LONG-TERM QUALITY OUTSOURCING RELATIONSHIPS: NOT A CHIMAERA ANYMORE! SEC SERVICES AS A PRIME EXAMPLE IN THE BANKING SECTOR

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LONG-TERM QUALITY OUTSOURCING RELATIONSHIPS: NOT A CHIMAERA ANYMORE! SEC SERVICES AS A PRIME EXAMPLE IN THE BANKING SECTOR

Research in progress

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Abstract

Outsourcing is becoming increasingly relevant as a means to respond to rapid changes and reduce investments in noncore competencies (Apte et al., 1997). As traditionally conceived, it is solely based on formal contractual mechanisms, set at an inter-firm level and mainly designed to reduce opportunistic behavior presuming an unbalanced relationship between the client and the supplier (Lacity and Willcocks, 2012). In such a setting, any disagreement or problem seemingly is solved through effective legal and contractual management (Lacity and Hirschheim; 1995) and any benefit or gain is considered to the sole benefit of the part that generated it. Yet in practice, less evident and hidden relationship aspects can lead to the failure or success of the agreement. Accordingly, we address the possibility to integrate the legal contract with some “contents” and consequently avoid the previously cited situation. By creating a fertile ground for collaboration in the long term, it is given the possibility to establish and maintain a strategic partnership with the supplier rather than a mere bureaucratic supply contract (Saunders et al., 1997). Here the consolidation of a psychological contract (PC) that toughen up the legal one and intervene as a complement. The aim of this paper is to understand how the PC and its constituent elements can integrate the legal aspects of an outsourcing agreement and determine the success of the long term relationship, SEC Services - a consortium of banking houses.

Keywords: Outsourcing, psychological contract, case study.

1. Introduction

Outsourcing is traditionally considered as a managerial practice that relies on the draw up of a long-term legal contract between the parties (outsourcer and outsoursee). So conceived, many contracts results as incomplete and insufficient because of the difficulties associated with planning long-term projects. Instead, we propose strategic partnerships, reflecting an equality-based relationship based on the consolidation of a PC that integrates and complete the blanks of the legal one. Thus we seek to answer a central and a supplementary research question: How do the PC influence the behavior of the parties in a long-term relationship? And which elements of the PC can determine the success of an outsourcing relationship?
In section 1 we underline that legal contracts are unable to support a long-term quality relationship between the parties. In section 2 the role of the PC is enlighten in an outsourcing agreement while in section 3 we provide a prime example. In section 4 we describe the research question and the methodology and in section 5 results and findings are provided. Preliminary conclusions will follow.

2. Outsourcing and Incomplete Legal Contracts

Various definitions of outsourcing are available (De Loof, 1997; Minoli, 1994; Kern and Willcocks, 2000) but none of them can be considered complete or exhaustive. We consider outsourcing as an external organizational modality of services, activities, or functions that requires the refining a set of associative or trade contracts over a medium or long-term period, through the participation of both a company that externalizes (client) and the company that operates in the specific market area (supplier). With this definition, we examine contract duration, with the recognition that the legal contract must satisfy client’s needs but that many contracts are insufficient because of the difficulties associated with planning long-term projects. These difficulties are manifest in rapid changes in technology and the need to transfer innovative content to clients, as well as environmental turbulence caused by structural changes in a client’s organization or fierce competition.

Accordingly, we posit that fulfilling the client’s needs requires more than simply honoring the specifications contained in a legal contract. Thus we move beyond the idea of an outsourcing relationship based solely on formalizing a contractual mechanism, which mainly attempts to reduce opportunistic behaviors due to the unbalanced relationship between the client and service supplier.

Rather than a view of outsourcing as a mere legal contract, with more power granted to the supplier, we propose a combined management approach, such that outsourcing is more than a managerial procedure designed to relieve the client of responsibility for noncore activities (Schein, 1980; Bryce and Useem, 1998).

Instead, we propose strategic partnerships, reflecting an equality-based relationship (Gouldner, 1960; Henderson, 1990; Lee and Kim, 1999; Monczka et al., 1998; Tuten and Urban, 2001).

By acknowledging the value of the PC as part of the legal contract (Kotter, 1973), we also recommend revising the existing approaches to several concepts (Herriot and Pemberton, 1997). For example, we address both client and supplier satisfaction and their integration (Wong, 2000; Berger and Lewis, 2011). We also note some changes at the obligation level, such that we investigate not just direct reciprocal obligations but also bundles within an obligation system. Furthermore, we consider mutual respect for the PC by the involved actors, because we posit that it represents the foundation for success in the outsourcing relationship (Kim et al., 2013; Rousseau, 1989; Heart and Kishore, 2007).

3. Outsourcing and the Role of the PC

One of the first authors dealing with the concept of PC was Gouldner in 1960. In later years, many researcher refined this definition stressing the relevance of some key concepts as reciprocity, mutual expectations and obligations and equity (Levinson, Price, Munden, and Solley 1962; Schein, 1965; Kotter, 1973; Rousseau, 1989; Rousseau and Greller, 1994; Herriot and Pemberton, 1997; Meyer and Allen, 1997; Morrison and Robinson, 1997; Guest 1998a; Flood, Turner, Ramamoorthy, and Pearson, 2001; Pavlou and Gefen, 2005; Conway and Briner, 2005; Kim, Lee, and Lee, 2007; Herath and Kishore, 2007; Cunningham, 2010; Kim, Shin, and Lee, 2013). Most of the definitions are limited in some way, omitting aspects that may be essential to understanding the true nature of PCs.

We seek to overcome such gaps by arguing that a PC is unwritten and comprises a set of expectations and obligations between client and supplier, in parallel with the obligations included in the legal contract that formally constitutes the outsourcing relationship (Becerra et al., 2008; Gouldner, 1960).

According to our perspective, the PC relies on trustworthiness, risk sharing and the transfer of tacit and explicit knowledge between alliance partners, that is the client and the supplier.
Integrating supplier with customer satisfaction on the long term is crucial for achieving success in outsourcing (Wong, 2000; Saunders et al., 1997). It requires commitment in the workplace of both the parties involved (Meyer and Allen, 1997; Kim et al., 2007) and respect of the norm of reciprocity (Gouldner, 1960). These combined factors give a new configuration to outsourcing. The review of the outsourcing literature (Lacity et al., 2010) and the analysis of the current trends highlight that building working relationships based on confidence, comfort and trust, which takes time and may involve dealing with problems and difficulties (Clarck, Znud and McCray, 1995; Willcocks, Lacity and Kern, 1999, Baskerville et al. 2010), are the basis for building and maintaining solid strategic partnerships which are essential for outsourcing success (Judenberg, 1994; Lee, 2001).

Working on the construction of a robust PC put both the parties in the condition to set up relationship structures and management mechanisms that ensure successful work over time (Diromualdo and Gurbaxani, 1998; Gowan and Mathieu, 2005; Zhang, Zeng and Huang, 2007).

4. A prime example in the Banking Sector

The SEC Services consortium provides banking and technological services to 19 members and 35 clients. It employs 303 people and features 1,450 connected branches, 15,000 work stations, and more than 4,500,000 end consumers, such that it participates in an average of 37 million banking transactions every day. Approximately 95% of SEC Services’ business involves banking houses and their members.

For the most part, it provides information and communication technology, whether completely or selectively; facility management (mainframe and departmental systems) services for Confidi and SGR/SIM; auxiliary services (e.g., printing); and support and expert advice. Its provision of services thus reflects the company’s vision and mission: “To be an acknowledged leader in the supply of banking and other services that supports, develops, and promotes technological and banking knowledge in the field of economic, scientific, and social communities.”

In line with this vision, SEC assigns high value and centrality to clients and members, who must participate actively and share primary values, such as innovation, quality, and continuity. Moreover, the values that describe the work setting and efforts to sustain and improve relationships with clients are of fundamental importance, including competence, meritocracy, care and growth of people, transparency, organization, confidence, and communication. This common value reinforces demand for high quality services. If a provider wants to be competitive in this market, it must supply services with new technologies, establish cooperative relationships with clients, and share ideas to be able to predict clients’ needs.

Accordingly, SEC Services has enjoyed continued economic success, despite the global financial crisis (Berger and Lewis, 2011), during which its activity continued to grow.

5. Research Questions and Methodology

As stated in the introduction, we seek to answer a central and a supplementary research question: How do the PC influence the behavior of the parties in a long-term relationship? And which elements of the PC can determine the success of an outsourcing relationship?

The aim is to identify levers on which banking companies can act to increase the quality of their trust-based cooperative relationships through IT outsourcing contracts. To enhance the relevance of our analysis, we consider both clients’ (banking houses’) and suppliers’ (SEC’s) perspectives, in accordance with our understanding of the meaning of PCs (Guest, 1998a, 1998b; Koh, Ang, and Straub, 2004). That is, we integrate the contents of the legal contract but focus mainly on:

- perceptions of implicit (not formalized), mutual obligations (Becerra, Lunnan, and Huemer, 2008).
equivalence in the value of psychological and contractual obligations (Langfield and Smith, 2003; Lee, 2000; Lee and Huynh, 2008).

the importance of individual levels of analysis, with the prerequisite that each worker is involved and participates actively in the PC.

In turn, to determine how PCs influence a supplier’s behavior in a long-term relationship, we investigate and identify implicit obligations - that is, those that are not formalized or codified - that constitute the PC, from both outsourcer and outsoursee perspectives. In addition, we address persistent growth trends, despite the challenging economic conditions, by specifying the effects and potentially positive repercussions of improving a multi-year relationship through implicit obligations.

The outsourcing model we propose and test is oriented toward improving relationships with clients (Lee and Huynh, 2008), such that it requires careful consideration of the work scheme, especially with regard to the sequential nature of our research. Therefore, we conduct qualitative analyses for this study, which also represents preparation for subsequent quantitative analyses that we do not report here. Furthermore, we base our analyses on a prior mapping project, in which we derived our definition of outsourcing contracts from an extensive literature review.

The semi-structured interviews engaged people in charge of the organizational services and informative systems of five banking houses (identified as A–E) involved in the case study. Four of the banks are responsible for SEC’s governance, such that each holds about the 20% and sit on the management board of the consortium itself. The fifth banking house E holds only 2%. The remaining shares are divided among various other partners and clients.

On the whole, by now we have conducted two interviews with representatives from each banking house. In addition, we interviewed the general manager, the assistant manager, the person in charge of the relationship with all members, and the IT manager of SEC. To analyze the interviews, we relied on computer-assisted qualitative data analysis software, and Atlas.ti in particular, which provides a textual analysis of the interviews and evidence about the key concepts.

6. Results and Findings

Our textual analysis revealed several notable concepts that recurred across the interviews and that appeared essential to the success of an outsourcing relationship. These concepts also match the findings of prior literature pertaining to both psychological and outsourcing contracts. Specifically, the most frequently mentioned concepts were:

- Involvement in strategic decisions
- Shared strategies
- Communication quality
- Importance of cooperation
- Quality/importance of the relationship with the supplier
- Shared knowledge
- Clarity in requests and aims
- Deadline observance
- Value in the monitoring process
- Confidence-based relationships
- Evolution of the client–supplier relationship
Importance of partnership
Effect of knowledge of the client’s business
Role of training
Skill in project management
Formalization in communication
Resistance to change

Our research reveals the main lever on which partners should act to establish a successful outsourcing relationship: the involvement of partners into strategic decisions. The governance managers of each banking house in particular seek to participate actively in decision processes to share in the work planning. Projects that achieve value for the whole consortium require a shared strategy across all members of the banking houses, in addition to their involvement in strategic decisions. Regarding the communication quality between parties the concerns are about incomplete or unclear communication. The interviews also revealed that communication is connected to personal aspects, such that the quality of the information and the parties’ interaction depends on the people involved. In this sense, it is impossible to define a general or universal rule for managing all relationships. The interviews suggested that a successful outsourcing relationship demands a good level of communication, efficacy in communication throughout the working group, a high level of information, and prompt disclosure, in addition to good listening skills and strong relationships. Good relationship skills can even lead to an agreement between parties.

Another aspect that influenced the success of outsourcing relationships but could emerge only through the PC was the cooperative attitude of the parties. We also suggest the importance of a high-quality relationship between the supplier and the banking house, to ensure the cooperative relationship endures.

Yet another element of success in an outsourcing relationship is shared knowledge. To achieve knowledge sharing, it is necessary to overcome several obstacles; in particular, a representative of a bank warned, “You have no idea about how much each single banking house is jealous of its own newsletter database.”

Clarity of purposes and requests represents another fundamental determinant of the good relationship between outsourcer and outsourcee; it also is closely related to communication clarity, which helps reduce the possibility of misunderstanding.

We also note from our interviews the importance of deadline observance. According to a bank, the added value of the monitoring process also influenced the success of the outsourcing relationship. Although service levels get defined by the contract, it is not possible to define them comprehensively, as is needed at the operational level. In particular, the operational level changes continuously over time, so regulating levels strictly would demand continuous upgrades, which in turn increase delivery times and related costs. Furthermore, some operational needs are simply so complex that it becomes impossible to predict all contingencies or solutions.

Closely connected to the theme of reliability is the theme of confidence. From our analysis of the interviews, we determined that confidence-based relationships tended to be more successful. In terms of the outsourcer’s reputation, being known for reliability reinforces confidence. At the moment banking houses decide to externalize some needs and assign tasks to an outsourcer, they must be certain that the supplier will continue to exist in the future and that the banking house can rely on its supply of the service. One more aspect of confidence involves reliability in executing the project, including observance of costs and deadlines.

Because the relationship between outsourcer and outsourcee should persist, it must develop over time. All our interviewees cited the evolution of their relationship with SEC.

This relationship evolution also led to another factor. That is, long-lasting outsourcing relationships shifted the bonds between supplier and client and eliminated their distinctive roles, so that instead of client and supplier, they both became partners. Thus relationships based solely on formal, cogent,
contractual mechanisms must be abandoned, in favor of strategic partnerships based on long-standing, confidential, cooperative relationships. Partnerships can emerge only if there is confidence between parties and clear communication that avoids misunderstandings, together with cooperation and sharing between parties.

In summary, only the contemporaneous presence of all these elements supports the development of a relationship into a consolidated partnership. Derived from the concepts we obtained from our analysis of the interviews, we can define some factors that represent key conceptualizations, related to the fact that the consortium supplies standard services, the power of governance, the client/supplier correspondence, bilateral outsourcer-outsourcer innovation in standard processes, training for innovation, long-lasting relationship. These factors will be analyzed in the next part of our research which is still in progress. We will detail them on the basis of our qualitative interviews.

7. Conclusions

In current economic climates, characterized by rapid, continuous market evolutions that require more sophisticated products and services, outsourcing is an essential organizational strategy, particularly for performing standard, noncore business processes.

A legal outsourcing contract provides the basic rules for governing and structuring the relationships between parties. Such contracts must be as detailed as possible, clear, and complete. Their quality helps determine the success of a project and manage potentially critical situations. But it is erroneous to believe that the only way to govern a client–supplier relationship is through a detailed legal contract. The aim of this article has been to demonstrate that a legal contract is a necessary but not sufficient condition for ensuring the success of outsourcing relationships. Legal contracts cannot include mutual expectations between parties or intangible elements that are essential for a good relationship. These factors instead constitute the basic elements of a PC.

Prior literature already has demonstrated that a successful outsourcing relationship demands several prerequisites, such as communication between client and supplier to limit misunderstandings and avoid resistance to change (Koh et al., 2004). Confidence also is fundamental (Kern and Willcocks, 2000), because the company that assigns tasks to an external partner takes a position of great dependence. Thus, partnerships should emerge (Kern and Willcocks, 2000), to solidify the bond and overcome the client–supplier distinction, so that both parties can achieve key organizational results and build competitive advantages in their respective markets. Knowledge sharing (Koh et al., 2004), such that both partners have access to and share the same information and knowledge, leads to greater transparency and avoids informative asymmetry. Ultimately, relationships quality constitutes the main focus, depending on the diligence of both parties.

These elements, defined in prior literature, also were confirmed in our analysis of interviews with practitioners engaged in an outsourcing relationship. Yet even this list of elements cannot ensure the success of an outsourcing relationship on their own. Rather, our findings highlight other determinants that prior academic literature has not identified yet, including shared strategy, involvement in decisions, cooperation, communication quality, clarity of aims and requests, strategic value of innovation, the client’s business knowledge, respect for deadlines, and the ongoing development of the relationship between client and supplier. We have examined all these newly introduced elements in depth though our analysis.

Thus our study, in addition to enriching extant literature and unifying the concepts of legal and PCs, offers some useful advice for practitioners, based on real-world evidence related to the management of outsourcing relationships.

References
