

The Formation and Management of a Software Outsourcing Partnership Process

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Abstract

The focus of this research is on outsourcing partnerships – what is the process involved in the formation and management of a software research and development (R&D) outsourcing partnership. A complete picture of a software outsourcing partnership life cycle cannot be found in the literature. Because of that a synthesis outsourcing partnership life cycle model has been created based on the models found in other studies.

Empirical data from a software R&D outsourcing partnership case is analysed based on the synthesis model, and a new, improved model is created. The new model gives a more in-depth insight into the formation and management process of an outsourcing partnership. Even though the model is created and presented mainly from the customer company viewpoint, it has been affected by the partner company viewpoint as well, as the case data was collected from both companies.

1. Introduction

Lately, several models and frameworks have contributed significantly to the understanding of relationships between companies and of the forming and development of those relationships. Most of the models and frameworks focus on a certain phase of the relationship life cycle and only some of them have a broader view of the life cycle as a whole. Specifically *software research and development (R&D) outsourcing or partnering* has not attracted much interest. [10]

Thus we were interested in finding out what is the process for the formation and management of a software research and development outsourcing partnership.

This study approaches the subject from a customer company operative management viewpoint and aims at filling some of the research gaps by establishing such a model based on the literature and evaluated and complemented by empirical material.

In this paper we first present four models of interorganisational relationships and a synthesis model created based on them. Then we analyse the empirical data using the synthesis model as a framework and create an improved process model for formation and management of outsourcing partnerships. Lastly we discuss what implications the new model has to the practitioners as well as to the researchers.

2. Earlier research

Because of the lack of the previous research of the subject we have drawn our research from other domains somehow related to the field of research, such as general management literature on outsourcing, specifically information systems and information technology outsourcing literature, strategic sourcing literature, strategic partnering literature, and marketing and management research on interorganisational relationships. See [10] for a more complete literature study.

We used the following four models to form a framework for our research and combined a synthesis process model for forming and managing a close relationship. First two of them are relationship life cycle models and the second two have a different approach to the relationship and concentrate on the relationship itself and development of it. The synthesis model is presented in the end of this chapter.

2.1. A life cycle model for strategic outsourcing

Zhu *et al.* [17] divide the strategic outsourcing life cycle into four phases: Planning, Developing, Implementing, and Evaluation. They state that outsourcing is similar to any other business decision: a

sound business plan is needed in the beginning to understand what is being done, why, and how.

In the *Developing* phase Zhu *et al.* [17] stress the importance of identifying the services actually needed by the buyer and provided by the supplier. That also affects the type of the future relationship between the parties – how close or distant a relationship is needed.

In the *Implementing* phase the outsourcing transition is planned and deployed. As the last phase Zhu *et al.* [17] present the *Evaluation* phase. No mention of a continuum or what happens after the outsourcing review is presented in the model. Triggers for moving from one phase to another are not presented in this model.

2.2. A life cycle model for the development and evaluation of purchasing relationships

Ellram and Edis's [5] life cycle model for the development and evaluation of a purchasing relationship consists of five phases: Preliminary phase, Identify potential partners, Screen and select, Establish relationship, and Evaluate relationship.

The *Preliminary phase* starts with identification of the need for partnering. A team for partnership development work is also formed. The process for selecting suppliers is defined by the team in this phase, as well as the aims of the potential relationships. (ibid.)

The second phase has been named *Identify potential partners*. Benchmarks on the same type of work are performed with non-competitive firms. Also internal estimates of current costs are carried out. Based on the benchmark and the internal cost estimates, it is possible to make an informed decision on what the costs of partnering can be allowed to be. In this phase the team also needs to establish what the goals of the partnership are and determine the selection criteria for partners. After that potential partner candidates are identified based on the selection criteria. [6] [5]

Phase three, *Screen and select*, starts with the soliciting of proposals from the partner candidates. The candidates' presentations of partnering proposals are viewed. After that, the candidates are evaluated and decisions made about which candidates are to be selected. [6] [5]

Phase four is for *Establishing the relationship* with the future partner. An internal process for interacting with the partner is created, and an organisation for internally controlling the relationship is formed at this time. Measures for the relationship are established as well. The last phase, *Evaluate relationship*, involves ongoing monitoring of the relationship.

Iteration between the phases is possible, especially during phases 2 and 3 and in a situation where an unsatisfactory relationship needs to be dissolved. It is also possible that the process be cancelled during phase 3 if no acceptable partner can be found. [6]

2.3. Relationship approach

Outsourcing and partnering life cycle literature typically does not discuss relationship management very much, even though success factors for a relationship have been researched extensively. These factors, however, do not give any clear picture of what really happens when the relationship is up and running. For example, the two previously presented models ([17] and [5]) discuss thoroughly the planning, developing and implementing phases of the relationship but there is very little mention of what happens after that. In the relationship marketing and interorganisational relationship literature, as well as in the strategic management literature, though, much more has been written about relationship management and it is therefore useful to combine the approaches, in order to get a more comprehensive picture of outsourcing partnerships.

Several researchers have tried to answer the question: 'What are the elements in a working outsourcing relationship?' (e.g., [4] [2] [13] [1] [14]). Many of them see the problem from the relationship marketing – establishing, developing, and maintaining successful relational exchanges – or interorganisational relationship point-of-view.

Kern and Willcocks [9] have combined earlier works and present a model of outsourcing relationships. The model is applicable mainly to the customer's point of view and focuses on the relationship management element of the process. They also highlight the behavioural aspects of the relationship.

According to Kern and Willcocks [9], an outsourcing relationship is very context dependent: the objectives and expectations from the relationship – be they financial, business, technical, or political expectations – reflect the antecedent conditions, which, in turn, affect the contract between the parties. They come as inputs to the whole relationship management process. As the relationship develops over time and its success is greatly dependent on how satisfactory the relationship is over time, there is also the time continuum present in the model. The model shows key interactions between the parties. Some of the interactions are more contractual by nature, while some of them show more embeddedness.

Behavioural dimensions are an important aspect of the model: they are the ones that affect the atmosphere of the relationship and thus affect all the interactions between parties. They are typically ‘service type’ outputs of the activities – created and consumed during the process. [14]

Another view of the relationship between two parties comes from Ring and Van de Ven [14], who have tried to find a process for the development of such relationships.

Ring and Van de Ven describe in their “process framework of the development of cooperative interorganisational relationships” how these relationships emerge, grow, and dissolve over time. They argue that when assessing a cooperative interorganisational relationship, the two important criteria are *efficiency* – which has traditionally been a major criterion for assessing such relationships – and *equity*, ‘fair dealing’ – meaning that reciprocity is needed but equivalence is not necessary. However, both parties need somehow to get compensation in proportion to their investments. Fair dealing goes farther than just calculating the numbers, it also includes the aspect of indebtedness. Their view of the whole process is that it consists of “a repetitive sequence of negotiation, commitment, and execution stages, each of which is assessed in terms of equity and efficiency.” These phases overlap sometimes and they may happen almost simultaneously; however, the duration of the phases varies. From every phase input to the next phase there is always some kind of ‘an assessment report’ – not necessarily a formal written report but possibly informal, unwritten, in the form of thoughts and discussion.

2.4. The synthesis outsourcing partnership model

In the previous sections we have briefly presented life cycle models from Ellram and Edis [5] and Zhu *et al.* [17] as well as two models having a relationship approach ([14] and [9]). The synthesis model – based on the discussion and analysis of the models presented previously – is presented in Fig. 1. Additional insight from other authors has been added to the discussion of the model phases and activities.

The model considers the outsourcing partnership business process to consist of four phases: *Planning*, *Developing*, *Implementing*, and *Managing the relationship*. The first three phases were natural parts of the two previously presented life cycle models. If the fourth phase had been named accordingly, it would have been called ‘Evaluating’. However, as the

relationship approach discussion in the previous chapter showed, there is much more in a relationship than just evaluating it. Thus, we felt that a more appropriate name for the fourth phase was ‘Managing the relationship’. Note: The first three phases require management as well but that is assumed to be the ‘general’ management work embedded in the activities of the phases/elements.

The Planning phase consists of three different activities: Form an outsourcing team, Support the outsourcing partnership process, and Form a business plan.

As the members of the outsourcing team are the ones that have the greatest influence on the whole outsourcing process and its success through their own actions, a fully empowered and competent outsourcing team is needed to make a business plan and manage the outsourcing partnership process. Especially in cases where one partner would serve various sites (geographically or otherwise diverse), it is essential that there is a representative from each site in the team. Team members should be chosen also so that they represent different functions, divisions, and levels of the hierarchy (e.g. product designers, marketing experts, purchasing managers, engineers). Otherwise troubles may arise, for example problems with partner service and coverage in particular locations, or overlooking particular functions. The team should be able to understand both commercial as well as technical issues to enable the identification of the major determinants of competitive advantage in all the fields in which the company competes, be it markets, industries or any strategic groups. [5] [16] [12]

In this phase, the role of the company top management needs to be rather active. The top management triggers the start of the outsourcing partnership process and chooses and empowers the members of the outsourcing team. The commitment of the top management is needed to make the process start successfully. If the company top management does not show a clear interest in the process and support it, it is possible that the outsourcing team will misunderstand the significance of the outsourcing decision and will not work as hard for the success of the process as is needed. [5] [17] [12]

The formation of the business plan has a clear emphasis in this phase, and the importance of the business plan for the success of the outsourcing partnership process seems to be undeniable. When forming the business plan, objectives for outsourcing need to be identified as well as the needed services [7]. Benchmarking of best practices for the outsourced work is useful to get a good picture of different alternatives, to help the identification of costs of all the

alternatives and to analyse the needed company internal competences [5][11][12]. Selection of the most beneficial relationship type needs to be done during this activity and based on that a definition of the partner selection criteria.

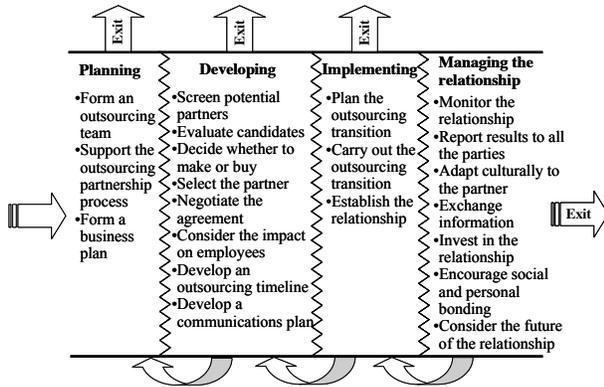


Fig. 1. The literature based outsourcing partnership model.

In the *Developing* phase the most important decision of the whole outsourcing process is faced: whether to continue with the outsourcing partnership process or to terminate it. Discontinuing the process would mean either that the customer company needs to be able to take care of the planned-to-be-outsourced work, or that it is necessary to go back and start the whole outsourcing partnership process again with revised objectives based on the new understanding of the issue. If the process is continued the most important result of this phase is an outsourcing partnership agreement.

Before making the decision, however, the potential partners need to be screened, that is, identified and evaluated [5][11][3][7]. If the decision is to continue the outsourcing partnership process, agreement negotiations are started with the selected partner candidate(s). Consideration of how the employees will be affected by the decision is needed as well as the creation of a concrete timetable and communications plan for outsourcing. Activities in this phase are well balanced as none of them seems to be overly dominating.

The main goal of the *Implementing* phase is to make the relationship work, firstly by getting the transition done (planning it and carrying it out) and secondly by establishing the relationship by creating management processes and setting up the relationship management organization. During the transition, once again, clear support from the top management of both companies is

needed, e.g. in the form of briefings for the employees. High level of attention and prompt feedback are also important. This phase is for making the intentions and plans a reality.

There are few operational activities in last phase of the model – *Managing the relationship* –, and intuitively it seems that operative relationship management has to be something more than just monitoring the relationship and reporting results, exchanging information between companies, and considering the future of the relationship.

For relationship monitoring purposes partners need to develop some measuring mechanisms together [15][5][7]. The evaluations should include both quantitative and qualitative measures and be based on the original objectives identified in the business plan, the individual experiences of the employees, as well as performance indicators, communication flows, and the characteristics of a strong relationship, such as level of trust between partners, flexibility etc. [17][5][8][15]. Formal evaluations performed regularly and at short enough intervals (e.g. quarterly or twice a year) provide an opportunity to find problematic areas before they grow too difficult to resolve [5][15].

Cultural adaptation – e.g. a shared language, shared processes and procedures, shared ‘social and cultural traits and norms’ – between the parties is important since it helps the staff of both companies to understand each other and co-operate without anxiety. Some conscious actions may help the adaptation. [10]

Strong social and personal bonds between individuals from both parties help in creating an atmosphere of trust and commitment, at the same time helping in cultural adaptation, solving conflict situations, and achieving satisfaction. [10]

The underlying idea of an outsourcing partnership is that once the relationship has been started, it won’t be terminated for trivial reasons – meaning that it has usually been thought of as remaining in effect for years. However, in time, the expectations of the parties may change, technological advances may come into existence, misunderstandings and conflicts may arise; these often cause a need to rethink the terms of the relationship. Maybe there is simply a “desire to take the partnership ‘to the next level’” [15]. In any case, renegotiations are needed. Often supplemental agreements fulfill these needs and the original agreement can be left untouched, thus preserving the relationship. [14][15]

The emphasis in this phase is on understanding both the meaning and the significance of the operational activities as well as the ‘social’ activities (cultural adaptation, investing in the relationship and social and

personal bonding) and their intertwining with each other.

3. Case presentation

To evaluate and improve the outsourcing partnership model presented in the previous chapter we used one outsourcing partnership case. The case customer company in this study is Nokia Corporation and one of its independent business units, Nokia Networks/IP Mobility Networks (NET/IMN). Nokia Corporation is the world leader in mobile communications: it is the world's number one manufacturer of mobile terminals, owning about 30% of the world's mobile terminal markets and is also a leading provider of network infrastructure, service delivery platforms and related services to mobile operators and service providers.

The case partner company is TietoEnator. With its close to 12 000 employees (2003) TietoEnator Oyj is the largest IT services company in the Nordic countries.

At the end of the year 2000, Nokia Networks/IP Mobility Networks' top management made the decision to outsource some parts of the mobile core network's software R&D. The intention was to find a strategic software R&D partner for the business unit. The company's internal preparation work for the outsourcing started in January 2001. First contact with possible partner candidates was made in March 2001 and negotiations with the candidates started in May 2001. An outsourcing agreement was signed with TietoEnator in August 2001. 318 employees were transferred from NET/IMN to TietoEnator together with a corresponding amount of work from four different Finnish NET/IMN sites.

3.1. Data gathering

To investigate the case, a series of in-depth interviews with 24 participants from the customer company and 10 participants from the partner company were conducted. All the interviews were tape-recorded and transcribed. For validation purposes, after each transcription, a more fluent description of the interview was written and sent to the interviewee in order to check the correctness of the interview report and to give them the chance to add further thoughts on the subject. In some cases some additional questions were also asked.

The duration of the interviews was typically between one and one and a half hours. The interviews were conducted as theme-centred interviews – all the

interviewees were presented several open-ended questions about the themes central to the study and we discussed the subjects rather freely. The themes discussed were: 1) the role of the interviewee in relation to the outsourcing partnership process and to the customer/partner company, 2) relationship formation, if the interviewee took part in the process somehow, 3) the relationship between the companies in general, 4) interfaces and processes concerning the relationship, and 5) the past and present expectations of the interviewees for the relationship and how satisfied the interviewees have been with the relationship in relation to their expectations. The first theme provided background information about the interviewee, the second theme addressed the issues of the relationship formation stage, the third and the fourth themes were about relationship maintenance and management issues and processes, and the last theme addressed our other interests about factors affecting the successful outcome of the relationship.

As information about all of the process phases was needed, the interviewees were chosen based on their involvement in different stages of the outsourcing partnership process and their position in the companies. The interviewees were also selected based on their geographical location; they represent all the affected customer company sites.

All of the interviewees held some kind of managerial position. Five of the partner company interviewees were transferred from the customer company to the partner company in the outsourcing.

4. Analysis of case data

The literary-based synthesis process model was used as a framework for an analysis of the empirical data. The summary of the outsourcing partnership model modified according to empirical case presented in this chapter (Fig. 2). The activities new to the model are presented in the figure with **bold text**. References to the interviewees are presented in brackets (e.g. C3 is a customer company interviewee, P2 a partner company interviewee).

When analysing the case data it became very clear that the outsourcing partnership process is not as linear as it appears. Many activities are taking place simultaneously; some of the issues have been decided much earlier in business roadmaps and strategies etc. and some of them need to be defined during different phases. Also, it may be necessary to come back to activities that have been completed earlier, to make some changes. The *Managing the relationship* phase in particular is very non-linear as many of the activities

are taking place simultaneously and do not end before the whole relationship ends. The reference models did not assume linearity; however, it is easy to think that the process is linear unless some problems occur. The empirical case shows that even a problem-free case is rather non-linear.

4.1. The planning phase

Comparing the case to the literature-based synthesis model reveals that in the *Planning* phase the customer company followed the model fairly closely. All the activities in the literature-based synthesis model were found in the empirical material as well.

The most interesting point about this phase concerns the outsourcing team and its creation: the team was not created in one effort, as could be understood from the literature. Instead, it grew gradually during the whole outsourcing process as new team members were included as necessary and others were left in the background.

4.2. The developing phase

Whereas the *Planning* phase followed the literature-based synthesis process model quite well, the *Developing* phase was heavily amended by the empirical data. Four new activities were added.

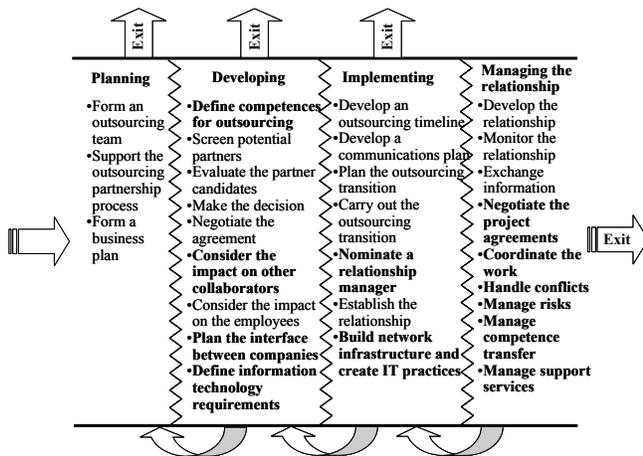


Fig. 2. The outsourcing partnership model modified according to empirical data.

Competence transfer has been totally overlooked in the literature even though in this case it was a very important and, when selecting the transferred

employees, very difficult activity. In words of the interviewees:

“Some of them had been my colleagues for a very long time, so decision making was really difficult.” (C2)

The situation is probably similar in many cases when employee transfer is required, especially when, instead of transferring whole units, the transferred employees have to be selected individually based on their competences.

Considering the impact on existing collaborative relationships is also important, as the future relationship may cause big changes to existing ones.

“I needed to collect information of the existing subcontracting relationships [related to the case]. It was often hard to do it and not to reveal why it was done.” (C18)

Some interface planning between companies is useful for future use and also in order to see how the practices of both companies fit together.

“I made a plan of what kind of teams and practices were needed for relationship management [measuring the relationship, what kind of roles are needed in the relationship management team] and for managing the R&D work itself [what kind of work to order from the partner and how to do it].” (C14)

The activity of defining the information technology requirements for the relationship cannot be found in the reference models, which is rather surprising but may be explained by the fact that none of the reference models were developed specifically for software R&D work.

Both infrastructure and application needs need to be defined, and also necessary changes to the current IT working environment (for the basis of the activities in the following phase). Two of the interviewees (C10, C11) mentioned that they think that in R&D work information technology arrangements form the backbone of the relationship. If the information technology arrangements work as unnoticeably and smoothly as possible without unnecessary interruptions, it gives the relationship a solid base. If problems appear and the network connections or applications do not work, it very quickly causes problems in the everyday R&D work leading to unnecessary frustration and irritation, and schedules being late. (C10, C11)

4.3. The implementing phase

The activities *Develop an outsourcing timeline* and *Develop a communications plan* were moved from the *Developing* phase to the *Implementing* phase as they

belong more naturally to the outsourcing implementation. In the *Implementing* phase, empirical material brought some big issues to light compared to the literature-based synthesis process model. The planning and deployment of the outsourcing transition are described in the literature in a sequential manner: first the outsourcing transition is planned and then it is deployed (following the “plan – do – check – act” process). However, when analysing all the case material it was seen that it actually seems to follow a more cyclical process: do some planning work, deploy it, do more planning, deploy it etc. as some of the actions need to be planned before the public announcement and some of the actions cannot be planned until after the outsourcing is public knowledge.

The *public announcement*, out of all the activities in the actual business transfer, stood out as it was a very large undertaking and needed very careful planning (P2). In the literature the public announcement has been simply taken as a part of the deployment activity. We argue that planning and carrying out the public announcement has and should have more weight than that. It is one of the most important points in the whole process as it divides the outsourcing process in two: things that happen and can be done before the public announcement and the ones planned and happening after it. Also, for most people the public announcement is seen as the starter’s pistol for the whole partnering relationship. The significance of the public announcement is emphasised in the current shareholder value society, as it gives signals about the current state of both companies, and markets may react strongly to it. The amount of work which needs to be put into planning and carrying out the public announcement should also not be underestimated.

For the establishment of the relationship, and its management in the future, the role of a *relationship manager* is crucial. That has not been noted in the literature: the nomination of an outsourcing team is discussed but, not the role of a single person who has the main responsibility for the relationship. However, in the customer company it has been noted over several years that a relationship manager is necessary in a big collaboration relationship, and nominating one in as early a stage of the relationship as possible (in the relationship establishment stage at the latest) is common practice (C10). The partner company has a similar kind of practice (P2). The first task of the relationship managers of both companies was to make practical plans for the co-operation, both separately and together (C10, P2).

To further emphasise the significance of this we have separated it from the *relationship establishment* activity to be an independent activity.

As a part of the *relationship establishment* activity relationship management processes also have to be created to make both the interface between companies, and the company’s internal interfaces work effectively. In the case relationship there were relationship steering groups for the different customer company business units as the partner company serves all of them. These steering groups discuss current practices and necessary improvements, future visions and the development of the relationship, as well as problems which need to have a repeatable solution for situations where the same problem may arise again

“The steering groups [for different business units] discuss visions for the future.” (C10)

“When we can’t find a solution on our own, we escalate the problem to the steering group.” (P8)

Designating the operational responsibilities is needed as well to ensure the easy going of the operational work (C18). On top of all these tasks there are a large number of practical arrangements that need to be taken care of in order to get the relationship working smoothly (P1, P5).

The most notable change in the *Implementing* phase was the addition of activities for *network infrastructure building* and *creation of IT practices*. This outsourcing partnership need was not mentioned in the reference models at all. One possible explanation for this might be that the reference models were not specifically intended for an R&D relationship. However, nowadays in any kind of relationship there are always at the very least e-mail messages between the parties, hence some attention needs to be paid to IT practices. These should at least cover ways of delivering messages safely from one company to another by using encryption or other methods for making the information secure. In an R&D relationship, in addition to e-mailing, it is usually necessary to develop documents and products in coordination and as a result of that it is usually necessary to use some applications jointly, over a network connection. It requires careful planning to make the connection work efficiently and flexibly, and at the same time protect it from intrusions. (C24)

4.4. The managing the relationship phase

The biggest transformation was seen in the *Managing the relationship* phase. The reference models addressed the operational management of the relationship very lightly and thus it was necessary to

add six new activities to this phase and rearrange the existing activities.

Under the *Develop the relationship* activity were gathered most of the activities from the reference models concerning the social aspects of the relationship and also the one considering the future of the relationship. In the case companies the relationship was developed very actively and joint visions and development plans were made. Development targets were found both through informal communication and formal assessments.

The *Monitor the relationship* activity remained rather similar to the one in the literature-based model. We combined result reporting with it, as in the case companies they were very closely tied together.

Even though the original partnering agreement is negotiated during the outsourcing partnership's implementation phase, this is usually not enough; in addition, *project agreements need to be negotiated* for each of the common projects. In a project agreement the work and payment details are described in necessary detail. In this case, tens of project agreements were negotiated locally (at different sites), at the end of the relationship establishment activity. (C18)

Work coordination requires more consideration in a collaboration relationship than in the situation where work is done totally inside one company. Three of the interviewees mentioned this fact in the interviews (C15, C17, C15), as internally in a company it is fairly easy to divide the work and define internal interfaces for the work groups. If the interfaces need to be negotiated it is usually quite a simple and quick task, even in a big project. However, when two different companies collaborate, the division and definition of the work has to be absolutely clear, as do the interfaces (C15).

The customer company has a routine procedure for *controlling and managing the risks* of all the current collaboration relationships. The risks are analysed, their root cause, probability and severity are estimated, and these estimations are updated regularly based on current information provided by the relationship monitoring activity, i.e. partner performance and experiences from the relationships (CC37, CC1).

Some time after the beginning of the collaboration it was necessary to expand collaboration and *transfer some new work* to the partner without transferring any employees (C14, C16, C19, C21, P6, CC15). This presented a new challenge even though both companies already had experiences in this kind of competence transfer (C23).

Support services have an important – although easily forgotten – role in the smooth running of the

relationship. Support services include various functions of the company, depending on the relationship type and the work done by the partner. In this case the support services used in both companies have so far included at least the following:

- *Human resources management* for training services provided to the partner (cf. Manage competence transfer activity)
- *Information management* for network infrastructure building and management, as well as application management (cf. Build network infrastructure and Create IT practices activities)
- *Legal services* for agreement negotiations and creation of agreement templates (cf. Negotiate the project agreements activity)
- *Quality and processes* for process improvement, quality issues (e.g. the previously mentioned Quality forum), measuring and improving the relationship (cf. Develop the relationship activity)
- *Company security* for security audits and consultation on information security issues (CC1)
- *Corporate communication* for communicating the business deals to the public when needed (cf. CC15, Plan and carry out the outsourcing transition activities)

A new activity was also added for *handling conflicts* in the collaboration. The importance of this activity was seen clearly in the case study. Interviewees from both companies were familiar with the conflict-handling procedure and used it fairly often to solve problematic situations. It seems that because of the existence of a working conflict-handling procedure, conflicts usually did not have time to become very difficult to handle, but were quite easy to resolve. This resulted in an open and trusting atmosphere. In the case companies, the importance of conflict handling and the need for procedures for it were noted during the agreement negotiations, and the partnering agreement itself includes an escalation procedure for conflict handling (P3, CC3).

“The escalation process works well” (C18)

As the importance of *information exchange* was so evident, having an activity solely for that purpose is clearly justified. Having both formal and informal ways to exchange information seems also to affect satisfaction in the other party, and make it easier to resolve conflicts. The parties used both formal and informal techniques for information exchange. The formal methods included the companies' common project network, web pages, project and product documentation-sharing applications, meetings for different needs (relationship steering group meetings, regular project meetings, a quality forum for

development of work quality, crisis meetings, etc.), the sharing of information concerning different evaluations, and the creation of a common relationship plan including a common vision for the relationship. (C15, C16, C17, C19, P3, P4, P6, CC38, CC39.)

Two of interviewees mentioned a conscious use of informal methods in information exchange (P6, C21), and underlined the need for them. One of the interviewees reported that he usually made daily telephone calls to his ‘counterpart’ in the partner’s office. Telephone calls were mainly used for ‘relationship maintenance’:

“The subjects we talk about [on the telephone] are more like relationship maintenance – it is easy to grab the telephone when there are things that need discussing, not just decisions to be made. And there needs to be a certain type of a person on the other end for it to work.” (C21)

“Most of the decisions are made outside of formal meetings, in informal meetings, by using e-mail or the telephone. It is just normal daily work” (P6)

The same theme can be seen throughout this phase: the importance of communication and information exchange.

5. Conclusions

Empirical material from the case greatly affected the outsourcing partnership process. The literature-based process had four phases – *Planning, Developing, Implementing, and Managing the relationship* – and each of them contained activities. The phases remained the same after testing and complementing the model with the empirical material, but many activities were added and our understanding of the process in deeper level also improved.

When comparing the literature-based synthesis model to the model modified with empirical material a considerable change can be seen. It is interesting to ponder why the reference models seem rather lacking when compared to reality. One possible reason may be that the models were not developed for an R&D relationship – some of the additional activities in the modified model are due to the nature of the relationship. Perhaps the data the reference models were based on was collected from a different point of view and the process was only an offshoot of that. And, considering the *Managing the relationship* phase, the two life cycle models ([2] and [3]) did not even note the need for relationship management. As many of the activities of the *Managing the relationship* phase in the literature-based synthesis model originated from a model that had a very different (more ‘social’) point of

view of the relationship [10] it is understandable that a more operational viewpoint (as in this study) should cause big changes.

Perhaps the most interesting general finding of this study, however, presented itself during the literature analysis: the outsourcing partnership models and frameworks concentrate on the outsourcing process and take very little interest in the end result of that process – the partnering relationship itself. On the other hand, in the partnering literature there is very little material concerning the operational process of partnering, even though many other aspects of partnering have been studied in detail. A comprehensive model of the process of forming and managing an outsourcing partnership was not found. The model we have created attempts to fill that gap.

5.1 Implications for the practitioner community

Even though the outsourcing partnership process presented in this study is based on the experiences of two large companies, this does not mean that the process cannot be applied in smaller companies as well. Some downscaling is probably needed; the case companies are very experienced with collaboration and thus have quite extensive processes for it as well as the opportunity to use employees solely for collaboration management work. Smaller companies are probably unable to use that many resources for relationship management work, and in any case, such extensive processes or organisation is probably not necessary for them. Still, understanding the fundamentals behind the process helps the smaller companies to adopt appropriate parts of the process for their own use.

The same attitude should suit companies in areas other than the software industry. Even though the process model presented in this study is constructed from a software R&D point of view, the underlying reference models are quite general. Thus, by taking the ‘software flavour’ away from the model, it can be adapted for use by other types of companies as well. E.g. very typical for a software R&D relationship is using of many, often concurrent software projects that need to be negotiated and managed independently, as well as the extreme importance of well working information technology arrangements.

Many activities in the partner company correspond to those of the customer company. In the outsourcing partnership formation phases (*Planning, Developing and Implementing* phases), the customer company is clearly, and naturally, the one leading the process; when something happens in the customer company the partner company reacts to it. However, in the *Managing the relationship* phase the companies are

more equal and the partner company often takes action first. This suits the spirit of a partnering relationship well.

When an outsourcing partnership is successful it may be a very good start for a productive collaboration over many years. Transferring employees helps in getting a cultural fit between partners, as part of the customer's culture is moved to the partner company with the transferred employees. Thus the initiation and establishment of relationships is easier, and this brings the companies closer together. The social and personal bonds between companies are also already in existence as they are transferred with the employees. Even though, for the employees themselves, transferring to another company is not necessarily a positive thing (although positive aspects exist and are reported, such as improved career prospects), when looking at the process from a business perspective a transfer is a beneficial thing when the customer company wants to give a large amount of existing work to the partner to do.

5.2 Implications for the research community

A qualitative single-case approach suited this study well. A multiple-case approach might have yielded even better results. However, the analysis work for even a single case is a lot for only one researcher. Also, it is often very difficult to find a suitable set of cases for the research. This was the situation with this study too: even though outsourcings take place in many companies, information about them tends to be confidential. It is very difficult to get in-depth information about an outsourcing unless one works for one of the outsourcing parties or is in some other way in close contact with the company. Thus finding multiple cases for research is not very easy.

The results of this study show that we do not know very much about outsourcing partnerships yet, at least process-wise. This study brought forth some new ideas concerning the issues important in the formation and management processes of an outsourcing partnership. However, more research is needed to confirm the results and to understand better what they imply. Although finding suitable cases is not always easy, a multiple-case study of the outsourcing partnership process would help in digging deeper into the subject. We argue that even though a quantitative study of some issues might also be done, a qualitative approach is still more suitable until more information has been gathered on the subject.

6. References

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