Determinants of Outsourcing Success in the Financial Industry: The Impact of Importance

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Abstract

How does the overall importance of a particular outsourcing deal, as perceived by the provider, affect the quality and, subsequently, the performance of an outsourcing relationship? This work contributes to outsourcing research by investigating the role of relational governance and its drivers for achieving more successful outsourcing relationships. We focus on the impact of a particular contextual variable which describes the importance of the outsourcing deal to the vendor, thereby turning the traditional perspective of resource dependency theory on outsourcing upside down. Using a case study approach, we show the significance of the importance of a deal between an IT outsourcing provider and its client to both the relationship quality and overall outsourcing success. Clients whose relative deal sizes are large compared to the provider’s portfolio or who offer a strategic advantage to the provider are more likely to receive sound service quality and have a better IT outsourcing relationship.

Keywords: importance, relationship quality, outsourcing success, IT outsourcing.

1. Introduction

There is general agreement in outsourcing literature that contractual governance is necessary but not sufficient for a successful outsourcing partnership [50]. This is why various research works have tried to shed light on a complementary element of contractual governance, called relational governance, relationship management or similar [53]. “Relational governance is the predominant governance mechanism associated with exchange performance” [21]. The aim of relational governance is to raise the quality of the relationship between outsourcer and service provider as a means for achieving a more successful outsourcing relationship [50]. Thus, relationship quality is an important measure by which the performance of relational governance may be assessed [38].

So far, most research on relationship quality has treated this element quite superficially as a single-dimensional construct and has failed short to clearly differentiate between dimensions of relationship quality and its drivers. However, there are two notable exceptions [24, 38], which specifically differentiate between drivers and dimensions of relationship quality. They will serve in the following as a basis for our work.

As for the drivers of relationship quality, there are even fewer works that focus on those antecedents of relationship quality. Most of these approaches focus on variables which describe the interaction between client and provider (i.e. communication, conflict resolution, coordination, cooperation, and integration) [24, 31, 38]. Some other articles show the positive impact of contractual governance on the relational elements of an IT outsourcing arrangement [50]. All these research approaches are valuable for understanding the factors that lead to a good relationship quality. However, current literature on relational governance disregards a central determinant of relationship quality: the so-called contextual factors [18, 51]. In their review of sourcing literature, Dibbern et al. conclude that “IS sourcing is an ongoing decision process, which is influenced by changing contextual factors and environmental forces” [14].
Although IS literature has shown the importance of contextual factors in different organizational and interorganizational settings [18, 19], there is only one exception that takes into account contextual factors as drivers for relationship quality [38]: Lee and Kim introduced cultural compatibility as driver for relationship quality but could not show a significant impact [38].

Attempting to close this gap, we contribute to relational governance literature by shedding light on one particular and, as we will show in this paper, highly relevant contextual factor that drives relationship quality: the importance of the outsourcing deal to the provider, which, in the following, we will refer to as “importance”. By turning around the traditional application of resource dependency theory on the outsourcing domain, we propose that not only the provider possesses resources which need to be acquired by the client, but that the client has or represents a valuable resource from the provider’s perspective, as well.

Our research question thus is: what are the relevant facets of importance and how do they affect relationship quality and overall outsourcing success?

From a practical viewpoint, this contingency factor seems to be highly important, since there is heterogeneity in the market (e.g. in terms of firm size, deal volume, and many other factors) which will lead the providers to not homogeneously serving all of their clients. Consequently, tackling this research question will help to more thoroughly understand the providers’ motivations and anticipate the resulting behavior in order to take sufficient care of the contractual design and to choose the right provider.

To answer our research question, we develop and apply a research model (sect. 2) – after introducing the methodology in section 3 – to analyze eleven case studies in the financial services industry (sect. 4). Section 5 illustrates the limitations of our approach. We conclude our approach and outline our further research in the final section.

2. Research model and theoretical foundation

The model that guides our research on better understanding of the causes for outsourcing success is presented in Figure 1. It consists of outsourcing success as an endogenous variable, importance of the relationship as exogenous variable and relationship quality as mediating factor. The constructs and causal relationships are derived from the literature and discussed in the following subsections.

**Figure 1. Research model**

2.1. Outsourcing success

Outsourcing success has been captured by means of many different measures in prior literature. These are, e.g., realization of expectations [36], quantitative measures [37] and economic, technological, and strategic dimensions [28]. However, the most commonly used measure to capture outsourcing success in the literature is satisfaction [55], which is defined as “the level of fitness between the customer’s requirements and outsourcing outcomes” [39]. This perception-based measure has the advantage of enabling the assessment of the respective strategic objectives underlying every individual outsourcing decision. Lee and Kim [38] measure outsourcing success by focusing on the “achievement of strategic, economic, and technologies benefits of outsourcing”. Koh et al. [35] operationalize outsourcing success as consisting of the overall satisfaction with the outsourcing deal and the desire to retain the outsourcing partner.

To complement this strategy-oriented measure with a more operations-oriented value, we follow the argumentation of Lee and Kim [39] as well as Goles [22] and consider the aspect of service quality received from the provider in our investigation. The quality of a purchased service is obviously of crucial importance for any service delivery and for IT outsourcing relationships in particular.

The measurement of service quality is difficult because services tend to be intangible [45, 54], “involve simultaneous production and consumption, and integrally involve customers in their creation” [28]. Without tangible evidence to evaluate the service quality in outsourcing relationships, researchers need to rely mainly on subjective, perception-based measures rather than on objective measures [46]. Parasuraman et al. [45, 46] introduced an instrument named SERVQUAL for measuring service quality based on the gap between expected and experienced service quality.

Cronin and Taylor [11, 12] showed that there is no empirical evidence that the gap between expected and experienced service quality has to be explicitly measured. Consequently, they develop a new instrument called SERVPERF, which only measures the experienced perceptions in order to capture service quality.

Kettinger et al. [32], Pitt et al. [49] and Watson et al. [58] showed the applicability of SERVQUAL as a
measurement tool for information systems service quality which consists of four service quality dimensions: reliability, responsiveness, assurance and empathy [32]. We adopt these four dimensions of IT service quality for our study and follow the SERVPERF approach.

Therefore, in the following, satisfaction with the outsourcing decision in terms of the achievement of the individually planned goals and the received service quality is used as a measure for outsourcing success.

2.2. Relationship quality

Most of the prior literature dedicated to this subject is confined to a general understanding of the role of relationship quality between client and vendor [28, 30, 33, 34, 43]. A smaller segment of the outsourcing literature develops a deeper understanding of the dimensions of relationship quality and its determinants [22, 23, 24, 25, 31, 38].

Based on [24], [38] and on own, previously published work [7, 8], we apply a multi-dimensional construct consisting of commitment, communication quality, conflict, consensus, forbearance, mutual understanding and trust. Commitment “refers to an implicit or explicit pledge of relational continuity between exchange partners” [16, 24, 26, 38]. Communication quality describes the efficiency and effectiveness of information exchange between partners [7, 8]. Conflict “represents the overall level of disagreement in the working partnership” [2]. Consensus “is the extent of general agreement between parties” [44]. Forbearance “is forgoing certain behaviors that are not in the best interest of both parties” [42]. In the IT business alignment literature, mutual understanding is defined as “the ability of IT and business […], at a deep level, to understand and be able to participate in the other’s key processes” [52]. Trust is the firm's belief that the partner firm will perform acts that will result in positive outcomes for the firm and not take unexpected actions that would result in negative outcomes [2]. The development of this multi-dimensional relationship quality construct is described in detail in [7].

Grover et al. [28] show the importance of partnership elements such as trust for outsourcing success by defining partnership quality as the mediating variable between the degree of outsourcing and outsourcing success. Lee et al. [38, 39] delineate partnership quality and demonstrate its effect on outsourcing success. In their seminal paper about the complementarity of relational and contractual governance, Poppo and Zenger [50] showed the influence of two relationship quality dimensions, trust and open communication, on outsourcing success. Lee et al. [39] report commitment to be one of the main drivers of outsourcing success. Lee et al. [41] found trust to be a highly relevant predictor of outsourcing success. In the same vein, Goo and Nam [26] found trust and commitment to have a positive influence on outsourcing success.

Based on this previous literature about the positive impact of relationship quality on outsourcing success we pose the following hypothesis.

H1: High relationship quality is related with high outsourcing success.

2.3. Importance

The outsourcing deal with a particular client exhibits a certain degree of importance to the vendor. The client portfolio of an IT provider ideally contains multiple firms, having different sizes, demands, and receiving different services and volumes. The simplest argument would be the larger the contract volume the more important is the client to the provider. As we will discuss below, there are multiple other aspects which form this concept of importance, and we therefore define it as the degree to which a client has significance for a provider compared to the provider’s overall client portfolio.

We believe that importance, like deal size and the strategic importance of an outsourcing deal for a particular vendor, is a crucial factor in an IT outsourcing relationship since the provider will draw special attention to this relationship. This importance might have several facets that will be discussed in the following. We will give a brief overview of other factors from literature that affect outsourcing success and which are comparable, but not identical, to importance. We close this paragraph by showing which theoretical foundations can be helpful in explaining importance.

Firm size is a frequently used control variable in empirical research. Many papers in organizational science focus on the linkage between firm size and innovation [1, 13, 27] or on the influence of firm size on the willingness to engage into cooperative ventures [6, 10]. In the IS outsourcing context, Ang et al. [3] could not “falsify that large banks are less likely to outsource than smaller banks” [14]. In those contributions, firm size is an absolute measure that influences variables like innovation potential or outsourcing willingness.

Furthermore, most IT outsourcing papers use dependency as a construct influencing relationship quality [38, 39, 40]. Usually this concept stems from the work of Anderson et al. [2]. They compute the dependency in a wholesale distributor/manufacturer environment as the difference between the switching
mostly result in an exceptionally high Anderson’s et al. [2] dependency measure would outsourcing (e.g., [4, 17]). The application of argued to be one of the largest strategic risks of relationships, therefore, the threat of lock-in is often the current relationship). The dependency on an IT provider is much higher than in many supply chain outsourcing deals fall into the category of infrastructure, application or even business process outsourcing. Outsourcing customers rely heavily on their IT without being able to switch the provider during the deal period without high efforts (in many cases, switching costs might be higher than maintaining costs of a distributor firm minus the replacement costs of its manufacturer firm that has to relocate its sales to another client. We argue that Anderson’s et al. [2] dependency measure is very helpful in a supply chain context but cannot be directly transferred to an IT outsourcing context for three reasons: first, most outsourcing deals fall into the category of infrastructure, application or even business process outsourcing. Outsourcing customers rely heavily on their IT without being able to switch the provider during the deal period without high efforts (in many cases, switching costs might be higher than maintaining the current relationship). The dependency on an IT provider is much higher than in many supply chain relationships, therefore, the threat of lock-in is often argued to be one of the largest strategic risks of outsourcing (e.g., [4, 17]). The application of Anderson’s et al. [2] dependency measure would mostly result in an exceptionally high “dependency value” and would therefore not be able to evaluate an IT outsourcing relationship. Second, Anderson et al. [2] focus only on the costs associated with dependency in partnerships. We believe that IT providers in a sourcing market, which gets more and more complex and competitive, also consider strategic reasons for choosing their clients. We pose to also integrate strategic considerations like the marketing impact of a certain client, the access to a not yet tapped industry sector (from the provider’s point of view) or the visibility of the provider’s service via a client in a certain industry sector. Third, Anderson’s et al. [2] dependency measure does not take future investments into account. We believe that the behavior towards the customer depends on the expectation of the provider. If the provider expects to do additional business transactions with this customer in the future, he will pay more attention to the customer needs.

Different deal volumes as well as different strategic motives are the basis for a balance or imbalance in the relationship. Power dependence theory deals with balance or imbalance in a relationship [20, 47], where “power is a property of the social relation, not an attribute of the actor” [20]. Power results from the dependence of actors on each other, where actors can be individuals or groups [20].

Another perspective that helps us to explain this kind of balance is the resource dependency theory (RDT). This theory focuses on resources which are outside of the firm’s control but which are needed for successfully doing business or even for survival [48]. Consequently, the objective of firms to ensure their resource supply without losing autonomy is the reason for cooperation between firms [48, 57]. Applying RDT to outsourcing research is quite uncommon (some of the rare examples are [9, 29, 56]). Usually, it is argued that the provider possesses resources which the outsourcer lacks [9]. But, we can also draw the opposite link where the outsourcer has or represents a resource the provider is trying to get access to. One of them is acquiring a renowned player as a reference client in order to, e.g., get access to new markets via a key player, another is to attract a client which has a unique characteristics, e.g., in terms of size or technological infrastructure, which can serve as a pilot customer or strategic partner for testing and developing new industry solutions.

Based on these theories we formulate the following hypothesis:

\[ H2: \text{A high importance has a positive impact on relationship quality}. \]

3. Case study methodology and setting

3.1. Case study methodology

We test our proposed research model with multiple case studies “to explain the presumed causal links in real-life interventions that are too complex for a survey” [59]. In order to derive sufficient results from a case study approach, these have to be prepared, conducted and analyzed thoroughly [59]. Following Dubé and Paré [15] we identified the research question and made it explicit. The questionnaire was refined using a pretest1. All interviews were conducted by two researchers. They lasted about two hours each and were tape-recorded. The collected data was transcribed and analyzed using MAXQDA and a self-developed case study database, which allows for a simple but efficient comparison of case data.

Based on our research model, two researchers encoded the transcripts independently to identify patterns that match with theoretical propositions and constructs.

3.2. Case studies setting

Our case study series comprised selected IT outsourcing relationships of four German banks and seven outsourcing providers. In each firm we interviewed the manager(s) responsible for a particular relationship to either a provider (in banks) or a client (in provider firms). All interviewed providers deliver services to the banking industry, thus, we were able to focus solely on outsourcing relationships with financial service providers.

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1 We would be glad to provide you with the questionnaire. Please send an email to the first author.
As a consequence, the comparison of the banks and the providers is supported by a very homogeneous setting:

- all companies operate in the same market;
- all companies and investigated outsourcing relationships are subject to the same outsourcing and compliance regulations in the German banking industry;
- at the time of the case study series, all contracts already had a minimum runtime of at least one year;
- all interviewees are very experienced with outsourcing and were involved in all phases of the investigated deal.

The German banking system consists of three different groups: private commercial banks, publicly owned savings banks and credit cooperatives. The two latter groups count for around 80% of the German market in terms of number of institutes. Our case study covers two credit cooperatives, one savings bank and one commercial bank. Demographic information about the banks is presented in Table 1.

All surveyed providers are large companies with more than 1,000 employees or even huge and global organizations, (with one exception (P4)) operating on the international outsourcing market. Demographic information about them is presented in Table 2.

### 4. Case study results

#### 4.1 Importance and relationship quality

We analyzed the transcripts of the interviews to explore the facets of importance which might influence relationship quality. The results in terms of quotes from the bank managers as well as from the providers are presented in Table 3 and Table 4, respectively. They have been translated from German to English and were cross-checked by a second researcher to guarantee their correct translation.

| Table 1. Description of banks involved in the case study series |
|---|---|---|---|---|---|---|
| Banks | F1 | F2 | F3 | F4 |
| Financial sector | Commercial bank | Credit cooperative | Savings bank | Credit cooperative |
| Employees | > 10,000 | < 1,000 | 1,000-5,000 | 1,000-5,000 |
| Outsourced service | IT infrastructure, application hosting | Business process (credit processing) | IT infrastructure | Data center |
| Interviewees | Provider manager | Provider manager | Provider manager / service manager (data center) | Provider manager |
| Provider firm | Global IT provider | Small specialized BPO provider (P4) | Global IT provider (P6) | Global IT provider (P6) |

| Table 2. Description of providers involved in the case study series |
|---|---|---|---|---|---|---|
| Providers | P1 | P2 | P3 | P4 | P5 | P6 |
| Employees | 1,000-5,000 | 1,000-5,000 | > 50,000 | 1,000-5,000 | 1,000-5,000 | > 50,000 |
| Provided service | IT infrastructure | Communication infrastructure | IT infrastructure, application management | Business process | Application management | IT infrastructure |
| Number of contract extensions | 0 | 2 | 1 | several times | 0 | 1 |
| Interviewees | Business manager | Account manager | Business manager | Account manager | Account manager | Business manager |
| Client | Comm. bank and FSP | Large credit cooperative (F2) | Large comm. bank and FSP | Credit cooperative | Credit cooperative | Comm. bank and FSP |

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| Table 3. Quotes from bank managers |
|---|---|---|
| Quote No. | Bank | Quote |
| QF1 | F4 | “The provider exhibits a high level of commitment within this relationship because we are of strategic importance for him. We offer him access to our financial sector and are one of his reference customers.” |
| QF1 | F3 | “In terms of the deal volume and other factors we are relatively unimportant for our provider. As a result, communication with the provider is inefficient as we are only discussing with lower hierarchical levels” |
| QF3 | F2 | “The commitment of our provider increased in the last years as competition does in the BPO market. Without this increasing competition our provider perceived itself as a “department de luxe”.” |
| QF2 | F1 | “We are the much more powerful part in the relationship. E.g., we are the only customer of our provider that uses its data center right now. Hence, we show only little forbearance” |

F4 reports to be very important for the provider. Since the bank is a key player in its market sector, it can offer access to this sector to the provider (QF1).
The provider does not have any further customers in this field. F4 argues that the provider is very interested in acquiring more customers via the relationship with F4. Hence, the provider shows a high level of commitment.

F3 has totally different experiences with its provider. This bank rates its own importance from the provider’s perspective to be relatively small (QF1). Neither does F3 represent a high deal volume nor does it offer any other advantages to the provider. As a result, the relationship quality is rated as being low and communication with the provider is inefficient. The communication does only happen on lower hierarchical levels without the possibility to change or develop major things.

F2 reports an increasing commitment of the provider because of increasing competition (QF3). Its provider is a 50% spin-off and it was the first BPO service provider on this particular market segment in Germany. In the first years of the relationship, F2 was the only customer of its provider. In this situation, F2 describes the behavior of the provider to be very reluctant. The provider did not have to fear any consequences for restrained behavior. Neither were any competitors in the market nor were sufficient SLAs established at this point in time. An exogenous shock, namely the market entry of other providers with the same offers, changed the behavior of F2’s provider, who showed a much higher commitment then.

<table>
<thead>
<tr>
<th>Quote No.</th>
<th>Provider</th>
<th>Quote</th>
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</thead>
<tbody>
<tr>
<td>QP1</td>
<td>P2</td>
<td>“We offer this customer special management attention because he is a reference customer”.</td>
</tr>
<tr>
<td>QP2</td>
<td>P3</td>
<td>“We show high commitment because of the special position as reference customer in our portfolio”.</td>
</tr>
<tr>
<td>QP3</td>
<td>P4</td>
<td>“Commitment, in this case, correlates with relevance of the customer. We are in a strategic alliance with him”.</td>
</tr>
<tr>
<td>QP4</td>
<td>P3</td>
<td>“The importance of the relationship [strategic alliance] for both parties leads to a mutual lenience&quot;.</td>
</tr>
<tr>
<td>QP5</td>
<td>P1</td>
<td>“We are highly committed because this customer is very important for us in terms of the deal volume”.</td>
</tr>
<tr>
<td>QP6</td>
<td>P6</td>
<td>“Based on our IT infrastructure our customer delivers services to nearly every company in the [German] financial industry. A failure of our IT services would be immediately visible for every organization. This is why we are that much committed”.</td>
</tr>
<tr>
<td>QP7</td>
<td>P7</td>
<td>“We are hyper-committed because this customer is one of only a few mainframe customers [in Germany]”.</td>
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</table>

F1 has an interesting relationship with its provider. Both the deal volume and the contract runtime are extraordinary high. The provider invested in an expensive data center for its customer and is contractually allowed to run applications of other customers in this facility. But, so far, the provider did not acquire any other customers and could not reach economies of scale. Hence, the customer regards itself to be in a powerful position and thus shows only little forbearance (QF2).

Both P2 and P3 regard their customers to be very important because they are reference customers in the financial industry (QP1 and QP2). Both relationships are highly visible in the market as both providers advertise their association with their customers. For P4 there is also another highly relevant factor to provide its customer with an extra portion of attention (QP3). The relationship between P4 and his customer is evaluated by P4 to be a strategic alliance. P4 is a spin-off of this particular customer who also provides the highest deal volume, compared to P4’s other customers. Both P4 and its customer jointly develop products and have implemented an ongoing process optimization. P3 argues in a comparable vein. Their relationship with the customer is considered to be a strategic alliance in terms of the longevity of the liaison and the closeness of cooperation (QP4). As a result of this closeness and longevity, P3 believes the relationship to be highly forbearing. However, there are also other, much more simple reasons, why providers exhibit high commitment. P1 offers his customer special attention because it has a very high deal volume (QP5). P6 has another explanation for its high commitment towards its customer. This financial service provider is highly visible in the market as it provides services to nearly every company that requires pre-transaction financial customer information. This high market visibility has a massive impact on the provider’s commitment (QP6). Beside these relational factors, the provider also accommodated this customer by agreeing upon process oriented service level agreements (SLAs). Albeit this provider is one of the “big players” in the market, process-oriented SLAs are a new development that have been accepted by the provider because of the customer’s importance. P7 provides mainframe solutions to its customer. Since this customer is one of only a few mainframe clients in Germany, P7 regards itself to be “hyper-committed” (QP7).

The above quotes about the link between importance and relationship quality document the support of both, banks and providers, for our first hypothesis which states a positive relationship between the importance of banks and relationship quality (H1). Banks with high relevance for their providers (in terms of e.g. strategic considerations like visibility in the market as reference customer or economic considerations like the deal volume) are expected to have a better relationship quality than banks that are less important.
4.2. Relationship quality and outsourcing success

We want to briefly shed some light on the impact of relationship quality and outsourcing success with the available data from our sample.

We found that all providers rated the outsourcing to be successful. However, this evaluation is hardly reliable, since the provider is acutely threatened by the self-evaluation bias. This is why we only take the answers of the customers into account. Table 5 illustrates the results for the banks in our sample. Banks with a high importance for their customer tend to have a good to very good relationship quality and, in turn, rate their outsourcing arrangement to be successful. Only F4 does not support this reasoning. Although the importance of F4 for his provider is high, the relationship quality is evaluated as medium.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Importance</th>
<th>Relationship Quality</th>
<th>Outsourcing Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1</td>
<td>High</td>
<td>Medium to high</td>
<td>High</td>
</tr>
<tr>
<td>F2</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>F3</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>F4</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
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A closer look at this case helps to explain the discrepancy between both values. F4 has a very contract-oriented, formal relationship with its provider:

“...We have reached a point where we say: we first set-up the contract and only then comes the service.” (Service manager, F4)

F4 has implemented a sophisticated control system and, in case of errors, the bank insists on contractually agreed-upon penalties, even if these are minor faults without impact on the operations.

“Yes, we do use control mechanisms. Every piece of information flows into a performance measurement system that we have built. And I can always track if the output we agreed upon with our service provider stays within the planned parameters – both, quantitatively as well as qualitatively. [...] We have a sophisticated penalty system, which reacts quite sensitively [to contract violations], [...] [The provider] must often pay penalties. At the end of the day, it’s all about money. The provider doesn’t do this for us because we’re good friends. He wants to earn money. And [penalties] hurt him most.” (Provider manager, F4)

As a result, the relationship is not very trustful and forbearing. Therefore, the overall relationship quality is medium while outsourcing success is still perceived by the bank as high.

As far as the available data from the cases allows us to draw a conclusion, the results support the findings from previous literature that highlight the positive correlation of relationship quality and outsourcing success, as described in H1.

5. Limitations

Generalization of our work is limited as we tested our model with only eleven case studies, which stem from the same industry and business context. However, we assume that they can also be transferred to other industries since they cover a wide range of outsourcing relationships (from IT infrastructure outsourcing to BPO) and different organizational/legal relationships between outsourcer and IT provider. Large associations of public savings banks and credit cooperatives, which cover almost 80% of the German banks, are a particularity of the German banking industry. Since these banks have usually outsourced their IT to joint data centers, the effect of having no competition (and thus no market-oriented incentives on the provider side) will be quite strong. By contrast, in our case study series we have analyzed almost only relationships where industry-external IT providers are engaged (except in case of F2). Therefore, the transferability of our “German” findings to other countries will not be restrained by this particularity. Moreover, since our research tried to emphasize a better understanding and a broader conceptualization of “importance”, we did not examine an “overall model” which tries to incorporate each facet that might be relevant for outsourcing relationship quality. Hence, there can be other explanations for the differences in service quality and relationship quality. Nevertheless, since the first results were promising, we have already started to collect more cases. Doubtless, there are many other factors which impact relationship quality and outsourcing success like, for instance, a thorough outsourcing contract, regular information exchange, and a control system in place [24, 38]. As the goal of this research approach was the analysis of importance as a driver of relationship quality and, implicitly of outsourcing success, the other relevant impact factors of relationship quality were omitted here.

6. Conclusion and further research

In this paper, we defined importance as the significance of a customer from the provider’s point of view compared to its overall customer portfolio and we showed the impact of importance on relationship quality. Relationship quality, in turn, is positively
related with outsourcing success. IT outsourcing clients whose importance in the provider’s portfolio is high are more likely to experience a good relationship quality and, thus, a successful outsourcing relationship.

Based on eleven case studies in the German financial industry, we found importance to be a two-dimensional factor. Both banks and providers report about economic and strategic dimensions of importance. The surveyed banks regard economic factors to be more relevant than strategic reasons. Providers, in turn, rate both dimensions equally important.

The economic dimension covers high deal volumes (QF1, QP4, QP5), the severity of loss of a customer for a provider (QF2, QP3, QP7) and increasing competition in the providers market (QF3).

The strategic dimension consists of the client being a reference customer (QP1, QP2), the potential access to a new market sector within the German three pillar banking system for the provider (QF1) and the market visibility of the delivered services (QP6, QP4).

These two dimensions of importance mainly influence commitment, which is a relationship quality dimension. Interestingly, six of the seven investigated providers frankly report that they show higher commitment for customers that are regarded to be important whereas only half of the banks perceive an impact of their own importance on provider’s commitment. Another dimension of relationship quality that is influenced by importance is forbearance. Here, the results are ambiguous. One provider reports a very lenient relationship with its customer because of the high importance of the relationship for both parties. Instead, one bank claims to behave less forbearing when the provider regards this customer as highly important.

From a theoretical perspective, these results contribute to the specification of contextual variables in the IT outsourcing relationship literature. So far, the comparable contextual variable dependency is formed on a cost basis, based on the supply chain-related works from Anderson and Narus [2]. Based on power dependency theory and resource dependency theory, we argued that in an IT outsourcing context the relative dependency should be evaluated by means of the importance of the deal to the portfolio of the provider and by means of strategic advantages offered by the client to the provider. In doing so, we turned around the traditional application of the resource dependency theory on outsourcing, where the importance of the provider’s resources from the client’s perspective is in the line of focus.

As a managerial implication, we recommend banks who are considering IT outsourcing to choose a provider with a deal portfolio compatible to the prospective deal size. However, if the client offers the provider a strategic advantage, the client may even choose a provider with a portfolio of relatively large deals and may still expect a good relationship quality. If neither substantial economic nor the strategic argument of importance can be found on the customer side, the results suggest that the outsourcing firm has to carefully evaluate the potential relationship and to rely much more on contractual governance than on relational mechanisms. In these cases, expecting a “partnership-style” relationship may be wishful thinking and be not more than a pious hope. Moreover, firms should be aware that this issue could affect their decision to outsource at all, since there might be a too high threat of service debasement due to moral hazard [5].

Our further research will collect more cases in order to better control for this multivariate impact. Moreover, we have also started to conduct a quantitative study, surveying IT outsourcing relationships in the German banking industry.

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8. References


