

2008

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## Recommended Citation

Blumenberg, Stefan, "IT Outsourcing Relationship Quality Dimensions and Drivers: Empirical Evidence from the Financial Industry" (2008). *AMCIS 2008 Proceedings*. 299.  
<http://aisel.aisnet.org/amcis2008/299>

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# IT Outsourcing Relationship Quality Dimensions and Drivers: Empirical Evidence from the Financial Industry

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## ABSTRACT

This work contributes to outsourcing research by shedding some light on IT outsourcing relationships. A theoretical model is developed that shows the influence of determinants on relationship quality. Relationship quality is captured by a set of five dimensions from previous literature and enhanced by two new dimensions (communication quality, forbearance). Determinants from the literature are extended by two new elements (interaction structure, service quality). By using a case study approach from the German financial industry, we show the applicability of interaction structures and service quality as relationship quality determinants. Interaction structures like employee trainings or transfer of staff have a strong positive impact on communication quality and mutual business understanding, whereas service quality mainly influences the level of conflict in a relationship. The results regarding the two proposed relationship quality dimensions are mixed. Communication quality is a good measure for capturing relationship quality and shows strong connections to interaction intensity and interactions structures. The applicability of forbearance as a relationship quality dimension is ambiguous. Some banks see forbearance as dimension of relationship quality, while others use forbearance as a strategic element to force the provider into delivering additional or better services.

## Keywords

IT outsourcing, relationship quality, relationship determinants, case studies, financial industry

## INTRODUCTION

Outsourcing of information technology became an important approach for many firms to focus on core competencies or to reduce costs. Increasing levels of outsourcing require companies to put much effort in the management of these relationships. Clark, Zmud, and McGray (1998) state that “the truly critical success factors associated with successful outsourcing are those associated with vendor governance”. Initially, literature dealt with two governance modes, namely contractual governance and relational governance, separately. Both modes were seen as substitutes, not as complements (Poppo and Zenger 2002). Currently, there is a general agreement in the literature that any IT outsourcing relationship requires both a relational facet and a contractual facet as equally important governance mechanisms (Gellings and Wüllenweber 2007; Goo 2007; Poppo and Zenger 2002).

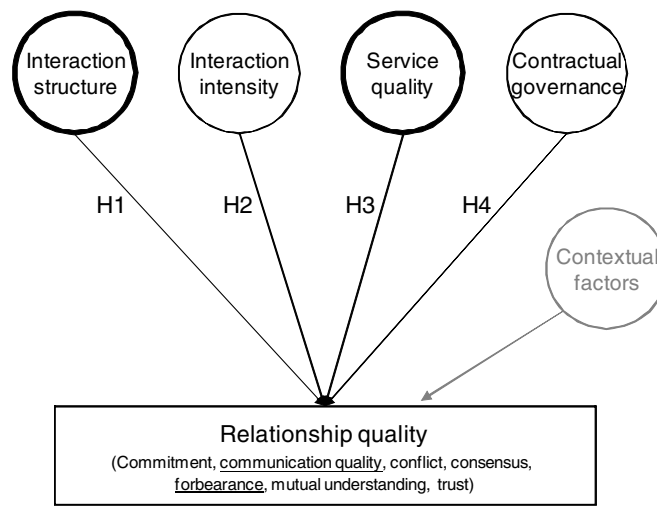
This relational facet has been analyzed by some researchers and a set of relationship quality dimensions and determinants has been identified (Goes and Chin 2005; Lee and Kim 1999). However, research in the area of the identification of relationship quality dimensions and its drivers is scarce, although a “greater understanding of how to manage IT outsourcing relationships that create and sustain strategic value for the client firm is required” (Goo 2007). In particular, “to date there has been a relative lack of empirical studies that focus on the elements that comprise the relationship” (Goes, Chin 2005). To address these propositions, we want to enlarge the understanding of the drivers that influence relationships and pose the question “Are interaction structures and service quality relevant drivers that influence relationship quality?”. To enhance the understanding of relationship quality dimensions we ask “How can forbearance and communication quality contribute to the measurement of relationship quality?” Both questions are evaluated with four case studies in the German and Swiss financial industry.

## RESEARCH MODEL

The research model that guides our work in developing a better understanding of relationship quality and its determinants is presented in figure 1. It consists of relationship quality as endogenous variable that is split in seven dimensions (presented in the following chapter, proposed dimensions are underlined) and interaction structure, interaction intensity, service quality and contractual governance as exogenous variables (proposed drivers shown in circles with bold lines). Contextual variables complement the model.

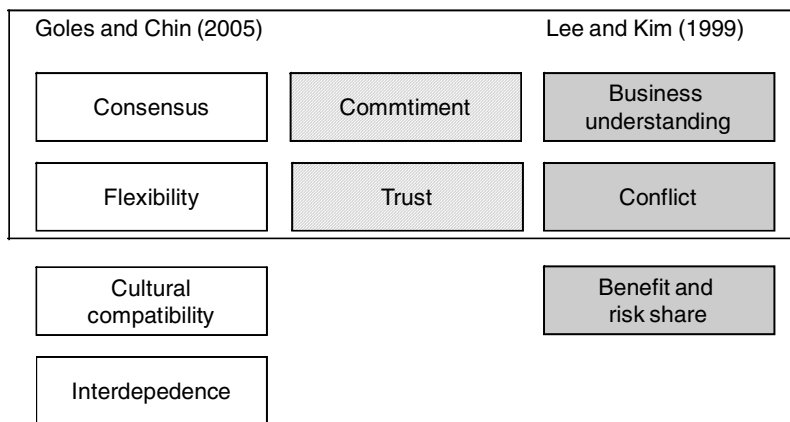
**Relationship quality**

IT outsourcing literature has been dealing with the relationship between customer and provider as an important part of outsourcing for about 13 years (Klepper 1995; Lacity and Willcocks 1995; McFarlan and Nolan 1995). In a first empirical study Grover et al. (1996) showed the importance of a good relationship on the outsourcing success followed by a couple of other conceptual (Kern and Willcocks 2000b; Kishore, Rao, Nam, Rajagopalan and Chaudhury 2003; Sabherwal 1999) and empirical works (Kern and Blois 2002; Kern and Willcocks 2002; Lee 2001) with the focus on the relational aspects of outsourcing. The works from Lee and Kim (1999) and Goles and Chin (2005) were the first with a holistic view on relationship quality. One of their goals was to identify a broad set of relationship quality dimensions. Lee and Kim (1999) identified five dimensions of relationship quality from social exchange theory (Lee and Kim 1999). Compared to Lee and Kim (1999), Goles and Chin broadened their view and reviewed IT outsourcing, interorganizational relationship, marketing and organizational management literature in order to identify six dimensions of relationship quality. Figure 2 shows the dimensions from both papers. White boxes represent dimensions from Goles and Chin (2005), grey boxes are derived from Lee and Kim (1999), constructs in the striped boxes are used in both works.



**Figure 1. Research Model**

In our research approach, we use the six relationship quality dimensions depicted in the box of figure 2.



**Figure 2. Relationship Quality Dimensions from Goles and Chin (2005) and Lee and Kim (1999)**

The three constructs on the bottom of figure 2 are used as determinants instead, for the following reasons:

- Cultural compatibility is a driver that influences the quality of a relationship (Lee and Kim 1999; Sarkar, Cavusgil and Aulakh 2001; Wilkof, Brown and Selsky 1995) but does not necessarily reflect it. This holds especially true in an outsourcing relationship where different corporate cultures may negatively influence the relationship quality, i.e. having a negative impact on trust, communication quality or on reaching consensus (Lee and Kim 1999).
- Interdependence “suggests that the parties have complimentary assets and skills. They need each other to achieve their respective goals” (Goles and Chin 2005). This construct is derived from marketing literature (Gundlach and Cadotte 1994) and organizational science literature (Pfeffer and Salancik 1978). In an outsourcing context, interdependence cannot be used in this vein. First, as described by the resource based view, every outsourcing deal heavily relies on the complementary asset of the involved companies (Cheon, Grover and Teng 1995; Grover, Cheon and Teng 1994). Providers offer their customer a broad spectrum of technologies as well as a technologically-oriented skill-set of their employees (Grover et al. 1996). In turn, customers compensate the providers for their service. Secondly, dependency between customer and IT provider will be extremely high in nearly every IT outsourcing case. Long-time contractually-agreed upon relationship periods and high integration levels of different IT systems within an organization will nearly always lead to high interdependencies when IT providers provide IT services. In contrast, customer-supplier relationships might show a highly diverse level of interdependence (Gundlach and Cadotte 1994): the discrete procurement of office consumption items exhibits a much lesser interdependence between firms than the procurement of strategically important goods like engines in an automotive company.
- Benefit and risk sharing is an often-used mechanism in outsourcing to offer both the provider and the customer an incentive for an extraordinary performance (Dibbern, Goles, Hirschheim and Jayatilaka 2004). This penalty reward system is usually part of the outsourcing contract (Gellings 2007). The outsourcing contract governs the most important aspects of the outsourcing deal (Kern and Willcocks 2000a) and also influences the relationship quality (Poppo and Zenger 2002), but it does not represent a dimension of relationship quality itself.

In the following, the relationship quality dimension flexibility will be integrated into the dimension commitment. Goles and Chin (2005) measure flexibility as the “willingness to accommodate each other as conditions change”. Willingness in this context describes the commitment of the provider, not what the provider is able to. Therefore, flexibility is differentiated by a commitment and an ability part. The ability part of flexibility describes a set of technological abilities that the provider can use to behave flexibly. Independent from this set of abilities, the provider might offer the customer only a smaller flexibility subset, which is its commitment. For instance, the provider is able to develop specific software within a timeframe of two weeks, under the assignment of all available personnel. If the customer is not that important, the provider might only offer him a development timeframe of four weeks. As the customer only sees this commitment part, flexibility is captured within the dimension commitment. If possible, the ability part of flexibility is captured within the determinant service quality (Parasuraman, Berry and Zeithaml 1991; Parasuraman, Zeithaml and Berry 1985; Parasuraman, Zeithaml and Berry 1994).

The dimensions to measure relationship quality are visualized in figure 3 in alphabetical order and defined in the following. Boxes with bold lines contain the proposed new dimensions communication quality and forbearance.

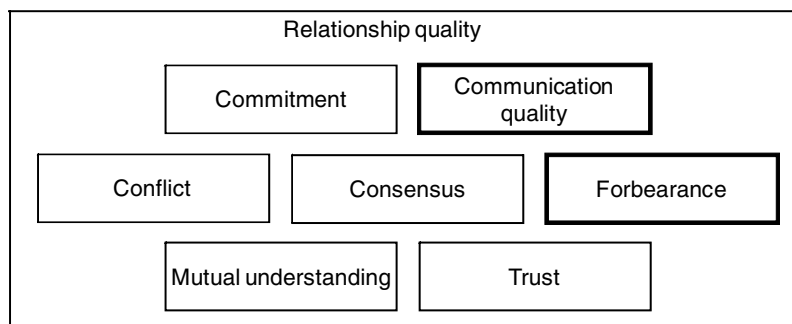


Figure 3. Relationship Quality Dimensions

**Commitment** “refers to an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer, Schurr and Oh 1987). In an outsourcing context the involved firms can make personal as well as financial resources available to sustain the relationship over time (Goles and Chin 2005). This includes high willingness to flexibly react to changing conditions.

The amount of **conflicts** between parties is a crucial factor to capture the status of an outsourcing relationship (Anderson and Narus 1990). This dimension relates negatively to the overall relationship quality construct.

**Consensus** “is the extent of general agreement between parties” (Mejias, Shepherd, Vogel and Lazaneo 1996). A comparable mindset between the employees of both companies, in terms of a general understanding of the other party, helps to reach a consensus (Subramani, Henderson and Coopriider 1999).

Based on the IT business alignment literature, **mutual understanding** is defined as “the ability of IT and business [...], at a deep level, to understand and be able to participate in the other’s key processes” (Reich and Benbasat 2000). This mutual understanding is especially important in an IT outsourcing context (Kern 1997; Lee and Kim 1999) and consistent with previous IS research that points out the importance of IS managers to understand business requirements, constraints and opportunities (Lee, Trauth and Farwell 1995; Ross, Beath and Goodhue 1996).

**Trust** is defined as “the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm” (Anderson and Narus 1990; Hart and Saunders 1997). Consistent with IS literature, trust is used as an important factor to maintain and manage an ongoing outsourcing relationship (Kern 1997; Willcocks and Kern 1998).

**Communication quality** describes the efficiency and effectiveness of information exchange between partners (Blumenberg, Beimborn and König 2008). Goles and Chin (2005) describe communication to be a relationship determinant. As an extension of this view, we argue that communication is a more multifaceted construct that has to be differentiated in quantitative and qualitative aspects (Blumenberg et al. 2008). Organizational procedures like job rotation, workshops or higher amounts of communication can positively influence communication quality and overall relationship quality. Hence, communication quality is used as a relationship quality dimension, the quantitative aspects of communication are considered, instead, as a determinant (see interaction intensity below).

**Forbearance** “is forgoing certain behaviors that are not in the best interest of both parties” (Marcolin and McLellan 1998). Forbearance stems from the international joint venture literature (Parkhe 1993) and was introduced by Marcolin and McLellan (1998) in an outsourcing context as general element that is inherently required for strategic partnerships. We follow their argumentation and propose that forbearance is an important aspect when measuring relationship quality. Forbearance is required to describe the reciprocity and the “give-and-take” between partners. A good partnership consists of a relationship with both parties acting, to a certain degree, forbearing towards each other (Marcolin and McLellan 1998). This can be a restrained behavior of the customer in case of problems generated by the provider, i.e. not to instantly escalate problems to higher hierarchical levels, not to immediately demand penalties from the provider or, generally speaking, not to take the contract out of the drawer very often.

### Relationship Quality Determinants

Lee and Kim (1999) showed the positive impact of communication on relationship quality. As described above, we have divided communication in a quantitative and a qualitative part and use the quantitative part (interaction intensity) as driver for relationship quality. Another important factor in outsourcing relationships is the outsourcing contract. Nearly every outsourcing deal is based on a contract (Gellings 2007) that has a considerable influence on relationship quality (Poppo and Zenger 2002). The determinants from literature and the proposed drivers being interaction structure and service quality are described in the following.

#### Interaction Structure

Interaction between customers and outsourcing providers is the basis for a relationship. Lee and Kim (1999) show the impact of communication on relationship quality. As a prerequisite for communication, interaction structures and mechanisms have to be implemented and accepted by both parties (Wagner 2006). To clarify the interaction structure in an outsourcing context, three main interaction structures are proposed which contribute to an information exchange.

Literature pinpoints the importance of “boundary spanners” in business-to-business exchanges to bridge the gap between cooperating organizations (Ferguson, Paulin and Bergeron 2005; Galbraith 1977). Boundary spanners can be people or units, depending on the size of the organization. We adopt this general concept of “boundary spanners” and apply it to an IT outsourcing context, where financial service providers usually have implemented retained organizations that, inter alia, govern

their IT providers (Joha 2003). These liaison units typically have counterparts on the provider side. In some cases, these counterparts are former bank employees that have moved from the bank to the provider in the beginning of the relationship.

Another way to promote business and IT-knowledge are knowledge transfer routines between customer and provider employees. Wagner (2006) demonstrated the positive impact of interaction structures on IT business alignment. We adopt this finding and apply it to outsourcing relationships. In an outsourcing context, these structures can be job rotations, traineeships, regular workshops, trainings, mixed workgroups or electronic systems like repositories to disseminate bank specific and technical information between parties (Broadbent and Weill 1993; Ortega 2001).

Mohr and Spekman (1994) show the positive impact of conflict resolution techniques on partnership success. Conflicts will arise in any outsourcing relationship. Hence, the existence of a conflict resolution structure will be helpful to accelerate their solution.

H1: The existence of interaction structures leads to higher relationship quality.

### Interaction Intensity

An interaction structure provides the basis for actual information exchange in terms of formal or informal communication. Generally speaking, communication “refers to the extent to which critical, often proprietary, information is communicated to one’s partner” (Mohr and Spekman 1994). Previous research on inter-organizational relationships has identified communication to be an important factor for successful partnerships (Kanter 1994; Mohr and Spekman 1994; Monczka, Petersen, Handfield and Ragatz 1998; Ring and Van de Ven 1994). Outsourcing researchers adapted this view and showed the positive correlation between communication and outsourcing success (Grover et al. 1996; McFarlan and Nolan 1995; Poppo and Zenger 2002) as well as the impact of communication on relationship quality in general (Goles 2001; Goles and Chin 2005; Lee and Kim 1999) or particular dimensions such as trust (Anderson and Narus 1990; Holmström, Conchuir, Pär and Fitzgerald 2006; Willcocks and Kern 1998).

Formal communication refers to situations where officially organized information is exchanged, e.g. meetings between provider and client. By contrast, informal communication is “that which remains when rules and hierarchies, as ways of coordinating activities, are eliminated” (Kraut, Fish, Root and Chalfonte 1990) and when people meet outside of work, e.g. meetings in bars after official working hours. The exchange of information between both parties in an outsourcing deal is geared towards “the joint accomplishment of the individual party’s objectives” (Dibbern et al. 2004) which is addressed by relational exchange theory (RET) (Goles and Chin 2002). The fundamental assumption of RET is that there will be an agreement on a superior benefit from cooperation for all partners (referring to the reciprocity concept in social exchange theory), compared to other forms of exchange or to cooperation with other potential partners (Anderson and Narus 1990; Dwyer et al. 1987).

H2: Higher amount of communication between vendor and client leads to higher relationship quality.

### Service Quality

Service quality is defined as the “extent to which the vendor’s systems and functions meet or exceed the customer’s expectations” (Goles 2003). The delivered quality of services is an integral part of an outsourcing relationship. Customers expect their providers to deliver their service in time and budget, to be reliable and to behave proactively (Kettinger and Lee 1997). All efforts of the customer as well as the provider should be directed toward the provision of an excellent service. Prior studies show the positive impact of service quality on the organizational performance (DeLone and McLean 1992; Seddon 1997). Quite obviously, service quality in an IT outsourcing relationship represents a critical driver, respectively an enabler for relationship quality (Blumenberg et al. 2008). For example, customers who receive a service quality they expected or better are less likely to have a demanding IT outsourcing relationship where both parties have to struggle with each other in frequent conflicts.

H3: High service quality enables high relationship quality.

### Contractual Governance

Contracts are an integral part of outsourcing in governing the different phases of an outsourcing relationship (transition, delivery and exit phase) (Poppo and Zenger 2002). For the formal delivery phase, contracts contain elements to describe the pricing, duration of contract, liability clauses, and the type, amount, and quality of services, usually defined in service level agreements (SLAs) (Domberger, Fernandez and Fiebig 2000; Ferguson et al. 2005; Saunders, Gebelt and Hu 1997). SLAs are of particular importance because they describe in detail the availability of systems, the time of recovery and might also contain penalties for poor service (Goo, Kishore and Rao 2004). But solely *defining* services levels is not sufficient; companies

need mechanisms to *control* the quality of the delivered services (Kern and Willcocks 2000a; Lacity, Willcocks and Feeny 1995). Customers can rely on the reports prepared by the provider or they can implement their own measurement system (Willcocks, Lacity and Fitzgerald 1995). Contracts are regarded as an important part of managing the outsourcing relationship (Gellings and Wüllenweber 2006), but they suffer from a significant shortcoming: contracts are inherently incomplete as they cannot address every future uncertainty (MacNeil 1980). RET takes this issue into account and refers to a set of complementary norms which are related to the establishment, preservation, and improvement of a relationship (MacNeil 1980; Spriggs and Gundlach 1996).

H4: A reasonable level of contractual governance leads to higher relationship quality. Contrariwise, too much contractual governance can lead to decreasing relationship quality.

### Contextual Factors

Ein-Dor and Segev (1978, 1982) were one of the first to show the impact of contextual variables on IS structure (organizational maturity, organization size, and extra-organizational situation, inter alia). Based on these contextual variables, we propose four factors that have a major influence on relationship quality.

Beimborn et al. (2005) showed that prior *outsourcing experience* of managers has a strong impact on the evaluation of the competencies of external service providers. Gewalt (2006) illustrates how different outsourcing experiences impact manager's perception of business process outsourcing objectives. Lacity (1998) reports about experienced managers getting better outsourcing deal conditions compared to inexperienced executives. In the same vein, outsourcing experience impacts relationship quality.

Many IT outsourcing works use interdependence as a construct influencing relationship quality (Lee and Kim 1999, 2003; Lee, Huynh and Hirscheim 2007) – usually this concept stems from the work of Anderson and Narus (1990). To cope with high dependencies and high switching costs in an outsourcing context, the *relative importance* of the customer to the provider, in terms of economic (relative deal size in the provider's overall-portfolio) and strategic (reference customer, access to new sectors) considerations, is used to assess the relative importance. Customers with high relative importance may have a better relationship quality.

Graf and Mudambi (2005) demonstrate the negative impact of a high *geographic distance*, which increases the complexity and difficulty of service coordination. High distances between outsourcing parties can also negatively influence the relationship quality. People are less likely to see each other in person and might find it much more difficult to reach a consensus via telephone and mail or to build a trustful relationship.

*Cultural compatibility* between business and IT is reported to influence relationships within companies (IT business alignment) (Peppard and Ward 1999; Wagner et al. 2007), between organizations, especially in offshore situations (Dibbern, Winkler and Heinzl 2008; Holmström et al. 2006), but also when organization outsource within their local market (Wilkof et al. 1995).

## CASE STUDY METHODOLOGY AND SETTING

### Case Study Methodology

We test our proposed research model with a case study analysis. To derive sufficient results from a case study approach, these have to be prepared, conducted and analyzed thoroughly (Yin 2002). Following Dubé and Paré (2003) we identified the research question and made it explicit. The interview guidelines were refined using a pilot case. All interviews were conducted with two to three researchers. They lasted about two hours and were tape-recorded. The collected data was transcribed and analyzed using MAXQDA and a self-developed case study database, which allows for a simple but efficient comparison of case data.

### Case Study Setting

Our case study approach comprised the IT infrastructure outsourcing relationship of four banks located in Germany or Switzerland. The comparison of the banks is supported by a very comparable and homogeneous setting:

- all banks outsourced the same IT function
- all contracts have nearly the same age
- all banks are in their first outsourcing cycle with the provider (the contract has not yet been renewed)

- all interviewees are very experienced with outsourcing and were involved through all phases of the deal

Both the German and the Swiss banking industry consist of three different groups: private commercial banks, publicly owned saving banks and credit cooperatives, which tend to be smaller but much more common. Our case study covers one credit cooperative, two savings banks and one commercial bank. Further “demographic” information about the banks and the analyzed outsourcing deals are presented in table 1.

	Bank A	Bank B	Bank C	Bank D
Sector	Savings bank	Commercial bank	Savings bank	Credit cooperative
Employees	1,000 *	500 *	4,000 *	2,000 *
Contract runtime	2004 – 2009	2005 – 2010	2004 – 2009	2004 – 2008
Outsourced service	IT infrastructure	IT infrastructure, Application development and maintenance	IT infrastructure	IT infrastructure
Outsourcing goal	cost savings	cost savings	cost savings	cost savings technical training of bank employees through provider
Interviewees	Provider manager and service manager (data center)	CIO/ COO	Vice provider manager	Managing director

**Table 1. Banks in the case study (\*: exact number cannot be shown in order to ensure anonymity)**

## CASE STUDY RESULTS

The **relationship quality** differs between the surveyed banks. Although **trust** is regarded as one of the most important relationship quality dimensions by all interviewees, only one of the banks rates their trust level as medium, three rate it as low. Bank A reports trust in their provider to be totally gone, due to a longstanding problematic relationship. For instance, they blame their provider for always delivering incorrect reports, which in turn requires the bank to spend much time reviewing the reports. Bank C and D both have a very formal relationship instead of a trustful connection. D points out that trust increases from the bottom to the top of the hierarchy (in diametrical opposition to the formalization). The relationship between the employees on both sides at the operational level is much more formal than at the strategic level. Bank B has a more trustful relationship with the provider’s employees, many of them have previously been working for the bank before moving to the provider firm when the outsourcing deal was initiated.

A blames the provider for exhibiting a low **commitment** (“availability of personnel is always a catastrophe during holiday seasons”). B and D are quite content with the availability of provider employees, especially in case of problems. By contrast, B regrets that the provider only allocates a sufficient amount of employees in case of severe problems. C cannot understand commitment to be a social variable. His answers always refer to the contract (“if we have a SLA on a task, the provider will show commitment otherwise we do not expect any reaction”).

A describes the process to reach a **consensus** to be very difficult (“painful”). B is reasonably content, but has some unsolved problems in his relationship. Problems with the demand management and request for service processes could not be solved yet. C usually achieves a consensus quickly with his provider, but also admits to sometimes assert oneself.

**Conflicts** arise quite often in the relationship of A, which is explained with the unsatisfactory service quality. Hence, payments are often withheld by the bank. B claims to have no more conflicts with the provider than with his formerly in-house IT unit. C has experienced a heavy change of conflicts over time. The relationship started with an adequate amount of conflicts and increased heavily after one year, since the service quality declined heavily. Finally, the conflict level decreased to a reasonable level. D reports only little conflicts. Both C and D withhold payments in case of failed provider performance.



The interviewees of A complain that the provider lacks **banking knowledge** but also shows insufficient technical skills. B and C report some provider employees to have sufficient banking skills. In case of B, this banking knowledge improved significantly over time. C differentiates between former bank employees, who changed to the provider, and the other provider employees. The former have good bank specific skills, the latter do not. Interestingly, C does not expect and require the provider to have bank specific skills. D reports the provider employees to have good banking knowledge, which is increased heavily during the relationship.

A describes his **communication** with the provider to be frequently inefficient (“often only a monologue from the bank side”). B and D believe their communication with the provider to be efficient, but the efficiency increased during the relationship (D) and sometimes becomes emotional (B).

B and C exhibit about the same **forbearance** towards their providers as their provider towards them. D is less forbearing than his provider. As customer, he expects the providers to be always much more co-operative. By contrast, A is forced to behave very co-operatively towards the provider. A very bad service quality and no intention from the provider to change this situation forces the bank to exhibit much more forbearance than it would like to show (“The provider has the stance of “I don’t care” towards us. To keep our business running we have to be forbearing”).

	Bank A	Bank B	Bank C	Bank D
Relation-ship Quality	<b>Low</b> (no trust between parties; no commitment from provider, consensus is only reached with a high bank willingness to compromise; numerous conflicts; provider exhibits no banking knowledge; communication is inefficient; bank is forced to be forbearing)	<b>Medium</b> (medium amount of trust; medium commitment from provider; consensus is reasonably reached; medium amount of conflicts, same as pre-outsourcing; some provider employees have banking knowledge; communication is efficient but gets sometimes emotional; both parties exhibit a medium forbearance)	<b>Medium</b> (little trust; medium commitment (but not expected by bank); consensus is quickly reached; little conflicts (totally different than one year before); few provider employees have banking knowledge; medium communication efficiency; both parties exhibit a medium forbearance)	<b>Medium to high</b> (Little trust; high commitment from provider, provides adequate personnel resources; few conflicts; provider employees have good banking knowledge; communication is efficient, provider is highly forbearing, bank is not)
Interaction Structure	No regular interaction structures, provider employees are rarely on-site.	No regular interaction structures, but mixed work-groups, on-site provider employees are integrated in the bank processes.	No regular interaction structures, but ten workplaces for the provider employees. Provider’s office is nearby.	Regular interaction structures between bank and provider: Kick-off meetings for projects, job shadowing for new provider employees, presentations for all provider employees to improve mutual understanding. Provider employees are almost always on-site.
Interaction Intensity	Weekly operational meeting, tactical and strategic level no longer take place; medium informal interaction	Weekly operational/ bi-weekly tactical meetings; about 50% of the interaction are informal.	Weekly operational meetings, tactical meetings every three months, strategic meetings on a regular basis (mostly informal); besides strategic interaction only little informal interaction	Weekly operational/ monthly tactical and bi-annual strategic meetings; little informal interaction

Service Quality	Poor to moderate (frequent breakdowns), no improvement over time	Poor service quality compared to pre-outsourcing situation. (explained by the centrally established outsourcing contract that could not be influenced, see below)	Moderate to good (provider's responsiveness is regarded too slow)	Moderate to good (provider did not deliver a promised business model), improvement over time
Contractual Governance	Too little and imprecise SLAs, bank is discontent with contract. Bank controls providers' reports	Contract is a global sourcing contract that was designed by corporate headquarters. Local organization is discontent with the contract, because it could not influence its design. Bank controls providers' reports.	Detailed SLAs, bank is content with contract (after four renegotiations). Bank controls providers' reports and also uses a very detailed and sophisticated control system.	Very detailed SLAs, bank is content with contract. Bank controls providers' reports and also uses a very detailed and sophisticated control system.
Context	Bank has a low relative importance for provider, high geographic distance. Medium outsourcing experience. Totally different cultures.	Local organization has a low importance for the provider, global organization is very important for the provider. Medium outsourcing experience.	Bank has a medium relative importance for the provider. Medium outsourcing experience. Different cultures.	Bank has a high relative importance for provider, low geographic distance. High outsourcing experience.

**Table 2. Summary of case study results**

The availability of **interaction structures** is quite comparable for bank A, B and C. All of them do not have any structures like job rotations, regular trainings together with the provider or any electronic systems to share relevant information between both parties. But B and C have workplaces for the provider employees onsite, B has also mixed workgroups where bank and provider employees work together. Besides provider workplaces on-site, bank D has implemented a set of interaction structures. The relationship started with a training series for the provider employees to get an understanding of the financial processes. To deepen this knowledge, provider employees are encouraged to participate in a job shadowing program. Regular presentations from provider employees are used to sustain the provider's business understanding. As a result, the employees of the provider are regarded as having a good banking knowledge and communication with them is regarded as efficient. Bank D reports that one outsourcing goal was the improvement of technical knowledge of the bank employees. Interestingly, all interactions structures at bank D are geared towards business knowledge transfer from the bank to the provider. Contrary to the stated outsourcing goal, there are no structures to transfer technical knowledge from the provider to the bank. Nevertheless, the close integration of provider staff at the bank site might allow the bank to technically train their employees on the job. Though, any interaction structures to transfer knowledge the other way around could be useful to achieve their outsourcing goal. Bank B and C report that mutual understanding between bank and provider was heavily fostered in the beginning of the outsourcing relationship by the crew change of the technical bank staff to the provider. Both banks benefit from this initial crew change. The provider employees are overall regarded to have sufficient business knowledge. However, both banks do not plan to sustain this knowledge by using interaction structures as described above. Former banks employees that are now working for the provider might change to other departments within the organization of the provider or even leave the provider. Then, their accumulated knowledge about their former employer will be lost for the bank and the provider. These findings indicate the existence of interaction structures improve the relationship quality (H1) in terms of mutual understanding, communication quality and the ability to reach a consensus.

The **formal interaction intensity** of all four banks differs only on higher organizational levels. Weekly operational meetings are common, whereas meetings on the tactical level take place every two weeks (B), every month (D) or every three months (C). Only bank C and D have regular meetings on the strategic level. Within the organization of bank B, strategic level meetings do only take place at the corporate headquarters, not on the surveyed local level. Bank A had regular communication at the strategic level, but due to the bad relationship this communication level does not exist any longer. All banks take minutes or pending lists from their meetings, which are worked through afterwards. **Informal communication** is important, especially on the operational level for the day-to-day communication and coordination. Important decisions are often prepared

informally (B, C, D), but always set in formal meetings. None of the banks promote informal communication on a regular basis. From time to time, B has a joint lunch with the provider employees, C's provider arranges an annual event to meet with the customer and D had a regular soccer game together with its provider, which was eventually cancelled. D complains that too much of the communication with the provider happens formally, which negatively influences relationship quality, especially the trust dimension. These observations indicate that the existence of a high level of interaction intensity, especially on the strategic level, positively influences the relationship quality (H2). Especially informal communication has a positive impact on trust. This is congruent with Lee and Kim (1999) who found that the amount of communication is significantly related to partnership quality.

Bank A and B both complain about the bad **service quality**. Breakdowns are frequent, the provider reacts slowly and absolutely not proactively (A). B's IT related cost are 30% higher after outsourcing, while the service responsiveness and agility (especially for new products) decreased. C and D are more content with their provider, only the responsiveness could be higher. D's service related projects are mostly on time and within budget, but D complains of a lack of provider proactivity ("they could have done much more further business with us, if they were more proactive"). Aside from the overall good service quality, the interviewee is annoyed that the provider did not deliver the promised business model. This business model should have been developed by the provider to support its customer in its financial sector. These findings serve as an indicator for the importance of the correlation between a thorough service quality and the relationship quality, especially the level of conflicts between both parties (H3).

Bank A and B both are discontent with their **contract**, but for different reasons. A complains too little and, if available, the SLA's are too imprecise. The provider accomplishes the SLA-defined service quality but fails in many other areas without SLAs. B has an outsourcing contract that was designed by the banks headquarter and was imposed on all local organizations without the possibility of playing a part in the contract design. This situation leads to the bad service quality described above. Bank C and D have a totally different situation. Their contract and the SLAs are well designed and both are content with this. However, C had to renegotiate the contract four times within a time period of three years until it was satisfied. According to the regulations (e.g. Basel II), banks have to control their processes (including their providers) in order to guarantee stability. To meet these requirements, bank A and B check the reports of the provider they receive. Bank A complains the faultiness of the reports ("every report is seriously flawed"), which requires high expenditures of time for the bank to cross-check it. B wishes to check the reports more intensively in the future. Additionally, C and D have installed very sophisticated control- and measurement systems to comply with the German financial law. C's system consists of 600 measurement items, that allows a very thorough control of both the banks overall IT systems and, in particular, the providers' service quality. D claims that this system notifies him about errors even before the provider notices them. The findings indicate that a well designed contract in combination with a good control system positively influences relationship quality, particularly reducing the amount of conflicts. Contrariwise, a "too detailed" contract or an extensive control of the service leads to a decrease of trust (H4). This is congruent with Poppo and Zenger (2002) who found a complementary relationship between contractual and relational governance.

Out of the **contextual variables**, *relative importance* of customer to provider and *outsourcing experience* prove to be particularly important. The deal volume of bank D is only small, compared to the overall provider portfolio. Nevertheless, D believes to be strategically important for the provider for two reasons: D offers the provider access to the credit cooperative market sector in the German financial industry and is a reference customer. His provider uses this relationship for marketing purposes. In turn, A has also a small deal volume in the provider's portfolio, but does not offer any strategic advantages for his provider. The local organization of B believes to be relatively unimportant for the provider. C rates his relative importance for the provider (in terms of the deal volume) as medium. These findings indicate that the relative importance of a customer has an influence on the relationship quality, especially the commitment of the provider. This matches with results from Lee and Kim (1999), who found an association between dependency and relationship quality. The outsourcing experience of bank A, B and C are quite comparable. The surveyed deals are their first outsourcing experience and started three to four years ago. In the meantime, they gained more outsourcing experience by further outsourcing deals. D exhibits a much higher experience with outsourcing. Outsourcing is a strategic objective for this company for a long time. Nearly all IT services are bought externally.

Table 3 summarizes the impact of determinants on relationship quality dimensions. Positive impact is marked with "+", negative impact is marked with "-", followed by the bank name and a superscript number. The quotes related to these numbers and the hypotheses are presented in table 4.

	Commitment	Comm.Qual.	Conflict	Consensus	Forbearance	Mut.Underst.	Trust
Interaction Structure		+ (A) <sup>1</sup> + (D) <sup>2</sup>		+ (B, C) <sup>3</sup>		+ (C) <sup>4</sup> + (D) <sup>5</sup>	+ (B) <sup>6</sup>
Interaction Intensity		+ (B) <sup>7</sup>					+ (B) <sup>8</sup>
Service Quality			+ (A) <sup>9</sup> + (C) <sup>10</sup>		+ (A) <sup>11</sup>		+ (D) <sup>12</sup>
Contractual Governance	+ (C) <sup>13</sup>		+ (D) <sup>14</sup>		- (A) <sup>15</sup> - (D) <sup>16</sup>		+ (A) <sup>17</sup> - (C, D) <sup>18</sup>
Contextual Factors	+ (D) <sup>19</sup>						

**Table 3. Summary of the impact of determinants on relationship quality**

Hy p.	Nu mb.	Quote
H1	1	"We usually provide a monologue instead of having a communication with our provider because the provider does not have a clear structure of contact persons."
	2	"Communication structures, in terms of defined contact structures and regular workshops, maintain effective communication."
	3	"We usually reach a consensus quickly with former bank employees who have changed to the provider at the beginning of the relationship."
	4	"Provider employees who have changed from the bank to the provider have good banking skills."
	5	"We train the provider employees which gives them an understanding of our processes and fosters their business skills."
	6	"The relationship with the provider employees is very trustful because many of them changed from us to the provider at the beginning of the relationship."
H2	7	"The provider employees are fully integrated into our team because of regular interaction with them."
	8	"The relationship is trustful because we are used to communicating mostly informally."
H3	9	"Conflicts often arise because of the bad service quality."
	10	"Conflicts are directly related to service quality. We started with both being low, then they increased significantly and eventually both decreased."
	11	"If the service quality matches our expectations we are more lenient than in phases where we receive a bad service quality", "We experienced that the provider cannot deliver the best service quality at the beginning of the relationship. In this phase of the relationship we are more lenient than in later phases, where we expect the service quality to match our expectations."
	12	"The provider promised a business model for our financial sector but did not keep this promise. This is a major reason why the relationship is built less on trust than on formalistic behavior."
H4	13	"If we have a SLA on a task, the provider will show commitment."
	14	"We do not have many conflicts in the relationship because of the well-defined contract."

15	Bank is forced to be forbearing because of the insufficient contract ("we have to be forbearing because of the bad contract to keep our business up and running").
16	"At the end of the day it's all about money. Due to the detailed and defined penalties we do not have to be forbearing. For us, forbearance is used as strategic behavior. Sometimes, when the provider must pay a penalty, we remit this fine."
17	"Incorrect reports lead to distrust."
18	"A very detailed contract in combination with a sophisticated measurement system leads to a very formalistic relationship without much trust."
19	"The provider exhibits a high level of commitment within this relationship because we are of strategic importance for him. We offer him access to our financial sector and are one of his reference customers."

**Table 4. Quotes from banks regarding hypotheses**

## CONCLUSION AND FURTHER RESEARCH

The results for the two newly proposed determinants of relationship quality (interaction structure and service quality) and the two proposed relationship quality dimensions (communication quality and forbearance) are mixed.

The analyzed business relationships show a **positive influence of interaction structure and service quality on relationship quality**. Banks with clearly defined contact structures towards their provider or defined knowledge sharing routines with their provider exhibit a better relationship in terms of a high communication quality. Mutual understanding is fostered as provider employees, who are trained by the bank in workshops, have a better business understanding. Furthermore, a change of staff from the bank to the provider has a positive impact on mutual understanding. Former bank employees exhibit higher banking skills. These findings support the proposed impact of interaction structures on relationship quality (H1).

Obviously, the bank managers who were interviewed emphasize a relationship between service quality and the amount of conflicts. Increasing service quality leads directly to fewer conflicts. In turn, conflicts will increase with decreasing service quality. Furthermore, one bank in our sample reports on the influence of service quality on trust. Despite the provider firm's promise, it did not deliver a proposed business model, which resulted in a general distrust from the bank's perspective. These findings support the proposed impact of service quality on relationship quality (H3). Both results encourage us to apply both determinants in further research.

The findings on the proposed two new dimensions of relationship quality are less clear. Whereas communication quality seems to be a relevant dimension of relationship quality, the results regarding forbearance are ambiguous. **Communication quality** is highly influenced by the application of interactions structures. Relationships with clear interaction structures exhibit a very good communication quality. Regarding **forbearance**, the results in this sample differ. One bank shows a higher forbearance when service quality is good and reports about decreasing forbearance when service quality declines. Another manager reports about the necessity to be forbearing to keep the business running. The provider delivers such a bad service quality that the bank could not keep their business going without a high level of forbearance. On the other hand, for one bank in our sample forbearance does not seem to be a dimension of relationship quality. Forbearance is used as a strategic element to force the provider delivering additional or better services. This bank sometimes forgoes penalty payments from the provider as an incentive to deliver additional projects or better service quality in the future.

Forbearance should be critically examined in further research to decide if it is actually a suitable dimension of relationship quality.

The **empirical validation supports the findings from prior literature** that show the influence of interaction intensity (H2) and contractual governance (H4) (Goles and Chin 2005; Lee and Kim 1999; Poppo and Zenger 2002) on relationship quality (Goles and Chin 2005; Lee and Kim 1999). In addition to the prior findings, the relationship between contractual governance and relationship quality should be examined closer. At first, a detailed contract and reports have a positive impact on relationship quality as, for example, fewer conflicts occur. Both instruments seem to be the basis for a trustful relationship. Then, if the contract gets more and more detailed and the control of contractually defined provider performances increases, the connection between contractual governance and relationship quality seem to become diametrically opposed. Further contract specifications and controls will have a negative impact on relationship quality.

In the **next steps** of our research we will interview a) the provider side and b) extend the number of cases on the bank side. Subsequently, a quantitative study in the German financial industry will be conducted in order to test the causalities between determinants and relationship quality.

## ACKNOWLEDGEMENT

This work was developed as part of a research project of the E-Finance Lab, Frankfurt am Main, Germany. We are indebted to the participating universities and industry partners.

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