor companies to ascertain the current relationship building practice. The resulting model derives its usefulness from its heuristic and analytical potential, in a fashion that captures both the outsourcing relationship’s contractual, social, and economic characteristics, and additional elements found to have relevance in practice.

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KEYWORDS

MIS Management, IT Outsourcing, IT Outsourcing Relationship, Relational Contract Theory, Social Exchange Theory, Interpretivism.

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1. INTRODUCTION

Ever since the ‘Kodak effect’ in 1989 (Applegate and Montealegre, 1991), Information Technology (IT) outsourcing has continued to grow to such an extent in market size and organizational influence, that it nowadays has become considered an integral component of the Information Management process (Feeny and Willcocks 1997; Rockart, Earl, *et al.* 1996; Rockart and Ross 1995), requiring as necessary in many circumstances, an in-depth comparison to the performance of the in-house IT department (Willcocks, Fitzgerald et al. 1996). Once the decision to outsource has been made and contract negotiations have led to an agreement, the ensuing concern of IS practitioners is: how best to manage an outsourcing venture to achieve a win-win situation, while ensuring that savings, service levels, and other outsourcing objectives are attained, as stipulated in the contract. In practice, this may require both sides to look beyond the traditional arm-lengths supplier-buyer type arrangements, and to move more towards a relationship, i.e. partnering that operates within the ‘spirit of the contract’. IT outsourcing is broadly defined as a decision taken by an organization to contract-out or sell the organization’s IT assets, people and/or activities to a third party vendor, who in exchange provides and manages assets and services for monetary returns over an agreed time period (Loh and Venkatraman 1992; Lacity and Hirschheim 1993).

Understanding the relationship that arises in IT outsourcing is vital, since it comes about not only through the operationalisation of the contract, but also as a natural consequence of the resulting issue of dependency (Kirkpatrick 1991; IDC and School 1994; Grover, Cheon et al. 1995; McFarlan and Nolan 1995; Kern and Willcocks 1996). Paradoxically though, the area in the IT outsourcing literature that has received the least research attention so far is the outsourcing relationship, and more precisely the characteristics that determine such a relationship. A few notable exceptions such as Klepper 1993, 1994, 1995; McFarlan & Nolan 1995; Willcocks & Choi 1995; and Willcocks & Kern, 1997 have carried out initial research into the area, but still there remains little work that covers an IT outsourcing relationship holistically.

Our research discovered a plethora of relationship approaches in Inter-organizational Relationship theory, Marketing theory and the management literature, but no one approach was found applicable in its entirety without undergoing major amendments. This paper, therefore, presents an eclectic theoretical framework that integrates the notions of social exchange theory and social contract theory to explain the properties of an IT outsourcing relationship. It begins with a review of the literature on existing relationship approaches both within the information system and management arena, which led us to conclude that a notion of exchange underpins the majority of business-to-business relationships. Next, a brief discussion of social exchange theory and social contract theory elucidates the conceptual underpinning of the *gestalt* of our IT outsourcing relationship model. Finally, research into how six client and five vendor companies handle the outsourcing relationship, gives some initial indication of the validity of the model.

2. EXISTING RELATIONSHIP APPROACHES

The search through the IS literature for dyadic relationship approaches that could be used to explain the client-vendor relationship in outsourcing revealed a set of promising explanatory approaches (see Table 1). However, on closer analysis we discovered that these would have major problems if employed. The relationship approaches generally lacked a substantial theoretical base which could be accessed to explain the conceptual origin and characteristics of an IT outsourcing relationship. More importantly though, we found that they tended to be solely of a theoretical nature and in the majority of cases did not consider the contract to be an integral part of a business relationship. Although they covered a range of factors that are fundamental to an outsourcing relationship, the majority would have explanatory problems, and require major amendments to be useful, something also found by Willcocks and Choi (1995).

Author(s) and Year	Approach	Relationship Context	Conceptual Origin	Research	Covers Contract Issues	Describes Relationship Model
Elam, 1988	Cooperative External Relationship	interfirm cooperation	none	theoretical	no	no
Konsynski and McFarlan, 1990	Information Partnerships	interfirm cooperation	none	theoretical	no	no
Henderson, 1990	Strategic Partnerships	IS organ. and line managers	none	theoretical	not explicitly	yes
Lasher, Ives, et al., 1991	IT Partnerships	vendor-client cooperation	none	long-term case study	no	checklist model
Cunningham and Tynan, 1993	Interorganizational Systems	Buyer-Seller relationship	marketing theory	theoretical	no	yes
Kumar and van Dissel, 1996	Interorganizational Systems	interfirm collaboration	inter-dependency theory	theoretical	no	no
Reekers and Smithson, 1996	Interorganizational coordination	interfirm relationship	Transaction cost analysis, network theory and resource dependency theory	theoretical	no	no
Bensaou and Venkatraman, 1996	Interorganizational Relationships		political theory, transaction cost theory, and Inter-organizational theory	theoretical	no	conceptual model

Table 1 - IS literature on dyadic relationships

Willcocks and Choi (1995), Willcocks and Kern (1997), McFarlan and Nolan, (1995), and Klepper, (1993, 1994, 1995) are so far the only researchers to explicitly recognise the importance of an IT outsourcing relationship, and are the only ones to have made an attempt at explaining partnering in outsourcing. Klepper (1994 and 1995) employs two existing theoretical relationship approaches - Anderson and Narus (1990), and Dwyer, Shurr, *et al.'s* (1987) - from the marketing field to describe an outsourcing relationship. The problem Klepper encounters though, is the dilemma between theory and practical reality. Both marketing models are of a conceptual nature, so when Klepper (1995) attempts to apply Dwyer, Schurr, *et al.*'s model without amending it appropriately, his findings turns out to be inconclusive. In the end he is forced 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" (p. 257).

Following Klepper's advice, a search through the literature identified inter-organizational relationship theory, marketing theory, and general management literature as the predominant areas for explanatory approaches that described the development and intricacies of inter-firms relationships (see **Table 2**). Closer analysis however of the approaches revealed that only four of the approaches actually considered the contract, whereas only White and Levine (1961) and Dwyer, Shurr *et al.* (1987) addressed it explicitly. As already discussed previously, the contract in outsourcing regulates the venture and builds the foundation. If any, approach were to be applicable it would need to incorporate the contract. The analysis also highlighted that only four relationship frameworks had actually undergone empirical validation. Cases researched by Klepper (1995), and Willcocks and Choi (1995) have clearly illustrated the problems, contradictions, and sometimes tautological nature of theoretical models when applied to academically researched sets of circumstances.

Author(s) and Year	**Approach**	**Relationship Context**	**Conceptual Origin**	**Research**	**Covers Contract**	**Describes Relationship Model**
Musgrave and Anniss, 1996	General Management theory	Inter-firm	Life cycle dynamics and change management	Theoretical	No	4 Dimensions • Control • Structure • Emotion • Operation
White and Levine, 1961	Inter-organizational relationship	health welfare context	Exchange Theory	Theoretical	Yes	4 Dimensions • Parties • Kind and quantities • Agreement • Direction of flow
Van De Ven, 1976	Inter-organizational relationship	Inter-firm	Exchange Theory	Theoretical	No	4 Dimensions • Situational factors • Process • Structural • Outcome
Levinthal and Fichman, 1988	Inter-organizational Relationship	Auditor - Client Relationship	Exchange Theory	Survey of 2,388 firms[1]	No	No

Oliver 1990	Inter-organizational relationship	6 different Interfirm Relationships	Resource dependence theory and Exchange Theory	Theoretical	No	5 Contingencies • Asymmetry • Reciprocity • Efficiency • Stability • Legitimacy
Ring and Van De Ven, 1994	Inter organizational relationship	Inter-firm	Exchange Theory	Theoretical	Yes	4 Dimensions • Negotiations • Commitments • Executions • Assessments
Dwyer, Schurr *et al.* al., 1987	Marketing	Buyer-Seller Relationship	Exchange Theory	Theoretical	Yes	5 Phases • Awareness • Exploration • Expansions • Commitment • Dissolution
Anderson and Narus, 1990	Marketing	Distributor-Manufacturer	Exchange Theory	40 company interviews	No	4 Key factors •Relative dependence •Communication •Comparison level • Satisfaction
Cunningham, 1980 and Hakansson, 1982	Marketing	Buyer-Seller Relationship	Exchange Theory, Transaction Cost Theory	Theoretical	No	3 Key parts • Environment • Atmosphere • Interaction process
Faulkner, 1995	Strategic Alliances	Alliances and Joint ventures	Resource dependence theory and organizational learning	10 case studies	No	4 Parts • Alliance form • Motivation • External forces • Partner selection

[1]Sample was derived from the 1993 CompuStat Database

Table 2 - Management literature on dyadic relationships

However, looking at the conceptual origin that underpins the vast variety of relationship contexts, from trade associations to buyer-seller relationships, it became evident that the notion of exchange is predominant. This might imply that exchange is the underlying reason that guides the formation of business relationships, which would be true in many situations for an IT outsourcing venture.

3. TOWARDS A THEORETICAL FRAMEWORK - SOCIAL EXCHANGE AND CONTRACT THEORY

The underlying concept of IT outsourcing is the acquisition of services and/or products, through continuous interactions between the parties to the agreement. Most IS researchers studying outsourcing and looking to support their research theoretically, point towards Williamson's (1979, 1981) transaction cost theory (TCT) for an explanatory framework. However, TCT at its core views the actor (i.e. a person or a company) as dealing not with other actors but directly with the market, which in this context of discussing the client-vendor relationship is entirely inappropriate. Emerson (1987) substantiates our view by explaining that "in economic theory, decisions are made by actors not in response to, or in anticipation of, the decision of another party but in response to environmental parameters". Thus, to explain the outsourcing relationship we need more than solely an economic view, we need an understanding of the episodes of exchanges from an individual's stand point, which is guided by the contract but might lapse into voluntary exchanges (Hakansson 1982). White and Levine (1961) found that the structure of exchange episodes can be simplistically characterised by four main dimensions: (i.) the parties to the exchange; (ii.) the kinds and quantities exchanged; (iii.) the agreement underlying the exchange; and (iv.) the direction of the exchange, which in many cases defines the focus of the relationship.

Social exchange theory, as formalised by Thibaut and Kelley (1959); Homans (1961); Blau (1964); Emerson (1972); Cook (1977), explains dyadic exchange relations as consisting of 'voluntary transactions involving transfer of resources between two or more actors for mutual benefit'. Exchange actions in other words are contingent on rewarding reactions from others, but as Levine and White (1961) emphasize, it does not connote: 'reciprocity'. Exchanges can be solely unidirectional action. The core concept of social exchange theory is the longitudinal exchange relation between two specific actors. It focuses directly on the social process of give-and-take in people's relations, and aims to understand the behaviour of each actor contributing to the exchange. The reason for employing exchange theory is to understand the underlying social structures, which after all, "…are structures composed of the social relations among actors, whether these actors are individual or collective" (Cook, 1987). Homan's dyadic focus identifies an individual's psychological factors for exchanging, which Blau then extends to analyse the single parts to an exchange relation and eventually uses them to explain the whole relationship. According to Rogers-

Gillmore (1987), Blau provides a vision where “the whole can be greater than the sum of its parts, while at the same time proceeding from the parts to useful insights about the whole”.

Social exchange theory has the potential as Blau (1987) explains to “…dissect the transaction process to explain the interdependent contingencies in which each response is dependent on the other’s prior action and is simultaneously the stimulus evoking the other’s further reaction”. In the context of an outsourcing venture, the actual operationalisation of the contract guides these prior, but also future actions, which combined introduce a certain amount of predictability into the relationship. The interdependent contingencies are evident in the contract, which are further explored by Macneil’s (1974) relational contract theory.

3.1. Social Contract Theory

The nature of a contract according to Macneil (1974, 1978, 1980) evolves from the four principles of society: specialisation of labour, exchange, choice, and awareness of the future. The labour force within society has continued to specialise over the centuries to such an extent that individuals and/or companies no longer produce for themselves everything they need to thrive. They have become dependent on exchanges with others for products/services. The level of choice individuals and/or companies have among a range of exchanges explains the extent of freedom they enjoy. However, without an awareness of the future, a contract defining these exchanges is not worthwhile pursuing, since consciousness of the future determines the need for a contract. Contract is “…no more and no less than the relations among parties to the process of projecting exchange into the future” (Macneil, 1980).

Macneil (1974) proposes one should look towards exchange as an activity, tangible or intangible, and more or less rewarding or costly, that arises between at least two individuals and/or companies. Macneil (1978) found that his explanation of exchange - ‘voluntary actions of individuals that are motivated by the returns they are expected to bring and typically do in fact bring from others' - is very similar to that of the Exchange Theorists (Blau, Homans, *et al.*). However, the integration of ongoing reciprocal exchange with classical and neo-classical contract theory is severely restricted by the letters of law. He thus proposes revamping contract theory so that it caters for prior and future actions of individuals participating in such exchange relation. This can be achieved through conjoining the behavioural or normative issues with the legal dogmas of contract theory into a new modern relational contract.

However, specifying in detail exchange relations is understandably complex as they have to cover various unspecified obligations. This becomes even more complicated when considering that "relational exchange participants can be expected to derive complex, personal, non-economic satisfactions and continue to engage in social exchange" (Dwyer,Schurr, *et al.* 1987). Macneil (1978) thus found that in a relational exchange contract not all the transfers to be made now, or in the future, can be agreed upon at the time of contract signing. A classical or neo-classical contract cannot dictate the specific exchanges to be made for a long-term into the future, since it lacks the flexibility needed to cater for changes. The dilemma here is that a contract is neither self-enforcing nor self-adjusting, but fundamental for an outsourcing relationship (Goldberg, 1980).

In essence relational exchange, but also social exchange theory is concerned with the reciprocal expectations of some future return, which affect both the behaviour of the individuals, and in the contractual context the achievement of the terms stipulated. Macneil (1974) postulates that a bi-party agreement should regulate the contractual relation along twelve key dimensions (Table 3), which Dwyer, Schurr, *et al.* (1987) categorised into situational and process characteristics. These dimensions outline the individual parts and to a certain extent the underlying structure of the exchange relation. Dissecting the contract, as Blau previously suggested, provides a useful insight into the individual relationships, but also the whole relationship. In other words the dimensions presented by Macneil are useful for theoretical substantiation, but also for analysing the *gestalt* of a modern contractual relationship, i.e. an IT outsourcing venture. Essentially, they elucidate those contractual characteristics (situational) that are integral to the normative (process) development of a relationship, but may vary from contract to contract.

CONTRACTUAL ELEMENTS	EXTREME RELATIONAL EXCHANGE
Situational Characteristics	
• Development of exchange (Commencement, duration and termination)	• Long-term; Beginning of agreement traces back to previous agreement; Gradual development; exchange is longer in duration, reflects on ongoing process; gradual dissolution.
• Number of parties involved.	• At least two, but often more.
• Obligations (sources of content, sources of obligation, and specificity of obligation).	• Content and sources (external and internal) of obligations are promises made in the relation, and influenced by law and custom. Obligations are customised, detailed and administered within the relation, if breakdown may become transactional.
• Expectations of relation	• Trust and efforts of unity counterbalance conflicts of interest and future problems. Cooperation aids in solving conflicts.
Process Characteristics	
• Personal relations (social interaction and communication)	• Important personal, non-economic satisfactions derived; both formal and informal communication mechanisms are extensively used.
• Contract (legal regulation of exchange behaviour to ensure performance and consistency).	• Strong emphasis on legal and self-regulation; satisfactions cause internal adjustments
• Transferability (the power to transfer rights, obligations, and satisfaction to other parties).	• Limited transferability; exchange is heavily dependent on the identity of the parties involved.
• Cooperation (joint efforts at performance and planning)	• Relation entirely dependent on further cooperation in both performance and planning over time.
• Adjustments (the process and mechanisms for coping with change and conflicts; bindingness)	• Focus on the process of exchange; planning of structure and processes of relation; future exchanges planned within possible new environments, "joint creative effort" in planning; planning on certain issues binding, covers flexibility though.
• Measurement and specificity (calculation and assessment of exchanges)	• Significant attention is given to measuring, specifying, and quantifying all aspects of performance and exchanges, although difficult at times. Future benefits are considered.
• Power (the ability to impose one's intentions on the other(s)).	• Increased dependence increases the importance of power in exchange relation.

• Division of benefits and burdens (the extent of sharing risks and rewards)	• Undivided sharing of risks and rewards, and adjustments to cater for future sharing of risks and rewards.

Adapted from Macneil (1974, 1978, 1980) and Dwyer *et al.* (1987)

Table 3 - Modern contractual relationship elements

In retrospect, the fact that social contract theory integrates notions of social exchange theory makes it a strong contender for a general theoretical framework that can explain outsourcing ventures in its own right, but more importantly it provides us with an starting point for discussing the gestalt of an outsourcing relationship.

4. DISCUSSION OF THE *GESTALT* OF AN IT OUTSOURCING RELATIONSHIP

From the previous review and the consideration of research into IT outsourcing we were able to develop an exploratory model illustrating the structural determinants of an IT outsourcing relationship (see Figure 1). Applicable to both the vendor's and client's point of departure, the model elucidates those factors that characterise the nature of a outsourcing relationship and the likely behavioural traits of the parties involved. It also indicates the focus of an outsourcing relationship, either contractual, normative or both. The eclectic origin of the exchanges in the model allows us to draw on a robust theoretical foundation. However, the outsourcing relationship should not be considered solely a reciprocal inter-organizational relationship, as many exchanges will occur unilaterally as compliance of the vendor to the contract.

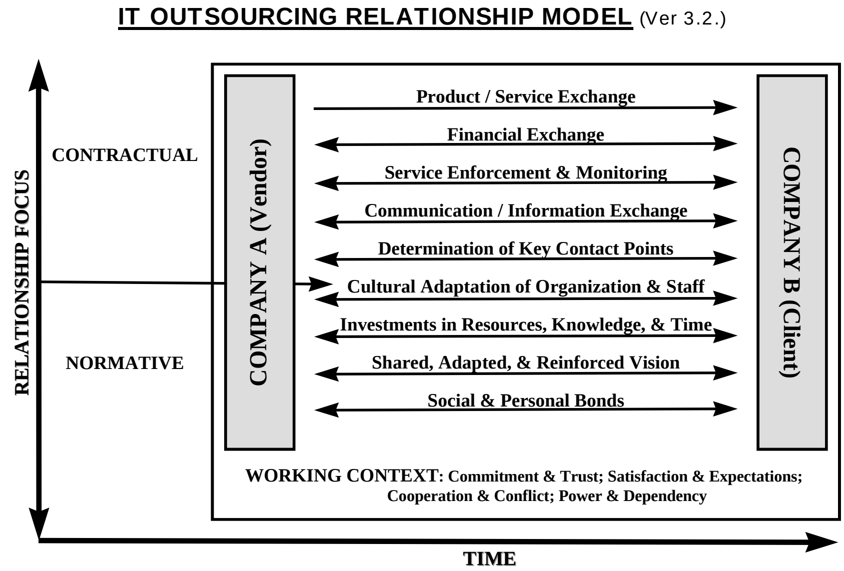

Figure 1 - Outsourcing relationship model

The *gestalt* of the model is purposely arranged to illustrate the key exchanges and the working context between Company A (vendor) and B (Client). The exchanges vary in their nature of either contractual or normative, which are pervaded by factors that affect both the working climate and behaviour of the individual. To emphasize the developmental process the model is based on a *time* continuum. Success of a relationship relies chiefly on the level of customer satisfaction, decreased cost, increased quality of services, and more importantly longevity of the venture (Stralkowski and Billon 1988; Riley and Collins 1996).

The outsourcing relationship depends largely on the initial *contractual* stage, since it greatly influences the quality of the relationship (Lacity and Hirshheim,1993; Fitzgerald and Willcocks, 1994a). The contract and/or service level agreement specifies in detail the *exchanges of services and/or products, financial matters, service enforcement and monitoring methods, communication and/or information exchanges, key contact points, and general working context*. The exchanges can be characterised by such dimensions as timeliness, value, regularity, quality, and content. Additionally, regularity of exchanges provides the medium through which firms can slowly begin to change their relationship, i.e. from contractual to a cooperative (Easton 1992).

Early realisation of the stipulated elements in the contract is dependent on good *communication* between the participants, as only through ongoing *exchanges of information* can either side fulfill its legal obligations, achieve expectations and satisfaction, avoid conflicts, facilitate solutions to problems, reduce uncertainty levels, and ensure flexibility (Aiken and Hage, 1968; Easton 1992). Flexibility at the contractual level is absolutely fundamental, since adjustments, changes, and investments that were not foreseeable in the initial agreement have to be made to ensure the venture progresses. For that the communication mechanisms commonly employed are daily interactions, and possibly weekly, monthly or yearly meetings with the steering committee overseeing the whole outsourcing venture. Formal communication in this context is characterised by hard facts such as technical, legal or commercial data, whereas informal is more likely to be personal, supportive or soft data (Hakansson and Snehota, 1995). Additionally, communication leads to greater trust, and contrastingly greater trustworthiness can cause improved formal and informal communication levels (Anderson and Narus, 1990; Dwyer *et al.,* 1987). Hence, meaningful communication is a necessary antecedent of trust.

In parallel, *cultural adaptations* are mutually initiated to smooth the transition to a working, i.e. *normative* relationship. Cultural adjustments may not be explicit, since they evolve gradually, as the two cultural distances between the participating organizations move closer (Ford 1980). The process is largely a task of communication, cooperation, and developing trust in the counterpart. According to Forsgen *et al.* (1995) adaptations take place in attitudes, rules, norms, knowledge, and corporate strategies. They can be manifested in various ways, most clearly though in the set of common language created between the staff. This is important as the visible running of the operation can be integrated quite easily in a relationship, but the unwritten norms that are part of an organization can only be grasped through a phasing-in period and/or a process of adaptation. Fitzgerald and Willcocks (1994b) found that a degree of cultural understanding, an element of flexibility regarding the contract, and a notion of fair deal has to exist in outsourcing relations. Problems in ventures tend to arise when the parties involved do not share the same social and cultural traits/norms. To enact, follow and resist these rules and norms is what makes the individual corporate culture (Mills and Murgatroyd 1991). These complex ‘rites and rituals of corporate life’ pose difficulties during change initiatives (Deal and Kennedy 1982), since changes to these values requires time for staff to adjustment. In various cases the differences in culture cause a level of anxiety in employees.

Pursuing a successful relationship will in part require *investments such as time, knowledge, and resources* from both the client and vendor (Johanson, 1994). These investment are specific to the relationship, but the returns obtained can be such that they include the rendering of current transactions, increase the accumulation of knowledge, and improve control. The knowledge acquired may for example cover the level of technical, administrative or logistical competence of the partner (Easton 1992). Therefore, any type of investment signals strong commitment, since the economic consequences that the party will incur if the relationship ends is quite considerable (Cassel, 1996; Shankar, 1996).

Investments may necessitate awareness of the client companies *vision*, which in this context is characterised by the purpose for being, cultural beliefs and values, mission, goals, and objectives. (Thornberry, 1997). These need to be shared and both parties need to exhibit ownership of the vision to ensure the IT services delivered complements its achievement. Initially, the vision may need adapting and as time passes alteration, to ensure the service and expertise available from the vendor is fully integrated. On achievement of mutually agreed goals and objectives the vision may need adapting to cover future goals and objectives.

Normative exchanges in the relationship are evident between individual's from both sides who formed *social and personal bonds*. Social ties provide an already existing network through which coalitions can be built, but strong bonds engender trust and compliance (Rogers-Gillmore, 1987). A bond between two firms implies tying together of relations between partners (Easton 1992). Strong bonding is dependent upon the satisfaction of each partner with the other. Thus, the development of the relationship depends on social and personal bonds, so much so that alleviation of conflicts, achieving satisfaction, and continuing adaptation all depend to a certain extent on the closeness of the bonds between the individuals. In certain cases the strength of the personal and social bond transcends and even replaces the economic focus, thus determining the *raison d'être* for the flourishing of the relationship.

4.1.Working Context

The various exchanges occurring within both levels depends largely upon the atmosphere that pervades the overall outsourcing deal. It can be characterised by commitment and trust, satisfaction and expectations, cooperation and conflict, and power and dependency. These can be operational simultaneously at every point of time in the relationship, but may also arise at intervals and in problem situations.

Commitment and trust are interdependent, as greater commitment leads to greater trust and vice versa. Either parties commitment to the relationship is a clear indication that the party is serious about achieving success and is willing to exert effort on behalf of the relationship (Mohr and Spekman, 1996). Commitment in an outsourcing relationship might be measurable by the vendors allocation of specific people to the contract, the regularity with which the service team interacts with the client, the frequency with which the service team might change and any other adaptations. Trust grows with commitment, and it starts with taking the risk to trust the other party. As experience with the partner develops, trust will evolve. Trust is the belief that a party's word is reliable and that it will fulfill its obligation as stipulated in the agreement, by acting predictably and fairly (Anderson and Narus, 1990; Mohr and Spekman, 1996). Fairness encompasses two key aspects: the perceived fairness of the outcomes received, and the perceived fairness of the vendors process for managing the relationship (Kumar, 1996). The latter implying for example the amount of experts the vendor commits to handling the relationship.

Once a party develops trust in the other, a pattern of commonality arises and both parties will become increasingly ready to work cooperatively towards established goals and objectives (Brunard and Kleiner, 1994). Hence, trust could be assessed by whether mutual goals and/or objectives have been established, what time frame these cover, and in which interval these are revised. Regardless though of how deeply two partners trust each other, there will always be areas of difference, as the two parties inevitably will have some goals that are specific to their interest (Kumar, 1996). Therefore, trust as a construct in an outsourcing relationship tends to be less intensive, and involve lower personal commitment, then interpersonal relations in general (Anderson and Narus, 1990).

Satisfaction in the outsourcing relationship will come about naturally with the achievement of the clients expectations. Misalignment of ambitions and expectations is often found to be the root cause of problems (Vowler 1996). To avoid such mishaps, ongoing communication is vital to manage each others expectations by taking care dissatisfaction is kept at a minimum (Lacity, Hirschheim et al. 1994). The expectations are partly defined by the service level agreements, the contract and the companies initial outsourcing strategy terms, but will also depend on how the vendor reacts and responds to demands and changes made by the client. Satisfaction can be defined as “a positive affective state resulting from the appraisal of all aspects of a firm’s working relationship with another firm” p.66 (Anderson and Narus, 1990). The pursuit of mutual benefits increases the clients perception of closeness and trust in the partner. The closeness and achievement of expectations affords a strong feeling of ‘chemistry’ and results in satisfaction with the vendor (Kumar, 1996).

Satisfaction with the outcomes increases the vendors trustworthiness over time and determines the overall successfulness of the relationship.

Cooperation underpins the relationship, and depends, according to Axelrod (1984), on four strategic elements: (i.) avoid unnecessary conflict by co-operating, as long as the other party does; (ii.) avoid provocation in the face of conflict; (iii.) practice forgiveness after provocation; and (iv.) practice clarity of behaviour so the other party can adapt to your behaviour. Obviously, key to the effectiveness of these strategies is durability of the relationship, but generally long-term operation of the relationship justifies cooperative operation at any point in time. This is "…based on the assumption that if parties can negotiate minimal, congruent expectations for a cooperative inter-organizational relationship, they will make commitments to an initial course of action" p.99 (Van De Ven and Ring 1994). The course of action depends though on interactions occurring between individuals within the context of an overall relationship that persists over time. Punishing non-cooperatives at any point in time creates hostility, diminishes social solidarity, breaks down satisfaction and trust (Rogers-Gillmore, 1987). This should be avoided as much as possible.

Power-play in outsourcing relations is mainly a result of dependency, and tends to causes a power-control dilemma (Easton 1992). Power-dependency becomes evident through the influence one party can exert over the other (Cunningham and Tynan 1993). Power though, is dependent on the interests of the parties in the exchange relationship. In for example total outsourcing deals the vendor will dominate the relationship, as the client is totally dependent on services from the vendor. Whereas, in selective outsourcing the situation may be more balanced. Generally, though a dependency automatically takes shape once a company has transferred a significant amount of assets and/or staff.

5. CASE STUDIES

5.1. Research Approach

Following the construction of the theoretical model, we aimed to improve and validate the model by research into client and vendor relationship practices in private companies in the British industry. For that client companies who had outsourced for at least one year and their vendor(s) were contacted for research in late 1996. It was found that a qualitative research method of multiple respondents covering the of perspective both parties would be best for validating the model, since the understanding of the outsourcing relationship in this research project depended on the 'knowledge of reality as socially constructed by the individual human actors' (Walsham, 1995). Additionally, there was a need to use multiple informants to ensure a high validity of results of organizational properties (Phillips, 1981). Thus, multiple triangulation in our case was to become crucial to ensure anything more than a partial perspective on the IT outsourcing relationship (Denzin 1970).

5.2. Research Method

Using a semi-structured interview protocol a series of interviews were undertaken with a range of participants, including IT managers, contract managers, account executives, general managers, and support managers in both customer and vendor companies 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 the operationalisation of the contract. The interviews were scheduled for one hour but in many cases lasted anywhere up to three hours. All of the interviews were tape-recorded and transcribed, after which the responses from the client and the vendor companies were grouped together into subject categories by applying a 'data display' method (Miles and Huberman, 1994). The resulting checklist matrix's of the subject categories were then classified into areas of agreement and commonality, and into sets of disagreement and problems. The areas of agreement that illustrated a within-group similarity (Eisenhardt, 1989) identified those variables which underpinned the outsourcing relationship, and also provided the means for further subjective cross case analysis. In some cases it was possible to cross-case analyze the client company's response with their respective vendor company's response. The interviews formed the basis for about 11 case studies, which were corroborated by the collection and the ensuing analysis of relevant documentation, including internal memos, minutes of meetings, and outsourcing contracts. Table 4 presents an overview of the client and vendor companies researched.

Table 4 - Research into client and vendor companies in the United Kingdom

Client, Industry & Position of Interviewee	Annual Turnover	Origin	Outsourced	Start of deal	Length of deal	Size of deal	Number of people transferred	Relationship Focus (1997)[3]	Customer of Vendor Company
Client A, Motor Cars manufacturer, & MIS Executive	£396mn (1995)[1]	British	Selective software development and operations	1991	5 years	£1mn	12	Contract	**Vendor B**
Client B, Electronics manufacturer, & IT Manager	£270mn (1995)[2]	Japanese	Selective legacy systems	1994	5years	£0.5mn	none	Contract/ partnering	**Vendor E**
Client C, Chemicals manufacturer, & Group IS Manager	£10bn (1996)[1]	British	Selective data centre, software support and development, legacy systems	1994	3 years	£75mn	400	Contract/ partnering	**Vendor A**
Client D, Petroleum refining, & Corporate IT Adviser	£453mn (1995)[2]	Dutch/ British	Selective Legacy system software development	1994	3 years	N/A	300	Contract	**Vendor A**
Client E, Property Investment and Development, & Management Services Manager	£472mn (1995)[2]	British	Selective maintenance and software development	1993, 1995	4 and 3 years	£3mn	none	Contractual and Strategic relationship	N/A
Client F, Retailing, & Business Support Manager	£780mn (1995)[2]	British	Total	1993	10 years	£1bn	120	Contract/ partnering	**Vendor B**

[1]Total including other subsidiaries; [2]United Kingdom Turnover; [3]Findings from research in 1997.

Vendor & Interviewee	Origin	Annual Turnover (Worldwide)	Explicit Relationship view	Partnering capabilites[1]
Vendor A - UK Managing Director	American	£12,4bn (1995)	Yes	3
Vendor B - European Strategic Director	American	£4,2bn (1996)	No	2
Vendor C - Director & Account Manager	American	£2,5bn (1995)	No	3
Vendor D - Business Director	French/British	£670mn (1995)	No	4
Vendor E - Executive Director	British/French	£250mn (1995)	Yes	N/A

[1]Meta Group Inc.’s (1996) global rating of IT vendors on a scale of 1 to 5; (1 is best). Partnering capabilities entail the ‘ability to partner at various levels, including megadeal alliances and project-specific partnerships.

5.3. Summary of Findings

Throughout the interviews both the client and vendor companies continually stressed the importance of the relationship in IT outsourcing. When interviewees were asked to indicate the type of relationship, either contractual, close, or partnering the majority positioned them as being either totally contractual focused or beginning to move towards partnering, i.e. operating within the 'spirit of the contract' (see table above). Interestingly, the vendor companies were found most keen to emphasize the importance of partnering, eventhough a recent study by the Meta-Group revealed their rather meagre partnering capabilities (see table above). Nevertheless, the general move towards a closer relationship was endorsed by both the client and vendor as fundamental, since actual enforcement of the contract comes about only through working together. *Client E* emphasized that "the contract defines how you are going to work more than anything else, but you then still have to make it work. The contract is just paper, it's people that make things work. It gives them the guidelines, the stepping stones, the structure". *Client E's* view is supported by *Vendor C* who found "the contract determines how one faces the relationship and certainly the things you go for and things you don't go for."

However, the outsourcing relationship is always dependent on the sourcing context. "The nature of the contract depends enormously on what it is you contracted for" (*Client A*). In cases of easily definable services and products, the relationship may not extend much beyond that of contractual or service level agreement focus. However, others see the potential in outsourcing as leading towards Partnerships or even Strategic Relationships, because as *Client C* stressed, "you get more strength out of an IT outsourcing relationship if you are making it more a partnership, strategic relationship. [However] you can only have a partnership if both parties are equally strong and equally capable of balancing it. The most creative partnerships come through two very strong players." Oddly, this view was not endorsed by its *Vendor A*. Similarly, *Vendor D* emphasized that "…partnership is overused and what you actually have is a contract where there is a clear required supply from the supplier, there is clear money that has to be paid, and there are various clauses and termination clauses and so forth. People talk about partnerships because it sounds cosy and its good from the point of relationship building." The inherent dilemma though of going down a track of partnering, is the closer the parties get, the more difficult it becomes for the client company to retain control. So, "for partnership to really work, the business half of the partnership has to be in the hands of business leadership who themselves are sufficiently literate about information management, and know how it is an integral part of business strategies, so that they have a strong grasp on the steering wheel" (*Client C*).

So, the contract builds the foundation, defining the services, products, and financial exchanges. It guides the initial 'honeymoon phase', but once the one-off transition phase has been completed normally after 6 months to 1 year, the actual day-to-day running takes over (*Vendor A, B, E*). Service level agreements at this stage become closely monitored, since they can be easily measured and enforced. The objective measures are clearly determined by service levels and performance measures, which illustrate whether the supplier is achieving stipulated contract terms (*Client A, E, F*). But they do not indicate whether the user community is satisfied. Hence, subjective measures also deem consideration, which are dealt with by user satisfaction surveys and question and answer type sessions (*Vendor A, E*). Recent findings were mostly of dissatisfaction in the user community (*Client A, B, D, F*), which seemed strange since service levels had been met in many cases by vendors (*Vendor A, B, D, E*). To improve user satisfaction clients found that vendors need greater understanding of their business and show more commitment, and should possibly initiate investments beyond the terms stipulated in the agreement to ensure the working relationship is maintained. "…[T]hey [vendors] have got to have an intense commitment to understanding their customer, what the customer's requirements are what the customer's drivers are. They've got to have this ability to sit as much as possible in the customer seat and understand the world from the customer's viewpoint" (*Client F*). Only through high satisfaction levels, can confidence in the vendor be built, which ultimately leads to trust. Trust was emphasized as key by all the vendors and the majority of client companies. *Vendor A* went so far as to suggest that "… in business you can only build trust we believe by delivering something hard, delivering particular benefits or maximising value…", which can then be measured by satisfaction and other means.

Delivery and monitoring of products and/or services was found to be the fundamental driver of the relationship for the client, since "… in the very hard nosed atmosphere we are in nowadays, unless you can articulate the performance change and say this company's contribution to that is very clear, and this is what they want to gain, then it won't stand much scrutiny at the time" (*Client F*). To ensure the smooth operation clients suggested identifying and/or establishing a communication structure in form of key contact people. In cases where staff had been transferred the residual IS group will pose as key intermediary, which ultimately needs to be replicated by the vendor. The clients stressed that the key contacts in the vendor company were actually those people who act as the drivers for the client-vendor relationship. Thus, in those instances when contract managers on either side are moved, a whole new relationship has to be built. "So, you lose a relationship there and you have to try and rebuild. We have rebuilt many and it's very dependent on the outsourcing companies account manager who is the main source of information for us. If they keep changing then the relationship keeps changing. But in general we manage to keep a reasonable relationship with these people. I think the main problem in outsourcing is the change in personnel" (*Client B*). The importance of the contact points is their function as information dispersion and exchange role. Communication as such was found to underpin the relationship, so much so that only through communication were problems identified, alleviated, distances covered, and cultural adaptation catered for. "The basic things: are you getting the level of dialogue that really ensures that you've got a supplier who is working hard to understand you and your business, where you are, and to see where they can respond constructively, creatively" (*Client D*). Good communication was also identified as an indicator of whether the relationship was functioning: "if they miss a target date and I don't know about it until after they miss the target date then there's something wrong with the relationship. If they were having problems somewhere that I would be informed early enough so that we could jointly agree what actions to take to either minimise the damage or remove the problem" (*Client E*).

A successful relationship as both vendor and clients explained is identifiable by the way it handles conflict situations. In those circumstances, when problems do arise both sides need to cooperate to resolve them. One of the underlying factors, that come to bare in such conflict situations is cultural fit between the organizations. "No one must ever under-estimate that, culture is a lot of things, it's mainly to do with the national background, it may be to do with the way you both think…. You can have incompatible cultures but they only tend to work when you've got this kind of procurement type of arrangement because you then have to write it all down" (*Vendor E*). The mutual adaptation of culture tends to occur over time. In the early stages of a contract the cultures of the two parties may clash. The adaptation then comes about without having to take strict measures at changing, it is more a process of developing a working relationship and good communication. In cases where staff had been transferred the culture clash for people transferred is enormous, whereas for the client company buying the service back the culture difference is at a minimum, due to buying its services back from former employees. In many situations cultural adaptation demands input from both sides, especially to avoid culture clashes which were found by the clients to cause considerable conflicts. For example as *Client A* discovered "…they [vendor] weren't quite as nimble as we were because they hadn't been through this reengineering process and that caused an awful lot of conflicts, on both sides. It was a cultural difference."

Minimizing the cultural difference, and establishing working procedures allows the client then to consider integrating the vendor as a contributor to achieving the company's goals and objectives. Clients flagged this issue as complex, as the parties tend to have different objectives. However, it is not about the same objectives but about compatible objectives, "…what you want to achieve and what I am trying to achieve with my business are they compatible? And therefore is there a shared vision where we might be together in the next 5 years? So, it's compatible objective, shared vision, that kind of stuff which tells you, you are going to able to work together" (*Vendor E*). This demands that the vendor has an understanding of the client's business, and is culturally aware. To achieve this *Vendor C* suggests that "what we need to do is have people who are getting close in with the customer, getting to understand about the business, bringing in the appropriate people from the central group and when in order to put forward proactive ideas about how IT can be used to bring benefit to the business". Ultimately, the mutual goal is a win:win scenario, where both parties benefit from the outsourcing venture. In some client cases the vendor contributes to the client company's future vision of where it wants to go, to ensure active involvement of the vendor in achieving the client's objectives. *Client D* explained that "…the two parties should be working towards a common goal and if they are not talking to each other and don't trust each other they are going to miss, what ever the contract says". Similarly, *Client F* emphasizes that "I'm not giving them control of it [strategy], I'm saying I will share with you a real understanding of what our business strategy is so that you are better placed to help me understand the real capabilities that I need to draw on. I will make the decisions, my strategy, my responsibility, but I will bring you into the team closely enough that you really understand what I'm trying to achieve, and therefore you can really say this particular capability is really going to help you make a big change. And then we get into the partnership to make it happen." Investments in time and resources are inherent to greater integration of vendor, so much so that relationship management will demand more time as the relationship develops.

Institutionalisation of operational procedures in the outsourcing relationship may involve developing close and personal relations. In cases where staff were transferred these relations already exist, and are further reinforced by ongoing contact and social events. However, personal relations were found by clients as being particularly helpful in resolving conflict situations, so much so that getting to know the vendor can have a profound impact on how the relationship develops. *Client E* explains "the more you get to know a supplier personally the better the overall relationship will work. What you have to guard against, and this is the other extreme, is that a bond does develop so that you can never walk away from that guy. Because in any customer-supplier relationship the customer has to reserve the right to say at some point in time I've had enough, for whatever reason this relationship is not working and I want to go somewhere else. 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."

6. DISCUSSION

In the previous section we discussed some key findings of our analysis of the responses from interviewees about the crucial factors in the client-vendor relationship. The selection of the findings we discussed were guided by our proposed model of a client-vendor relationship. In this section we will draw upon the model and its underlying theoretical framework to assess whether the findings validate and possibly suggest improvements to what we had initially found as the main characteristics of an IT outsourcing relationship.

The findings indicated that in most situations vendors looked more favourably towards developing a closer relationship than clients, simply because they saw a potential for enlarging their service and/or product offerings. Regardless, though of whether the outsourcing relationship was perceived as being contractually or partnering focused, it still had to cover a set of dimensions that included the core terms of the contract. In general these were found to be product and/or service exchange, financial exchanges, service enforcement and monitoring, reports and information to be exchanged, and the key personnel. This corresponded to what we had identified in our model as being the contractual focus of the relationship and further corroborated Macneil's supposition that the contract in business relations today has a key role to play.

Essentially, both parties agreed that the relationship in outsourcing is an absolute must, because the contract on its own is neither self-enforcing nor self-adjusting. Macneil similarly found that today's classical and neo-classical contract theory suffers from a rigidness that does not take into account the relational aspect in contracts. However, as evident from the findings, the outsourcing contract has to be seen to extend into the relational realms, which we identified as being the normative characteristics and Macneil outlined in detail in his twelve dimensions (table 3). *Client C* highlighted how the outsourcing deal transcends the contract into the relational realm: "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". In retrospect, our supposition that the contract is operationalised by the ensuing client-vendor relationship, was fully endorsed by both sides. Additionally, it was evident that exchanges were occurring that were not contractually stipulated, strongly indicating the occurrence of 'voluntary exchanges' to ensure the continuation of the relationship.

Interestingly, a whole bandwidth of relationships were found in an outsourcing venture, from strict formal contractual based relations to close personal relations between individuals in the companies. Generally, it seemed the more effort is invested in developing the relationship the closer and/or personal the relations became between managers. Examples given by individuals from *Client C, B, E, and F* about the outsourcing deal and their attitude towards the other party defined the operation of the whole outsourcing venture. It was the behaviour of the individuals that defined the working context. Looking at the working context of the model it was found strikingly representative of the behavioural properties that influence and/or characterise how individuals relate to each other in the outsourcing venture. Trust and its importance for working together was stressed by both *Client B, C, E, F* and *Vendor A, B, C, D, E*. But before trust could possible be achieved it was felt that chemistry between the key personnel operating as the interface between the parties had to be assured. It was repeatedly accentuated, that those fostering the relationship will be the key intermediaries, and they have to match on a personality level. Essentially, the outsourcing relationship as *Client E, F, C, and B* and *Vendor A, C and E* both declared is about the people involved. Only the people can make the relationship work and be successful. Thus, having wrong communicators, as discovered by *Client B and Vendor E*, at key interface points can lead to conflicts, dissatisfaction, and eventual breakdown of the whole outsourcing venture.

In hindsight, looking at the findings from all the interviews, it became evident that the model in the future would have to integrate the notion of understanding the client's business and having confidence in the vendor to deliver the services for which it was contracted. These subjective factors will undoubtedly influence the smooth enforcement of the contract over the long-term. Additionally, it became apparent that fundamental to the overall outsourcing relationship is the awareness of the outset and intention of the client company. As *Vendor B and Client E* emphasized, the outsourcing intention determines in many cases the kind of relationship. This suggests that the model may need to include a section that covers the actual context of the outsourcing deal. This will then set the scene and clarify from the start the relationship focus, since the outsourcing relationship depends heavily on what is actually outsourced.

7. CONCLUSION

This paper aimed to demarcate the characteristics of a client-vendor relationship of an IT outsourcing venture. An initial theoretical model underpinned by social exchange theory and contract theory was empirically explored in both client and vendor companies. The assumption that the relationship is a major, neglected element that critically needs managing in an IT outsourcing venture, was confirmed by what interviewees from both sides revealed. Outsourcing success does not only depend on solely achieving service levels, but also on the relationship between the two parties and how this helps them to work towards a win-win situation. In line with this scenario, the *gestalt* of an outsourcing relationship was largely confirmed by industry practice and thus discloses the kind of properties the client and vendor company need to consider in managing their outsourcing deal. Using a simple score card scheme based on a likert scale, individuals from both the client and vendor company can rate and evaluate for example their relationship according to the identified characteristics. Those characteristics with particular low scores, may require greater management attention.

Moreover, the issues we had previously identified in the discussion section need inclusion in the model. In general though we found that the model represents the main characteristics of a client-vendor relationship. Of notable interest were some of the large differences between the clients' and their respective vendors' perceptions of the critical characteristics. Clearly, 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. Further research will develop the framework into a more dynamic direction, which will be able to track developments over time.

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