

# Chapter 10

## Managing an Outsourcing Partnership: Important Stages in the Process

Ulrika H. Westergren  
Umeå University, Sweden

### ABSTRACT

*This chapter is an attempt to build on and extend existing outsourcing research by focusing on the process of managing an outsourcing partnership. Furthermore, it considers the role of information technology and the importance of establishing interorganizational trust in order to provide a deeper understanding of the partnership outsourcing phenomenon. The outsourcing partnership in focus in this chapter is between Alpha Corp., a large minerals group, and RDC, its remote service provider. The chapter shows that Alpha Corp.'s strategy for creating, maintaining and evolving the partnership with RDC occurs in three different stages: black-boxing of technology, establishing interorganizational trust, and performance based contracting. Given the multiple roles information technology assumes in an outsourcing alliance, this chapter also shows that understanding and managing the role of IT is crucial in maintaining a successful partnership. In addition, given the documented importance of information technology in outsourcing partnerships, there is a need to include trust in technology as yet another dimension in establishing interorganizational trust.*

### INTRODUCTION

With the extensive use of information technology in organizations, new business relationships emerge and the outsourcing of services and business processes is enabled (Davidow and Malone, 1992; Venkatraman and Henderson, 1998; Gallivan, 2001).

There have been several research studies focused on the motives for outsourcing and the strategies behind making an outsourcing decision (Ang and Straub, 1998; DiRomualdo and Gurbaxani, 1998; Nagpal, 2004). There is also much work done on mapping the determinants of interorganizational relationships in order to understand the different types of outsourcing relationships that may emerge and the impact they could have on the client organization

DOI: 10.4018/978-1-61520-692-6.ch010

(Oliver, 1990; Williams, 1997; DiRomualdo and Gurbaxani, 1998; Kishore et al., 2003). However, it is the management of the outsourcing relationship that is critical for its success (McFarlan and Nolan, 1995) and in this area the research is lacking. In the traditional view of outsourcing, organizations let go of business functions that are seen as commodities and hold on to those that are viewed as strategic assets and the interorganizational relationship is strictly regulated through a written contract (Lacity, Willcocks and Feeny, 1995; Yahklef, 1997). In an outsourcing partnership, however, the client organization and the service provider engage in mutually beneficial behaviors in order to create a win-win situation (Yahklef, 1997; Kishore et al., 2003). This requires a deliberate strategy as the partnership is not primarily based on formal contracts. Instead it is based on developing the interorganizational relations and as such, the monitoring mechanisms are considered high on mutual trust and low on contractual control. Furthermore a partnership relationship entails common objectives and goal symmetry between the client and service provider (Kishore et al., 2003). How to administer such relations thus poses a real challenge for the management of the client organization.

Examples of such outsourcing partnership relationships can be found within the processing industry where information technology is being increasingly used to monitor the process line (Hibbert, 2000). The collection of production data has led to the development of remote diagnostic systems that can detect current status, unusual use, and signs of equipment failure through continuous real time data logging, which is passed on for subsequent analysis (Han and Yang, 2006; Lee et al., 2006). The use of this technology is meant to ensure high quality products and an efficient process, the latter being very important as an increase in up-time means a competitive advantage for the organization. Monitoring equipment from a distance also means that one no longer needs to be physically on site to perform advanced machine

diagnostics and consequently creates an opportunity for outsourcing some of the maintenance work to an external part, a remote service provider. Previous research has explored remote diagnostic systems in the contexts of value creation (Jonsen et al., 2008), issues of internal and external competence management (Westergren, 2007), and open innovation (Westergren and Holmstrom, 2008). However, as the increasing use of remote diagnostics systems and its expected outcomes, such as a reduced number of unplanned production stops and a more efficient production process, are of highly strategic importance to the client organization, the management of the outsourcing partnership becomes a key concern for its executive officers. Using a case from the processing industry, the aim of this paper is therefore to identify and explore the process of creating and maintaining partnership outsourcing relationships over time and to discuss the role of information technology in such relations.

This paper is focused on a case study of two organizations; a large minerals group, Alpha Corp., and its remote service provider, Remote Diagnostics Centre, RDC. The paper is organized as follows: The following section gives an overview of related research on partnership outsourcing and interorganizational trust. The next section describes the research methodology. The case study is then presented and analyzed. The paper ends with conclusions and suggestions for future research.

## **PARTNERSHIP OUTSOURCING AND INTERORGANIZATIONAL TRUST**

IT outsourcing has been treated in various ways in the research literature. Slaughter and Ang (1996) claim that IS skills can quickly become obsolete, and that outsourcing is a way to provide a company with a skilled up-to-date workforce. This view of outsourcing as a support relationship describing the motive for outsourcing as cutting costs, pro-

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