December 2004

Impact of Configuration on IT Outsourcing Relationships

Shawn Alborz  
*The University of Melbourne*

Peter Seddon  
*The University of Melbourne*

Rens Scheepers  
*The University of Melbourne*

Follow this and additional works at: [http://aisel.aisnet.org/amcis2004](http://aisel.aisnet.org/amcis2004)

Recommended Citation

This material is brought to you by the Americas Conference on Information Systems (AMCIS) at AIS Electronic Library (AISeL). It has been accepted for inclusion in AMCIS 2004 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.
Impact of Configuration on IT Outsourcing Relationships

Shawn Alborz
The University of Melbourne
s.alborz@pgrad.unimelb.edu.au

Peter B. Seddon
The University of Melbourne
p.seddon@unimelb.edu.au

Rens Scheepers
The University of Melbourne
r.scheepers@unimelb.edu.au

ABSTRACT
This paper tests the extent to which four main factors that help define an organization’s information technology (IT) outsourcing configuration contribute to the quality of IT outsourcing relationships between clients and suppliers. It presents a research model that is tested using an analysis of substantive in-depth interviews with a total of 28 client and supplier managers in four pairs of client and supplier organizations. The findings suggest that a sound outsourcing configuration is important for the successful development of a quality relationship between parties. Thus, organizations seeking to increase their operational excellence and decrease the operational cost of IT outsourcing, and ultimately to improving the success of their IT outsourcing arrangements, must put more emphasis on, and take a more planned approach to, configuring their IT outsourcing arrangements.

Keywords
Managing Outsourcing Relationships, Configuration

INTRODUCTION
A key to achieving benefits from IT outsourcing (ITO) is maintaining positive client–supplier relationships (Klepper and Jones 1998). It is widely accepted that better relationships lead to greater net benefits from IT outsourcing (Lacity and Willcocks 2001). Client organizations enter into ITO relationships seeking to gain the advantages of specialization, market discipline, flexibility, and access to lower cost service provision (Domberger 1998). Relationships between client and supplier in ITO arrangements are determined, in part, by actions and attitudes of managers and staff in both the client and supplier organizations (Klepper and Jones 1998), but they are also determined, in part, by what we call the configuration of the ITO arrangement.

An outsourcing configuration is the result of the way an organization sets up or shapes the outsourcing arrangement in accordance with business needs from the beginning. An ITO configuration encompasses outsourcing intent, results of due diligence, contract, and governance arrangement factors. Such configuration is about:

- intent: clarifying an organizational motivations and drivers in pursuing ITO
- due diligence: assessing the size and complexity of services to be outsourced and selecting/evaluating a potential supplier
- contract: developing a comprehensive and flexible contract with relevant measures for its associated service levels
- governance arrangement: developing an appropriate governance structure for managing the relationship

Many, but not all, of the above decisions are reflected in the contracts and service level agreements (SLAs). Configuration thus defines the rules under which the outsourcing game will be played, from the date the contract is signed through the life of the contract. An organization’s ITO configuration will normally evolve in the years after the contract is signed.

The research question addressed in this paper is: “How does an organization’s IT outsourcing configuration influence the quality of the relationship between client and supplier, and why?” An ITO relationship is “an ongoing linkage between an...
outsourcing supplier and customer that has a long-term orientation and a mutual recognition and understanding that the benefits attained by each firm are at least in part dependent on the other firm” (Goles and Chin 2002, p.227). The quality of such a relationship is the degree to which both client and supplier managers regard the relationship as positive and constructive. In this study, the quality of the relationship is assessed by considering perceptions of several attributes at various levels of both client and supplier management hierarchies (see Figure 2). Our contention is that developing an appropriate outsourcing configuration not only helps client and supplier to construct a better relationship over the life of the contract, but also ultimately can increase the chances of achieving ITO success.

This paper is in four main sections. First, we explain the conceptual model. This leads to a review of existing research on ITO relationships, followed by our research approach and preliminary results. Finally, we discuss and present evidence for each configuration factor and present an avenue for future research.

TOWARDS A CONCEPTUAL MODEL

The model tested in this study (Figure 1), was built up from the outsourcing and consulting literature coupled with our previous research (Alborz et al. 2003; Atos Origin 2004; Blue Sands 2003; Cullen and Willcocks 2003; Gartner 2002; Kern and Willcocks 2001; PA Consulting 2004). The analysis of the literature suggests that two main groups of factors, Configuration and Operationalization, affect the quality of most ITO relationships. In figure 1, the Configuration is the result of activities performed and business decisions made in setting up the outsourcing arrangement at the beginning. Every organization that pursues an ITO arrangement performs these activities and makes business decision in some manner or another. Operationalization is the result of activities and business decisions made involved in day-to-day management of the arrangement over the life of the contract. The arrow from Configuration to Operationalization is intended to suggest that management’s choices during Operationalization are highly constrained by the Configuration. As parties invest more time and resources in configuring their outsourcing arrangement appropriately, the operationalization of the engagement becomes smoother and the outcomes will be more satisfactory. The arrow from Operationalization to Configuration is a feedback loop for making appropriate changes to the Configuration. Fundamentally, both parties must review and modify the Configuration if conditions change, e.g., due to technology advances, changes in overall business strategy, contract renewal or termination or, when the supplier’s performance is not up to either contractual requirements or client expectations.

![Figure 1. IT Outsourcing Relationship Model](image-url)
The purpose of this study is to explore the extent to which Configuration affects the Quality of the ITO relationship. We believe the four factors listed in the Configuration box in Figure 1: Outsourcing Intent, Results of Due Diligence, Contract, and Governance arrangement, are critical aspects of configuration that affect the Quality of the ITO Relationship. These four factors, and their hypothesized influence on the Quality of the ITO Relationship, are now discussed in turn.

Outsourcing intent refers to the extent to which the organization’s business and IT objectives are supported by the IT outsourcing arrangement. Since the decision to outsource has a long-lasting impact on the organization, the objectives should also be long-term. Typically, client organizations engage into outsourcing arrangements for various reasons; e.g., access to better skills/expertise, new technologies, or cost saving. In terms of the impact of outsourcing intent on the Quality of the Relationship, we hypothesize that if the client’s outsourcing objectives are not aligned with its business objectives, the supplier’s solution will not satisfy the client’s business needs, and the relationship will experience difficulties; the greater the alignment, the greater the expected Quality of the Relationship.

Results of due diligence refers to the outcomes of a set of pre-planning activities that both client and supplier undertake before signing a contractual agreement (Alborz et al. 2003). For the client, due diligence involves assessing the size and complexity of services, evaluating and selecting a supplier, and assessing the supplier’s cultural fit. For the supplier, due diligence involves verifying the accuracy of the client’s information in order to make appropriate adjustments in resource structure, initial proposed solution, and the final pricing. We hypothesize that failure of either party to conduct due diligence activities thoroughly will put the respective organization at a disadvantage because hidden costs and discrepancies will surface during Operationalization and that can jeopardize the relationship. All three subcomponents of due diligence outcomes affect Quality of the Relationship. Size of the arrangement refers to the number of the client’s physical locations, the transferring of employees, the infrastructure, applications, systems, cost, and duration of the arrangement. Complexity refers to types of services required and the level of support from the supplier. Evaluating and selecting a supplier refers to the results of the process for finding a supplier capable of providing the services that meet the client’s business needs. Culture refers to “the pattern of shared values and beliefs that help individual understand organizational functioning and provide norms of behavior in the organizations” (Lee and Kim 1999). In outsourcing relationships, a degree of cultural understanding has to exist; otherwise, problems tend to arise (Fitzgerald and Willcocks 1994).

Contract refers to the design and implementation of a contractual relationship between client and supplier (Domberger 1998). Developing a comprehensive contract requires considerable time and commitment of expert resources, which often becomes quite expensive. Thus, some organizations reduce the cost by speeding up the contract-writing process. We hypothesize that a poorly specified contract will have a negative impact on the Quality of the Relationship through two main paths: flexibility and service level agreements. Flexibility refers to the ability to make changes in service provision quickly and at low cost (Domberger 1998). SLAs define a joint understanding of the levels of service considered acceptable and realistic by both parties.

Governance arrangement refers to the management structure set in place to manage all aspects of the outsourcing relationship. The structure, which typically is a joint management team from both parties, includes IT professionals who are responsible for overseeing and coordinating tactical and operational activities of the outsourcing relationship. We hypothesize that governance arrangements have a strong impact on the Quality of the Relationship. In particular, we believe that the skill and the style of individual managers play a crucial role in managing the relationship. Skill refers to the ability and experience of an individual within an organization for producing results in a specific domain. Managements often fail to realize that managing IT outsourcing relationships requires a very different management style. Style refers to the patterns of behavior of individual managers (Pascal and Athos 1986), from senior managers to line managers responsible for day-to-day operation. A suitable management style helps the organization to cultivate an environment for continuous improvement, which can then increase the quality of the relationship, service, and performance.

BACKGROUND ON IT OUTSOURCING RELATIONSHIPS

A search through the literature found a number of studies (Table 1) that address outsourcing relationships from various viewpoints and theoretical bases including: inter-organizational control mechanisms (Davis 1996), managing the partnership (Klepper 1995; Langfield-Smith et al. 2000), alliances (McFarlan and Nolan 1995), strategic partnering (Willcocks and Kern 1998), range of contracting relationships (Klepper 1993), and relationship-stakeholder perspectives (Lacity and Willcocks 2001). Most studies focus primarily on the client perspective, although Goles (2001), Kern (1997), and Kern and Willcocks (2001) consider suppliers as well.
<table>
<thead>
<tr>
<th>Source(s)</th>
<th>Theoretical Base</th>
<th>Research</th>
<th>Key Factors</th>
<th>Covers Configuration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cullen and Willcocks (2003)</td>
<td>None</td>
<td>Multiple case study</td>
<td>• Architect • Engage • Govern</td>
<td>Implied</td>
</tr>
<tr>
<td>Davis (1996)</td>
<td>None</td>
<td>2 Case studies</td>
<td>• Governance • Interorganizational design</td>
<td>No</td>
</tr>
<tr>
<td>Goles (2001)</td>
<td>Relational exchange</td>
<td>Survey</td>
<td>• Client capabilities • Supplier capabilities • Relationship • Quality</td>
<td>No</td>
</tr>
<tr>
<td>Klepper (1995a)</td>
<td>Evolutionary partnering framework</td>
<td>2 Case studies</td>
<td>• Awareness • Exploration • Expansion • Commitment</td>
<td>No</td>
</tr>
<tr>
<td>Klepper and Jones (1998)</td>
<td>None</td>
<td>Theoretical</td>
<td>• Behavior</td>
<td>No</td>
</tr>
<tr>
<td>Kern (1997)</td>
<td>Exchange Contract law</td>
<td>11 Case studies</td>
<td>• Contract • Normative</td>
<td>No</td>
</tr>
<tr>
<td>Kern and Willcocks (2000)</td>
<td>Organization Social exchange Relational Contract</td>
<td>7 Case studies</td>
<td>• Context • Contract • Normative • Interaction • Behavior</td>
<td>Implied</td>
</tr>
<tr>
<td>Kern and Willcocks (2001)</td>
<td>Interorganizational relationship Transaction cost Relational contract</td>
<td>Theoretical Multiple case studies</td>
<td>• Intent • Contract • Structure • Interaction • Behavior</td>
<td>Partial</td>
</tr>
<tr>
<td>Lacitcy and Willcocks (2000)</td>
<td>None</td>
<td>75 Case studies</td>
<td>• Stakeholders • Relationship phases • Relationship types</td>
<td>No</td>
</tr>
<tr>
<td>Langfield-Smith et al (2000)</td>
<td>None</td>
<td>4 Case studies</td>
<td>• Contract • Communication channels • Performance monitoring • Informal controls</td>
<td>No</td>
</tr>
<tr>
<td>McFarlan and Nolan (1995)</td>
<td>None</td>
<td>12 Case studies</td>
<td>• Internal/external drivers • Structuring alliance</td>
<td>No</td>
</tr>
<tr>
<td>Willcocks and Kern (1998)</td>
<td>Interorganizational relationship Marketing Organization</td>
<td>1 Case study</td>
<td>• Contract • Normative</td>
<td>No</td>
</tr>
<tr>
<td>Atos Origin (2004)</td>
<td>None</td>
<td>N/A</td>
<td>• Preparation • Contracting • Transition • Execution</td>
<td>Implied</td>
</tr>
<tr>
<td>Blue Sands (2003)</td>
<td>None</td>
<td>N/A</td>
<td>• Deal definition • Transition • Operational</td>
<td>Implied</td>
</tr>
<tr>
<td>Gartner (2002)</td>
<td>None</td>
<td>N/A</td>
<td>• Sourcing strategy • Evaluation and selection • Contract development • Sourcing management</td>
<td>Implied</td>
</tr>
<tr>
<td>PA Consulting (2004)</td>
<td>None</td>
<td>N/A</td>
<td>• Managing sourcing • Establish sourcing strategy • Selection process • Transition/implementation • Contract management</td>
<td>Implied</td>
</tr>
</tbody>
</table>

Table 1. Summary of Reviewed Studies on IT Outsourcing Relationships
To the best of our knowledge, the configuration concept has been discussed or implied in only two academic studies of ITO relationships (Cullen and Willcocks 2003; Kern and Willcocks 2001). Kern and Willcocks (2001) mention the term “configuration”, but it is unclear from their model what configuration means, nor how it influences relationships. Although Cullen and Willcocks (2003) do not explicitly mention the term “configuration”, we can infer that the first five blocks in their process model intend to achieve an appropriate configuration, and that configuration then affects execution and management of the outsourcing arrangement. In short, by reviewing the above literature, it is apparent that no previous studies have considered explicitly the impact of ITO configuration on relationships in the detail presented in this paper.

RESEARCH APPROACH

The aim of this study was to ‘test’ the link between Configuration and Quality of the Relationship in the model to see if there was empirical support for the importance of the identified factors. A qualitative case methodology was employed to explore outsourcing arrangements in order to gain a richer view and in-depth understanding in terms of history, contextual information, and relationship building. In this context, a case methodology was useful (Walsham 1993) for helping us to understand how relationships developed and evolved, what the conflicts were, and how organizations attempted to resolve them. The primary researcher obtained access to four pairs of medium-to-large clients and suppliers representing both private and public sectors organizations (a high-tech, a manufacturing organization, and two governmental agencies). All four clients have engaged in IT outsourcing for at least two years, and have contracts ranging from three to ten years. The unit of analysis was the relationship between the client and supplier in each outsourcing case which is similar to the approach used by Lee and Kim (1999). We refer to the four relationships as A, B, C, and D.

Substantive interviews were conducted with a total of 28 managers. The participants were senior managers, IT/business unit managers, and project/contract managers who were managing the outsourcing arrangement. At least three client managers and three supplier managers were interviewed for each case. Questions were open-ended, based on the outsourcing literature and the constructs of our research model. Each interview took about sixty minutes, and was tape-recorded and transcribed. The data collected through the interviews were supported and supplemented by secondary material such as outsourcing contracts and reports.

A questionnaire instrument was used to collect data concerning the Quality of the Relationship. During each interview, the interviewee was asked to score ten aspects of the relationship (using one-to-seven Likert-scale method) at five time periods (Lacity and Willcocks 2001, p.293) outsourcing lifecycle: pre-contract, contract, transition, middle, and mature phases. Thus, 50 data points were collected from each interviewee. Except for the mature (current) phase, all data were retrospective i.e managers were asked to recall attributes of the relationship at each of the five phases. A graph of Relationship Quality for one client-supplier pair is shown in Figure 2. Scores for the vertical axis were calculated by averaging scores for the ten attributes shown on the right of the figure from two client managers and two supplier managers. The figure shows that client managers experienced a “honeymoon” period during the Transition phase, and that in the mature phase, supplier managers’ perceptions of the quality of the relationship were higher than those of their client counterparts.

Using the data-display model (Miles and Huberman 1994), we grouped, categorized, and coded data relating to the themes of outsourcing intent, due diligence, contract, and governance arrangement as defined by the model. Several iterations through the data were used to understand and identify relevance evidence concerning the importance of these factors (a) in defining the ITO configuration, and (b) explaining the quality of the relationship.
RESULTS

Table 2 summarizes the influence of the four main Configuration factors in Figure 1 on the perceived Quality of the Relationship for all four client-supplier pairs. All four factors were important in determining the Quality of the Relationship for relationships A, B, and C. Only some were important for Relationship D. The following sections discuss and provide evidence of how each factor influenced the Quality of the Relationship in the four cases.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Outsourcing Intent</th>
<th>Due Diligence</th>
<th>Contract</th>
<th>Governance Arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>C</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>D</td>
<td>Yes</td>
<td>No*</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

* Some evidence exists but it was not strong

Table 2. Summary of Case Evidence That Configuration Factors Influenced The Quality of The Relationship

INFLUENCE OF OUTSOURCING INTENT

One reason why the outsourcing intent component of configuration influences the relationship between parties is that outsourcing objectives can be mismatched. In all four cases, the client organization did not consider its business objectives before signing the contractual agreement. For example, in relationship D, the client’s IT organization, which negotiated the arrangement, was not clear about the businesses’ goals and needs. Thus, the client’s outsourcing intent driving the arrangement led to a poor configuration. The relationship soured because of the client’s failure to develop an outsourcing intent relevant to business needs.

One of the issues that impacted our relationship badly, is their outsourcing intent. I don’t see the connection drawn well enough between [their] IT outsourcing strategy and business strategy.  (Project Executive, Supplier_D)

The cause of the dissatisfaction that undermined the relationship between client and supplier was that the supplier had delivered a service that was based only on the client’s IT objectives. While business users were dissatisfied and concerned with the performance of their mission critical applications, the IT function was more concerned with uptime and
infrastructure-availability. In fact, supplier D had delivered what it was supposed to deliver and had met its contractual obligations. Moreover, the client’s (IT managers) frustration levels increased because they were unable to fulfill users’ demands for service excellence. As a result, the client found itself locked in a situation where not only the provisioned services did not satisfy the users but also it was too expensive to change or acquire new services. Eventually, the users’ dissatisfaction with the service, coupled with costly contractual amendments, caused friction between the parties. As the project director explained, relationship D soured because the client did not consider business objectives when determining what they were trying to buy.

\[\text{I'm meeting my obligations and business guys are saying, this isn't working for me and I'm not happy. Why?} \]
\[\text{Because, what you've bought is not what you need.} \quad \text{(Project Director, Supplier_D)}\]

INFLUENCE OF DUE DILIGENCE

As discussed earlier, during due diligence clients assess the size and complexity of their services, evaluate and select a supplier, and assess the supplier’s cultural fit. Suppliers verify the accuracy of the client’s information, adjust their resource structure, and the final pricing.

Overall, due diligence influenced the quality of the relationship in three of the four outsourcing arrangements. In relationships A and C, the failure of the client to assess all three aspects of due diligence led to a poorer relationship. In relationship B, only one activity, failure to assess size and complexity, influenced the relationship. However, there was no clear evidence that due diligence activities had a positive or negative influence on the quality of relationship D.

Size and Complexity

One cause of the turmoil in relationship C was the supplier’s failure to conduct thorough due diligence to verify the client’s information. Hence, discrepancies surfaced during the operationalization stage, which caused great strain on the relationship. A possible explanation for this omission might be that either the client did not allow the supplier sufficient time to conduct comprehensive due diligence or the supplier put too much trust in the client’s information. Since the supplier had already signed the contractual agreement, it was legally obliged to deliver and fulfill its commitment. The failure to verify the accuracy of the client’s information forced supplier C to provide extra services and allocate more resources to manage the impact of those discrepancies. Consequently, extra services increased the supplier’s operating cost and decreased its profitability significantly.

\[\text{That's why the relationship is in so much trouble. It is because we believe that the volumes and the environment are different. We've had numerous claims and they've refused to acknowledge those claims. Because they were saying that we should have found out... Unless you get due diligence right, you can really pay the price later, in that once you start getting to the situation where the customer expects you to do a service and you don't have enough staff to do it and you're not making a margin, then it is very hard to have a relationship.} \quad \text{(Delivery Manager, Supplier_C)}\]

Supplier Evaluation/Selection

In relationship C, the client evaluated the supplier’s competencies in terms of established processes and financial stability. However, the client overlooked the supplier’s lack of outsourcing experience, and signed the contractual agreement, which caused relationship C to deteriorate at operationalization stage. When we asked the client’s IT manager why the outcome of supplier evaluation and selection caused the relationship to deteriorate, he explained that the supplier’s perceived manufacturing processes were more important than its outsourcing experience.

\[\text{We selected them to improve our manufacturing systems, so we thought that <the> relationship would actually get us a better deal in delivering manufacturing improvements, but it didn't. They didn't have any outsourcing experience. So eventually the relationship failed.} \quad \text{(IT Manager, Client_C)}\]

Cultural Fit

Relationship D endured great pain because the client had a different culture to the supplier’s. The client’s culture, as expressed by supplier D, was very aggressive, demanding, and uncooperative. This inhibited the parties from trusting each other, sharing knowledge, and developing a good working relationship, and finally led to an unhealthy relationship.
They deal with their own business completely different way to us. They are very aggressive, and it is not a happy relationship. It isn’t good and it is not our culture to operate like that. (Project Director, Supplier_D)

INFLUENCE OF THE CONTRACT

The contract describes the design and implementation of a contractual relationship between the parties. As indicated in Figure 1, there are two main aspects to be considered: flexibility and SLAs. For relationships A, B and C, the failure of the clients to build-in enough flexibility and clearly define relevant SLAs in the contract led to mediocre relationships. However, there was no clear evidence that flexibility or SLAs influenced relationship D positively or negatively.

Flexibility

For example, in relationship A, the client initially believed that it had developed a robust contract. However, shortly into the operationalization stage, client A felt “locked-in”. The lack of flexibility in the contract did not allow client A to adjust and reduce the volume scheme when the volume of mainframe usage began to decrease. Thus, the relationship floundered.

The issue here is that people are held hostage to a fixed price ...Because of the inflexible contract and that has hurt our relationship badly. Commercially, we are not saving any money, and contractually we are bond to it. So, the supplier has the advantage and isn’t motivated to change the pricing structure. (Project Manager, Client_A)

SLA

In terms of SLAs, although some suppliers fulfilled their contractual obligations by achieving SLA targets, unhappy relationships began to emerge, because SLAs were not based on relevant business requirements. For example, in relationship C, the client outsourced its help-desk support and a particular SLA in the contract measured the number of calls answered by the supplier within the first few seconds. For the client, answering the call within seconds had high priority. However, the client did not examine the impact of that measure on its service and business. On many occasions, the supplier put the user on hold in order to answer another call and, in the worst instances, hung up without warning. For the supplier, it was important to answer the help-desk call but not necessarily solve the problem. Eventually, the outcome of the service did not satisfy the client and dissatisfaction led to a dispute. As a result, the client refused to pay invoices associated with the help-desk support. As acknowledged by the supplier’s delivery manager, wrong measures in the SLA influenced the relationship negatively.

It was in the contract to answer 85% of calls within 20 seconds. So, I was only motivated to answer the calls quickly and in terms of meeting that measurement, I have done my job. If I go and ask someone in user-land, he would say, I wasn’t very happy with you because I did not get my problem fixed. (Delivery Manager, Supplier_C)

INFLUENCE OF GOVERNANCE ARRANGEMENT

A proper governance arrangement is required for overseeing and coordinating tactical and operational activities of the outsourcing relationship. By “proper”, we mean identifying specific roles with the IT or business skills necessary for managing the ongoing interfaces and interactions between parties. Overall, the failure of the clients to develop proper governance in relationships A, B, and C led to poorer relationships. This was because the clients defined their outsourcing roles and responsibilities very vaguely, with no clear indication of who was accountable for managing the relationship.

For example, in relationship A, the client put the highest priority on selecting a supplier, signing the contract, and operationalizing the arrangement. Thus, developing a governance arrangement was only an after thought, which influenced the relationship significantly. The client firmly believed that managing the outsourcing arrangement was the supplier’s responsibility.

Our relationship was so poor that we were almost at termination point. So, a workshop was organized with client’s management and we spent about 3 days beating each other up over things to develop a governance model. As a result, we went from almost being in court to being a reference site within 10 months, and they became our number one customer for the next 2 or 3 years. (Delivery Manager, Supplier_A)
Skill
As outsourcing arrangements become more complex, the necessity increases to develop and retain specific skills to manage ongoing relationships. In relationships A, B, and C, the clients failed to recognize the important role that skills play in managing relationships; however, this was not the case in relationship D. Conversely, we found that all suppliers were in a better position because developing and retaining skills for managing the relationship was part of their core business, except in the case of supplier C.

For example, in relationship A, problems arose when the client used its existing IT staff to manage the outsourcing arrangement without assessing whether they had the necessary skills. In fact, two IT managers who were responsible for managing the outsourcing contract had neither prior skills in contract management nor IT outsourcing experience. Therefore, the lack of skill sets such as negotiating priorities, communicating issues at different levels, and resolving conflicts damaged the relationship significantly.

> I was an operations manager. I had no experience in contract administration. I didn’t have experience of outsourcing, to be perfectly honest. So it isn’t so much in the delivery of service side, and I wouldn’t blame our supplier for that. (Project Manager, Client_A)

Style
An outsourcing arrangement involves many managers from both parties with different management styles, interacting and communicating with each other on a daily basis. Our findings indicated that the manager with an adversarial style caused the development of a conflict that endangered the relationship. In relationship C, the supplier’s “autocratic” management style worsened the relationship constantly. In relationship D, the supplier’s project director expressed that the differences in management style led to miscommunication, decreased the level of trust, and undermined the relationship.

> They deal with their own business in a completely different way to us. They are very aggressive. Our relationship isn’t a happy relationship. (Project Director, Supplier_D)

CONCLUSION
The aim of this study was to test empirically the extent to which Configuration affects the Quality of the ITO Relationship. In particular, we set out to test whether the four factors identified in Figure 1 as being critical elements of a client organization’s outsourcing configuration affected the quality of the ITO relationship. Our conclusion is that Configuration matters! Quality relationships depend not only on good communication and positive attitudes of managers responsible for making outsourcing work, but also on developing and maintaining an appropriate outsourcing configuration. The evidence suggests that efforts taken before the contract is signed to develop an appropriate outsourcing configuration will pay dividends through the Operationalization stage of the contract’s life. In the cases studies, most of the factors that negatively influenced ITO relationships could directly be attributed to a lack of attention to outsourcing configuration factors.

The applicability of the results in this paper is limited in the sense that our findings focus only on the influence of the four outsourcing configuration factors on the quality of the relationship between parties. In terms of causation, we do not suggest that outsourcing configuration explains all issues affecting the quality of the relationship or to overall outsourcing success (Markus and Robey 1988). Our evidence does, however, suggest that a harmonious outsourcing relationship between the parties is unlikely without specific attention to the outsourcing configuration.

REFERENCES


