

## Aligning drivers, contract, and management of IT-outsourcing relationships: a type-dependent model

**Katrine Arenfeldt**

*Aarhus University, School of Business and Social Sciences  
Aarhus, Denmark*

*katrinearenfeldt@hotmail.com*

**Amalie Corty Dam**

*Aarhus University, School of Business and Social Sciences  
Aarhus, Denmark*

*amaliedam@gmail.com*

**Kim Harder Fenger**

*Aarhus University, School of Business and Social Sciences  
Aarhus, Denmark*

*feng@au.dk*

**Johan Silkjaer**

*Aarhus University, School of Business and Social Sciences  
Aarhus, Denmark*

*johansilkjaer@gmail.com*

**Nikolaus Obwegeser**

*Aarhus University, School of Business and Social Sciences  
Aarhus, Denmark*

*nikolaus@mgmt.au.dk*

### Abstract

In today's competitive business environment, information technology outsourcing has become a widespread reality across all industries and sectors. Researchers have investigated this complex phenomenon from various angles, and established a sound knowledge base regarding the drivers, management, and success factors related to IT outsourcing. However, little is known about the relationship between outsourcing drivers and goals on the one hand, and contractual and managerial aspects on the other hand. To overcome this gap, this study presents a synthesized conceptual model of existing literature that relates aspects of contractual governance and relationship management to three generic types of IT outsourcing, based on their underlying drivers: task-based, process-based, and partnership-based outsourcing. Our model identifies the specific contractual and managerial factors relevant for each type of outsourcing, and proposes that alignment across all elements is influential to the success of IT outsourcing initiatives.

**Keywords:** outsourcing, information technology, management, conceptual model.

### 1. Introduction

Over the last decades, IT outsourcing has become a widespread phenomenon and a common element of IT management in many organizations. Interest into IT outsourcing is often a consequence of a shift of business strategy and a desire to focus on core business competences [15]. Many companies aim to generate sustainable competitive advantages by concentrating on what the organization does best, while outsourcing the rest [5]. Overall, a plethora of drivers have been identified that influence an organization's decision to outsource some or all of their IT functions, often related to a lack in internal IT capabilities or capacity [6].

Academic interest into IT outsourcing has grown steadily over the past years and contributed to identifying numerous factors that are important when a company is planning to outsource to a third party vendor - from understanding the underlying motivation to the successful management of outsourcing relationships, after an agreement has been signed [5]. The existing literature on IT outsourcing has researched the phenomenon from several different perspectives, but only little research discusses the relationship between outsourcing drivers and goals on the one hand, and contractual and managerial aspects on the other hand.

In this article, we build on extant literature to develop a type-dependent model of IT outsourcing. Our model relates the various drivers of IT outsourcing identified in literature to three archetypical types, each pursuing a distinct set of goals: task-based outsourcing, process-based outsourcing, and partnership-based outsourcing. Moreover, our model identifies the drivers and goals identified for each of those types to the specific contractual and managerial factors that are relevant for the success of the outsourcing relationship. Overall, we have designed the model as a framework to improve alignment between different types of outsourcing, related contractual and managerial aspects. It can be useful for the analysis of both existing IT outsourcing relations or as a guideline for building new relations.

The following research question has been formulated to guide our research: how do the contractual and managerial aspects of an IT outsourcing relationship relate to drivers and types of outsourcing?

To answer this question, we build on an extensive review, analysis, and synthesis of extant literature on IT outsourcing and management. The remainder of this paper is structured as follows: first, we introduce the reader to the methodology applied for review and analysis, followed by a presentation of the outcomes of our analysis. Thereafter, we build on our findings to develop the proposed model and describe its dimensions. We conclude the paper with a summary of the main contributions and limitations of our research, as well as pointers to promising future areas of investigation.

## **2. Methodology and research design**

To get a deep understanding of the field, we conducted a literature review of IT outsourcing research, which lead to the development of our type-dependent model of IT outsourcing.

### **2.1 Search and filter process**

Our literature selection and filter process followed a two-step approach. The first step in the process of gaining an overview of the current body of knowledge was to conduct a broad literature search on IT outsourcing. In our search, we looked for core and seminal articles in IT outsourcing research, identified primarily through number of citations and publication outlet quality. In addition, this initial search allowed us to identify recent literature reviews of the field, which would serve as the main base for our further exploration. In particular, the articles by [5, 11, 12] laid the foundation for our review. All articles identified were skimmed and their relevance evaluated against our main filter question: does the article discuss [one or more] driver(s) of IT outsourcing AND their relation to contractual OR managerial drivers of the outsourcing relationship? This initial data gathering led to 40 articles.

In the second step, we carefully read the abstracts of the articles and skimmed their content. We only included (i) articles focusing on outsourcing of IT and IT services, (ii) articles with a management focus or analysis of risk or success factors, and (for further consideration) (iii) literature reviews of IT outsourcing in general. This resulted in a sample of 22 articles, which were included in our in-depth analysis.

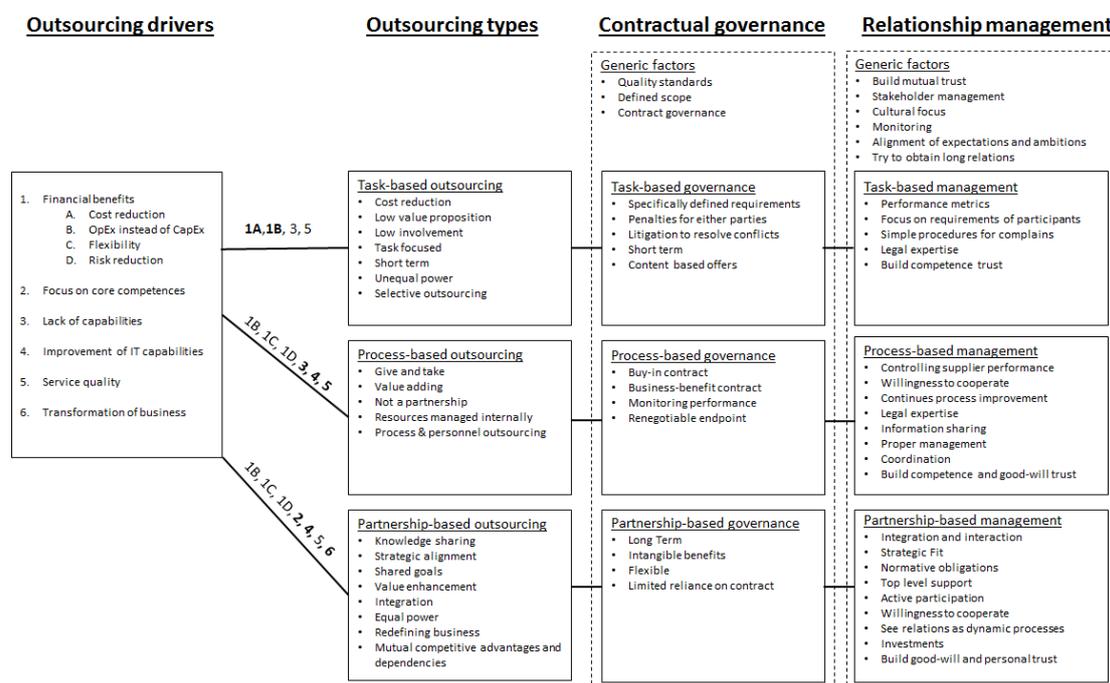
### **2.2 Literature analysis**

The review of the literature consisted of three iterations. The first iteration included an in-depth reading and summarization of all 22 articles. This led to a deselection of five articles due to a lack of fit with our focus. In the second iteration, the remaining 17 articles were fully analyzed and coded according to the themes in the articles. This iteration lead to the identification of the following six main categories: Types of IT outsourcing, Risks, Success Factors, Relationships,

Managing IT outsourcing, and International outsourcing. These six categories were the base for the third iteration, which was conducted through another thorough reading of the articles, where different subcategories within the categories were identified and coded by using NVivo. As a fourth step in our analysis, we related each category and subcategory to specific quotes from the articles in our sample. The categories and subcategories identified formed the base of the proposed model. The relation between the categories, subcategories and the final model is further elaborated on in the next section.

### 3. Developing a type-dependent model

In this study, we seek to link aspects of contractual governance and relationship management to types of IT outsourcing and their underlying drivers. To do so, we developed a conceptual model that relies on the basic understanding that - in order to develop and maintain a successful IT outsourcing relationship - it is important that the drivers for outsourcing, the type of outsourcing, the contractual governance and the relationship management are aligned.



**Figure 1: A type-dependent model for the management of IT outsourcing relationships**

Figure 1 depicts the proposed model. The left part of the model describes the main categories of IT outsourcing drivers extracted from literature, which have been numbered. The outsourcing drivers are then grouped to three generic types of IT outsourcing identified (main drivers highlighted in bold), and related to aspects of contractual governance and relationship management. Furthermore, our model consists of linking lines between drivers, types, contractual, and managerial aspects. It is important to note that the model does not explain a process, but a conceptual linkage between the different elements. Furthermore, the model also describes some generic contractual and managerial aspects that apply to all types of outsourcing relations (shown in dotted lines). In the following, we will introduce the different elements of the model and the relationships among them.

#### 3.1 Outsourcing drivers

##### Financial drivers

As one of the most mentioned reasons for IT outsourcing, financial drivers are dependent upon the context of the client firm [9], and can be classified into four types.

##### *Cost reduction*

In many instances, the mere reduction of cost associated with the IT function of the organization is the main driver for outsourcing these IT functions [8, 12]. In a survey conducted in the US with 700 outsourcing evaluation professionals, 65 % of the respondents answered that the main goal of outsourcing was cost reduction [3].

#### *Operating expenditures instead of capital expenditures*

Instead of focusing on the amount spent in IT functions, some firms seek to restructure the IT budget from capital expenditures to operating expenditures [12]. The motivation for this driver can sometimes be linked to making the organization look more favorable in mergers and acquisition situations, or to establish more structural financial goals [12].

#### *Flexibility*

Firms may try to improve their financial flexibility by moving IT functions and assets outside the company, allowing them to faster resize IT functions if required [12]. IT outsourcing can thus facilitate fast growth for firms that need to scale up their IT function [11].

#### *Risk reduction*

By entering into IT outsourcing relationships, a firm can seek to reduce its risks associated with capital expenses on infrastructure and the hiring and development of skilled IT staff [8]. The reduction of risk can also occur in the form of risk transferal, as the vendor will carry responsibility for the delivery of certain functionalities [8].

#### **Focus on core competences**

Many organizations report that a focus on core capabilities drive their IT outsourcing decision [12, 17]. This does not necessarily relate to cost reduction, but the redirection of resources from non-core IT functions to areas that directly influence competitive advantage [5]. This driver is often present in organizations experiencing high competition in their industry [8].

#### **Lack of capabilities**

A lack of internal IT capabilities is a common driver for outsourcing [12]. This may be due to a lack of knowledge, or ability to scale up IT functions with the necessary pace or quality [5]. Moreover, problems in internal IT functions may be the underlying reason for this driver [3].

#### **Improvement of IT capabilities**

While *lack of capabilities* focuses on sourcing non-existent functionalities, some firms intend to improve existing IT capabilities in collaboration with a vendor [3]. This is often aimed at a more optimally delivery of products or services to the customer base [18].

#### **Service quality**

Firms mention IT outsourcing as a mean to heighten the quality of IT services or functions without increasing costs substantially [12]. This is to a certain extent related with a lack of capabilities, but it is also possible for an organization to outsource aiming at better quality even though they do have the capabilities to heighten the quality internally.

#### **Transformation of business**

IT outsourcing initiatives can also be based on the goal to innovate through the utilization of a supplier's ideas and capabilities. This can be linked to products, business processes, service performance and customer interaction [17]. In such cases, organizations believe that an IT outsourcing relationship with a vendor can help them transform their business model [8, 12].

### **3.2 Types of IT outsourcing**

Based on our literature review, we were able to identify three generic types of IT outsourcing: task-based-, process-based-, and partnership-based outsourcing. The types differ on aspects such as level of involvement, aim of outsourcing initiative, the amount of outsourced IT functions, and the main drivers associated with the specific type. As our model proposes, the

way to obtain a successful relation within any of the types depends on the alignment between drivers, contractual, and managerial aspects associated with the given type.

### **Task-based outsourcing**

Task-based outsourcing is mainly associated with financial drivers, such as cost reduction and the transfer of costs from the IT capital budgets to the operational budgets [8]. Nevertheless, this type of outsourcing can also be driven by a lack of capabilities in the client organization or a wish to improve quality and IT capabilities if the transaction costs related hereto are considered to be relatively low compared to internalizing these capabilities [8]. Task based outsourcing is primarily focused on solving specific problems in the client organization and is therefore based on very tangible requirements [8]. It is often related to a specific service or product delivery and the payment only relies upon this delivery [13].

Task-based outsourcing initiatives do not aim to build strategic relationships. Such engagements are often short-term, and clients can act cost-opportunistic as there is no incentive to develop a close relationship with the vendor [8]. In many cases, this can lead to an uneven balance of strength, which might lead to power struggle and mistrust [10].

This type of IT outsourcing can also be associated with selective outsourcing, where it is only certain areas of the IT function that are being outsourced at a time [5], and the relation between vendor and client can be classified as hands-off and transactional [17].

### **Process-based outsourcing**

In process-based outsourcing, clients aim to outsource entire business processes to a vendor. This might include services such as hotlines, help desks, call centers or document processing [5]. Drivers include increased flexibility, as well as risk reduction and lack of capabilities in the client organization.

This type of outsourcing is often sought to be value adding to the client organization by having a vendor who is able to improve processes in a way that could not have been done internally at the client without substantial costs [5]. Commonly referred to as personnel outsourcing, supplier resources are often placed at and managed by the client organization [13]. In such buy-in set-ups, the client can utilize the vendor's resources without having to engage in the costly and more risky process of having to hire resources themselves. However, the client is responsible for monitoring performance and benefits [13] to ensure value delivery and cost efficiency. Monitoring business benefit is often difficult and the specific metrics are often hard to agree on between vendor and client [5]. Process-based outsourcing is best when times are good, but may not survive hard times or difficulties in the relationship [7].

### **Partnership-based outsourcing**

Partnership-based outsourcing is primarily driven by a need to focus on core competences, a desire to improve current IT capabilities, or a vision of transforming the business. However, it may still include financial drivers to a certain degree, such as operating budget, flexibility and risk reduction. The primary focus of such a relationship type is knowledge sharing and mutual learning between vendor and client [8]. Since learning applies to both client and vendor, and organizational learning in itself entails a dynamic strategic advantage, partnership based outsourcing can be seen as a strategic partnership [8]. This strategic aspect means that it is not only a buyer-seller relation, but also a business partnership with strategic implications.

Knowledge sharing between parties in the outsourcing contract is based on mutual trust, since the learning process requires to let the other party gain deep knowledge of the organization, its processes and capabilities [13]. Mutual trust has to be based on the definition of shared goals between the client and vendor organization, which is a very important characteristic of partnership-based outsourcing. Since power and risk are somewhat equally distributed in the form of knowledge sharing and investments between the partners, trust is seen as a crucial part in this type of outsourcing [10]. Moreover, shared goals between vendor and client are designed to result in a certain level of strategic alignment between the firms that is necessary in order to ensure mutually beneficial strategic development [13].

Due to its strategic characteristics, partnership-based outsourcing is based on long-term contracts, and the long duration of the relation also influences the amount of strategic alliance

and trust [8]. Besides the shared goals, it also contains shared value creation and shared risk, profits and losses [12]. Furthermore, partnership-based outsourcing embodies a non-reliance on the contract as basis of the relationship, good ability to work together and a desire to work things out, and a perception that the vendor understands the client's business and problems [7]. In terms of principal-agent theory, since the outcome of the partnership is strategic and often quite intangible, especially at first, it is hard for the principal (the client) to monitor the agent (the vendor) which leads to higher agency costs [2, 13].

Partnership-based outsourcing includes transformational alliances as a specific subtype. Such transformational alliances may result in rapid increase of enterprise level performance on the client side, and can thus be a powerful competitive tool for the client organization [8].

### **3.3 Contractual governance**

To further develop our model, we proceed to relate contractual aspects to the types of IT outsourcing identified as well as introduce general aspects of contractual governance.

#### **Generic contract factors across all types**

The outsourcing contract is a tool to define the relationship and reduce its inherent risk, as it functions as a legal document binding the parties to the wording of the contract [18]. The IT outsourcing contract should include description of the quality standards of the deliveries from the vendor to the client [4]. The purpose of defining quality standards of the deliveries is to reduce risk. However, too rigorous specifications can lead to risk of dysfunctional behavior and limit vendor motivation [18]. Due to these risks, the contract should balance specification and flexibility in order to allow the vendor to utilize their expertise.

The contract should include a defined scope, a description of the deliverables and the parties involved, as well as their obligations [5]. By doing so, the contract is also specifying any issues that should not be a part of the relation [18].

The contract is usually seen as one of the first steps in an IT outsourcing relationship, but it is equally important to govern, adjust and evaluate the contract throughout the entire relationship [10]. When developing the contract, it is important to take all stakeholders into account and consider which functions within the contracting parties will be relevant [18].

#### **Task-based contractual governance**

Task-based contracts have a distinct beginning, often a short duration and a well-defined ending [10]. A task-based contract is formal with specifically defined requirements, service levels, performance metrics, and price agreed [13]. The contract often includes strict penalties for failing to deliver the specified requirements.

Task-based contracts are distinct because they are often based on a specific request or demand from the client organization [7]. Due to their specific and detailed requirements, task-based contracts are often easy to benchmark against offers from other vendors [5].

In case of conflict in a task-based outsourcing, the contract plays a major part in deciding whether penalties have to be paid, and litigation is often used as a conflict solving tool [13].

#### **Process-based contractual governance**

Process-based contracts are often based on the expectation of a longer relationship than task-based contract. The contract is designed to gradually develop throughout the relationship, it reflects an ongoing process and will often have a gradual dissolution [10]. That being said, these contracts can also include an out-clause in case one of the parties should want to dissolve the relation due to non-compliance with the contract by the other party [4].

Process-based contracts are also described as buy-in contracts, where the vendor delivers resources to the client, who manages these resources afterwards [15].

It will often include defined requirements, service level agreements and quality standards, even though these are hard to specify because the relation is based on the generation of benefits or services instead of executing specific tasks [5, 18]. The contract is used as basis for performance monitoring and includes procedures for conflict handling customized to the obligations specified in the contract [10].

### **Partnership-based contractual governance**

Since a partnership-based relation is mainly rooted in strategic, long-term considerations, this is also the case for the associated contract. Its long-term nature improves the financial predictability of the contract and reduces uncertainties of the relationship [15]. The reduction of uncertainty is highly important to avoid principal-agent issues.

Partnership-based contracts often attempt to specify requirements, but since the underlying goals are by nature often intangible, it is hard to specify concrete measures for deliverables. As a consequence of this, the parties must move closer to each other on a trust basis, and the contract will usually not be an effective tool in resolving conflicts [15]. As a result, the parties do not rely heavily on the contract, and litigation is not the main problem solving approach. Instead, partnership-based contracts tend to be flexible in nature and thus allow the parties to make amendments through the development of the relationship such as price adjustments, provisions for renegotiation, termination, and shortening the of the contract [1]. Since not all aspects of the partnership can be foreseen when entering the relationship, it is fundamentally important to allow for flexibility in the contract. Moreover, any changes in the partnership should also be reflected in changes in the contract [9].

### **3.4 Relationship management**

The third part of our model emphasizes all aspects related to the management of the outsourcing relationship.

#### **Generic management factors across all types**

Factors categorized as “generic management factors” provide managerial aspects that apply to any IT outsourcing relation and can be seen as minimal requirements of proper management. To properly manage an IT outsourcing relation, the client company should therefore live up to these generic management factors at first, and secondly make sure to focus on the management factors specific to their given type of IT outsourcing.

IT outsourcing is linked to many possible benefits as well as a vital amount of risks. In order for an organization to reap the benefits of the outsourcing relation, it is important to apply proper management [16]. The management of IT outsourcing relates to all conscious activities of the parties to impact the relationship during its life in their desired way [5]. One of these activities is controlling the supplier’s performance based on the agreed requirements and monitoring the overall outsourcing project – this activity is mostly related to the reduction of risk and the ability to evaluate the vendor’s performance. Monitoring of performance should be done on a regular basis and include periodic reviews [4, 5]. These periodic reviews could be done on a monthly, quarterly or even yearly basis and should consist of formal documents that may be used by the client to justify the amount to be paid to the vendor [9].

Monitoring and periodic reviews are important steps in order to gain trust between the parties involved, as it aligns their expectations and ambitions both on tangible elements like project scope, cost and time estimates, as well as on more intangible parts like communication, openness, and commitment [4, 14].

Another crucial managerial activity in order to align expectations and ambitions is stakeholder management. Effective stakeholder management increases the success of the outsourcing relationship and is used to identify, analyze and manage the different internal and external stakeholders based on their power, legitimacy, and importance [18]. In order for stakeholder management to be successful, the managers of the client firm should be strong leaders, and the client should consider introducing the role of an outsourcing relationship manager, who is responsible for building a good relation with the vendor and having knowledgeable insight about both businesses and the outsourced activity [1].

It is important to assign resources to nurture the stakeholders and the relationship with the vendor, since this will increase the possibility of the relation being valuable to all parties and thereby its lifetime. The length of the relation is positively correlated with the quality of the relation, and the client should therefore seek to obtain a long relationship regardless of the

specific type of IT outsourcing [14]. If the client invests in the vendor, it might also lead to an improved relationship and reduce performance risk and the risk of supplier opportunism [18].

To be able to engage in long-term and high quality outsourcing relations, it is crucial to develop and maintain trust between vendor and the client. Trust has been shown to directly influence outsourcing success and the realization of expected benefits [8, 9, 14]. Ongoing and frequent communication between vendor and client is vital in order to align expectations and is likely to lead to greater trust. The greater the level of mutual trust, the greater the formal and informal communication. The reverse causality between mutual trust and communication of all types enforce the importance of establishing trust between the parties [10].

Communication can also be seen as a proxy for knowledge sharing. Knowledge sharing involves capturing, storing, sharing and using knowledge, and is also linked to the process of making tacit knowledge explicit [13]. Knowledge sharing between vendor and client leads to greater understanding of each other, and thereby supports the continuous process of matching expectations and fulfilling requirements [16].

Another factor relevant to trust is cultural similarity between vendor and client. Parties with similar cultures are more likely to be willing to trust their partners and hence heighten the probability of success. In contrast, different cultural backgrounds may hold divergent values that will decrease the likelihood of developing trust [14]. The lack of fit between client and vendor tends to cause problems [10], which is why the management should focus on creating more cultural understanding if there is gap. This might be done by assigning employees with cultural expertise to the outsourcing management [18].

The success of an outsourcing relationship can be determined in both a process-oriented and an outcome-oriented matter. Process-oriented success relates to high trust, commitment, and low level of conflicts, whereas outcome-oriented success relates to cost savings, competitive advantages and user satisfaction.

### **Task-based management**

Some distinct management factors should be considered when entering into a task-based outsourcing relationship. For example, the importance of actively monitoring and controlling vendor performance is a crucial issue, since the supplier is trying to maximize profit while the buyer works to minimize costs [18]. This activity may include establishing tight performance metrics and requirements, and monitoring these in a predefined governance process [18].

When performance metrics and requirements are defined, it is important to find agreement among all stakeholders, so the requirements from all participants are included. The higher the accuracy of the measurements, the more efficient the relationship will be. When the accuracy of the measure defined is low, the client will often have to engage in very expensive monitoring processes [1]. An accurate and efficient monitoring process reduces risk, since it heightens the possibility of noticing failures before they damage the overall performance.

In task-based relations, competence trust is of crucial importance since the client relies on the expectation that the vendor is able to fulfil a particular task in a relatively short time period and deliver the promised performance [8]. Trust in this type of relation is therefore not based on intuition, but primarily on the ability to demonstrate expected competences.

If monitoring shows a lack of performance by the vendor, the client may lose trust in the vendor's competence and conflict can arise. When managing conflict in task-based outsourcing relations, it is good practice to have pre-established procedures for notifying the other party about a complaint [1]. If the failure to deliver is time-bound and a rare incident, the conflict should be handled through mitigation. If failures are re-occurring, alternative vendors may be identified to fulfill parts or the rest of the work, which may lead to a dissolution of the contract [4]. Conflicts in task-based relations should be resolved through litigation or penalty clauses in the contract and the involvement of legal expertise [14].

### **Process-based management**

When managing process-based outsourcing relationships, monitoring and control of vendor performance is important, but due to the characteristics of the outsourcing type, it is often harder to design detailed performance metrics [14]. It is important to focus on what the vendor delivers, instead of how it is delivered (i.e. what the internal processes look like on the vendor's side)

[16]. Proper management of the relation includes human resource management on outsourced personnel to manage attitudes, value, and skills of these employees [16]. If the vendor's personnel is managed by the client, the client has to train these employees and explain user requirements and work processes, which may result in additional costs [1].

In process-based IT outsourcing, it is important to coordinate actions with the vendor, which may be done by working directly with the vendor's employees. This is often a difficult task, as it has to be done with respect towards the vendor and focus on the actual delivery, instead of the processes on the vendor's side [1, 18].

The coordination between vendor and client improves with the willingness to cooperate from both parties. The willingness to cooperate has high impact on the quality of the relationship, and it depends on the parties' ability to avoid unnecessary conflict, avoid provocation in the face of conflict, and by practicing forgiveness and clarity [10]. Since these values are substantial for the success of the relationship, it is important that both parties get involved and motivated to pursue continuous cooperation.

Process-based management also entails continuous process improvement between vendor and client, and may include adapting the service delivery process or incremental changes to the services provided. This is done through mutual investments in the relationship which can increase trust and duration [18].

Trust in process-based outsourcing is usually a combination of competence and good-will trust, since the relationship is less calculative than in the task-based type, but still focused on competence [8]. Trust must be present at both organizations in order to promote collaboration.

The sharing of relevant information is important for the management of process-based relationships, not only because it increases trust, but also because it leads to a better shared understanding of the outsourced process for both vendor and client. Information sharing should be encouraged on both operational and tactical level in both organizations [18]. One way to practice the sharing of information is to train the vendor in a client's processes, tools and methods. The supplier might also invest in physical equipment or human resources learning, that might improve the value proposition of the relationship [1].

In case of conflict in a process-based relationship, legal expertise should be included in the resolving process. Due to the less strict definition of the cooperation, legal expertise is required to get an assessment of whether the agreed levels of performance, availability, costs and quality have been met [1].

### **Partnership-based management**

One of the important tasks in the management of a partnership-based relationship is to ensure strategic fit between both parties. This can be achieved through a managerial understanding and active focus on the alignment of strategic goals [18]. Strategic fit is ensured by implementing a system in the relation that is aligned with the overall business strategy and matches the needs of the users [3]. For both parties to understand the strategies that drive the relation, strategic key information must be shared [14]. Monitoring is required to assure strategic fit and may be facilitated by knowledge based systems that collect and evaluate information of the relationship [16]. Since monitoring outcomes can be difficult due to intangible success criteria, clan mechanisms can be used to develop a shared vision, goals and norms, relying on interpersonal respect and trust rather than formal control mechanisms [1].

In addition, partnership-based management should mainly focus on normative obligations between the parties instead of specific instrumental obligations, which are easier to monitor in a task-based relationship [18].

In order for the management to focus on strategic fit and values, it is important that both parties are willing to cooperate in the relationship, especially in times of conflict. A high degree of cooperation is necessary to resolve problems in a partnership that avoid direct involvement of the contract [10]. If the parties are not able to resolve the conflict on their own, they should not engage in litigation, but instead focus on mediation with a skilled facilitator or arbitration with a neutral party involved [1].

The management of the client organization should see the relation as a dynamic process in which both parties engage and exchange valuable resources. This ensures that the relation is

evolving over time [13]. When treating the relation as a dynamic process, it is important that the client focuses on the outcome rather than the process on the vendor's side [16].

To ensure that the relation evolves, it is a powerful tool to invest in the other party, both for the vendor and the client. These investments create social and economic bonds that are related to expanding the duration of the partnership and the evolvement of both parties [18]. Such investments can be both in terms of time, knowledge and resources [10].

In order to make sure that the relation evolves as wished, coordination is important. Coordination is positively related to partnership quality, and should be rooted in goals [14].

Shared goals between both parties are developed through a high level of integration and interaction, because this helps to create a mutual understanding of both organizations and their objectives [18]. The integration of both parties is also linked to avoiding opportunistic behavior, and it is enforced by being physically present at each other's locations and engaging in active participation [14, 18]. Active participation enhances the sustainability of the partnership over time and is positively related to quality and success of the partnership [14]. Participation should be active on different levels of both organizations, and managers on at least one level higher than the affected functions should be involved [16]. When two management teams develop interpersonal relations, it is also likely that their remaining organization will get a better attitude towards the inter-organizational relationship and that shared goals, objectives and mutual understanding will be developed [10, 14].

The development of interpersonal relations is critical in the building of mutual respect and trust and is likely to enhance the trustworthiness associated with the other party. Personal relations may help in resolving conflict situations because of the development of good-will trust [10]. This kind of trust is the most important type of trust to partnership-based outsourcing relation, because it is based on the expectation that the partner will live up to their roles in a fair and faithful way. As good-will trust is developed over time, it reduces the likelihood of opportunism and contributes to long term reduction of transaction costs [8].

#### **4. Implications**

There does not exist one best IT outsourcing type across all organizations and tasks; the *best* IT outsourcing type depends on the drivers of the client organization. Our model therefore does not propose a hierarchy between the IT outsourcing types. Each type holds different benefits as well as limitations. For example, a partnership-based relation is not a suitable when the client is searching for a simple, cost-saving solution. In this study, we have not investigated the possibility of shifting between IT outsourcing types for an already established outsourcing relation. However, according to our model, such a change would require a reassessment of the drivers for outsourcing, a reformulation of the contract, and a shift in the managerial approach applied to the relation. This shift in type should thus be aligned with a change in drivers, since this will reassure that the relation stays true to the benefits that the client organization aims for.

When organizations decide to engage in IT outsourcing relations, our model's emphasis on alignment between drivers, type, contractual, and relational management, should be applied to their internal processes. It should be prioritized to create internal alignment between functions handling different aspects of the IT outsourcing in order to make sure that alignment is achieved. As such, the understanding of alignment as a main contributor to IT outsourcing success must be created within the client organization's implicated stakeholders.

#### **5. Conclusion and future research**

This article contributes in a twofold manner to extant IT outsourcing research. First, through the analysis of existing literature on IT outsourcing, three generic types of IT outsourcing were identified. Task-based outsourcing refers to relatively limited outsourcing of a rather simple and well-defined task. This type is often related to selective outsourcing, has a relatively low value proposition and demands limited involvement from the client. The main drivers of task-based outsourcing are financial, as its main focus lies on cost reduction. Process-based outsourcing emphasizes the value adding aspect of the relation. As such, it often occurs in the form of process or personnel outsourcing, and requires more collaboration between

vendor and client. However, process-based outsourcing is not a real partnership. It is mainly driven by the client's lack of capabilities and aim to improve overall IT capabilities and quality. Partnership-based outsourcing requires the client and vendor to establish shared goals, benefits, and a common strategic focus in a long-term trust-based relationship. The success of a partnership-based outsourcing relationship depends on continuous knowledge sharing, equality of power, and close integration and collaboration.

Second, our model proposes that the contractual and managerial aspects of any IT outsourcing activity should be aligned with the drivers and respective type of relation. Each type of outsourcing is therefore linked to specific contractual and managerial factors that are aligned with the underlying drivers of each outsourcing type. The main proposition of our model is that successful IT outsourcing requires alignment of drivers, outsourcing type, contract, and management. In this regard, our model can be used both to evaluate and adjust alignment of existing outsourcing relations, as well as a guideline for managers who are about to engage in new IT outsourcing activities.

We acknowledge that our research has several limitations. Foremost, due to possibility of having missed relevant literature, the proposed model may not be fully exhaustive when analyzing an outsourcing relation. In addition, the model would benefit from being empirically validated and/or extended in future research. We encourage future research to further develop the outsourcing types identified in this paper, to add to our understanding of alignment among drivers, contractual governance and relationship management.

## References

1. Bahli, B., Rivard, S.: The information technology outsourcing risk: a transaction cost and agency theory-based perspective. *J. Inf. Technol.* 18 (3), 211–221 (2003)
2. Cheon, M.J., Grover, V., Teng, J.T.C.: Theoretical perspectives on the outsourcing of information systems. *J. Inf. Technol.* 10 (4), 209–219 (1995)
3. Contador, J.C., Ferreira, A.A., Simões, S.A., Souza, W.J.: It outsourcing: methodology for selecting suppliers criterion for competitive advantage. *JISTEM - J. Inf. Syst. Technol. Manag.* 9 (1), 123 (2012)
4. Dhar, S., Balakrishnan, B.: Risks, benefits, and challenges in global IT outsourcing: Perspectives and practices. *J. Glob. Inf. Manag.* 14 (3), 59–89 (2006)
5. Dibbern, J., Goles, T., Hirschheim, R., Jayatilaka, B.: Information systems outsourcing: a survey and analysis of the literature. *ACM Sigmis Database.* 35 (4), 6–102 (2004)
6. Fine, C., Whitney, D.: Is the make-buy decision process a core competence? *MIT Cent. Technol. Policy Ind. Dev.* (February), 1–31 (2002)
7. Fitzgerald, G., Willcocks, L.: Contracts and Partnerships in the Outsourcing of IT. *ICIS 1994 Proc.* 8 (1994)
8. Kedia, B.L., Lahiri, S.: International outsourcing of services: A partnership model. *J. Int. Manag.* 13 (1), 22–37 (2007)
9. Kern, T., Willcocks, L.: Exploring information technology outsourcing relationships: theory and practice. *J. Strateg. Inf. Syst.* 9 (4), 321–350 (2000)
10. Kern, T., Willcocks, L.: Exploring relationships in information technology outsourcing: the interaction approach. *Eur. J. Inf. Syst.* 11 (1), 3–19 (2002)
11. Lacity, M.C., Khan, S.A., Willcocks, L.P.: A review of the IT outsourcing literature: Insights for practice. *J. Strateg. Inf. Syst.* 18 (3), 130–146 (2009)
12. Lacity, M.C., Willcocks, L.P.: An Empirical Investigation of Information Technology Sourcing Practices: Lessons from Experience. *MIS Q.* 22 (3), 363 (1998)
13. Lee, J.-N.: The impact of knowledge sharing, organizational capability and partnership quality on IS outsourcing success. *Inf. Manag.* 38 (5), 323–335 (2001)
14. Lee, J.-N., Kim, Y.-G.: Effect of Partnership Quality on IS Outsourcing Success: Conceptual Framework and Empirical Validation. *J. Manag. Inf. Syst.* 15 (4), 29–61 (1999)
15. Lee, J.N., Miranda, S.M., Kim, Y.M.: IT outsourcing strategies: Universalistic,

- contingency, and configurational explanations of success, (2004)
16. Quinn, J.B.: Strategic outsourcing: leveraging knowledge capabilities. *MIT Sloan Manag. Rev.* 40 (4), 9 (1999)
  17. Tate, W.L., Ellram, L.M., Bals, L., Hartmann, E.: Offshore outsourcing of services: An evolutionary perspective. *Int. J. Prod. Econ.* 120 (2), 512–524 (2009)
  18. Tate, W.L., Ellram, L.M., Brown, S.W.: Offshore outsourcing of services: A stakeholder perspective. *J. Serv. Res.* (2009)