Spiraling Effect of IS Outsourcing Contract Interpretations

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Summary

Information Systems (IS) outsourcing is the contracting out of technology services to a third party but involves much more than the contractual definition of that arrangement. Structuring the alliance, managing the relationship and planning for the business must complement the contractual arrangements. Although spiraling effects from the interaction of these elements can propel the relationship quickly along a chosen path, it is not until all of these elements are aligned that IS outsourcing is likely to succeed (McFarlan & Nolan 1995; Fitzgerald & Willcocks 1994). As will be seen through the tale of two IS contracts, many different combinations can be successful. The tale of two IS outsourcing contracts sets the stage and illustrates these different behaviors and the different business objectives. Four additional cases are used to extend the findings. At one extreme, the transaction-oriented buyer/seller extreme, the emphasis is put on the contract and on achieving more narrowly focused business goal. While at the other extreme, the relationship-oriented strategic partnership extreme, the emphasis is on achieving broad company-wide business goals and on developing a partnership with exhibited behaviors of reciprocity, forbearance and opportunism avoidance, which are all meant to build trust. Spiraling influence of these interactions are shown to build quickly. A company considering IS outsourcing must decide which arrangement is suitable for its purposes and must build behaviors to mitigate business and technical uncertainty and reinforce the contractual definition and the interpretive flexibility pursued within the chosen arrangement. In a presentation of these possible scenarios, relationship management is shown to benefit all and gains control of the spiraling effects.

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1 Introduction

Information Systems (IS) outsourcing is about contracting out technology services to a third-party but involves much more than the contractual definition of the arrangement. Legal perspectives on IS outsourcing imply that the contract is what matters. The negotiation process, contract clauses, and conflict resolution/contract amendment activities are of central concern under this view (Judenberg 1994; Menagh 1995; Yates 1994). Literature on Joint Ventures brings a new perspective to the discussion which suggests that a partnership potential exists when two parties are brought together. This potential, however, can only be realized if the focus is on relationships and the co-operative behaviors that build trust (Parke 1993). Otherwise, it is not a partnership; it’s likely a market transaction.

Considering these two different perspectives, it is quite possible for both buyer/seller-type and strategic partnership-type arrangements to be successful within the IS outsourcing area, although each, by definition, would serve completely different business objectives. Strategic partnerships are predominantly about relationships, not contracts. Buyer/seller arrangements are predominantly about contracts, not relationships. Although each type must establish both relationships and contracts, which of these is the focus is what sets them apart. Effective IS outsourcing arrangements can be achieved, no matter the approach, if appropriate principles are adhered to at the forefront (McFarlan & Nolan 1995, Fitzgerald & Willcocks 1994) and reinforced through the spiraling effect of relationship interactions (Andersson & Pearson 1996, 1999).

This paper illustrates differences in IS outsourcing alliances through the tale of two case studies of complex IS outsourcing arrangements. Although the data are based on six cases and are representative only of a small spectrum of the types of IS outsourcing relationships, they do show how relationship characteristics develop in different ways. What emerges is not just how contracts are drawn up, but also how companies set business goals and interpret situations throughout the relationship, through posturing, developing co-ordination mechanisms, and resolving conflict (Fitzgerald & Willcocks 1994). Actions and words throughout this relationship have spiraling effects, upward or downward, to reinforce the tone of the arrangement.

Given that the different literatures suggest that both types of outsourcing relationships are effective within an IS context, the objectives of this paper are to:

1. Determine the different circumstances under which a strategic IS partnership or a buyer/seller IS relationship flourish, and

2. Determine the importance and role of IS contract interpretation.

Within the first question, several sub-questions are raised. For successful IS outsourcing relationships, to what extend are the following involved: