A case study of success factors in outsourcing partnership formation and management

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Abstract

Different kinds of collaboration modes between companies are becoming a mainstream practice. One of such modes is an outsourcing partnership where one company transfers part of its business to another company and after that the companies continue collaboration in a partnership mode. This research focuses on such kind of relationships and factors that affect the successful outcome of the said relationships. Understanding the success factors is crucial for getting the best out of the collaboration and for avoiding the possible difficulties.

The relationship success factors found in the literature are presented and discussed. Typical to the previous research is that the success factors are usually seen from only one company point of view in a mature relationship. In this study we present results from an outsourcing partnership case where the relationship success factors were collected from both parties of the relationship, although the results are presented from the customer company viewpoint. The resulting factors are divided in two: the ones concerning the formation phase of the relationship and the ones concerning the mature relationship.

The relationship success factors found in this study support the findings from previous research of relationships and also bring forth some new ideas of what kind of factors are needed to take into account in an outsourcing partnership.

Keywords: outsourcing, partnering, outsourcing partnership, success

Introduction

Partnering and networking are the trends of the business in the era of New Economy. The new economy is very dynamic and requires considerable agility – ability to adjust, refocus and reconstruct the development organization according to the changes in the market. This has not gone unnoticed in the industry. The trend is for the companies to concentrate on their strategic competences and to somehow acquire from other companies competences they need but do not have – and do not want to have – in-house. While this gives the companies better prospects in the new economy markets, it comes with a price. Close co-operation between companies causes significant risks because quality of the bought services will be found out only after the service has already been realised. And when these services are directly linked to the lifeline of the company – the product itself – the risks can have extremely severe consequences.

Regardless of the risks, different kinds of collaboration modes between companies are becoming a mainstream practice. One of such modes is an outsourcing partnership where one company transfers part of its business to another company and after that the companies continue collaboration in a partnership mode. Understanding of

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what factors affect the success of the relationship is crucial for getting the best out of the collaboration and for avoiding possible difficulties.

Previous research

Relationship success factors have been studied earlier and answers to a question "*What makes a relationship between two companies successful?*" have come in different formats. What is common to most of the answers is that they draw data from empiric evidence, by trying to understand and model real-life cases. Researchers have tried to find the answers by posing other questions like "What partnership success means?", "What are the reasons behind involving in an outsourcing relationship?", "What were the factors that caused partnerships to fail?", or "What kind of a process leads into a successful relationship?" (e.g. Ellram 1991; Ellram 1995; Lee and Kim 1999; Mohr and Spekman 1994; Morgan and Hunt 1994; Tuten and Urban 2001). The results have been rather unified and it seems that the most successful relationships are based on immaterial things like trust between the parties, communication, and commitment, rather than material, such as good contract or good personnel, even though those are, of course, substantial as well. Immaterial things are often hard to measure and they can also be more easily violated and lost.

However, factors of success are highly dependent of what is defined as to be an outcome of a successful relationship. Dibbern et al. (2004) have identified from the information systems outsourcing literature three outcome types that are used when explaining success of a relationship, i.e. satisfaction, expectations set to the relationship and realization of them, and performance of the partner company. However, that viewpoint did not fit my study very well and thus I had to create another way to divide the factors of success. I argue that they can be seen either as somehow related to the **business** (hard factors that can be measured in terms of money), related to the **structural** issues between companies (hard, concrete structures, processes and techniques that can be evaluated and assessed with e.g. process assessment methods), or being immaterial, **relationship** related factors (soft, value-based, people-dependent factors that cannot be easily evaluated or measured). A combination of success factors found from the literature is presented in Table 1, divided in the latter way.

Business related factors include *synergy between two businesses* (Tuten and Urban 2001), *meeting economic expectations* (Ellram 1995; Tuten and Urban 2001), *long-term perspective* (Ellram and Edis 1996), and *satisfactory performance* (Tuten and Urban 2001).

Of the **structural factors** the importance of *communication* in a successful relationship cannot be emphasized enough (Ellram 1995). It includes communication between the partners, as well as internal and external customers, users and all affected parties. It also includes the ongoing measurement and communication of the results. (Ellram and Edis 1996.) Communication can be used as a proactive way to avoid problematic situations. Frequent and accurate communication, sharing of information willingly, and developing visions and goals jointly all help in preventing possible future conflicts and in sending a message of trust and esteem (Ellram 1995; Mohr and Spekman 1994; Tuten and Urban 2001). Ensuring that specification changes and new product announcements are communicated to the partner early is also part of good communication strategies (Ellram 1995).

Other structural factors mentioned in literature are *using a joint, multi-level relationship management approach* (Zhu and Hsu and Lillie 2001), *similarities across organisational cultures* (Embleton and Wright 1998; Mohr and Spekman 1994), *interaction processes* (Ring and Van de Ven 1994), and *constructive conflict resolution techniques* – e.g. taking the other party's perspective (Mohr and Spekman 1994).

Of the **relationship factors** *commitment* is one of the factors that are often used to describe a good partnering relationship (Ellram 1995; Mohr and Spekman 1994). Commitment means that both of the parties have been committed to the relationship, its needs and requirements, and are ready to do their best to fulfill them. It can be shown in different ways but maybe one of the clearest signals to the other party is willingness to invest in the relationship, whether the investment is time, knowledge or resources (Kern and Willcocks 2000). Other relationship related factors mentioned include e.g. *reliability, honesty, fairness* (Tuten and Urban 2001), and *interdependence between partners* (Anderson and Narus 1990; Mohr and Spekman 1994), *support from top* *management in both companies* (Ellram 1995; Zhu and Hsu and Lillie 2001), and *win-win mentality* (Ellram and Edis 1996; Tuten and Urban 2001; Zhu and Hsu and Lillie 2001).

Table 1. Factors of success in a partnering relationship

Factor type	Success factor	References
Business factors	Synergy between two businesses	Tuten and Urban 2001
	Economic expectations are met	Ellram 1995 Tuten and Urban 2001
	Long-term perspective	Ellram and Edis 1996
	Satisfactory performance	Tuten and Urban 2001
Structural factors	A joint, multi-level relationship management approach	Zhu and Hsu and Lillie 2001
	Communication processes and techniques	Ellram 1995 Ellram and Edis 1996 Mohr and Spekman 1994 Tuten and Urban 2001
	Similarities across organisational cultures	Embleton and Wright 1998 Mohr and Spekman 1994
	Interaction processes	Ring and Van de Ven 1994
	Constructive conflict resolution techniques	Mohr and Spekman 1994
Relationship factors	Commitment	Ellram 1995 Kern and Willcocks 2000 Mohr and Spekman 1994
	Honesty	Tuten and Urban 2001
	Reliability	Tuten and Urban 2001
	Fairness	Tuten and Urban 2001
	Win-win mentality	Ellram and Edis 1996 Tuten and Urban 2001 Zhu and Hsu and Lillie 2001
	Support from top management in both companies	Ellram 1995 Ellram and Edis 1996 Zhu and Hsu and Lillie 2001
	Interdependence between partners	Anderson et Narus 1990 Mohr and Spekman 1994
	Trust	Anderson and Narus 1990 Dietz 2004 Domberger 1998 Ellram and Edis 1996 Mohr and Spekman 1994 Spekman and Kamauff and Spear 1999 Tuten and Urban 2001

However, the general agreement is that, to be successful, the whole relationship has to be based on trust. *Trust* is built in different ways and all the above-mentioned factors affect it. It can be given based on earlier experiences or references but it also has to be earned. It is not easy to rebuild trust once it has been lost. Increased personal contact, such as regular meetings between the key persons of both companies, helps in creating trust. (Dietz 2004; Domberger 1998; Spekman and Kamauff and Spear 1999.)

As mentioned earlier, the relationship related factors are not always easy to measure, though finding some kind of measuring techniques for them is beneficial. Business factors, however, can be measured more easily in relation to original goals and expectations, that is performance indicators of the partner. These include e.g. sales, market share, and profitability (Ellram 1995; Tuten and Urban 2001). These are the other group of indicators that are often mentioned when discussing factors for a successful relationship. If the partner shows satisfactory performance and the relationship fulfils the economic expectations set to it, it is usually considered successful.

Why do partnerships fail then? The reasons are, naturally, connected to the factors of success: poor communication, lack of trust, poor up-front planning, lack of shared goals, poor relationship management, and unsatisfactory performance indicators are the failure reasons given by Ellram (1995) and Tuten and Urban (2001). Some other reasons mentioned are changes in the broader network of partners, and the business reasons of one or both parties (Tähtinen 2001).

The results are, in a way, rather obvious: successful relationships between companies relate closely to the ones between human beings since human beings are, at the end of the day, the ones who do the work. When both parties know what they expect from each other, when there is commitment, coordination, interdependence and trust in place, when problems are solved together, information is shared, the quality of the work has a high value and both parties are satisfied with the relationship and its results – then the relationship has the ingredients to be a successful one.

Outsourcing partnership case

The outsourcing partnership case of this study concerns software product business outsourcing between two big (more than 10 000 employees) Finnish companies. In the outsourcing partnership business transfer over 300 employees were transferred from the customer company to the partner company. After the business transfer the companies continued collaboration in a partnering mode.

An integral part of customer company's strategy during last twenty years has been building and utilising different types of collaborative relationships. That has given the company the ability to develop its core competences effectively. At the same time, it has given the company flexibility and also helped in the hectic 1990s when the company's growth was at its fastest and the shortage of qualified engineers was a genuine problem in Finland. The company's top management advocated aggressively networked product creation and core-context thinking, and outsourcings were one part of the implementations of that strategy.

The partner company has a long history of different types of collaboration as well. Currently it provides mainly either customer partnerships or repeatable solutions. The strategy of the partner company has been to strengthen the competences of its focal areas by takeovers, mergers and outsourcings.

In this study the formation phase of the outsourcing partnership was followed as well as management of the relationship for the first two years. A case study method combined with a qualitative approach was chosen for the research method. To investigate the case, a series of in-depth interviews with 24 participants from the customer company and 9 participants from the partner company were conducted. All the interviewees were in a managerial position. Included was couple of the top management representatives from both companies.

Case study results

Typical to the previous research is that the success factors are usually seen from only one company point of view in a mature relationship. In this study we present results from an outsourcing partnership case where the relationship success factors were collected from both parties of the relationship, although the results are presented from the customer company viewpoint.

Thirteen important issues were mentioned by the interviewees when asked about the factors that affect the success of the relationship. Their answers can be divided into ones concerning the formation phase of the process (Table 2) and ones concerning the relationship management phase of the outsourcing partnership (Table 3). They are further divided according to the earlier division to **business factors**, **structural factors**, and **relationship factors**.

Relationship formation phase: Business factors

One of the issues raised by the interviewed managers – *Realistic vision of the relationship* – belongs to both categories: the relationship formation phase as well as the relationship management phase. It is needed during the relationship forming stage, but also later in the relationship, by both companies. The companies wrote their joint expectations down during the agreement negotiations. They come back to them regularly, to discuss them and update them if needed. In the discussions it is possible to notice that some of the visions or expectations may have been too unrealistic, others may be more realistic. In any case, discussing the situation openly is beneficial for the relationship.

Relationship formation phase: Structural factors

As the outsourcing teams in both companies are responsible for the whole outsourcing process, the staffing of the teams – *resourcing the outsourcing process* – was considered to be of great importance by the interviewees. Previous experience in outsourcing is beneficial as there are many difficult phases and tough decisions to be made during the outsourcing process; some of the interviewees mentioned that not having been involved in any outsourcings prior to this case was a handicap, and, conversely, some mentioned how much easier it was to take part in the process having had previous experience, than to take part in such a process for the first time.

The interviewees also emphasised the importance of negotiation team stability during outsourcing partnership agreement negotiations. Changing the team members during the negotiations was generally considered very bad practice. The negotiations are often very intense and the general desire is for them to proceed quickly, thus changing the team members during negotiations may hamper and unnecessarily prolong the process, as new members need some time to become familiar with the process. The negotiations are also a very social thing: as the negotiators grow to know each other, it is often much easier to discuss the difficult parts of the agreement: “*If certain kind of trust does not exist, if people fight, not the matters, then it goes all wrong*”. The need for lawyers in the negotiations was mentioned many times in the interviews. However, the interviewees were in agreement that the lawyers should not dominate the discussions or, worse, make the decision; their role should be to take care of legal matters and of the wording of the agreement: ”*If lawyers discuss on their own it’s not very productive as they tend to get caught into the weeds of legal details*.”

Table 2. Factors affecting the success of the relationship during the relationship formation phase

Factor type	Factor	Explanation
Business factors	Expectations vs. reality – realistic vision of the relationship	Joint expectations need to be written down during agreement negotiations, and discussed regularly afterwards Personnel (employees remaining in the customer company/employees transferred to the partner company) expectations and fears are taken into account as well
Structural factors	Resource allocation for the outsourcing process	Experienced outsourcing team members Stable negotiation team, the members do not change during the process Use of lawyers in the negotiations Relationship managers in both companies involved in the outsourcing process at earliest possible phase
	Cultural fit between companies	Necessary as early as the agreement negotiation phase Helps in the collaboration
Relationship factors	Personnel-related issues	There are always four parties in the outsourcing: the customer company, the transferred employees, the employees remaining in the customer company, the partner company Partner company bears the responsibility for the transferred employees Treatment for the transferred employees/for the employees remaining in the customer company after outsourcing

The need for a *cultural fit between companies* was noticed in the customer company when making a business plan for the outsourcing partnership. The agreement negotiations started with several companies and importance of the cultural fit was clearly seen during the negotiations: when the cultural fit did not exist – as happened with some companies – the negotiations did not go very far, as one of the interviewees described: "*There were some companies we discussed with that we realised during the first five minutes of the discussion that there were no possibilities for co-operation.*" The cultural fit was also one of the pre-set requirements for the relationship in the customer company and thus there was no point in continuing the negotiations when it did not exist. But the negotiators also said that when the cultural fit existed, the atmosphere in the negotiations was much more comfortable and relaxed compared to the atmosphere when the cultural fit did not exist. The interviewees were in agreement (in both companies) that cultural fit was an important factor in the success of the relationship so far.

Relationship formation phase: Relationship factors

Concerning *personnel-related matters* interviewees emphasised the importance of remembering that there are always four parties affected by and acting in the outsourcing: the customer company: the employees transferred to the partner company, the employees remaining in the customer company, and, of course, the partner company. Both the customer company and the partner company can make a difference to how the transferred employees experience the outsourcing, and both companies need to remember their responsibility for that. However, the partner company is the one bearing the responsibility for the transferred employees and how they are treated once the transfer has been done. Still, the customer company needs to be in close contact with the partner company regarding this issue and to ensure that the partner company is able to handle the situation. The customer company is also responsible for taking special care of the employees remaining in the customer company as they are greatly affected by the outsourcing as well. The success or failure of this process has an effect on the successful start of the relationship. The companies discussed personnel-related matters during agreement negotiations and the agreed issues were written down into the outsourcing agreement.

The rest of the issues have more to do with the relationship management phase (Table 3).

Relationship management phase: Business factors

In the relationship management phase *Realistic vision of the relationship* is still needed; cf. discussion of business factors of the relationship formation phase.

Relationship management phase: Structural factors

Information exchange becomes more problematic when there are two companies involved in the product creation process. Two types of information need to be passed from one company to another and also within the companies: product specific information and more general information, concerning the relationship, for example, or the companies themselves in some way. It is usually necessary to circulate some of this information in both companies, whereas some of it may be confidential and meant only for the employees of the company itself. It is important to remember to make the distinction between these types of information, and to make sure that all the necessary information gets to all the personnel who need it. These kinds of problems did not exist before the outsourcing partnership and thus new practices for information exchange had to be created for the interface between companies, such as the use of clearly-defined information channels. Still, one of the interviewees mentioned that "*Information exchange is always difficult, even inside a single company, but it is much more difficult when two companies are involved in the process, even though the companies have similar processes and the interfaces have been defined carefully.*" Also, the idea of partnering – especially at the beginning of the relationship – must be explained and continually promoted, to help the employees learn how to act in the new situation.

Other *new practices* are needed as well. The existing steering boards needed to gain new members from the partner company and some new steering boards needed to be set up. The work of the existing steering boards needed some rearranging. In this case, as the customer company is a global company carrying out product creation work in distributed locations, the amount of different actors in different positions is huge. Getting the partner company into this network and helping it to learn how to cope with multisite projects was a challenge. A working and stable *information management (IM) infrastructure and* smooth *processes* are necessary for this kind of product creation process to work. In the beginning of the relationship – before the problems were fixed – IM problems frustrated especially the coders in both companies. As one of the interviewees said "*It was really hard for the coders; they were totally ticked off*."

As human beings are social creatures, none of the above can be created without *interaction* – close and frequent contact between the parties. Many interviewees mentioned that not being in contact regularly enough makes the relationship much more difficult and distant. The customer company interviewees often referred to their experiences in a multisite corporation where the relationship with the employees at another site rather closely resembles one with a partner company – the employees need to work on the same product but, as they are sometimes even on different continents, they are not in close contact with each other. This was generally seen as causing difficulties, as distance – be it physical or psychological – makes dealing with disagreements and other issues rather difficult.

Table 3. Factors affecting the success of the relationship during the relationship management phase

Factor type	**Factor**	**Explanation**
Business factors	Expectations vs. reality – realistic vision of the relationship	Joint expectations need to be written down during agreement negotiations, and discussed regularly afterwards Personnel (employees remaining in the customer company/employees transferred to the partner company) expectations and fears are taken into account as well
Structural factors	Information exchange	Not as easy as it was prior to the outsourcing Make the employees understand that proper information exchange channels need to be used Both companies: promoting and explaining the idea of partnering
	Practices	Steering boards etc. in projects (members from both companies, new practices when needed) Networked environment, many different actors in different positions Multisite organisation: project work distributed globally
	Information management infrastructure, processes	Working and stable infrastructure Smooth processes
	Interaction	Close and frequent contact between parties Day-to-day collaboration needs to work well
Relationship factors	Sense of responsibility, commitment	Both companies feel that it is their responsibility to make the relationship succeed
	Openness	Open discussions of difficult issues (e.g. conflicts), even at the lower levels of organisation Conflict-resolving techniques Openness in company plans and visions
	Trust	Understanding of how dependent the companies are on each other
	Flexibility	Adhere to the spirit, not the letter, of the agreement

Relationship management phase: Relationship factors

The *commitment* of both companies together with a joint responsibility to make the relationship succeed provides a good start for the relationship. One of the interviewees said that "*if the partner company feels responsible for the product they make; that it is their own as well as ours that is a good start*".

Openness between the parties helps in many situations. Resolving conflicts and discussing difficult situations openly at the lower levels of the organisational structures, without always having to escalate the problems to higher management, were considered by the interviewees to be good signs that the relationship is working well. The companies had a jointly created conflict-resolving process they were both satisfied with. Sharing information about company visions and plans for the future was also considered important. This was considered especially important in situations where one of the companies saw the possibility of relationship-affecting problems appearing in the near future.

One of the interviewees commented that "*without openness there is no real trust and without trust there is no flexibility"*. Openness, trust, and flexibility together seem to be the three factors that many interviewees think sum up the essence of an outsourcing partnership. One of the interviewees described the relationship as "*a sort of marriage, having its good days and bad days but likely but likely to end up in a situation that both parties are satisfied with.*" An understanding of the interdependence of companies helps in creating trust and also helps in situations where flexibility is needed. Adhering the spirit of the agreement rather than taking it literally is another helpful approach. However, if there is no real trust between the parties, the agreement is followed to the letter.

It is worth noting that the interviewees did not specifically mention that monetary reasons would affect the success of the relationship. This might possibly be because the interviewees did not consider monetary reasons as important as the other aspects of the relationship. However, we got the impression instead that the interviewees did not even think of mentioning business success, since it was so obvious; for a business relationship between companies to be successful the most important factor is that it is somehow beneficial to both companies to be in the relationship rather than not in it, and often the measure of that is, simply, money.

Summary

The outsourcing partnership success factors discussed above support findings from previous research on partnering relationships and also bring forth some new ideas of what kind of factors it is necessary to take into account in an outsourcing partnership. Nonetheless, the new findings are largely still along the same lines as previous research. As this is a single outsourcing partnership case, the results are indicative only but still they give some idea of what issues need further research. It is also good to remember that both of the case companies are very familiar with different types of collaboration and thus many of the employees' ideas of a 'good relationship' come from company culture and probably show a mindset typical for the companies.

Most of the success factors mentioned in the literature are immaterial ones, and so are most of the ones found in this study. However, it is the harsh truth that even if the relationship is open and honest and the parties trust each other, this is not always enough, if practicalities make the relationship difficult. In the empiric case this culminated in information management issues which caused a big amount of daily difficulties. Fortunately, in this case the problems were not too drastic.

The results of this study have shown that even though rather much is already known of the factors that affect the success of an interorganisational relationship, there are still issues that benefit of further research. It would be interesting to study the relationship formation phase more thoroughly (preferrably using a multiple-case approach) to find out how much problems of that phase really affect successful outcome of a relationship. A better understanding of how the success factors are seen from the partner company point of view would also be beneficial.

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