

Facilitating IT outsourcing through improving buyer-vendor interaction in outsourcing life cycle

Xie Gang Mei Shu'e

(School of Economics and Management, Southeast University, Nanjing 211189, China)

Abstract: For a clear understanding of how to foster necessary attributes of partnerships that promote a closer relationship for achieving outsourcing success, this paper tries to explore the role of interaction. Based on empirical data from a logistics and procurement flat system outsourcing case and earlier research, the industrial network approach and the international marketing and purchasing interaction model are used to analyze the nature of interaction in a three-phased outsourcing life cycle, particularly, characteristics and activities of the transition phase are identified. The findings reveal that developing a relationship between partners requires an industrial network perspective. Improving the key aspects of interaction, information and knowledge sharing, communication and collaborative participation, involved in the important events of three phases would contribute to enhance the relationships performance. The key aspects of interaction should take place among the network actors and not just between buyers and vendors.

Key words: information technology (IT) outsourcing; outsourcing life cycle; interaction

doi: 10.3969/j.issn.1003-7985.2011.01.020

Despite the growing trend of IT outsourcing in China, few firms have achieved success. Thus, providers and buyers are under increasing pressure to exhibit the value of their outsourcing. Improving the quality of the relationships among the organizations has been regarded as a way to meet this challenge. Outsourcing literature has revealed that the relationship quality between two parties is significant to the outcome of outsourcing.

In the past decades, most studies have focused on the interaction process based on the international marketing and purchasing (IMP) interaction model. How to foster the necessary attributes of partnerships that promote closer relationships for achieving outsourcing success is still not clear enough. Recently, researchers have proposed an industrial network approach to study outsourcing relationships, which can enable a comprehensive understanding of the development of relationships^[1]. The aim of this paper is to explore the role of interaction on cultivating close relationships for achieving satisfactory outsourcing outcomes. Previous models and frameworks have significantly contributed to the understanding of interaction between companies^[1-3]. Based on the case analysis of Zhejiang Mobile and its partners, we apply synthesis perspectives and present the nature and key

dimensions of interaction in the contract planning and transition as well as post-contracting phases.

1 Theoretical Perspectives on Outsourcing

1.1 Interaction perspective

The interaction process was first introduced in the IMP group's interaction model^[3]. It viewed interactions between customers and suppliers as a series of short-term social interactions. The development of a relationship was regarded as a process rather than the result of focal elements, reflecting the developmental aspects of relationships^[2]. Metcalf et al.^[3] theorized buyer-seller relationships based on this model as a way to suggest the constructs of social and information exchange as the determinants of cooperation and adaptation^[2]. Some relational studies pointed out that interaction process factors became the determinants of partnership quality. Kern and Willcocks^[4] also found that a strong formation of relational exchange attributes was important to a successful implementation of IS outsourcing.

1.2 Industrial network approach

The industrial network approach, with its particular focus on interaction in business relationships, has been applied to studies of both outsourcing and logistics^[5-7]. With this model, the business landscape is viewed from three layers: the activities undertaken; the resources used in these activities; and the actors who control the resources and undertake the activities^[1]. Business relationships play important roles in the linkage of three layers. Through the relationships between the actors in the network, activities can be linked and resource elements tied together.

Our study mainly emphasizes the actor dimensions with buyers, providers and the corresponding relationships among them. Outsourcing means that activities previously coordinated within one firm will now span the boundaries of firms. Investments in relation to individual partners as well as efforts to encourage links among business partners are prerequisites for the handling of activity synchronization and resource combining across the boundaries of firms^[1]. Moreover, losing control over activities and resources is often a problem for the buyer, and this dilemma has previously been tackled through contracts specifying in detail the provider's obligations^[8]. But later researchers found it was not a wise way just to rely on contract control rather than an effective relationship interaction^[9]. King^[10] argued that to outsource "through a contract and then do little to monitor and manage the client-vendor relationship" would lead to a failure.

Received 2010-09-05.

Biographies: Xie Gang (1974—), male, graduate, lecturer; Mei Shu'e (corresponding author), female, doctor, professor, meisue@seu.edu.cn.

Citation: Xie Gang, Mei Shu'e. Facilitating IT outsourcing through improving buyer-vendor interaction in outsourcing life cycle[J]. Journal of Southeast University (English Edition), 2011, 27(1): 96 – 100. [doi: 10.3969/j.issn.1003-7985.2011.01.020]

2 Information System Outsourcing Life Cycle

2.1 Earlier research

A project life cycle, according to Schwalbe^[11], is a collection of project phases such as concept, development, implementation, and closeout. The first two phases focus on “planning” activity and the last two phases focus on “execution of the actual work”^[11].

Zhu et al.^[12] divided the strategic outsourcing life cycle into four phases: planning, developing, implementing, and evaluating. They stated that a sound plan is required at the beginning to understand what is being done, why, and how. In the developing phase, Zhu et al.^[12] stressed the importance of identifying the services actually needed by the buyer and provided by the supplier. In the implementing phase, the outsourcing transition is planned and deployed. The model thoroughly discusses the planning, developing and implementing phases of the relationship but there is little mention of the last phase.

Some researchers viewed the IT outsourcing life cycle from an “outsourcing relationship” perspective. Hirschheim and Dibbern^[13] once described a client-based IS outsourcing life cycle as “It starts with the IS outsourcing decision, continues with the outsourcing relationship (life of the contract)

and ends with the cancellation or the end of the contract. The end of the relationship forces a new outsourcing decision.” Kinnula et al.^[14] considered that the business process consists of four phases: planning, developing, implementing, and managing the relationship.

Chou et al.^[15] described an IT outsourcing life cycle that started with an outsourcing need and then ended with contract completion. The whole IT outsourcing life cycle can be divided into three phases: pre-contract phase, contract phase, and post-contract phase. The pre-contract phase included activities before a major contract was signed, such as identifying the need for outsourcing, planning and strategic setting, and vendor selection. The contract phase started while an outsourcing contract was signed and then lasted until the end of the contract period. It included activities such as the contracting process, the transitioning process, and the outsourcing project execution. The post-contract phase contained those activities to be done after the contract was finished, such as project assessment and making decision for the next contract.

2.2 Synthesis model

The synthesis model based on the previous models is presented in Fig. 1.

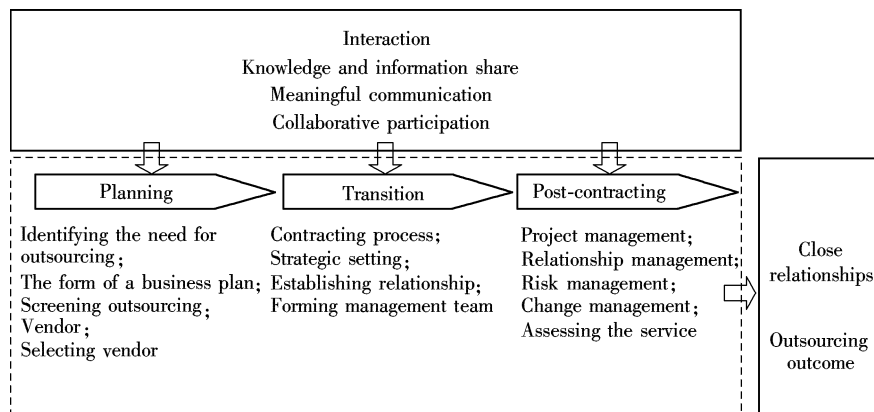


Fig. 1 IT outsourcing life cycle and interaction dimensions

The span of the IT outsourcing life cycle embraces a major portion of contracting activities. It includes three phases: contract-planning phase, transition phase, and post-contracting phase. The first phase is the same as that in the previously presented life cycle models. We feel that a more appropriate name for the second phase is “transition phase”. In addition, in the last phase, it includes activities suggested by Chou, such as outsourcing project execution and assessing the project after the contract expiration. Several activities are involved in three phases as follows:

1) Contract planning phase

The contract planning phase includes activities before a major contract is signed, such as identifying the need for outsourcing, deciding whether to make or buy, forming a business plan and screening and selecting an outsourcing vendor. First, a firm needs to carefully screen its internal and external contexts and then decide whether to outsource. Secondly, if a firm identifies a need for IS outsourcing, it

should consider an outsourcing plan according to the business strategy. When forming the business plan, some factors need to be considered, including objectives for outsourcing, the needed services, cost, business model, and processes^[16]. Finally, a firm begins to screen and select outsourcing vendors in terms of the strategic needs and project requirements. It is necessary to have a clear definition of the partner selection criteria.

2) Transition phase

The transition phase starts after a company makes an agreement negotiation with vendors. Agreement negotiations start with the selected partner candidates. The transition process is a complicated phase in the IS outsourcing life cycle since it involves many essential workloads before an outsourcing project can be actually implemented. The contracting process is critical to the success of an outsourcing project since all the aspects of the contract should be specified and covered, including fundamental, managerial, techno-

logical, pricing, financial, and legal features^[15].

Meanwhile, the strategic setting is evolving. At top management team is required as support for the outsourcing transition and relationship establishment. Once the contract is signed, the transition management, defined as "the detailed, desk-level knowledge transfer and documentation of all relevant tasks, technologies, workflows, people, and functions"^[17], is started. Selection of the most beneficial relationship type and formation of a fully empowered and competent relationship management team needs to be done during this action.

3) Post-contracting phase

After the transition phase, it is time for vendors and clients to execute their outsourcing project. There are some components within this stage: project management, relationship management, change management, and risk management^[17]. Any items listed in the contract needs to be delivered and implemented as requested. The client firm focuses on monitoring and facility contract execution. Moreover, when an outsourcing project ends, the client must assess the quality of product/service provided by its vendor. The client also must measure his/her satisfaction level to the product/service provided by the vendor^[15].

3 Case Characteristics and Data Gathering

We use one outsourcing partnership case to elaborate the role of interaction on the outsourcing performance. The buyer company is Zhejiang Mobile, which deals with mobile communications. It is a local provider of network infrastructure, service delivery platforms and related services to mobile operators and service providers in Zhejiang Province. One partner company is Neusoft. Neusoft is a leading IT solution and services provider in China and a leading product engineering services provider with worldwide operations. Another vendor is Accenture, which is a global management consulting, technology services and outsourcing company. According to the outsourcing arrangement, Accenture takes on the management consulting and Neusoft provides IT solutions and technology services.

At the end of the year 2007, Zhejiang Mobile top management began to consider whether to outsource its flattop building of logistics and procurement. It tried to find a strategic IT solutions and services partner for the business unit. The company's internal preparation work for the outsourcing started in January 2008. The first contact with potential candidates was made in January 2008, and negotiations with the candidates started in March 2008. An outsourcing agreement was signed with Accenture and Neusoft in July 2008.

A series of involved observations and interviews with 14 participants from the buyers and 10 participants from the vendors were conducted. In order to check the correctness of the interview report, each description of the interview was written and sent to the interviewee. Each interview lasted typically between half an hour and one and a half hours. The interviewees were chosen according to their involvement in different stages of the outsourcing process and their position in the company. From Zhejiang Mobile, five IT executives (IT manager and employees, contractor officer and head of the IT project), one financial manager, four logis-

tics and procurement managers on the provincial level and four others on their affiliated levels were chosen. Two people were consultants from Accenture. In addition, five IT project managers and employees and three participants from the marketing unit in Neusoft were interviewed.

4 Case Analyses

Each phase in the IT outsourcing life cycle is full of needed activities and processes (see Fig. 1). Many efforts are made to cultivate a close business relationship leading to a nice outsourcing outcome. The following sections provide detailed analyses to the role of interaction among the parties.

4.1 Interaction in contract planning phase

The industrial network approach points out that screening of the "best" partner demands a network orientation. Buyers should consider whether potential suppliers fit into the current arrangements around the buyers in terms of activity links, resource ties, and actor bonds^[1]. Evaluation of these characteristics needs to rely on interaction with the parties. In addition, the proper scope of outsourcing, which is a part of a business plan, will have an impact on benefits and costs, and thus the buyer may hesitate about whether to outsource or what is the best solution. Through increasing communication and information sharing, the buyer's uncertainty about what to buy can be reduced and the provider's uncertainty about what to offer will decrease.

The outsourcing decision of Zhejiang Mobile was not made by only one side from the beginning. Zhejiang Mobile had little outsourcing experience before 2008. At the beginning, Zhejiang Mobile did not have a clear conception for an outsourcing landscape, such as the need of outsourcing, the scope of outsourcing and the selection of the partners. Lately, on the one hand, its seniors positively called the potential providers to ask about the knowledge of outsourcing and determined their intentions. Through contact with those providers, seniors obtained the past clients' experiences from their providers. They also identified the capabilities of the providers, resources and price exceptions. In several ways, such as collecting suggestions from past clients of Neusoft, active contacts and communication meetings, Zhejiang Mobile formed a clear view about the need of outsourcing and partner selection. On the other hand, the specialists of Neusoft and Accenture helped Zhejiang Mobile identify the need and scope of outsourcing by joint analysis of the requirements of buyers, and the exchange of their technology knowledge and project experience. Their efforts won buyer satisfaction and finally surpassed the strength of their competitors. The views of the interviewees were:

"The scope of outsourcing should not be done just once and from a single perspective. The first conception should thus be seen as only preliminary in scope. Through active interaction between the parties, new opportunities may be discussed and lead to modifications of the initial solution."

4.2 Interaction in transition phase

Once the transition begins, clear support from the top management of both companies is needed, e. g. in the form

of a communication plan, the resolution of disagreements on contract items and the form of the project team. When taking these actions, a high level of attention and prompt feedback from different management levels on each side are also important. Some conscious actions may help them adapt to each other and find their intertwining^[18].

In case context, several parties helped each other in creating an atmosphere of cultural adaptation, solving conflict situations, and achieving agreement. First, Zhejiang Mobile suggested a frame of labor division and duty between two vendors as well as transferred the required business practices and service process knowledge to vendors for more clear communications. The suggestion only framed a simple labor division, but did not provide a detailed division of workload, responsibility and obligation. In later two top management meetings or contacts, Accenture argued that workload division should be based on the contract shares, and Neusoft also put forward some suggestions about the division. Finally, a clear division of workload, responsibility and obligation was formed after continued joint communications and negotiations. In addition, the three companies reached agreement on joint involvement rules in the implementation of contracts. Based on this rule, Neusoft was required to join in the system analysis done by Accenture, and Accenture was requested to monitor the system implementation led by Neusoft. Moreover, seniors from three companies had a full discussion on the labor item and reached an agreement. After discussion, a person from Neusoft was changed because of poor field experience. According to Neusoft interviewees, buyers can precisely define the data elements that are required to conduct its business through contact with Accenture, its materials suppliers and logistics suppliers. Vendors also think that they can clearly understand buyers' demand and business characteristics through communicating with buyers and buyers' materials suppliers and logistics suppliers. The interviewees' words of the vendors were:

"Knowledge sharing is a critical part of clear communication. Knowledge sharing and meaningful communication in networking together lead to a good understanding of buyers' demand and business characteristics and facilitates transition."

4.3 Interaction in post-contracting phase

It is more important than selecting the "right" partner in order to find the best way to work with the chosen service provider. When buyers and providers prepare to enter long-term partnerships, their cumulative experiences of sharing and learning are vital. First, both buyers and providers can increase their knowledge about their counterparts, also about the business and solutions, which enhances understanding of both requirements and opportunities for cooperation. Secondly, since the efficiency of an IT solution is dependent on coordinated flows of information^[1], it is necessary for interactive relationships to secure continuous communication and knowledge sharing among network actors. Interviewees thought:

"The vendors should not only learn from the buyers, but also 'teach' the buyers what kinds of demands are required by the vendors."

Finally, disagreements on the outcome assessment may sometimes occur between buyers and vendors. It often creates a need to rethink the terms of the relationship. Effective communications to decrease the dissatisfaction with each other become urgent for interactive assessment.

When the service providers have more information about the characteristics of Zhejiang Mobile, its materials suppliers and logistics suppliers, and more information about logistics and procurement practices, they will be able to design an offer adapted to the context of buyers. Moreover, with information about technology dynamics from vendors, Zhejiang Mobile can adjust its demands in time. Through continuous communication and collaboration with buyers and buyers' materials suppliers and logistics suppliers, Neusoft controlled a reasonable level of complexity and adaptation of the flat system, which earned satisfaction and trust among network actors. In addition, formal joint evaluations performed regularly (e. g. twice a year) that made it easy to find problematic areas before they grew too difficult to resolve. In the words of the interviewees:

"Since business relationships are connected, one relationship will impact on the others, thus we feel interaction between buyers and vendors, interaction between buyers and buyers' suppliers help us find a proper flat system solution which well support BtoB relationships between actors."

5 Conclusion

This paper presents a three-phased IT outsourcing life cycle and its main activities that affect the success of outsourcing projects. Literature research and empirical material from the case show that in order to gain the full benefits from outsourcing arrangements, buyers and vendors need to prepare to invest time and money to achieve a high quality partnership. Improving the interaction process attributes involved in the main activities of the three phases, including information and knowledge sharing, communication and collaborative participation are helpful mechanisms for enhancing the performance of the relationship. Collaborative participation includes joint learning and teaching, joint analysis of the requirements of the buyer and close contact for the complex solutions to function^[1]. These aspects of interaction should not take place only between buyers and vendors, but among network actors.

This paper also provides some helpful practical implications for other companies. During the continuance of the process, the expectations of the parties may change, technological advances may occur, and misunderstandings and conflicts may arise. Activities and the degree of the relationship involvement must be assessed and modified in accordance with these dynamics. Moreover, the organizational IT capability can affect such interaction level. Buyer firms should try to enhance their contract facilitation and monitors, vendor development, informed buying capability and IT technical skills.

References

- [1] Gadde L E, Hulthén K. Improving logistics outsourcing through increasing buyer-provider interaction[J]. *Industrial*

- Marketing Management*, 2009, **38**(6): 633 – 640.
- [2] Han H S, Lee J N, Seo Y W. Analyzing the impact of a firm's capability on outsourcing success: a process perspective[J]. *Information & Management*, 2008, **45**(1): 31 – 42.
- [3] Metcalf E L, Frear C R, Krishnan R. Buyer-seller relationship: an application of the IMP interaction model[J]. *European Journal of Marketing*, 1992, **26**(2): 27 – 45.
- [4] Kern T, Willcocks L P. Exploring information technology outsourcing relationship: theory and practice[J]. *Journal of Strategic Information Systems*, 2000, **9**(4): 321 – 350.
- [5] Ford D, Gadde L E, Håkansson H, et al. Analyzing business interaction[C]//*Proceedings of the 24th IMP-Conference*. Uppsala, Sweden: Uppsala University, 2008: 4 – 6.
- [6] Persson G, Virum H. Growth strategies for logistics service providers: a case study [J]. *The International Journal of Logistics Management*, 2001, **12**(1): 53 – 64.
- [7] Gadde L E, Håkansson H, Jahre M, et al. “More instead of less”—strategies for the use of logistics resources[J]. *Journal of Chain and Network Science*, 2002, **2**(2): 81 – 91.
- [8] Bolumole Y, Frankel R, Naslund D. Developing a theoretical framework for logistics outsourcing [J]. *Transportation Journal*, 2007, **46**(2): 35 – 54.
- [9] Poppo L, Zenger T. Do formal contracts and relational governance function as substitutes or complements [J]. *Strategic Management Journal*, 2002, **23**(8): 707 – 725.
- [10] King W. Outsourcing and offshoring: the new IS paradigm? [J]. *Journal of Global Information Technology Management*, 2005, **8**(2): 1 – 4.
- [11] Schwalbe K. *Information technology project management, Thomson course technology* [M]. Boston, MA, USA, 2004: 120 – 124.
- [12] Zhu Z W, Hsu K, Lillie J. Outsourcing—a strategic move: the process and the ingredients for success [J]. *Management Decision*, 2001, **39**(5): 373 – 378.
- [13] Hirschheim R, Dibbern J. Information systems outsourcing in the new economy—an introduction [C]//*Information Systems Outsourcing*. Berlin: Springer, 2002: 3 – 23.
- [14] Kinnula M, Seppanen V, Warsta J, et al. The formation and management of a software outsourcing partnership process[C]// *Proceedings of the 40th Annual Hawaii International Conference on System Sciences*. Big Island, HI, USA, 2007: 240b.
- [15] Chou D C, Chou A Y. Information systems outsourcing life cycle and risks analysis [J]. *Computer Standards & Interfaces*, 2009, **31**(5): 1036 – 1043.
- [16] Embleton P R, Wright P C. A practical guide to successful outsourcing [J]. *Empowerment in Organizations*, 1998, **6**(3): 94 – 106.
- [17] Robinson M, Kalakota R, Sharma S. *Global outsourcing* [M]. Alpharetta, GA: Mivar Press, Inc., 2005.
- [18] Kinnula M. The formation and management of a software outsourcing partnership: a case study [EB/OL]. (2006-02-04) [2010-06-10]. <http://herkules.oulu.fi/isbn9514279832/>.

信息技术外包生命周期过程中关系互动的作用与改善

谢 刚 梅姝娥

(东南大学经济管理学院, 南京 211189)

摘要:为了更好地理解怎样培育关键要素以提高关系质量,取得外包成功,对关系互动的作用进行了探索. 基于一个物流采购平台系统外包的案例,结合外包生命周期阶段的早期研究,采用 IMP 关系互动和产业网络关系互动的理论来分析在外包生命周期 3 个阶段中伙伴间关系互动的特征. 3 个阶段中特别提出了转换阶段,识别了其活动特征. 研究指出发展信息技术外包伙伴关系应当采取产业网络视角. 融入到 3 个生命周期阶段的重要活动事件中,去发展关系互动的 3 个关键维度,如信息和知识分享、有效交流和参与协调将有助于提高外包关系绩效. 而且这 3 个关系互动的维度发展不应仅存在于外包方和提供方之间,而应存在于整个产业网络中.

关键词:信息技术外包;生命周期过程;关系互动

中图分类号:F270