Cooperative Partnerships and IT Outsourcing: From Contractual Obligation to Strategic Alliance?

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Introduction

This chapter has two primary purposes. The first is to think through the concept of cooperation and its relevance for strategic alliances. The second is to analyze the potential role of information technology in such alliances. Specifically in the latter we focus on examples of “total” IT outsourcing – often cited as forms of “strategic alliance” – to examine the structure of cooperation, the relationships formed, how structure and relationships evolve, and the degree to which they might be sustainable. Here, as in all our chapters, “total” IT outsourcing is taken to be where 80% or more of an organization’s IT budget is spent on third party management of IT assets, people and/or activities to required/agreed results (Lacity and Willcocks, 1998). In the mid-1990s, when an earlier version of this chapter was published, the topic of cooperation in strategic alliances, especially in the specific area of IT outsourcing, was relatively undeveloped in the academic management studies literature. “Undeveloped” refers to a lack of agreement on definitions of fundamental concepts; wide differences in use of terms such as “partnership”, “strategic partnership” and “strategic alliance”; and a lack of academically researched case material to work through such problems, as opposed to an uncritical adoption of cases and vocabulary described in trade journals, the press, and business magazines. Subsequently the strategic alliance literature has developed immensely (for overviews see Child et al., 2006; Faulkner and Campbell, 2005). However, strategic alliances remain understudied in the IT literature (exceptions include DiRomualdo and Gurbaxani, 1998; Barthélemy and Geyer, 2004). We have suggested elsewhere that this is because, when it comes to outsourcing, strategic alliances exist more at the rhetorical level than in practice (Lacity and Willcocks, 2001, 2009).
There are many extant definitions of “strategic alliance” in the literature. For the purposes of this chapter our working definition is as follows:

Strategic alliances are about inter-organizational relationships involving voluntary, collaborative efforts of two or more firms to create and add to, if not maximize, their joint value.

This definition does not say that the collaborators display altruistic behavior, but it does assume that neither would wish the relationship to be terminated prematurely as a result of one side’s dissatisfaction. There are two hidden assumptions on which the above definition is based: firstly, organizations consciously enter into relationships for explicitly formulated purposes; and secondly, there are certain determinants that actually motivate organizations to establish relations (Oliver, 1990). An underlying concept is that of partnership. This chapter will build on the discussion in the previous chapter and reveal the different senses in which this term is used amongst both practitioner and academic communities, moving from a concern on the process and quality of a relationship through to structural characteristics. In practice, most uses of the term neglect the key characteristic that in our view links it with that of strategic alliance, namely a contracted relationship in which a dominant, rather than minor, feature is that of sharing of risk and reward (see Chapter 3). A further, overriding characteristic of a strategic alliance would seem to be that the joint activity is orientated in its ends toward the external marketplace rather than focused predominantly on internal efficiencies.

**Transaction costs and strategic alliances**

Before exploring in more detail the concept of inter-organizational relationships one has to be aware of the other alternative forms for governing transactions, namely market-based and hierarchical or managerial modes (Ring and Van de Ven, 1992; Choi, 1994; Choi *et al.*, 1994). In the first case the competitive marketplace and classical contract law provide efficient safeguards to the parties for governing those transactions. In addition, social relationships are not important and can be largely ignored. The second scenario deals with the production of wealth or the rationing of resources among superiors and subordinates. Power and control issues are relevant in this situation.

Transaction cost theory has been usefully employed elsewhere for examining IT outsourcing arrangements (see for example Beath, 1987; Klepper, 1993; Lacity and Hirschheim, 1993; Lacity and Willcocks, 2009). However, based on the definition of inter-organizational relationships that the chapter adopts, it appears inappropriate to try and apply the transaction cost perspective, as represented in for example Williamson (1975, 1985), to