

Effective IT Outsourcing Arrangements

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Abstract

IT outsourcing is about contracting technology services to a third-party but involves much more than the contractual definition of the arrangement. Structuring the alliance, managing the relationship and planning for the business must complement the contractual arrangements. It is not until all of these elements are aligned that IT outsourcing is likely to succeed [12,4].

Each outsourcing activity has a variety of choices which when combined can result in perceptually different IT outsourcing contracts. Arrangements can vary from service bureau-type transactional processing in a buyer/seller contractual stance to a strategic partnership in a gain-risk sharing contractual stance. These extremes look completely different, involve different behaviours and serve different business objectives. At the transaction-oriented extreme the emphasis is put on the contract and on achieving narrowly focussed business goals, while at the relationship-oriented extreme of the relationship possibilities the emphasis is put on achieving broad business-wide business goals and on developing a partnership with exhibited behaviours of reciprocity, forbearance and avoiding opportunism, which are all meant to build trust. Companies considering IT outsourcing must decide which arrangement is suitable for their purposes and build in the appropriate behaviours through all aspects of the arrangement.

1. Introduction

Information Technology (IT) outsourcing is about contracting out technology services to a third-party but involves much more than the contractual definition of the arrangement. Legal perspectives on IT outsourcing imply the contract is what matters. The negotiation process, contract clauses, and conflict resolution/contract amendment activities are of central concern under this view [9, 13]. Joint Venture literature suggests that partnerships are primarily about relationships which must develop certain characteristics to build trust [15].

Considering these different perspectives, it is quite possible for both buyer/seller-type and strategic partnership-type arrangements to be successful, although each, by definition, would serve a completely different business objective. Strategic partnerships are predominately about relationships, not contracts. Buyer/seller arrangements are predominantly about contracts, not relationships. Although both types must

establish both relationships and contracts, it is the emphasis on each element that differs. If these ideals can be held at the forefront, then effective IT outsourcing arrangements can be achieved, no matter the approach [12, 4].

This paper illustrates the difference of IT outsourcing alliances through six case studies on complex IT outsourcing arrangements. Albeit the cases are only representative of a small spectrum of the IT outsourcing relationship types, they do show how the relationship characteristics can develop in different ways. It is not only about how to write the contracts but also about how companies interpret the details throughout the relationship, when posturing, establishing coordination mechanisms, and pursuing business objectives [4]. Actions and words throughout this relationship have spiralling effects, upward or downward, to reinforce the tone of the arrangement. However, if a company truly wants a strategic partnership, then it must walk the walk and not just talk the talk.

2. Literature

IT outsourcing has been studied from different perspectives including a legal perspective and a transaction perspective. The legalistic perspective on IT outsourcing has implied that it is all in the contract's clauses, negotiation process, conflict resolution and amendments [9, 13, 16, 2, 17, 10]. These authors purport that once the contract and negotiation processes are thoroughly defined then the company will have the necessary protection for interpreting daily actions and results, for settling disputes or for terminating the relationship. Most often the advice stemming from these views are lists of processes or clauses to follow [9]. Lacity and Hirschheim [6] discuss outsourcing myths and suggest ways to build safeguards into negotiation strategies.

Another perspective of IT outsourcing views it as a transaction or exchange of a service or product. Transaction Cost Theory, which holds at its tenet the concepts of asset specificity, uncertainty and measurement difficulties, and transaction frequency, has been applied to the outsourcing problem. Margins on transactions drive decisions within this perspective and many fear vendors will exhibit opportunistic behaviour to maximize their return at the company's expense [1, 6]. Often it is suggested that "selective" activities should be outsourced to avoid the inevitable trouble when outsourcing all of IS [3, 7]. Yet others compare outsourcing to organizational level cost structures and economic performance indicators [11].

Contrary to these existing views, the Joint Venture literature brings a new perspective which suggests that a strategic partnership is about the relationship. Strategic partnerships can be thought of as alliances between two parties, which as described in the joint venture literature, are relationships that build trust through a demonstration of forbearance, reciprocity, and active avoidance of opportunism. Parkhe's 1993 summary is an excellent overview of this literature and Figure 1 captures this model. Forbearance is forgoing certain behaviours that are not in the best interest of both parties. Reciprocity is mutual aid or cooperation. Opportunism, which is the unscrupulous grasping of opportunities usually to one party's disadvantage, must be actively avoided. When these qualities are demonstrated over time, trust is built into the alliance forming a partnership. Strategic partnerships are formed when these relationships are used for business objectives that influence strategic activities for the partners. Many firms state that they are involved in a strategic partnership but few firms act like strategic partners. The strategic partnership label is meaningless without these demonstrated behaviours.

Many have doubted whether vendors can be strategic IS outsourcing partners for any length of time [14, 6] and certainly do not believe they can take on core IS

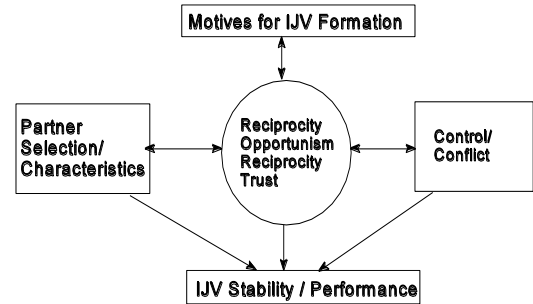


Figure 1 Integrating International Joint Venture Research (Parkhe, 1993)

competencies or those tasks with high-asset specificity [18, 1].

In 1995, Fitzgerald & Willcocks [4] introduced a model which contradicts the existing views. They confirmed the importance of the relationship for IT outsourcing and suggest that strategic partnerships and buyer/seller arrangements are possible. They concluded that two dimensions play an important role in IT outsourcing contracts and relationships in the following model:

This model begins to capture the essence of strategic partnerships as described in the Joint Venture literature. Fitzgerald and Willcocks [4] suggest that strategic partnerships are ideal when business and technical uncertainty are high and loose contracts are written. Buyer/seller relationships are ideal when uncertainty is low and tight contracts are written. Other combinations of uncertainty and contractual definition leave one party constrained and thus are not desirable. This work provides a useful start for understanding the best approaches to these types of IT outsourcing arrangements. Therein, since little research on this relationship perspective has been conducted, the research questions here are focussed on exploring this potential. They include:

- (1) Do strategic partnerships exhibit the reciprocity, forbearance, opportunism and trust behaviours in

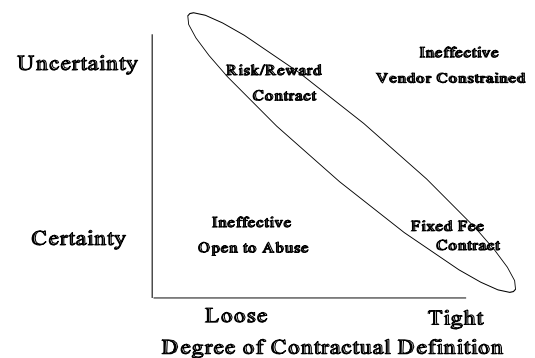


Figure 2 Fitzgerald & Willcocks Model. Contracts & Relationships: A Framework

- the suggested patterns? and
- (2) Does forming a strategic partnership produce better outsourcing contracts?

The remainder of this paper is an exploration of outsourcing relationships. It presents empirical data to illustrate the issues involved and to gain deeper insights into complex behaviours.

3. Research Method

Exploratory case studies were conducted to investigate the relationships and contractual issues within IT Outsourcing arrangements. Yin's [20] case research design procedures were followed as shown in Appendix 1. Detailed interviewing, careful document gathering, and iterative analyses were undertaken to ensure reliable and valid conclusions are drawn.

Sample selection involved six banks, each having complex IT outsourcing arrangements, which were chosen because their relationships had the potential to evolve into either a buyer/seller arrangement or a strategic partnership. The relationship choice would depend on management actions, not be dictated by the nature of the task outsourced. Over 75% of the IS services were outsourced to one of either Electronic Data Systems (EDS) or Systematics. Case selection was restricted to these two vendors to enable between and within analysis, and clients were chosen from each vendor to represent a diversity of their arrangements. Theoretical and literal case selections were undertaken, according to Yin's procedures, to explore emerging issues surrounding conflict resolution.

Content analysis was conducted by two independent research assistants unaware of the research model, and achieved 97% agreement. Classification was conducted on open ended interview questions and numerical scales for the contract and relationship details. All interview questions focussed the subjects on the relationship and two hour discussions, on average, were held in that context. Participants reviewed the transcribed notes to ensure accuracy. An average of 4 people per contract were interviewed which totalled to 27 people, 6 banks and 2 vendors. Four subjects were randomly chosen and their material used to develop the content analysis guide, consequently, 23 subjects remained for the analysis here.

Measures of better outsourcing arrangements included satisfaction, conflict, IS importance, trust and organizational impact. Satisfaction was measured by a 10-point Likert scale, with the extremes representing very satisfied and very dissatisfied outcomes. Satisfaction before and after outsourcing were measured. Conflict was assessed on a series of nine multi-part questions involving open ended answers, and on three- or four-point scales to provide a benchmark of comparison. A higher score represented more of that activity. Frequencies and types of

conflicts were captured, along with the conflict resolution mechanisms, outcomes, and changes to pricing structures. Influences on the relationship were also discussed.

4. Analysis

Content analysis produced numerical values for many questions and produced judgements about other conditions. Descriptions were used to paint a picture, and non-parametric statistics, used here for the small sample sizes ($n=23$), involved comparisons across participants and between their answers. Kruskal-Wallis independent t-test was used for comparing across the subjects, such as those who had high and low interpretation strictness of the contractual details, and Wilcoxon signed Rank test was used for comparing between subject's answers, such as satisfaction before and after the outsourcing relationship. For simplicity, a .05 p-level was used to determine significance in all cases, but many tests were well below this level.

5. Results

Results focussed on addressing the research questions. Consequently, it was first important to analyze the relationship characteristics. Did strategic partnerships exhibit reciprocity, forbearance and opportunism in the patterns suggested?

To begin, it should be noted that five of the six banks stated that they had a strategic partnership (see Table 2). Descriptions of the six cases are included in Appendix 2. Only Meritor labelled its relationship as buyer/seller. Regardless of the stated relationships, only three actually exhibited behaviours to support the strategic partnership label. Republic Bank and Gainer Bank often resorted to the contractual details to resolve problems without concern for reciprocal outcomes or for forgoing situations not of mutual interest. Their benchmark was the contract. The remaining banks, Integra, Brenton and FFB, maintained a partnership perspective through every fibre of their relationship.

In general, the three companies with strategic partnerships had:

- ☞ win/win posturing when negotiating, setting goals, managing the relationship and resolving conflict,
- ☞ "looser" contractual definition, although none could be classified as loose,
- ☞ a contractual stance which relied more on the spirit of the contract (contracts were rarely taken out of the drawer after they were signed),
- ☞ ambitious business-wide growth strategies,
- ☞ active senior executive involvement, and
- ☞ active, high-level steering committee.

The other three Buyer/Seller arrangements had:

- ☞ the primary focus on defining the contract not the

- approach through which the relationship would be setup, managed and evaluated,
- ☞ “tighter” contractual definition,
- ☞ a contractual stance which relied heavily on the contractual details,
- ☞ a greater awareness of the contract as a relationship tool,
- ☞ goals which were more limited in scope and had narrower impacts on the organization, and,
- ☞ relationship management by lower levels in the hierarchy.

In summary, the behaviours of reciprocity, forbearance and opportunism avoidance did exist within the cases and differed to some degree between the strategic partners and the buyer/seller relationships (Trust will be discussed below). But did the variations make a difference? Did strategic partnerships produce better IT outsourcing relationships? And when are they most ideally used?

From this point forward banks were treated according to their exhibited behaviors and actions, not the labels touted in the interviews.

According to Fitzgerald and Willcocks [4], differences between uncertainty and contractual definition will determine ideal combinations for strategic partnerships and for buyer/sellers that help identify the conditions under which these relationships should be used. Judgements were made as to which quadrant represented the banks’ positions. But when the banks were plotted on these axes, the different types of relationships fell into the same quadrants, as shown in Figure 3. There were strategic partners, such as FFB, and buyer/sellers, such as Republic, in the ideal locations on the diagonal, but there were others in the wrong locations. A buyer/seller, Meritor, was in the ideal strategic partnership location, and two strategic partners, Integra and Brenton, were in the ideal buyer/seller quadrant. This overlap suggested another dimension was required to understand the way these relationships were used within the companies.

Consequently, further reinvestigation and analysis of the interview notes were conducted and, in the process, it became clear that the firms were not interpreting their contracts in the same way. As managers in FFB explained, the banking environment necessitated a fairly detailed written contract to address the many legal and security requirements. This forced a certain level of contractual detail but afforded management the discretion of interpretation afterwards. None of the contracts could be classified as loose leaving only those with a medium level of detail, in terms of number of clauses, level of specification within those clauses, and length of contract, and those with a high degree of detail on these same dimensions. The latter is referred to here as a tight contract.

Regardless, it was what management did with these contracts during the relationship which differed. On the

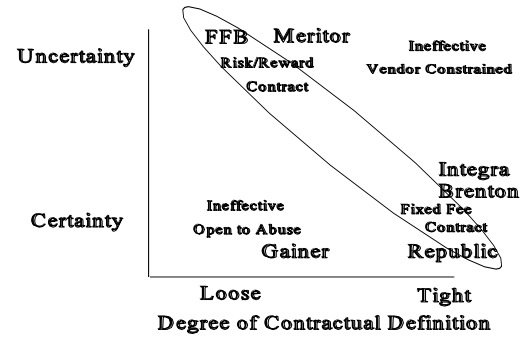


Figure 3 Fitzgerald & Willcocks Model. Contracts & Relationships: A Framework

one hand, two of them had fairly detailed contracts but downplayed these specifics, relying more on relationship management and loose interpretation of the details. This was the case for Integra and Brenton. They wrote down lots but chose to leave the contract in a drawer or interpret it broadly. On the other hand, two of them had less detailed contracts but chose to enforce the specifics throughout the relationship. This was the case for Meritor and Gainer, and is perhaps a tenuous situation. This approach works well if the chips fall in the companies’ favour, but puts them in a precarious situation if the outcomes go against them. If the company takes a stance of enforcing the standards, these behaviours are seen and noted by the vendor, who will emulate the same rigid interpretation when it is in a favourable position because that is how this game was being played.

Therein, a new dimension, called interpretation strictness, was added to Fitzgerald and Willcocks’ model resulting in a cube as shown in Figure 4. When companies were placed within this new model according to their conditions of high or low uncertainty, medium or tight contractual definition, and high or low interpretation strictness, results became interpretable. Tables 1 and 2 contain the data analyses for the research model.

The question remains as to whether strategic partnerships had better outsourcing relationships in terms of satisfaction, IS importance, conflicts, trust and organizational impacts. Initial review of these performance measures suggest all types of relationships are successful. Strategic partnerships were no better on satisfaction scales, in fact Buyer/Sellers had achieved greater satisfaction with their relationships (see P in Table 2) through more control on and certainty in their relationship outcomes. Strategic partnerships were no better on IS importance, all had devised important roles for IS (see J and L in Table 1). Strategic partnerships were no better at avoiding conflict, each had an equal frequency of disputes (see B2) which were of a similar nature (see M), some about particular details and others about general problems. Disputes, however, seemed to stem from a more uncertain

business or technical environment (see A) which is a fairly intuitive finding. Strategic partnerships were no better on cost, an impressive 20% cost improvement was achieved on average. And finally, at first glance, strategic partnerships appeared no better at developing trust, as all companies seemed to build up trust over the initial phase of the relationships (see O).

Therein, where did the differences exist, since the numerical data suggest there were few performance differences between these complex outsourcing relationships? It has already been shown that the banks exhibited different behaviours in the conduct of their relationships. Strategic partners exhibited reciprocity, forbearance, and opportunism avoidance which were not observed in the buyer/seller relationships to the same degree. Differences, as it became evident in the re-analysis, were observed in the business objectives being pursued. Strategic partnerships differ on how the conflicts were resolved and what impact it had on the organization, producing a compounding influence or spiralling effect on the relationship. Those with less written contractual details were able to transform their organizations in a much greater way (see D in Table 1) than were those employing more detailed contracts. All types changed their IS reporting structures (see Q in Table 1) but partners undertook more ambitious business plans. A closer inspection of the behaviors behind these measures suggest there are differences not reflected in the quantitative data.

The most prevalent difference was that trust was not as similar as suggested by the non-significant numerical difference. As shown in Table 2, those with a strategic partnership were systematically building trust in a broad sense throughout the relationship. Trust started low ($m=5.925$) and built ($m=8.23$) in each case which was significant overall (Wilcoxon Signed Rank, $p<=.05$). The comments from the interviews reflected this ability to evolve or “spiral” the relationship upwards toward a trusting partnership. Those with more of a buyer/seller relationship were not building trust systematically, in fact Meritor’s was dropping. Other tell tale signs throughout the interview notes suggest the relationships were spiralling downward towards a more confrontational situation, although the stated numbers still remained high.

Differences between these types of relationships were systematically exposed in all phases of the interactions, from how companies approached contract negotiations, to what coordination mechanisms were used, which business objectives were pursued and how conflicts were resolved. Strategic partners systematically looked to build the relationship, while buyer/sellers looked to maximize their position with impacts on the relationship being inconsequential. An illustration of the issues is conducted through the story of two banks which represent the ideal strategic partnership and buyer/seller positions, FFB and Republic.

5.1 Example: FFB

FFB, for instance, was more interested in how the vendor would conduct itself during the contract negotiations than about the details of their plan, albeit some level of coherence and capabilities had to be demonstrated. FFB put the short-listed vendors in the same room vying for the contract and observed how each conducted themselves in terms of confrontation, cooperation, willingness to listen, meaningful promises and positive nurturing. This would be a demonstration of the vendor’s approach later on. Management was looking for players that could hold their own but who would not take a hard nosed, rigid or extremely confrontational approach. They would have to work confidently but cooperatively to transform the bank if they were chosen. Teamwork would be more important in that process, so it had to be demonstrated in the behaviours and not just the words.

Furthermore, relationship outcomes were oriented towards win/win solutions. A high-level, technology coordination committee was established to discuss issues and resolve disputes. If cost overruns occurred, as they frequently did in the working relationship, this group would quickly identify which side was responsible as defined by the spirit of the contract written, not always the same as an interpretation of the words, and one partner would take responsibility. In the near future, the other side would find opportunities to reciprocate. For instance, after the vendor agreed in five minutes flat to assume an \$8 million developmental cost, the next month the bank found a way to define a business system requirement as new business for which the vendor could charge. The former development cost was in the spirit of the contract but the company chose to define the latter new business in the vendor’s favour. Each side was keenly aware of the others success and worked

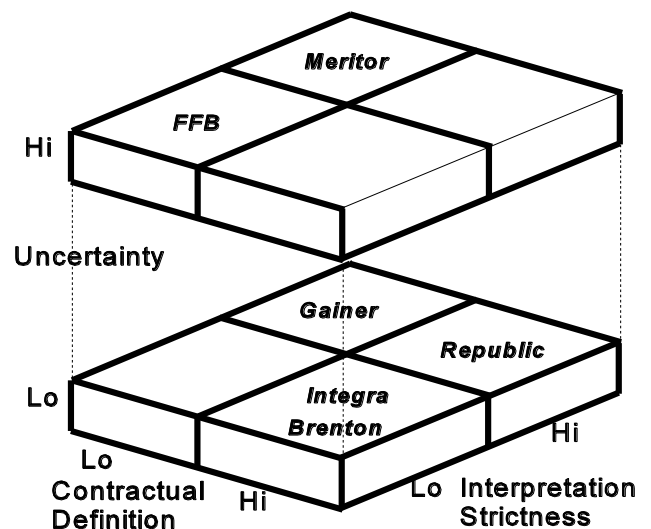


Figure 4 Research Model

to promote it. The vendor knew that a hint of opportunistic behaviour would destroy this emerging trust. The account manager worked hard to avoid this possibility.

Fewer details were written into the contract. More settlement mechanisms were outlined at the beginning, and more senior bank people were involved in the day-to-day management. A Senior Executive Vice-President and Account Manager headed this coordination committee which met weekly. They knew at the outset that FFB's uncertain environment, where both the business and the technology had to be changed, would make it impossible to identify the relationship factors and the members had to evolve towards a partnership to ensure the spirit of the arrangement was maintained in the process. This commitment to daily relationship management by more senior people was a distinguishing feature of strategic partnerships (see C in Table 1). They relied on a loose interpretation or gut feel not the contractual details. Trust in the outsourcing arrangement increased from 7.6 to 8.1 within the initial stages, but was based on a broad range of activities.

This attention to actively and deliberately building trust was necessary to achieve the ambitious transformational and growth objectives set by bank management. The bank wanted to consolidate IS data centers, cutting costs dramatically, and wanted to completely integrate systems which were imbedded throughout the business operations, all within an 18 month period. At the same time, senior management knew it had to grow the bank to compete within the emerging global banking industry. The ability to integrate a new acquisition's systems within a month was necessary in this growth mode. Bank managers believed they would only be successful if their partner were looking for better business approaches on their behalf. The bank was interpreting the contract loosely because it wanted to achieve these ambitious company-wide growth objectives and required the vendor's cooperation. The bank had to trust the vendor to do a broad range of things.

5.2 Example: Republic

Republic, on the other hand, was more interested in the contract and keenly aware of that contract as a relationship management tool. The contract was its main concern in negotiations, for interpretations and in conflict resolution. Senior managers helped negotiate the contract and focussed on the details. They had several years experience with IS outsourcing contracts which produced as a result a well-honed process. Daily relationship management was turned over to lower-level system development managers. Conflicts were resolved within the details of this contract since the spirit intended by the negotiators was not known to these lower-level contract managers, and not immediately evident in the written documents. Trust in the outsourcing relationship remained stable before and after outsourcing at

a fairly high level of nine. Management believed the vendor could deliver the contract and that belief was maintained in the initial phases. Interactions with the vendor continually focussed it on the contractual details.

Although many banks have a competitive organizational climate, Republic's was particularly hard-nosed and confrontational. Business decisions were hotly debated through many levels of management and winning projects were usually promoted based on cost figures.

Attention to the contract was paramount because cost was the driving factor in most decisions. Republic was diversified into the stable businesses of precious metals and inventory factoring, with ownership residing with one family. Its fortunes were not tied to the banking industry, its business areas were fairly stable and its technological infrastructure was already standardized on Systematics software. Therein, management's chosen business focus rested with cost control. Business objectives were set to pursue this management focus and consequently lead to a predominantly buyer/seller outsourcing relationship, mostly because cost was held at the forefront. These objectives were not set on growth, but on increased efficiency, a more narrow business objective.

Hence, FFB took a partnership stance encouraging EDS to help along the way. It infused the cooperative approach through its contract interpretations and relationship management orientation. These reciprocal arrangements, forbearance and avoiding opportunism set a tone that built trust broadly and transformed an organization. FFB trusted EDS to determine much of their new technological business operations. Republic took a buyer/seller approach continually focusing the vendor on the contractual detail, but also achieved successful outcomes. However, it primarily trusted Systematics to focus on cost objectives.

These two examples demonstrate that issues are more complex and interrelated than suggested by simple numbers. Trust had similar numerical values but implied different business objectives. Understanding these relationships and how they can be used takes closer attention to the richness of the situation.

6. Discussion

A company can successfully manage an outsourcing relationship in any situation, no matter how uncertain its environment, so long as it chooses the right combination of business objectives, contractual stances and relationship management. Figure 5 offers speculations about the possibilities. The top-right-back location, which represents uncertain environments and tight contractual definition and interpretation, may be impossible to occupy. It is nonsensical to write a detailed contract for an uncertain situation and then interpret those details strictly. Perhaps, it is an untenable position.

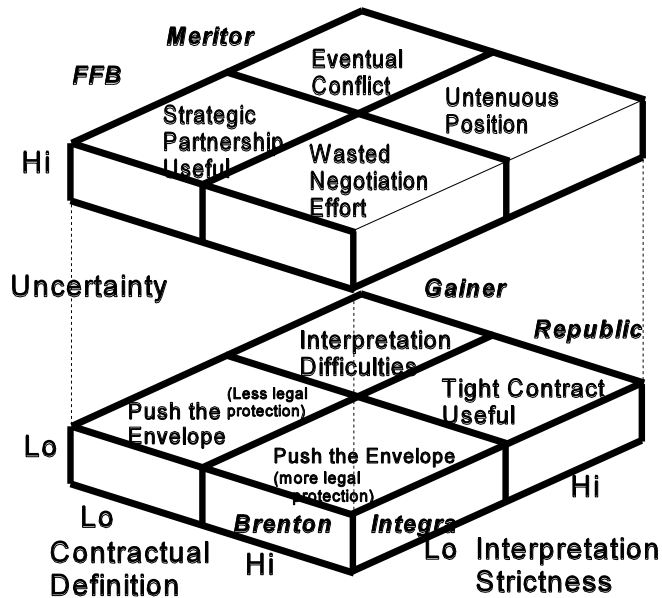


Figure 5 Possible IT Outsourcing Arrangements

Buyer/seller arrangements where tight contracts would be used for both the definition and interpretation are ideally suited to a certain environment such as that which exists in the bottom-right-back location. Conditions are not changing, business objectives are more likely narrowly set, and consequently specifications are likely easier to determine and maintain. Low asset specificity, where IS transaction activities are fairly common across companies, usually exist in these scenarios. This scenario is an ideal outsourcing target as suggested by transaction cost theory [1]. Success would be swayed by contract management since there is little maneuvering room on these other elements. A tightly negotiated, well-managed, cost-focused contract would be important. This is the hallmark of a buyer/seller arrangement.

Occupying the top-left-back position is possible, for a short time or by using excessive relationship management and contract re-negotiation. This position represents an uncertain environment with a strictly adhered to contract where fewer details were written down. Too many differences would surface here. If the details were absolutely correct in that original contract then there is a chance that this contract would continue to be successful - as long as conditions, which will change given the uncertain nature of its environment, only move in accordance with the prescribed details. This is a rare possibility. Meritor was in this position and warrants special mention because it was re-examining its fundamental business so as to survive in its marketplace. It had severe financial problems and many regulatory oversights which it was legislated to correct. The outsourcing contract was in response to these pressures and management clearly wanted a buyer/seller relationship for moving the in-house costs to variable costs so as to cope

with the current situation. At the end of the case interviews, Meritor's relationship was showing signs of stress and looked to be on a collision course with disaster. Strict interpretation of the contract was threatening the vendor's profitability. Meritor was becoming inflexible on recent conflicts and increasingly hard nosed on interpretations. The vendor was forced to respond with similar actions, providing a downward spiralling effect on the relationship. Profitability, under these conditions, was not likely to continue.

The bottom-left-back position basically leads to interpretation difficulties which can leave the company constrained. Gainer was in this position. It had a fairly successful outsourcing relationship, with trust and satisfaction increasing dramatically, but saw its organizational boundaries change dramatically when it was acquired. Much effort had to be expended to reorient the relationship. Different interpretations of these contracts caused much turmoil in the process.

The top-left-front position, occupied by FFB, is an ideal partnership arrangement. Conditions are extremely uncertain on all business and technological fronts, and the partners are "agreeing to agree" throughout their relationship with few details written down or articulated, since those details would be impossible to define precisely in such a turbulent environment. This approach produced an upwardly spiralling effect to strengthen the relationship. Interestingly, this firm would be classified by Transaction Cost theorists as having high-asset specificity with its many unique assets which are specific to its situation. Many would not recommend to outsource under this condition. Yet this firm did so quite successfully, contrary to the advice. In FFB's managers eyes, relationship management mechanisms made it possible.

Firms wishing to push the envelope did so in more stable environments by interpreting their contracts loosely. Integra and Brenton represent these positions, which can exist in the bottom-right-front and bottom-left-front corners. These firms could sway either way but chose the strategic partnership route because they wanted to stretch the possibilities. They felt that strategic partnerships were a way to lead in their markets, anticipating change. They were there by choice not necessity. Right and left positions in the cube were only distinguished by the level of legal protection afforded the companies. Those on the left felt the need for detailed contracts upon which the firm could fall if necessary, although management hoped that would never occur and managed the relationship to avoid that outcome.

The top-right-front corner is a waste of negotiation effort. A firm here would negotiate a detailed contract and interpret it strictly but the uncertain conditions would likely change the important factors. Investing more in the relationship and writing down less would be a better use of time.

In sum, ideal combinations for outsourcing relationships depend upon the business and technical uncertainty and the

degree of contractual detail needed within organizations but are also influenced by business growth objectives and how contracts are interpreted.

When management wrestles with these situations and choices, it can determine which position it wants to be in. Some are untenable, others will require intensive effort, focus or luck, and yet others are ideal for achieving the business objectives. Some companies find themselves in a position by choice and others by necessity, but all must manage these forces to their advantage. Many successful combinations can result. Buyer/sellers can be successful. Strategic partnerships can be successful and hybrids in between must expend more effort to sustain a longer term success. Spiralling effects of behaviours and actions can push a firm towards either of these ideals. Regardless, spouting the term strategic partner does not assure a firm of achieving this stance in its outsourcing relationships, but that does not necessarily mean failure.

Strategic partnerships are ideally suited for an unknown journey, either an uncertain environment, where few details are known so could never be written down, and the ensuing path is nowhere in sight at the beginning, or a more stable environment where management wants to push the envelope, shake up their environment and pursue more ambitious business-wide improvements and changes. Building trust through every action will take reciprocal, sharing solutions, forgoing certain pursuits, and never taking advantage of the partner. These principles should be espoused through every pore of the relationship. Partners can achieve this and profit along the way. A high-level of asset specificity, or unique IS activities, is not always a deterrent to outsourcing IS activities, and can even include strategic ones, if a strategic partnership is formed properly.

Buyer/sellers are ideally suited to a pursuit of efficiency as its primary focus, where cost control is paramount. These firms usually needed predictability in the performance, cost and role of IS. They got it. However, if more objectives were desired then a move towards developing a strategic partnership is needed. Contractual squabbles lead to a downward spiralling effect toward defending the contractual positions. Management must chose its path.

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Table 1 IS Outsourcing Contract Data 1992

		<i>Uncertainty</i>		<i>Contractual Definition</i>		<i>Interpretation Strictness</i>		<i>Overall Mean</i>
		<u>Low</u>	<u>High</u>	<u>Medium</u>	<u>Tight</u>	<u>High</u>	<u>Low</u>	
Contract Length (years)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	9.2
Contract Amendments (number)		n.s.	n.s.	n.s.	n.s.	1.8	1.0 E	1.3
Disputes								
Particular or General	M	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.9
Settlement Mechanism (2=Highest)		n.s.	n.s.	1.8	0.88 K	n.s.	n.s.	1.3
Frequency of Disputes (4=Constantly)		1.78	2.75 A	n.s.	n.s. B1	n.s.	n.s. B2	2.1
Bank Person Responsible for (4=President, 3= Sr.VP, 2=Officer)		n.s.	n.s.	n.s.	n.s.	1.85	2.90 C	2.5
Vendor Person Responsible for (14=Acct Mgr, 13=Op Mgr, 12=Prog Mgr)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	12.9
Resolutions Satisfactory (3=highest)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	2.4
Relationship (2=Partner, 1=Buyer/Seller)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.9
Bank Impact								
Outsourcing Impacts Corporate Structure (4=Highest)		n.s.	n.s.	2.9	1.5 D	n.s.	n.s.	2.4
IS Maintains Reporting Structure (2=yes, 1=no)	Q	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.5
Industry Impact								
Competitors Outsourcing (2=yes,1=no,0=D.K.)		.90	1.42 F	n.s.	n.s.	n.s.	n.s.	1.1
Did Competitor actions influence decision		n.s.	n.s. G	n.s.	n.s.	n.s.	n.s.	1.0
Do Competitors use the same vendor		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.7
Does this bother you		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.5
Are there positive impacts from same vendor contracting		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.3
Do these impacts concern the bank		2.0	1.0 H	1.0	2.0 I	n.s.	n.s.	1.2
Will Outsourcing restructure your industry (3=yes, 2=maybe, 1=no, 0=D.K.)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.2
Has IS Service Suffered (3=Very Much)	J	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	1.0
IS Importance for Competitive Advantage (10=Most Important)	L	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	8.1
Cost Savings		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	20%
Trust								
At signing	N	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	5.9*
At interviews		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	8.2*

(n.s.=non-significant Kruskal-Wallis T-test, otherwise $p \leq .05$)
 (*=Wilcoxon Signed Rank test, $p \leq .002$)

Table 2 Satisfaction with and Trust of IS Services Before and After Outsourcing

	<i>Uncertainty</i>		<i>Contractual Definition</i>		<i>Interpretation Strictness</i>		<i>Overall Mean</i>
	<u>Low</u>	<u>High</u>	<u>Medium</u>	<u>Tight</u>	<u>High</u>	<u>Low</u>	
Overall Satisfaction with IS - Before	4.23	6.15	5.07	4.67	5.30²	4.43³	4.8 ¹
	(n.s.)		(n.s.)		(.05)		
- After	7.58	7.30	7.70	7.27	7.90²	7.07³	P 7.5 ¹
	(n.s.)		(n.s.)		(.05)		

(n.s.=non-significant Kruskal-Wallis T-test, otherwise $p \leq .05$)
(Wilcoxon Signed Rank test ¹ $=p \leq .002$, ^{2&3} $=p \leq .05$)

Individual Bank	Trust At:		Satisfaction	Satisfaction	Partnership	
	Signing	Interviews	Before	After	Statements	Actions
	(change)		Outsourcing	Outsourcing	(During Contract)	
Meritor	8.5	7.5 (-)	8.4	8.1 (-)	1	NO
Republic	9.0	9.0 (0)	4.6	7.1 (+)	2	NO
Gainer	5.4	9.5 (+)	2.9	8.5 (+)	2	NO
FFB	7.6	8.1 (+)	3.9	6.5 (+)	2	YES
Brenton	7.3	8.0 (+)	3.6	7.0 (+)	2	YES
Integra	<u>3.8</u>	<u>7.5</u> (+)	<u>5.8</u>	<u>7.7</u> (+)	2	YES
	<u>6.9</u>	<u>8.3</u>	<u>4.8</u>	<u>7.5</u> (+)		

APPENDIX 1

Scientific Rigour and Case Study Research

To Maximize this Criterion of Research Quality	This Strategy is Advantageous	During this Phase of Research	Techniques used here
Construct Validity	Triangulate multiple sources of evidence to test for convergence.	Data Collection	Open ended interviews with top management officials and board members, attendance at executive meetings, archival records documentation.
	Establish Chain of Evidence.	Data Collection	Explicit links among the questions asked, data collected and conclusions drawn.
	Have key informants review drafts.	Composition	From both partners.
Internal Validity	Do within-case analysis, then cross-case pattern matching.	Data Analysis	Systematically match patterns obtained in initial case study (Phase 1), with literal replications (Phase 2), with theoretical replications (Phase 3).
	Do explanation building: shaping hypotheses by searching evidence for "why" behind relationships.	Data Analysis	Linking data to emergent theory, while ruling out alternative explanations and rival hypotheses.
	Do Time Series analysis.	Data Analysis	Using simple time series, complex time series or chronologies, array events on a time axis to determine causal events (ruling out compelling rival causal sequences) the logic behind that the basic sequence of a cause and its effect cannot be temporally inverted.
External	Theoretical (not random) sampling of IJVs from specified population to constrain extraneous variation and focus on theoretically useful categories.	Research Design	Systematically match patterns obtained in initial case study (Phase 1), with literal replications (Phase 2), and with theoretical replications (Phase 3).
	Use replication (not sampling) logic in multiple-case studies.	Research Design	Analytic (not Statistical) generalizations through induction.
	Comparison of evidence with extant literature.	Data Analysis	Uncover commonalities and conflicts, then push to generalize across cases.
Reliability	Develop case study data base.	Data Collection	Formally assembled qualitative and quantitative evidentiary materials.
	Use case study protocol.	Data Collection	Thorough and systematic documentation to enhance external reviewer's confidence.

* This table developed from Yin (1984), Eisenhardt (1989), and Parkhe (1993a)

APPENDIX 2 CASE DESCRIPTIONS

Meritor Bank

Located in the Philadelphia area, Meritor was in severe financial distress and had to drastically downsize to survive. Their financial position drove the decision to outsource 100% of the IS activities to EDS. Management's prime objective was to create a flexible and variable cost structure to facilitate the shrinking organization, but to poise itself for survival with as strong a technology capability as possible. The bank did not want to get entrenched into a position from which it could not recover.

First Fidelity Bancorporation

FFB was a medium sized U.S. bank which wanted to grow beyond its New Jersey and Pennsylvania boundaries. Streamlining costs, integrating systems, and restructuring the banking network in the restructuring U.S. banking environment were prime motivations for senior management's consideration of IS outsourcing. Senior management had plans to radically grow the bank in the customer-oriented marketplace which was emerging. The President and the Senior Executive Vice-president for Operations and Systems made the decision to outsource 75% of the IS activities to EDS after extensive discussions with the internal IS management and IS consultants. The motivations focused on accommodating the bank's financial, integrative and growth objectives. Several major IS activities were transferred to EDS, some permanently and some temporarily. All transaction processing and network management were transferred permanently to EDS's care. Associated hardware, staff and procedures were taken over by the vendor. System integration of corporate-wide banking applications were undertaken by both the bank and the vendor. System development activities were temporarily transferred to the vendor for an initial two year term, after which it would resort back to the bank's control. At the same time, several major IS activities were maintained under FFB's control. Major IS planning and some application development stayed within the bank. This arrangement was made because FFB management was uncomfortable about completely relinquishing its organizational technology capability.

Republic Bank

In the New York area, Republic served commercial and conservative retail customers. The bank had an excellent track record of financial performance and was currently driven to consider outsourcing to improve cost structures and to access IS operational expertise that was lacking within the organization. The outsourcing contract with Systematics saw 85% of the IS activities move over to the vendor. All activities except some very unique systems used to support industry specific applications (such as precious metals trading) were outsourced. This included operations, systems programming and some application development. Republic had previously spun off its IS group into an independent subsidiary and the president of this subsidiary had made the decision to seek a technology partner.

Brenton Bank

Brenton was a medium sized U.S. bank in the Iowa area. The bank was experiencing fairly good financial performance, but was currently seeking to streamline costs, to restructure internally, and to establish closer links between business strategy and the IS

department. These objectives stemmed from a desire to stay competitive as inter-state banking spread and larger competitors entered their markets. The outsourcing contract to Systematics saw 95% of the IS activities being taken over by the vendor. Except for a unique branch automation platform (kept primarily for internal political reasons), all IS activities were transferred to Systematics. This included transaction processing and system development.

Gainer Bank

Serving the Indiana area, Gainer had grown into a medium sized bank. The current challenges facing the bank stemmed from a desire to manage the risk associated with its IS personnel. Located in a small U.S. town, the firm had a difficult time attracting and retaining competent IS staff with the right skills. Senior corporate management's financial concerns related to improving IS management and personnel, while trying to get good quality, centrally supported, systems. This decision was made by senior management who were also interested in making their institution a more attractive and easily integrated acquisition target. In this effort, Gainers outsourced 100% of their IS activities to Systematics. Only a coordinating management team remained within the bank to integrate IS functions with the business activities.

Integra Bank

Integra Bank was a rapidly growing Pittsburg bank. It was twenty years ago that Integra began outsourcing IS activities to Systematics, but was currently trying to put additional pressure on Systematics to make further improvements on the quality of its IS products and services. The recent contract extension to outsource even more IS services saw 85% of the activities fall under the vendor's control, with only internal LANs for office automation and personal computer support remaining within the firm's control. This decision to extend the scope of the relationship was made because Integra's senior management believed they were going to have more input into Systematics product development and service levels.