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**The relationship between management control  
systems and trust over the life cycle of an  
outsourcing contract**

**Submitted by**

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## Statement of authorship

I hereby declare that this thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other institution. I affirm that to the best of my knowledge the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

Signed: \_\_\_\_\_

Name: Neha Sandher

Date: October 2013

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## List of Acronyms

BAU	Business as usual
BO	Business office
Critsit 1	Critical situation one
EGP	Outsourcer
IT	Information technology
ITC	Vendor
KCO	Key controls over operations
MCS	Management control systems
MSA	Master services agreement
PMR	Project management review
RFS	Request for service
SLA	Service level agreements
SOW	Statement of work
TCE	Transaction cost economics
T&M	Time and Material

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## Abstract

The objective of this thesis is to answer the following research questions:

Do management control systems (MCS) (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship? If so, what factors drive this change?

The study argues that outsourcing relationships typically operate in a volatile environment which makes it difficult to anticipate all the aspects of the relationship at the beginning. However, as the engagement between the parties develop, the level of learning and knowledge sharing improves which assists in defining the requirements more precisely. Therefore, the design and the use of MCS may be adjusted to accommodate for these changing circumstances. This study analyses the relationship between MCS and trust by considering the transaction characteristics as well as the life cycle stages of an outsourcing relationship. The research questions were investigated using evidence from a single case study of an IT outsourcing relationship.

Overall the data demonstrated that MCS and levels of trust do change over the life cycle stages of an outsourcing relationship. The birth stage of the relationship was associated with a lack of clarity around tasks and activities. In this stage, the reliance was on establishing high levels of communications between the parties and managing the relationship through a trust-based pattern of control. As the relationship progressed, the level of information exchanged between the parties increased which assisted in establishing a bureaucratic-based pattern of control to manage the relationship. The reliance on formal controls lessened during the maturity stage of the relationship once the activities became repetitive and the process/procedures and performance targets were developed. The last two stages of the relationship were characterised by a more bureaucratic-based pattern of control.

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# 1 Introduction

## ***1.1 Introduction to the thesis***

The trend towards outsourcing is increasing in organisations as it is seen as a means to reduce operational costs, exploit core competencies and attain competitive advantage (Alborz, Seddon and Scheepers 2003). Outsourcing is defined as the contracting out of any service or activity to a third party (Langfield-Smith and Smith 2003; Moura and Grover 2001). Even with the increasing trend to outsource there is a growing body of evidence that suggests that failure rates amongst outsourcing agreements are high (Langfield-Smith and Smith 2003; Dekker 2004; Das and Teng 2001a; Van der Meer-Kooistra and Vosselman 2000). This can be attributed to the fact that these types of relationships are risky and complex, as they involve entering into and managing a long-term relationship with an autonomous agent, and potentially exposing vital organisational assets to the control of external agents (Ngwenyama and Bryson 1997). Given the magnitude, complexity, and potential irreversibility, outsourcing decisions are an important strategic issue facing organisations (Moura and Grover 2001). Management control systems (MCS) have been highlighted as an important factor in the management and performance of these types of relationships (Dekker 2004). It has been argued that the structure chosen to govern these relationships is critical to the success of the relationship (Dekker 2004). Therefore, it is vital to investigate the types of control that can be established and how they may be implemented.

Along with MCS, trust has been identified as a key variable to consider within outsourcing relationships. Trust effectively reduces the concern about opportunistic behaviour and better integrates the parties through interpersonal interactions that in turn lead to bonds of mutual norms, sentiments and friendships (Ring and Van de Ven 1994; Das and Teng 2001a). In addition, trust is utilised in situations that are characterised as risky and where contracts cannot be written to cover every situation (Emsley and Kidon 2010; Das and Teng 2001a; Langfield-Smith and Smith 2003).

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Despite the extensive literature on MCS and trust, little attention has been paid to analyse how these constructs develop over the life cycle of an outsourcing relationship and what factors might influence these constructs. Over time, conditions can change, including environmental uncertainties, parties to the contract, level of information exchanged and degree of learning between parties. These changes may affect the control structure that governs the relationship as well as the level of trust within this relationship. Therefore this study takes into consideration that the life cycle stages of a relationship can potentially influence the nature of MCS used to manage these relationships.

This chapter provides an overview for this study and establishes the context for this research. The remainder of the chapter is structured as follows. Section 1.2 outlines the research questions to be addressed in this thesis, followed by the primary motivation for the research is discussed in Section 1.3. Section 1.4 provides an overview of the study including a brief description of other chapters. Section 1.5 highlights the contribution of this research, and the chapter concludes with a summary in Section 1.6.

## ***1.2 Research questions***

The research questions to be addressed in this thesis are “Do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?” and “If so, what factors drive this change?” These questions are investigated using evidence from a single case study of an IT outsourcing relationship between a large IT organisation (ITC) and an Australian energy and gas provider (EGP).

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### **1.3 Motivation for the research**

The primary motivation for the study was the importance of understanding how the control structure can be used to manage an outsourcing relationship. In recent years, outsourcing relationships have become an area of interest, both to companies employing this mode of economic organisation and researchers from a wide variety of academic disciplines (Hagedoorn and Schakenraad 1994). With the vast development in technology and increasing competition amongst organisations, it is becoming seemingly difficult for organisations to differentiate based on superior skills and expertise. Hence, outsourcing relationships are gaining popularity as they are seen as a means of reducing technological uncertainty, decreasing operational costs, enhancing quality and improving the chances of an organisation to become market leaders in the face of competition (Moura and Grover 2001). Even with the increasing trend to outsource there is a growing body of evidence that suggests that failure rates amongst outsourcing agreements are high (Langfield-Smith and Smith 2003; Dekker 2004; Das and Teng 2001a; Van der Meer-Kooistra and Vosselman 2000); thereby suggesting a need to gain better understanding around the control structure used to manage these relationships.

This study analyses the relationship between MCS and trust by considering transaction characteristics, and the life cycle stages of an outsourcing relationship; thereby advancing the knowledge and understanding on the use of MCS in outsourcing relationships. According to Miller and Friesen (1984), each life cycle stage exhibits significant differences from each other stages. Following the same chain of thought, this thesis argues that overtime conditions can change including environmental uncertainties, parties to the contract, level of information exchanged and the degree of learning between parties. These changes may affect the control structure that governs the relationship, as well the level of trust within this relationship. This study provides an insight into the development process of the control structure and trust over time. It also assists managers in gaining additional knowledge around altering the design of MCS over the course of the relationship.

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A review of the current literature suggests that the majority of the studies examining life cycle stages have been confined to organisational life cycle stages as opposed to examining the life cycle stages of a relationship between two organisations. Additionally, while many studies have examined either the design of MCS (for example see, Dekker 2004; Van der Meer-Kooistra and Vosselman 2000; Langfield-Smith and Smith 2003; Langfield-Smith 2008) or trust (for example see, Free 2008; Emsley and Kidon 2007)) within inter-organizational relationships, there has been limited focus on examining the changes in the design of MCS and trust simultaneously over time within such relationships.

## ***1.4 Overview of the study***

This thesis is divided into eight chapters. The following chapter presents and reviews prior literature on MCS, trust and life cycle stages of an outsourcing relationship to provide context to this study. The chapter begins with a discussion of the MCS literature followed by a description of transaction cost economics (TCE) as an economic theory used for studying the design of MCS in inter-organisational relationships. Later, trust is introduced as an important topic to consider when examining outsourcing relationships. This section also highlights the ongoing debate in the literature as to whether trust should be treated as a substitute or a complement to formal control mechanisms (Dekker 2004; Ring and Van de Ven 1992; Tomkins 2001; Nooteboom, Berger and Noorderhaven 1997; Das and Teng 1998; Zaheer and Venkatraman 1995; Emsley and Kidon 2007). Later, the literature on organisational life cycles is discussed to define the life cycle stages of an outsourcing relationship. The chapter concludes by summarising the constructs relevant to this study.

Chapter 3 illustrates the framework used to conduct this research. The framework focuses on the relationship between MCS and trust by incorporating transaction characteristics and life cycle stage of an outsourcing relationship. MCS has been classified as behaviour, output and social control, while trust is studied using the concept of goodwill trust and competence trust within this

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framework. Transaction characteristics are examined by assessing the level of task programmability, output measurability, frequency of tasks, environmental uncertainty and the level of asset specificity.

Chapter 4 discusses the research method used in this study. The chapter begins with explaining the research design followed by a description of the case study as an appropriate research method. This chapter also includes a discussion of the data collection techniques and sources of evidence used followed by a brief description of the data analysis process.

Chapter 5 details the case analysed within this research. The chapter provides the background on both the organisations that were involved within the outsourcing relationship. The focus of the chapter is to describe the sequence of events that occurred prior to and during the relationship to clearly identify the different life cycle stages through which the relationship progressed.

Chapter 6 analyses the data that were collected during the case study. The research findings are presented in line with the constructs previously mentioned that is, transaction characteristics, trust and MCS. Later, the changes in these constructs over the life cycle stages of an outsourcing relationship are considered.

Chapter 7 concludes the thesis by providing a summary of the findings followed by detailed overview of the thesis and limitations of this study. The chapter also outlines directions for future research.

## ***1.5 Contribution to the literature***

The research provides a framework to study MCS and trust as constructs that gradually develop over the life cycle of an outsourcing relationship. As the relationship shifts between different life cycle stages, conditions may change including environmental uncertainty, parties to the contract,



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level of information exchanged and degree of learning between parties. Similarly trust can develop over the course of the relationship, thereby, the control structure used to manage the relationship at the beginning might need to change to incorporate for these changing circumstances. This is likely to be true to a greater extent within an IT outsourcing relationship given the changing nature of the IT environment due to constant innovations and development. Therefore, this research provides guidance to managers who are seeking opportunities to outsource in terms of how to better manage these relationships by amending the control structure based on the conditions encountered at different stages of the relationship.

This study examines the interplay between MCS and trust over the life cycle stages of an outsourcing relationship. The findings of this thesis will be of interest to scholars who wish to explore how MCS and trust develop as the relationship shifts between different stages and the factors that contribute to these changes.

This research also provides a foundation for future studies that may want to incorporate other variables such as risk within this framework and assess their influence on the design of MCS. Thereby, this paper assists in building deeper knowledge and understanding of the control structure and trust.

## ***1.6 Summary***

This chapter highlighted the importance of studying MCS and trust as constructs that develop over time. Given the risky and uncertain nature of outsourcing relationships, it is essential to understand the design of MCS in order to minimise dysfunctional behaviours (such as shirking and budget gaming) and to reduce the failure rates amongst these types of relationships (Emsley and Kidon 2007). Hence MCS and trust is an important topic for research given the desire for organisations to ensure that the outsourcing arrangement that they enter into is a successful venture.

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Following an explanation of the importance of the study, research questions were presented. The research questions to be addressed in this thesis are “Do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?” and “If so, what factors drive this change?”

The motivations for the thesis were then discussed. The primary motivation for the study was the importance of understanding how the control structure can be used to manage an outsourcing relationship. In addition, the lack of research in examining MCS and trust as developing over different life cycle stages of a relationship was presented as an important motivation. Later, an overview of each chapter was presented followed by the key contributions this thesis presents to the existing literature.

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## 2 Literature review

### ***2.1 Introduction***

In recent years, many organisations have adopted outsourcing to allow them to focus on core business activities and seek to attain competitive advantage (Kakabadse and Kakabadse 2005, Das and Teng 2001a, Ngwenyama and Bryson 1997). Even with the growing trend to outsource there is increasing failure rate amongst these types of relationship given the high level of risk and uncertainty associated with these arrangements (Langfield-Smith and Smith 2003). It has been argued that the structure chosen to manage these relationships can potentially influence the outcome of these arrangements (Moores and Yuen 2001). Building on ideas from the existing literature, the framework used within this study suggests that the control structure established at the start of the relationship may develop over the life cycle of the relationship. This is because at the start of the relationship it is difficult to identify all the requirements and expectations of the relationship unless there have been prior dealings between the parties. Also, the requirements might change over time as the level of learning between the parties improves. Over time, circumstances change and the design of MCS may change to accommodate these changes. Similarly trust might develop between parties to the relationship over time which may potentially influence the level of control imposed within the relationship. This study aims to extend the current knowledge around the design of MCS as a construct that evolves over the life of an outsourcing relationship.

This chapter is structured as follows. Section 2.2 presents a brief discussion on several definitions of MCS used in the existing literature, followed by the classification of MCS. Section 2.3 introduces the transaction cost economics (TCE) framework used to study MCS within an outsourcing relationship. Section 2.4 provides an overview of research literature on trust. The life cycle stages of an outsourcing relationship are defined using the literature on the organisational life cycle stages in Section 2.5, followed by a summary of the chapter in Section 2.6.

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## **2.2 Management control systems (MCS)**

The concept of MCS has been studied over several decades (see for example Anthony 1965, Otley 1994, Simons 1995, Chenhall 2003) and that has led to several alternative definitions of MCS. A traditional definition of MCS was provided by Anthony (1965, p.17) who described management control as the “process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives”. He distinguished management control from both a strategic planning and operational control point of view. Strategic planning is the process of setting and evaluating objectives of the organisation while operational control is concerned with the performance of specific activities and ensuring they are carried out efficiently. Otley (1994) added that the definition of MCS provided by Anthony (1965) mainly applies to organisations or industries that operate in a more stable environment. In this context, changing business conditions have led organisations to be no longer confined to the traditional structures that is, they are less diversified, less hierarchical and have more mutual interdependency. Thereby, Anthony’s (1965) definition of MCS could not accommodate the broader scope of MCS.

Another definition of MCS was suggested by Lowe (1971, p.5) “A system of organisational information seeking and gathering, accountability feedback designed to ensure the enterprise adapts to changes in its substantive environment and that the work behaviour of its employees is measured by reference to a set of operational sub goals (which conform with overall objectives) so that the discrepancy between the two can be reconciled and corrected for”. This definition provided a broader view on MCS (Otley 1994).

More recently, Merchant (1998) defined MCS as a set of mechanisms designed to increase the likelihood of people behaving in a certain way in order to attain organisations’ objectives. Personnel may not always be trusted to act in the best interests of the organisation and hence there is a requirement to impose controls. The controls can be in the form of devices that a

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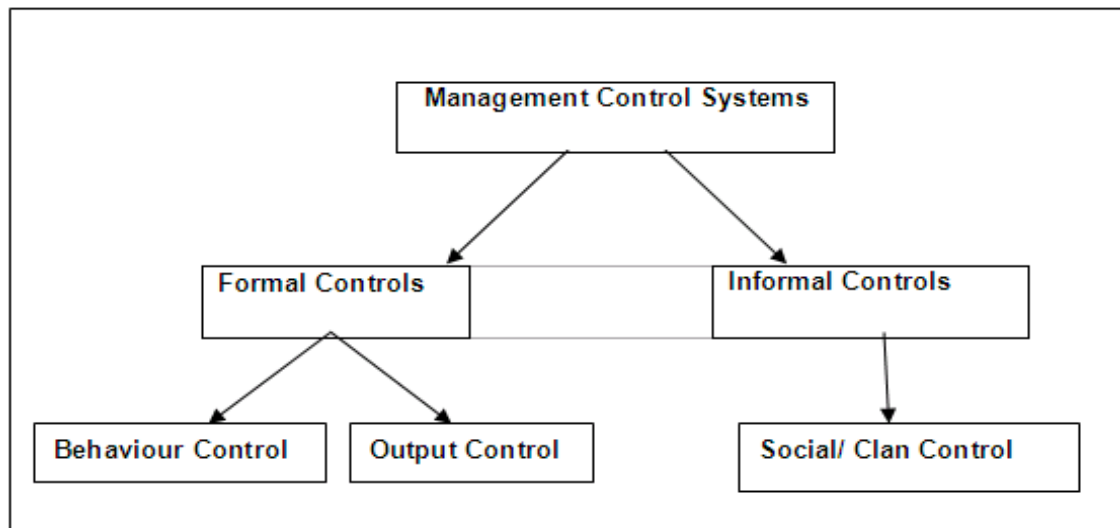
manager uses to ensure desired behaviour such as direct supervision, employee's hiring criteria and business conduct guidelines.

The definition of MCS has evolved from more formal, financially quantifiable information to assist managerial decision making to one that embraces a broader scope of information (Chenhall 2003). This includes external information related to market, customers, competitors, non financial information, decision support mechanisms and informal personnel and social controls (Chenhall 2003). The literature suggests that the aim of MCS is to influence the behaviour of the employees in an organisation in a desirable way to contribute to the achievement of the organisation's objectives (Spekle 2001).

MCS has been conceptualised in several different ways such as behaviour versus output control, results versus action controls, tight versus loose control and restricted versus flexible control (see for example Ouchi 1979, Otley 1994, Merchant 1998). However, it has been suggested that one end of the control spectrum is more bureaucratic such as action, tight, formal, restricted while the other end is less bureaucratic such as results, informal, loose, flexible (Auzair and Langfield-Smith 2005). The framework of MCS that will be examined within this thesis is formal and informal controls. Formal controls include rules, standards, operating procedures and budgeting systems while informal controls include unwritten policies of the organisation which are often derived from, or are an artefact of the organisation culture (Langfield-Smith 1997). This study will utilise Ouchi's (1979) model to classify formal and informal controls into three categories, that is, behaviour control, output control and social control as shown in Figure 2.1. This typology of behaviour, output and social control models has been widely accepted in the accounting and management literature (Eisenhardt 1985; Das and Teng 2001a; Langfield-Smith and Smith 2003; Langfield-Smith 2008). Hence, this framework is adopted in the case study.

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**Figure 2-1 Classification of MCS**



Source: Ouchi (1979)

Behaviour controls are defined as rules and standard operating procedures that specify and monitor individuals' behaviour (Ouchi 1979). They are imposed to encourage the 'right' employee behaviour to achieve desired results. Within an outsourcing relationship they can be implemented through policies, procedures, business conduct guidelines, roles and responsibilities, confidentiality and disclosures. On the other hand, output controls monitor and measure outcomes (Ouchi 1979). Within an outsourcing relationship, output control can be exercised by assessing the performance of the supplier in terms of quality of service provided. Achievements can be measured and actions may be taken to ensure that they are in line with the agreement. Some of the key performance indicators (KPIs) or service level agreements (SLAs) may be predefined in the agreement or established over the course of the relationship.

Informal controls (social controls) arise from shared values, beliefs and goals amongst individuals that reinforce and reward certain behaviour (Ouchi 1979). They may derive from the culture of the organisation and build on shared norms and attitudes which are governed by written and unwritten rules (Ouchi 1979). These controls are not explicitly designed, however can be exercised or influenced by activities such as frequent interactions, meetings, negotiation of

disputes, codes of conduct, senior management attitudes and style, and rituals (Langfield-Smith and Smith 2003). The classification of behaviour, output and social control has been widely accepted in the accounting and management literature (Eisenhardt 1985; Das and Teng 2001a; Langfield-Smith and Smith 2003; Langfield-Smith 2008). Hence, this classification will be adopted in the thesis.

Ouchi (1979) suggested that the appropriate type of control (behaviour, outcome or social) depends on the information characteristics of the given task. Ouchi explained these characteristics as task programmability (or knowledge of the transformation process) and output measurability as shown in Figure 2.2. The study utilises Ouchi's theory on linkage of task programmability and output measurability. If the tasks are programmable, then behaviours are explicitly defined and readily measured hence the type of control utilised in this would be behaviour control (Eisenhardt 1985). As task programmability decreases, the utilisation of behaviour control becomes more difficult. On the other hand, if output measurability is high and task programmability is low then outcome controls will be more suitable. When both task programmability and output measurability is low, then social control is preferable and when both task programmability and output measurability is high then the type of control utilised can be either behaviour or output control depending on cost effectiveness.

**Figure 2-2 Conditions determining an appropriate control mechanism**

		Task Programmability	
		Perfect	Imperfect
Output Measurability	High	Behaviour or Outcome Control	Outcome Control
	Low	Behaviour Control	Social or Clan Control

Source: Ouchi (1979)

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## **2.3 Transaction cost economics (TCE)**

A number of theoretical frameworks have been used to study MCS in inter-firm relationships, however, the most widely used appears to be transaction cost economics (TCE) (Williamson 1979; Van der Meer-Kooistra and Vosselman 2000; Spekle 2001; Vosselman 2002; Langfield-Smith and Smith 2003; Caglio and Ditillo 2008; Ouchi 1979). TCE predicts that the type of governance structure used in a relationship will be associated with the lowest transaction costs (Williamson 1979; Dekker 2004). The transaction costs are influenced by three transaction characteristics; frequency of the transactions, uncertainty pertaining to the transactions and the level of asset specificity (Williamson 1979). Of these three characteristics, uncertainty and the level of asset specificity are widely considered to be critical factors, while frequency of transactions is deemed as least critical (Williamson 1979). Uncertainty within a transaction can be considered in terms of either environmental uncertainty resulting from technological changes, market dynamics, complexity and unfamiliarity, task uncertainty (Spekle 2001) or behavioural uncertainty between parties to the contract (Langfield-Smith and Smith 2003). Both types of uncertainties are related, as unexpected changes in the environment can give rise to opportunistic behaviour (Kamminga and Van der Meer-Kooistra 2007).

Asset specificity is defined by Spekle (2001, p. 421) as “the presence of opportunity losses that arise if the investment made to support the transactions are to be put to alternative uses or users”. In other words, asset specificity is the extent to which investments dedicated to a transaction will have a higher value within that particular transaction as opposed to if they were redeployed to another transaction. This is because investments are specialised and unique to that particular transaction and the investment will lose value if it were redeployed to another transaction. Investments having a high level of asset specificity will lose their value if the relationship is terminated (Kamminga and Van der Meer-Kooistra 2007). Parties will try to establish controls that will protect their investments.



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Asset specificity can be in terms of site specificity (i.e. outsourcer located on site), physical asset specificity (i.e. physical IT assets, software), human asset specificity (i.e. knowledge, skills, and experience tailored to the demands of the outsourcing party) and procedural asset specificity (i.e. incorporates notions of human asset specificity and refers to processes that are customized to exploit the other party's capabilities) (Williamson 1991; Spekle 2001). Some types of asset specificity such as physical asset specificity can be protected through contracts, however other forms of asset specificity such as human asset specificity are hard to safeguard through contracts (Kamminga and Van der Meer-Kooistra 2007, Zaheer and Venkatraman 1995). This is the most important factor to consider when explaining the choice of the governance structure as it is assumed that a high level of asset specificity creates dependence between parties in a relationship, increases switching cost and leads to difficulties in the governance structure (Williamson 1991; Langfield-Smith and Smith 2003).

Drawing from TCE, management accounting researchers have identified the existence of three different control models in inter-firm relationships (Caglio and Ditillo 2008). These models have been categorised as the market, hierarchical and the hybrid. They are differentiated based on the type of control mechanisms utilised to safeguard the execution of the contract (Spekle 2001). Market control relies on free competition to attain control, the hierarchical relies on authority to ensure control and the hybrid is based on long-term contracts with additional safeguards to ensure compliance (Spekle 2001; Williamson 1979; Langfield-Smith and Smith 2003).

TCE has been criticised by several researchers (see for example, Van der Meer-Kooistra and Vosselman 2000; Langfield-Smith and Smith 2003; Dekker 2004) for excluding the social context in which transactions are embedded. It has been highlighted that social embeddedness of the transactions can influence the outsourcing relationship, design of control systems and assist in reducing the chances of opportunism (Granovetter 1985; Van der Meer-Kooistra and Vosselman 2000). Kamminga and Van der Meer-Kooistra (2007) argued that in addition to transaction characteristics, characteristics of the contracting parties (information asymmetry, bargaining

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power, trust and organisational differences) have to be taken into account when examining the control structure within inter-firm relationships.

A relational characteristic that has gained significant interest among the researchers examining outsourcing relationship is trust (Das and Teng 2001a; Nootboom 1996; Emsley and Kidon 2010; Free 2008; Tomkins 2001; Gietzmann 1996). Trust has emerged as an important aspect of a firm's governance structure as the presence of trust is essential in situations that are characterised by uncertainty, strong interdependence between parties and where contracts cannot cover every aspect (Ring and Van de Ven 1992; Meer-Kooistra and Vosselman 2000; Nootboom, Berger and Noorderhaven 1997; Langfield-Smith and Smith 2003).

### **2.3.1 TCE based model with trust**

Two management accounting studies draw on TCE to predict the control structure within an outsourcing relationship - Van der Meer-Kooistra and Vosselman (2000) and Spekle (2001). Van der Meer-Kooistra and Vosselman (2000) integrated TCE and trust to identify three patterns of control relevant to outsourcing relationships: the market-based pattern of control, bureaucracy-based pattern of control and trust-based pattern of control. Spekle (2001) designed nine models of control (differentiated by ex-ante programmability of tasks, level of asset specificity and impactedness of information for performance assessment); however, the ones that are specific to outsourcing relationships are hybrid arms-length control and hybrid exploratory control. The Spekle (2001) model focuses on the characteristics of the transaction to determine the type of control structure whereas Van der Meer-Kooistra and Vosselman's (2000) model provides a more thorough analysis by incorporating the transaction environment, the characteristic of the parties and the role of trust along with the transaction characteristics (Langfield-Smith and Smith 2003). This study adopts the view of Van der Meer-Kooistra and Vosselman (2000); Kamminga and Van der Meer-Kooistra (2007) and Chiles and McMackin (1996) in suggesting that both transaction characteristics, as well as relational characteristics, of the contracting parties

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influence the control structure within an outsourcing relationship. In the remainder of this subsection the three patterns of control highlighted by Van der Meer-Kooistra and Vosselman (2000) are discussed.

The market-based pattern of control is applicable when the activities and outputs are measurable, asset specificity is low and tasks are repetitive. Detailed contracts and control instruments are not required to manage this relationship. The reason for this is because if a party is seen to be acting opportunistically, alternative parties can be chosen without incurring any switching costs. The transaction environment is characterised by low uncertainty and many alternative suppliers (Van der Meer-Kooistra and Vosselman 2000).

The bureaucracy-based pattern of control is applicable when activities and outputs are measurable based on contractual rules, asset specificity is moderate to high and tasks are moderately repetitive. The transaction environment is characterised by low uncertainty and controls will include detailed rules of behaviour and rigid performance targets (Van der Meer-Kooistra and Vosselman 2000). Mostly behaviour and output controls are utilised to manage the relationship (Langfield-Smith and Smith 2003).

The trust-based pattern of control is applicable where activities and output cannot be measured with certainty, asset specificity is high and transactions are not repetitive. The transaction environment is characterised as highly uncertain and risky (Van der Meer-Kooistra and Vosselman 2000). Mostly informal controls are utilised under these situations, and often take the form of social controls (Langfield-Smith and Smith 2003).

Table 2.1 lists the three control models identified by Van der Meer-Kooistra and Vosselman (2000), transaction characteristics pertaining to these models and the various controls used to manage the relationship within these models.

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**Table 2-1 Various control models**

<b>Control Models</b>	<b>Transaction Characteristics</b>	<b>Type of controls used</b>
Market-based pattern of control	<ul style="list-style-type: none"><li>- Measurable activities and outputs</li><li>- Low asset specificity</li><li>- Repetitive tasks</li><li>- Low environmental uncertainty</li><li>- Several alternative suppliers</li></ul>	<ul style="list-style-type: none"><li>- Detailed contracts and control instruments are not required to manage the relationship</li></ul>
Bureaucracy-based pattern of control	<ul style="list-style-type: none"><li>- Measurable activities and outputs based on contractual rules</li><li>- Moderate to high asset specificity</li><li>- Repetitive tasks</li><li>- Low environmental uncertainty</li></ul>	<ul style="list-style-type: none"><li>- Behaviour and output controls are utilised to manage the relationship</li></ul>
Trust-based pattern of control	<ul style="list-style-type: none"><li>- Activities and output not measurable</li><li>- High asset specificity</li><li>- Transactions not repetitive.</li><li>- High environmental uncertainty and risk</li></ul>	<ul style="list-style-type: none"><li>- Informal/Social controls are utilised to manage the relationship.</li></ul>

Source: Van der Meer-Kooistra and Vosselman (2000)

## **2.4 Trust**

Trust has emerged as an important aspect to consider along with control when studying outsourcing relationships. Outsourcing relationships are often characterised as risky and contracts cannot be written to cover every aspect of the relationship. This is because the transaction environment in which these relationships operate is uncertain, which makes it difficult to foresee any changes in the future circumstance (Van der Meer-Kooistra and Vosselman 2000). Under such conditions, trust is used to bridge the gap (Langfield-Smith and Smith 2003).

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It is regarded as a significant co-ordination mechanism within inter-organisational relationships as well as a precondition for improved performance and competitive success in complex business environments (Free 2008). Close cooperation is essential where transactions are customised to the demands of the outsourcing party as switching costs are high, the transaction environment is uncertain and the continuity of the relationship is essential (Van der Meer-Kooistra and Vosselman 2000).

Trust has been defined as having confidence that one's expectations will be realised (Luhmann 1979). However, trust has been conceptualised and defined in several different ways. For example, Rousseau, Sitkin, Burt and Camerer (1998, p. 394) define trust as a "psychological state compromising the intention to accept vulnerability based upon positive expectations of the intentions or behaviours of others". Tomkins (2001, p. 165) defined trust as "adopting of a belief by one party in a relationship that the other party will not act against his or her interest, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of the other party".

Three different forms of trust that are relevant when examining outsourcing relationship have been distinguished as contractual trust, competence trust and goodwill trust. Contractual trust is defined as a mutual trust that may exist between two parties enabling them to adhere to specific written or oral agreement (Sako 1992)<sup>1</sup>. Competence trust is defined as the partner's ability and expertise to perform in line with the expectations and intentions defined in the agreement (Nootboom, Berger and Noorderhaven 1997). Goodwill trust is "the perception of a partner's intention to perform according to the agreement" (Nootboom 1996, p. 990).

Various researchers, such as Zaheer and Venkatraman (1995); Van der Meer-Kooistra and Vosselman (2000); Chiles and McMackin (1996) and Nootboom, Berger and Noorderhaven

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<sup>1</sup> This research will adopt the approach used by Langfield-Smith and Smith (2003) to exclude contractual trust as it may not be distinct from goodwill trust.

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(1997) have studied the role of trust in governance relationships. However, the relationship between MCS and trust is still unclear. Whilst the importance of trust has been long acknowledged in the management accounting literature (Free 2008), there is still an ongoing debate in the literature as to whether trust should be treated as a substitute or a complement to formal control mechanisms (Dekker 2004; Ring and Van de Ven 1992; Tomkins 2001; Nooteboom, Berger and Noorderhaven 1997; Das and Teng 1998; Zaheer and Venkatraman 1995; Emsley and Kidon 2007).

A substitute relationship indicates that trust and control are negatively related. Therefore, if the level of trust increases within a relationship, the level of formal control mechanisms utilised to manage this relationship decreases and vice-versa (Dekker 2004). Prior research that has discussed the negative relationship between control (mainly formal control) and trust argue that the implementation of extensive formal contracts signals a lack of confidence between parties in completing the objectives of the partnership and refraining from opportunistic behaviour (Das and Teng 1998).

The other side of the debate suggests that formal controls are complementary to trust. For example, Dekker (2004) argues that trust complements the use of formal control mechanisms for task coordination until a sufficient level of control is established, after which the relationship becomes substitutive. Tomkins (2001) illustrate that both trust and control are related as they utilise information from MCS to manage uncertainties. However, they do so in different ways. Hence, Tomkins (2001) argued, trust and control are distinct constructs.

Similarly, Emsley and Kidon (2007; 2010) suggested that MCS and trust should be studied as separate constructs. They went on to argue that parties might want to manage uncertainties by controlling the behaviour of the other party. In order to exercise such control, information is required to be shared amongst parties. However, it is not feasible to control every possible situation or uncertainty that can arise within a relationship. When the circumstances are such that

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uncertainty is perceived to be too high and problems cannot be identified at the start of a relationship then trust fills the gap to manage these uncertainties. Trust occurs when parties become knowledgeable about each other's behaviour and develop positive expectations about each other. Trust only reduces uncertainty pertaining to perception of uncertainty as opposed to uncertainty relating to actual behaviour. They concluded by stating that trust and control are mechanisms that assist in controlling uncertainty within a relationship however they do so in different capacities (Emsley and Kidon 2010).

The lack of clarity about trust and control has been witnessed across several management and accounting studies (Dekker 2004; Das and Teng 1998; Tomkins 2001; Emsley and Kidon 2007). To date MCS has gained attention as a means of managing uncertainty. However, as trust has become popular as a research topic, greater attention has been focused on whether trust and control are separate constructs (Emsley and Kidon 2007). This study argues that although trust and control may both be utilised to manage uncertainties within a relationship they should be treated as separate constructs.

Outsourcing relationships require close cooperation between parties as they may involve sharing of information, joint activities, joint product and process development and joint cost improvement activities. Trust allows such relationships to flourish (Langfield-Smith and Smith 2003). In addition, both parties want to ensure that their counterparts are trustworthy before entering the relationship so the conflicts can be avoided when negotiating contract extensions (Van der Meer-Kooistra and Vosselman 2000). Trust is essential in establishing control in a trust-based pattern of control. However, it is less essential in a bureaucratic- based pattern of control and has no relevance in a market-based pattern of control (Langfield-Smith and Smith 2003, Van der Meer-Kooistra and Vosselman 2000). Trust can develop from prior interactions between parties or it can develop over the duration of the relationship (Van der Meer- Kooistra and Vosselman 2000; Dekker 2004). Regular interactions and repeated transactions between parties lead to learning which in turn leads to establishment of trust (Van der Meer-Kooistra and Vosselman 2000). This

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argument was supported by Free (2008), who proposed that both history as well as nature of interactions could shape the form and nature of trust between parties to the contract. He went on to claim that repeated cycles of exchange, risk taking and successful fulfilment of expectations strengthen the willingness of the trusting parties to rely on each other.

## ***2.5 Life cycle stages***

For this study, Miller and Friesen's (1984) five-stage model will be adapted to illustrate the life cycle stages of an outsourcing relationship. The rationale for this selection is because this model breaks down the life cycle stages in a clearly defined manner and incorporates a revival stage. Some of the other models within the existing literature have ignored the revival stage, thus, Miller and Friesen's life cycle model it is better suited for this research.

Miller and Friesen proposed that the birth stage of an organisation is associated with young firms trying to establish themselves as a separate entity. These firms are dominated by their owners and have simple and informal structures. The growth stage is associated with firms that have established themselves in the market, where some authority has been delegated and the procedures are a lot more formalised. The maturity stage is characterised by firms entering into a stable stage and is associated with bureaucratic style structures. The revival stage follows the maturity stage prior to the decline stage. This is mostly associated with the firm diversifying, expanding product market scope, establishing controls that are more sophisticated and planning structure. It shows firms adopting structures in order to cope with the more complex and heterogeneous market. The final stage of the life cycle is the decline stage that reflects stagnation. Profitability drops due to reasons such as lack of innovation or external environment challenges. This stage is associated with formal bureaucratic structure, less sophisticated information processing system and decision-making methods (Miller and Friesen 1984).

Even though Miller and Friesen were referring to the life cycle of a standalone organisation, their work provides a good foundation to study the various stages of an outsourcing relationship. In



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this study, the definition of each stage has been modified to reflect the life cycle stages of an outsourcing relationship. The birth stage is the initial start-up stage including the establishment of the relationship and formalisation of the initial tasks and procedures. The growth stage of the relationship is associated with acceleration in tasks, and an increase in complexity and innovation, and enhancement in services. At the maturity stage, both parties to the contract enter into a period where tasks are repetitive and parties are comfortable with each other. The focus is to stabilise day-to-day operations and this period is associated with reduction in tasks and activities.

During this stage, the relationship can take any of the three forms; stabilisation, revival or decline (Das and Teng 2002). If the relationship continues to run smoothly, the maturity stage is sustainable. If however over time, conditions change such as inter partner conflicts arises, misunderstandings occur, interdependence between parties decreases, opportunistic behaviour amongst parties grow this can lead to a possible revival stage or decline stage (Das and Teng 2002; Ring and Van de Ven 1994). Regular interaction and working closely can lead to conflicts amongst parties to the contract. In addition "behaviours can be taken for granted because the values that have developed from working together have resulted in shared moral position of behaviour that is right or wrong" (Emsley and Kidon 2010, p.15). Once the relationship takes this form, both parties can either try to resolve the situation by renegotiating the contractual agreement or developing a mutual dispute resolution system (Ring and Van de Ven 1994).

Some outsourcing relationships may go through a revival stage due to changing expectations or market conditions changing which may require both parties to rethink the terms of the relationship (Ring and Van de Ven 1994). This stage is associated with a high focus from the management team in terms of control, strategy and sophistication of the tasks performed (Miller and Friesen 1984). The environment will be dynamic and challenging. The renegotiations may establish supplementary agreements to resolve the issues in order to preserve the relationship (Ring and Van de Ven 1994).

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The decline stage is the last stage of the outsourcing relationship where the parties conclude that the relationship should be terminated. Typically this will occur when parties have fulfilled the term of the agreement, or in certain situations the relationship may be terminated due to breach in an agreement, poor performance, mutual recession or a substitution with a new contract (Ring and Van de Ven 1994). Either way, this stage is likely to be associated with minimal tasks until the contracting parties' transition out of the relationship (Miller and Friesen (1984). Table 2.2 summaries the definition of various life cycle stages of an outsourcing relationship.

**Table 2-2 Definition of various life cycle stages of an outsourcing relationship**

<b>Life cycle stages</b>	<b>Definition</b>
Birth Stage	The initial start-up stage including the establishment of the relationship, formalisation of the initial tasks and procedures
Growth Stage	The growth stage of the relationship is associated with acceleration in tasks, and an increase in complexity and innovation, and enhancement in services
Maturity Stage	The maturity stage is characterised by a period where tasks are repetitive and parties are comfortable with each other.
Revival Stage	This stage is associated with a high focus from the management team in terms of control, strategy and sophistication of the tasks performed in order to revive the relationship
Decline Stage	The decline stage is associated with performing minimal tasks until the contracting parties transition out of the relationship

Source: Miller and Friesen (1984)

## **2.6 Summary**

This chapter provided a discussion on the concepts of MCS, trust and life cycle stages of an outsourcing relationship. MCS can be conceptualised using a combination of control mechanisms and this paper classifies these in terms of formal and informal controls. Utilising Ouchi's (1979) framework, formal controls and informal controls were examined using the

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concepts of behaviour, output and social controls. TCE was described as appropriate in predicting the MCS within inter-firm relationships based on the lowest transaction cost structure. Trust was introduced as an important construct to examine when studying MCS. Two types of trust were identified as being relevant within this thesis that is, competence trust and goodwill trust. The chapter concluded with a discussion on the life cycle stages of an outsourcing relationship by drawing on the prior literature on organisational life cycle stages.

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## **3 Theory development**

### ***3.1 Introduction***

As mentioned in Chapter 1, the aim of the research is to answer the following questions “Do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?” and “If so, what factors drive this change?” This study analyses the interplay between the variables, namely transaction characteristics, trust and MCS over different life cycle stages of an outsourcing relationship.

The chapter is structured as follows. Section 3.2 provides a discussion on the framework used within this research followed by examining the constructs mentioned above at each individual stage. The chapter concludes with a summary under Section 3.3.

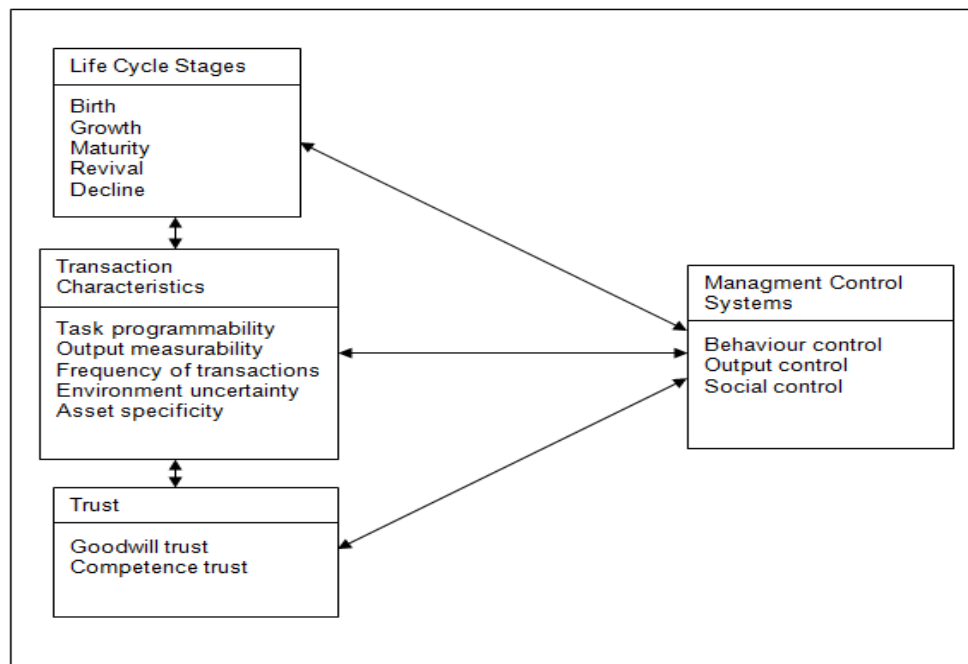
### ***3.2 Framework of this research***

Auzair and Langfield-Smith (2005) and Moores and Yuen (2001) identified organisational life cycle as one of several factors that can influence the design of MCS within an organisation. These studies argued that activities, characteristics and structures within an organisation may differ from one stage to another stage; thereby implying that the control mechanisms used within these organisations may require updating throughout the life cycle stages to adjust for these changes. The same argument can be used to explain the changing conditions within an outsourcing relationship. These relationships are usually characterised by uncertainty and strong dependencies between the parties, thereby creating difficulty in drafting comprehensive contracts which only develops over the course of the relationship (Kamminga and Van der Meer-Kooistra 2007). Also, outsourcing relationships are usually long-term arrangements and the control structure chosen at the start may be subject to changes due to numerous reasons such as

changing regulations, parties to the contract leaving or entering into new activities, personnel being replaced and degree of learning process (Kamminga and Van der Meer-Kooistra 2007). At certain stages in the relationship life cycle (such as birth stage or maturity stage), an increased level of formal control may stifle creativity and hinder the development of the relationship (Moore and Yuen 2001). Therefore, the MCS is likely to be adjusted in accordance with these changes.

Similarly, trust can change over the course of an outsourcing relationship. As mentioned previously, Emsley and Kidon (2010) identified two forms of trust being competence trust and goodwill trust that develop at different rates and they went on to claim that trust is a construct that evolves over time. When applied to the understanding that relationships between parties progresses through different life cycle stages, it means that MCS and trust need to be examined at each individual stage of the relationship to gain better understanding of the control structure. Figure 3.1 illustrates the framework used in this study to analyse the interplay between the variables over different life cycle stages of an outsourcing.

**Figure 3-1 Research framework**



Source: Adapted from Das and Teng (2001)

Table 3.1 illustrates the changes in the constructs shown above over the course of the relationship. For example during the birth stage the level of task programmability and output measurability might be low and the relationship is more likely to be managed through social controls and trust. Whereas, in later stages of the relationship once the level of leaning between parties improves the controls may be more accurately defined and the reliance is more on behaviour and output controls. Table 3.1 is discussed in more detail in the following sections.

**Table 3-1 The relationship between MCS and trust over the life cycle stages of an outsourcing relationship**

Constructs	Classifications	Life cycle stages				
		Birth	Growth	Maturity	Revival	Decline
Transaction Characteristics	Task Programmability	Low	High	High	High	Medium to Low
	Output Measurability	Low	High	High	High	Medium to Low
	Frequency of tasks	High	High	Medium to Low	High	Medium to Low
	Environmental Uncertainty	High	High	High	High	Low
	Asset Specificity	Medium to High	High	High	High	High
Trust	Competence trust	High	High	High	Low	Low
	Goodwill trust	Low	Medium to High	High	Low	Low
MCS	Behaviour control	Low	High	Low	High	Medium to Low
	Output Control	Low	High	Low	High	Medium to Low
	Social Control	High	High	High	High	Medium to Low

### 3.2.1 Birth stage

During the birth stage (characterised by negotiation and actual commitment from both parties) of the outsourcing relationship, it may be difficult to identify and define tasks and requirements, as parties are still trying to negotiate the expectations of the relationship (Emsley and Kidon 2007;

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Das and Teng 2001). The activities may be uncertain and involve knowledge that is hard to put into writing. Hence, it is difficult to measure and prescribe these activities (Kamminga and Van der Meer-Kooistra 2007). Although there may be some routine tasks involved in the outsourcing contracts it is difficult to specify all procedures and processes up front (Langfield-Smith and Smith 2003). If the parties have had prior dealings, they are more likely to be familiar with each other's' requirements and the nature of tasks and activities. However, if the parties are entering into a completely new contractual agreement, it is hard to know the complexity and nature of the tasks and activities and the measurement of output may be difficult (Langfield-Smith and Smith 2003). It may not be feasible to establish behaviour and output controls under such situations. Additionally, the transactions within an outsourcing relationship are a mix of repetitive transactions as well as one-off projects, thereby increasing the level of uncertainty and contributing to low task programmability and low output measurability (Langfield-Smith and Smith 2003)

At the start of the relationship the level of asset specificity is more likely to be determined by the level of in house activities, degree of valuable assets (staff, knowledge, skills, and physical assets) transferred to the contracting party, physical location of the outsourcer and level of access to the technology (Spekle 2001). As mentioned previously, the level of asset specificity is the extent to which investments dedicated to a transaction will have a higher value within that particular transaction as opposed to if they were redeployed to another transaction. During the start-up phase of an outsourcing relationship there may be considerable amount of investment with regards to transfer of physical assets (including people and equipment), skills and experience specific to the requirements of the agreements and procedures customised to the needs of the outsourcer Therefore, the level of asset specificity is likely to be medium to high in the early stages of the relationship (Van der Meer-Kooistra and Vosselman 2000).

In a situation that is characterised by high uncertainty, medium to high asset specificity, limited predictability of processes and low output measurability, informal controls may be utilised

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(Langfield-Smith 2008; Miller and Friesen 1984; Van der Meer-Kooistra and Vosselman 2000). The relationship is characterised by contracts that are more generic in nature as opposed to being specific. Performance measures are based on broad emergent standards and information sharing is through an interactive nature of the process of contract execution (Spekle 2001; Langfield-Smith and Smith 2003).

Competence trust is likely to be high during the birth stage of the relationship as competence and skills are critical considerations when assessing the quality of the work of a potential outsourcer (Langfield-Smith and Smith 2003; Das and Teng 2002; Free 2008; Van der Meer-Kooistra and Vosselman 2000). As the relationship begins, both parties to the contract gather information about each other's competence to conclude if it is valuable to invest in this relationship (Das and Teng 2001a). The information collected to make this decision is based on the characteristics of the firm in terms of values, culture, reputation in the market, demographics, memberships and association with societies (Emsley and Kidon 2010). This information may provide confidence to the outsourcer given the membership to industry associations is likely to be unbiased as they originate from a credible third party (Emsley and Kidon 2010). Due to the high level of risk and uncertainty within outsourcing relationships, a party will not risk engaging another party that does not have similar qualities (Langfield-Smith and Smith 2003). In addition, when faced with the choices, parties and organisations opt to transact with those organisations that have known reputations in the market (Free 2008).

Goodwill trust is hard to establish in the early stages of the relationship (Das and Teng 2001a), unless there have been past relationships or dealings between the contracting parties. The information gathered to examine competence might not be that relevant for goodwill trust as parties might withhold information that will be damaging for their reputation (Emsley and Kidon 2010). The information required to develop goodwill trust is not easily accessible. As the relationship develops regular interactions amongst parties might enhance and assist in



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developing goodwill trust (Langfield-Smith and Smith 2003; Van der Meer-Kooistra and Vosselman 2000).

The birth stage of the relationship is likely to be characterised by outsourcer selecting a supplier on the basis of trust which may arise from a reputation of trustworthiness or present due to prior contractual relationship (Van der Meer-Kooistra and Vosselman 2000). Contracts are usually broader framework of activities while the details are to be finalised over the course of the relationship through personal consultation (Van der Meer-Kooistra and Vosselman 2000) .

### **3.2.2 Growth stage**

In the growth stage, regular interaction between parties and joint activities assist in exchange of information and certain degrees of expectation are established pertaining to each other's behaviour (Emsley and Kidon 2010). Due to internal and external learning processes, the possibility of gaining insight into the activities could lead to information asymmetry between parties decreasing (Kamminga and Van der Meer-Kooistra 2007). Thereby, the knowledge of transformation process and measurability of activities and output may increase over time. This assists both parties to establish further requirements of the relationship (Langfield-Smith and Smith 2003).

With expansion of activities and tasks, the growth stage is more likely to rely on formal rules and procedures to measure goals and monitor participants' activities (Moores and Yuen 2001; Simons 1995). Over time, parties develop considerable levels of knowledge, skills and experience that are tailored to the needs of the other party thereby increasing the level of human asset specificity (Van der Meer-Kooistra and Vosselman 2000). In addition, both parties would be investing considerable amounts of time and staff for the establishment of a good working relationship, thereby, increasing the level of asset specificity within the relationship (Langfield-Smith and Smith 2003). Given the high level of asset specificity during this stage, there may be added risk of parties acting opportunistically. As the tasks and environment becomes more

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complex, in the growth stages of the relationship, tougher administrative controls are required to monitor the relationship in order to reduce the risk of opportunistic behaviour. These include sophisticated information processing systems, formal and performance controls, procedures, planning and communication systems (Miller and Friesen 1984).

At this stage parties may be more reliant on a bureaucratic-based pattern of control (Das and Teng 2002; Langfield-Smith and Smith 2003). This is consistent with prior research that illustrates that the reliance on formal control will increase from birth to growth (Moores and Yuen 2001; Miller and Friesen 1984). This is attributed to the fact that as the relationship unfolds and the level of understanding between the parties improves and the requirements of the relationship can be determined with certainty. Also, over time the performance measures established to monitor the progress may be corrected which assists in establishing a more detailed control mechanism to manage the relationship. Additionally, use of bureaucratic MCS in this stage minimises the extent of opportunistic behaviour as it may enable the parties to have more visibility around tasks and performances.

Competence trust is likely to be enhanced during this stage, as accurate, objective and independent performance related information is available to make informed assessment of the competence levels (Emsley and Kidon 2010). This is because competence trust gives outsourcer assurance that the vendor is capable of accomplishing the tasks and requirements identified within the outsourcing agreement. The level of trust may remain high or reduce depending on the performance of the vendor.

During this stage the level of goodwill trust is likely to strengthen over time through repeated interactions, development of mutual interests, building individual and team-based trust, and engaging in joint-dispute resolution (Das and Teng 2001a; Langfield-Smith 2008; Free 2008; Van der Meer-Kooistra and Vosselman 2000). Therefore, parties' perceived trustworthiness would be expected to increase in this stage (Das and Teng 2002).

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### 3.2.3 Maturity stage

Following the growth stage, the maturity stage might be associated with a period where due to the process of co-operation, parties become more familiar with each other and their business activities (Kamminga and Van der Meer-Kooistra 2007). Over time the task difficulty, insufficient knowledge of the task transformation process and performance measures is likely to reduce which may assist both parties to gain experience in specifying output measures and targets, (Das and Teng 2002, Langfield-Smith and Smith 2003). Also as the relationship matures, transaction characteristics in terms of variability and frequency which were difficult to define initially might be more apparent now. As a result during this stage the emphasis is likely to be on stabilising the operations (Moores and Yuen 2001).

The level of asset specificity is likely to remain high during this stage as parties develop considerable levels of skills and experience that are tailored to the needs of the other party. Also over time the level of investment from both the parties may increase in terms of staff working on this relationship as well as the physical IT assets implemented to deliver the requirements of the relationship. Additionally, both parties would be investing considerable amounts of time and staff for establishment of good working relationship, thereby, the level of asset specificity progressing from growth stage to maturity stage is likely to remain high (Langfield-Smith and Smith 2003).

During this stage, performance may be evaluated with a high level of certainty given the increased amount of information available and parties can establish if the objectives of the relationship are in line with the expectations (Moores and Yuen 2001). If the outcomes match the objectives, parties are likely to become more committed to the relationship (Das and Teng 2002) and the level of competence and goodwill trust is likely to increase ((Van der Meer-Kooistra and Vosselman 2000). As the level of trust increases, the day-to-day operations and activities may be managed through a more informal based control to achieve efficiency as opposed to imposing rigid formal controls to manage the relationship (Moores and Yuen 2010).

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### 3.2.4 Revival stage

During this stage, the expectations of the relationship in terms of task requirements and level of output measurability might be more apparent as opposed to previous stages (Moore and Yuen 2001). This is because the formal and informal controls are already embedded in the relationship. The level of asset specificity would be expected to be quite high in this stage of the relationship, as both parties have invested considerable amount of staff and capital thereby making the switching costs quite high (Zaheer and Venkatraman 1995). This stage is more likely to be associated with management team using highly sophisticated control systems to monitor performance at a more granular (Miller and Friesen 1984). There may also be added focus to establish high level of communications internally and externally to coordinate activities taking place (Miller and Friesen 1984). During the revival stage groups of experts maybe recruited to come together to analyse issues and to generate solutions (Miller and Friesen 1984). Close attention is paid to performances and the evaluation of customer satisfaction ratings (Miller and Friesen 1984). Hence, the revival stage is more likely to be managed through a combination of both formal as well as informal controls (Moore and Yuen 2001).

The level of competence and goodwill trust is likely to be low during this stage given that the relationship is unstable and going through a phase of revival. Both parties to the contract may need to work on rebuilding the expectations of the relationship. On the other hand, parties willingness to renegotiate the agreement may signal some degree of goodwill and competence trust. If the decision to revive the relationship was due to poor performance the level of competence trust is likely to be low given parties to the contract lose confidence in each other to perform according to the agreement. This is because competence trust as mentioned before is dependent on the level of competency a supplier can exhibit and if the performance is deemed unsatisfactory it may lead to low levels of trusts. Also, unsatisfactory delivery of services and poor performance can lead to inter party conflicts which may reduce the level of goodwill trust

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present within the relationship. Depending on how the relationship unfolds during this stage the level of competence and goodwill trust is likely to be low.

### **3.2.5 Decline stage**

During this stage the level of activities may increase initially to assist with the transition out to a new vendor. This may include a high level of information exchange and an increase in participatory and knowledge sharing workshops to hand over the services. There might be projects that require extra staff to complete them on time before the relationship comes to end of its term. However, the volume of work would reduce gradually over this period and the number of employees working on the relationship would also reduce before the relationship dissolves. The asset specificity is likely to be quite high in this stage of the relationship, as both parties may have invested considerable amount of staff and capital thereby making the switching costs quite high. Formality of the control structure is likely to be high in order to ensure that parties perform in line with the contractual obligation to avoid penalties or breach of contract (Miller and Friesen 1984). However, it might reduce as the number of activities reduces and staff availability is limited. As a result the focus on providing detailed performance reports may no longer be required (Moores and Yuen 2001, Miller and Friesen 1984).

The level of competence trust and goodwill trust is expected to be low during this stage given both parties to the contract are ending the relationship. This is because the intent of the outsourcer to not extend the contract signals a lack of confidence in the vendor's ability to perform as per the agreement.

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### **3.3 Summary**

This chapter provided a discussion on the framework used to study the relationship between MCS and trust by incorporating transaction characteristics and life cycle stages of an outsourcing relationship as constructs. The research framework used within this thesis argues that as the relationship progresses between different life cycle stages, circumstances can change which may influence the design of MCS and trust present within the relationship. This chapter draws on prior accounting and organisational theories to summarise the constructs such as transaction characteristics, MCS and trust and later assess the relationship between these constructs at each individual life cycle stage.

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## **4 Research methodology**

### ***4.1 Introduction***

This chapter provides a description of the research method used to conduct the study. Research methods are a set of techniques used to gather data, analyse and present evidence (Richardson 1996). There are several research methods which can be used to conduct a study such as interviews, survey, questionnaires, observation and analysis of documents. The appropriateness of one research method over another depends on the nature of the research questions.

The chapter is structured as follows. Section 4.2 provides a discussion on the research method used within this study. This section also provides justification for using a case study as a suitable research method. Section 4.3 introduces the case used within this research. Section 4.3 outlines the research design focusing on the interview process, as well as the documentary evidence used to collect data. Section 4.5 provides a brief description of how the data were analysed. Section 4.6 discusses limitations and issues related to case study method and highlights steps taken to address these limitations. Section 4.7 discusses the approaches used to enhance validity and reliability in conducting the case study. The chapter concludes with a summary.

### ***4.2 Research method***

There are several research methods such as case studies, experiments, surveys, histories and they differ in the ways of collecting and analysing data. Each method has its own set of advantages and disadvantages. Social surveys and experiments are frequently viewed as prime examples of quantitative research where the focus is on how much or how many and results are usually in numerical form (Merriam 2009, De Vaus 2001). Case studies on the other hand are often linked with qualitative research where the focus is on understanding how people interpret

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their experiences (Merriam 2009, De Vaus 2001). Yin (2009, p.8) identifies three conditions that should underpin the selection of a research method "...the type of research question posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary events." Yin (2009) suggested that "how" and "why" questions were more appropriate for explanatory research and thereby a more preferred method of research would be through case studies, experiments or histories. Apart from the nature of the research questions, various methods are differentiated by the sources of evidence used to conduct the study (Yin 2009). The case study adds sources of evidence that are not included in other methods that is, direct observation of the events, interviews of the people involved in the events, documents and artefacts.

Given the nature of the research question, a case study was selected as an appropriate research method. The case study research method enables the researcher to interview the participants in a real life context which assisted in gaining knowledge into this outsourcing relationship which went beyond what might have been discovered through surveys. Semi-structured interviews enabled the researcher to uncover evidence and follow that chain of evidence which was difficult to identify at the start of the study. Also during interviews participants were asked to reflect on their experiences and perspectives on the level of trust present within the relationship, which provided unexpected responses. Another advantage of doing a case study was during the interview, the researcher could probe to get answers and also clarify if there were difficulties in understanding the questions.

### ***4.3 Case selection***

This research used a single case site between an Australian energy and gas provider (EGP) and a large IT organisation (ITC) to answer the research questions identified in Chapter 1. ITC specialises in IT products and recently having been providing IT outsourcing solutions based on the client requirements. They operate out of all major countries including Australia and have over



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10,000 employees. The initial engagement between the parties commenced when EGP outsourced its IT infrastructure to ITC for a period of five years. However, this relationship was terminated within three years of establishment. During these three years of engagement the relationship progressed through all different life cycle stages identified in Chapter 2. Hence, this case was ideal to conduct the research.

The researcher is a full time employee of ITC and was involved in this outsourcing relationship. As a result she was able to gain high level access to all the data and employees which might not have been available otherwise. As mentioned by Scapens (2004), the role of the researcher is critical when selecting and conducting a case study. A researcher can be an outsider, facilitator, visitor, participant or an actor. The role a researcher plays within a study may be dependent on the level of involvement they have within the case study. An insider is defined as the researcher who works within the organisation being studied (Scapens 2004, Brannick and Coghlan 2007). Working as an insider allows the researcher to obtain insight into company workings (Scapens 2004). Alternatively, an outsider role is where a researcher relies on readily available evidence and does not have any contacts with the participants of the case. In other words, they work and conduct the research outside the organisation and have no influence on the participants (Brannick and Coghlan 2007). It is often argued that insider researcher has the ability to influence the case study as the researcher is too close to the data and thereby lacks objectivity and intellectual rigour. However, in all types of case studies the output is an interpretation of the researcher and therefore it is subjective (Scapens 2004). This must be addressed through maintaining objectivity and remaining detached from the case to avoid any biases which is discussed a little later in the chapter.

The involvement of the researcher with the outsourcing relationship was over two years, when she was assigned by ITC to procure hardware for EGP through a third party vendor and later progressed into a financial analyst role. The period where the researcher was working for ITC was after the outsourcing contract had been signed and she worked until (and after) the contract

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was terminated. The researcher's prior experience with the relationship provided an insider advantage to gain access to all the relevant data as well as get a better insight into the outsourcing relationship. Whilst this may be considered as a potential limitation to the study, the data collection commenced after the outsourcing relationship had been terminated. Also, the role of the researcher within the organisation was such that there was no management of people and no direct involvement with the participants interviewed, thereby addressing a potential criticism of the researcher being too close to the case.

#### **4.4 Research design**

Research design is defined as a logical plan or blue print for the research before the data collection activities and analysis can commence (De Vaus 2001). The research design for this study consisted of five phases. The first phase was to identify the area of interest, that is MCS, trust and life cycle stages of an outsourcing relationship. Once the area of interest was identified, the next phase comprised of examining the existing literature on the topic of interest and identifying gaps in literature which assisted in establishing the goal for the research and identifying the research questions to be addressed in this thesis. Several electronic databases (for example, ScienceDirect, Emeraldinsight), authors, reports and widely cited journals/articles were used in identifying the relevant literature. The type of research questions assisted in identifying case study as a suitable research method to collect data.

There are a number of data collection methods that may be utilised to conduct research. The common sources of evidence that may be used while conducting a case study are interviews, documentation, archival records, direct observation, participant observation and physical artefacts (Yin 2009). The data can be either qualitative or quantitative. Although quantitative data may be used in case studies, qualitative data is traditionally utilised (Patton and Appelbaum 2003). The primary form of data for this study was face-to-face interviews with managers who were involved in the outsourcing decision process as well as the management of this

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relationship. Initially the researcher planned to interview people from both parties to the contract in an attempt to get their opinions and analyse differences and similarities in their feedback. However, access was not granted by EGP so the people that were interviewed were all ITC employees. The observation method of data collection was not relevant to this study, as the relationship between the parties was already terminated and as such, meetings and forums could not be observed. However interviews and documentary analysis were used to conduct the case study.

Interviews are an important source of evidence used in qualitative research. There are mainly three techniques used during interviews - structured interviews, semi-structured interviews and unstructured interviews. The distinction between different types of techniques is based on the line of questioning used during interviews; that is, structured interviews include questionnaires that list all the questions to be asked beforehand, whereas unstructured interviews do not have questions predetermined (Yin 2011). Semi-structured interviews use a loose structure consisting of open ended questions that define the area to be explored initially and from which the interviewer or the interviewee may diverge in order to pursue an idea in more detail (Britten 1995). The line of questioning to be used within a study is dependent on the type of the research question and the nature of the study.

The next step in the research was to identify the type of interview questions to be asked of the participants that would allow the researcher to address the research questions which are discussed in the next section. An interview protocol was established and later the interview responses were transcribed manually and validated by documentary evidence. The final phase of the research involved identifying steps taken to avoid any biases and ensure reliability and validity of the study. This is discussed in Section 4.8.

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#### **4.4.1 Interview questions**

The interview questions were designed to cover all the constructs, that is, MCS, transaction characteristics, trust and the various life cycle stages of the outsourcing relationship. As explained by Yin (2009), case study interviews require the researcher to operate at two levels; satisfying the needs of the line of enquiry while at the same time asking friendly and non-threatening open ended questions. Once the variables were finalised, the questions were drafted in a manner that would be easy to understand by the participants and at the same time generate responses to help address research questions (the list of questions appears in Appendix 1). As suggested by Patton (1987), it is a good practice to start the interviews with general open ended questions to build rapport with the respondent, before moving into more difficult and sensitive topics .

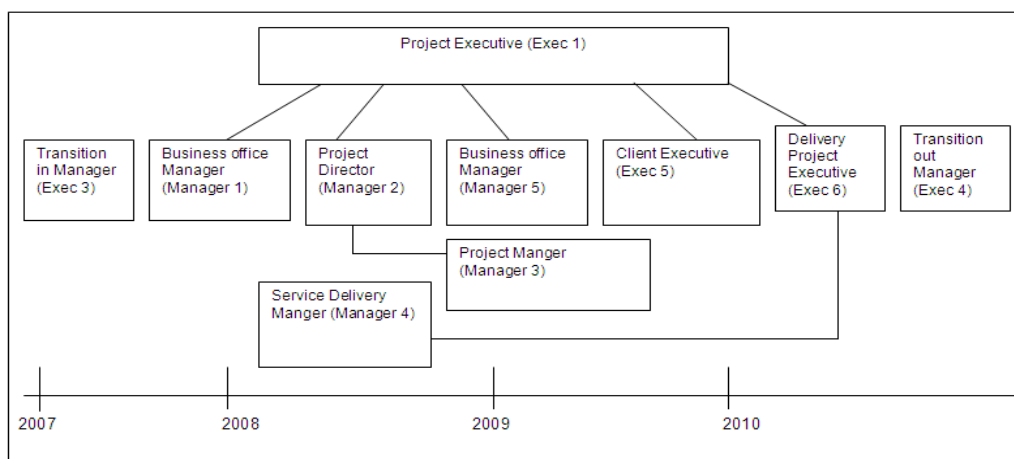
The purpose of the interviews was to understand the relationship between MCS and trust over the lifecycle stages of an outsourcing relationship. The interviews were conducted to obtain managers' perspectives on the level of trust and type of control that was present within this relationship and how it evolved over three years of engagement. The aim was to go below the surface of the research topic and explore the participants' views and knowledge in as much detail as possible and uncover new areas that were not anticipated at the start of the research. The agenda for discussion was kept flexible to ensure that the interview process was more interactive in nature.

#### **4.4.2 Participant selection**

The criteria used to select participants was that they had both authority and a sufficient level of understanding about the relationship and how it progressed over the years. The plan was to interview managers from different stages of the relationship life cycle to obtain an understanding of how the relationship differed from one stage to another. Narrowing down the names of the

employees who would be able to answer research questions was simple due to the prior involvement of the researcher with the outsourcing relationship. All the people who were interviewed for this thesis are represented in Figure 4.1. Figure 4.1 represents the role of the participants in the organisation segmented by the year of their involvement within this relationship. For instance, the transition in manager (Exec 3) was involved in the relationship from the start when the contract was signed in 2007 and he worked on this relationship for one year. Within ITC when a new contract is signed a project executive is assigned to manage the relationship and all the staff who work on this relationship reports to him/her with the exception of transition managers. The transition in and transition out managers are independently assigned to the relationship and they do not report to the project executive. The management team comprises people who directly report into the project executive such as business office manager, project director, client executive, delivery project executive. Some people are titled as executives while others are managers; this is based on their level of seniority in the organisation. Under the management team there is another layer of staff which are classified as the operational team involved with the daily delivery of services that is, service delivery managers and project managers.

**Figure 4-1 People interviewed from different stages of the relationship**



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There were ten interviews conducted each spanning approximately one hour. Given it was a single case study, it was necessary to ensure that the data collected were sufficient to answer the research questions and at the same time satisfy the reliability and validity criteria (see section 4.8). The number of interviews conducted was sufficient as it enabled the development of meaningful themes and after ten interviews new evidence began to diminish.

### 4.4.3 The interview process

The interview process was conducted using the following steps:

- **Making contact with the selected participants** - Contact was made with each employee (selected as a participant) through a company communication tool which acts as an online chat tool. During these chats employees were informed about the study and why they were selected. Once verbal approval was provided participants were given approximately two weeks to make a decision before a follow-up informal meeting was set with them. The agenda for these informal meetings was to explain the project further and gain confirmation of the participation from the employees. All the employees that were selected to be interviewed agreed to be participants in the study. Assurance was also provided that their names and the company name would not be disclosed should they agree to participate. Ensuring confidentiality and anonymity assisted in gaining participation.
- **Follow up email sent to participants** - An email was sent to participants containing a copy of the consent form along with the explanatory statement and interview questions. This allowed participants to get familiar with the interview questions and gave them enough time to read the documents and sign the consent form. The email asked the participants to return the signed consent forms within 10 working days.

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- **Collecting signed consent forms** - All the signed consent forms were collected and scanned and retained as a record.
  - **Setting up interview times-** Interview times were set up based on participants' availability and their choice of the venue. All the interviews were 45-60 minutes in duration and were held at different meeting rooms on the company premises.
  - **Interview Process-** The interviews opened with general questions around the participant's role in the organisation, how long they had worked on this relationship and the rough timeline for when they were involved. These questions helped make participants more comfortable. Given the researcher had previously worked on this relationship, a certain degree of trust and rapport was already present and that allowed participants to be more forthcoming in the interviews and to agree to be reinterviewed as and when required. During the interview the questions had to be constantly adapted depending on participant's designation and their involvement with the relationship. The line of questioning was semi-structured in nature. The participants were encouraged to reflect on their experiences, as well as their recollection of events beyond what was asked in the defined interview questions. During the interview, a diary was also kept to record the participant's behaviour during responses to the questions. All interviews were tape recorded to avoid relying on memory when documenting these interviews and to increase the accuracy of the data (Sommer and Sommer 1991). In addition, keeping a diary provided a check on what was said in the interview which might not have been clear from the tape recording.
  - **Post Interview process** - The interviews were transcribed immediately after they were recorded and this assisted in determining what questions to ask in future interviews to get further insight into the events. Later the transcripts were emailed to the participants to get their permission to use the material within the thesis.

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#### **4.4.4 Documentary evidence**

In addition to interviews, documentary evidence was also analysed (the contract, contract amendment forms, organisational charts, governance plan, audit results, issues and risk register, client satisfaction ratings, meeting minutes, performance measures, service level agreements (SLA), reports etc). Both public and private documents were available thereby providing credibility to both the data collected and the results based on this data.

#### **4.5 Data analysis**

The first stage of analysing interview transcripts was to read them carefully several times and make a list of topics. Similar concepts were grouped together to reduce the data into initial categories and to prepare them for the next stages of coding. Coding is the process of classifying text into categories by assigning meaning to sentences of the interview transcript to aid retrieval (Tharenou, Donohue and Cooper 2007). Once the topics were identified, they were abbreviated into codes that is, level one codes and these codes were assigned to the appropriate segment of the written transcript. Later these codes were grouped together as similar codes, unique codes and leftover codes (Creswell 2003). The lists of codes were reduced by grouping topics that relate to each other and this formed the second level codes (for example the codes for goodwill trust and competence trust were grouped under the trust category). Finally, data material relating to each category was assembled in one place to perform preliminary analysis (Creswell 2003).

The starting point in analysing the data was to identify major events that occurred over the duration of this relationship. Later these sequences of events were tabled to build a timeline discussed in Section 5.7. Given the focus of the study, establishment of the timeline was essential to trace various stages. Encounters and events marked the beginnings and end of these stages. An example of a major event could be replacement of key personnel which might mean that the relationship is currently unstable and point towards a particular stage in the relationship life cycle such as revival. Another example could be an increase in the quantity of



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work/projects which may signal that the relationship is going through a phase of acceleration, thereby implying the relationship is moving towards a growth stage. In line with the definitions of various stages mentioned in Chapter 2, life cycle stages of the outsourcing relationship was established. Later, the relationship between MCS and trust was examined at individual life cycle stage by incorporating transaction characteristics as a construct.

#### ***4.6 Limitations of a case study***

A major concern of case studies is a perceived lack of rigor and that they provide little basis for generalisability (Yin 2009). Yin (2009) identified two aspects of generalisability that is, statistical and analytical generalisability. In statistical generalisability, a conclusion is made about a population on the basis of data collected through a sample and is most common way of generalising when doing surveys (Yin 2009). Analytical generalisation on the other hand is where a previously developed theory is used as a template to compare results of the case study and if two or more cases support the same theory than replications can be made (Yin 2009). Results may be considered more compelling if two or more cases support the same theory but do not support an equally plausible rival theory (Yin 2009).

This study aims more towards analytical generalisability. The idea was to utilise the existing literature and to analyse the interplay between the constructs namely MCS, trust and transaction characteristics, over the lifecycle stages of an outsourcing relationship. A single case study of an outsourcing relationship that would have progressed through all the different life cycle stages was purposely selected to understand the sample in depth and not to find out what is generally true of the broader population (Merriam 2009).

Another limitation of case studies is that it is often suggested that case studies are subjective and are influenced by the researchers that conduct the research (Yin 2003, Patton and Appelbaum 2003). However Stake (1995) points out that all research depends on interpretation. In addition, what is often forgotten is that bias can also enter when conducting experiments or designing

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questionnaires/surveys (Yin 2009, Sudman and Bradburn 1982). This limitation applies to all research methods but for case studies it might be more predominant (Yin 2009).

#### ***4.7 Validity and reliability of data***

Validity and reliability in qualitative research involves conducting the study in an ethical manner (Merriam 2009). Researchers strengthen validity (trustworthiness, applicability) when they can show consistency across the research purposes, research questions and the research methods (Newman 2003). Strong consistency grounds the credibility of research and helps to ensure that readers have confidence in the research findings (Newman 2003). The aim of reliability is to minimise the errors and biases in a study (Yin 2009). The objective is to ensure that if another researcher followed the same procedures as described by an earlier researcher and conducted the same case study, the researcher should arrive at the same findings and conclusions (Yin 2009). Regardless of the type of research, validity and reliability can be addressed through careful attention to the study's conceptualisation and the way in which data are collected, analysed and interpreted (Merriam 2009).

The quality of any given research design is based on logical tests. Yin (2009) points out four tests that are commonly used to establish the quality of any empirical social research which are listed in Table 4.2. The first column represents the four common tests used across social science methods to approach validity and reliability concerns within a research. The second column provides brief description of the four tests followed by several tactics used to address these tests. The fourth column discusses various research phases during which these tests should be conducted and the fifth column summarises the steps taken within this research to address the concerns of validity and reliability.

**Table 4-1 Validity and reliability test**

Tests	Description	Case Study tactics as per Yin(2009)	Phase of the research	Steps taken to address these tests
Construct Validity	Identifies correct operational measures for the concepts being studied	<ul style="list-style-type: none"> <li>-Use multiple sources of evidence</li> <li>-Establish chain of evidence</li> <li>-Have key informants review draft case study report</li> </ul>	Data Collection	<ul style="list-style-type: none"> <li>-In depth literature reviewed</li> <li>-The interview responses were validated by documentary evidence to allow convergence of data thereby supporting construct validity</li> </ul>
Internal Validity	This is only valid for explanatory studies seeking to establish a causal relationship whereby condition A leads to condition B	<ul style="list-style-type: none"> <li>-Do pattern matching</li> <li>-Do explanations building</li> <li>-Address rival explanations</li> <li>-Use Logical models</li> </ul>	Data Analysis	-Not applicable for this study
External Validity	This test considers whether study findings can be generalised to wider population	<ul style="list-style-type: none"> <li>-Use theory in single case study</li> <li>-Use replication logic in multiple case studies</li> </ul>	Research design	-The limitation of generalisability was addressed within this study by aiming towards more analytical generalisability. The idea was to utilise the existing literature and to analyse the interactions between the constructs namely MCS, trust and transaction characteristics over lifecycle stages of an outsourcing relationship. A single case study of an outsourcing relationship that would have progressed through all the different life cycle stages was purposely selected to understand the sample in depth and not to find out what is generally true of the many (Merriam 2009).
Reliability	This test demonstrates that the data collection procedures can be replicated with same results.	<ul style="list-style-type: none"> <li>-Use case study protocol</li> <li>-Develop case study database</li> </ul>	Data collection	<ul style="list-style-type: none"> <li>-An interview protocol was established to give in-depth view of the interview process and procedures adopted in this case study</li> <li>- A list of interview questions are provided in the appendix of this chapter</li> <li>-A database of all the documentary evidence and interview transcripts was setup on the hard drive</li> <li>-During the interview diary was kept to record of individual behaviours and attitudes to responses</li> </ul>

Source: Yin(2009)

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According to Yin (2009) there are three principles that are important for doing high-quality case studies that is, using multiple sources of evidence rather than a single source, creating a case study database and maintaining a chain of evidence, as discussed below

- **Multiple sources of evidence** - The use of multiple sources of evidence in case studies allows a researcher to address a broader range of historical and behavioural issues. In addition, utilising multiple source of evidence assists in the development of converging lines of inquiry, a process of triangulation which makes the case study findings more convincing and accurate. Triangulation is the process of using multiple sources of evidence (Yin 2009). During the case study it is often suggested that one of the issues of interviewing people about events that happened in the past is their inability to recall. However in this study, the accuracy of the data collected through interviews was validated by analysing documentary evidence to obtain consistency in information obtained through different data sources and to avoid any bias that may have come across in interviews (Emsley and Kidon 2007).
- **Creating a case study database** - may increase the reliability of the case study. This involves creating a formal database of all the raw data collected so that other investigators can review the evidence directly and draw independent conclusions. A database was created which contained all the sources of evidence, such as documents, archival documents and interview transcripts used to conduct the case study. In addition, all the interviews were stored on a hard drive searchable by the participant's role and date of the interview.
- **Chain of evidence** - allows the reader to trace the evidentiary process in both directions. This allows an external observer to follow the evidence from the research data to conclusions. The chain of evidence was maintained by providing a case study database which contained all the documentary evidence, interview transcripts, interviews as well as

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the date and time when the interviews were conducted. Second, a step by step guide to interview protocol was developed (included in this chapter) in line with the data collection procedure followed within the case study. Lastly, the interview questions were written by identifying the constructs relevant to the framework, such as MCS and trust, which were further broken down into sub-components.

Another form of bias that may have occurred was the position of the researcher within the organisation. This was managed by maintaining objectivity during interviews to ensure there were no leading questions. Following the interview, the transcripts were sent to the participants for their review, which ensured the transcripts were a true reflection of their responses.

#### ***4.8 Summary***

This chapter provided a discussion of different research methods followed by a justification for the adoption of the case study method. It also introduced the case study used to conduct the research. The data were collected by interviewing ten participants who were involved in the outsourcing decision process as well as the management of this relationship. A detailed view of interview protocol and process was also presented to ensure that the reader can follow the steps taken to collect the data. The interviews were then validated by documentary evidence. Finally, the data were evaluated to ensure it passed the tests for validity and reliability highlighted in Table 4.2.

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## **5 Case description**

### ***5.1 Introduction***

This chapter describes the outsourcing relationship that was the focus of this research. The focus is to describe the sequence of events that occurred prior to and during the relationship to provide background and later interpret the findings presented in Chapter 6.

The outsourcing relationship that was studied was between an IT organisation (ITC) and a large Australian energy and gas provider (EGP). This relationship existed because EGP outsourced its IT infrastructure for a period of five years. However, the relationship was terminated prematurely, that is, within three years of its establishment. This relationship was strategically chosen as a research site, as the goal was to study an outsourcing relationship that would have progressed through all of the different life cycle stages discussed in previous chapters.

The chapter is structured as follows. Sections 5.2 and 5.3 provide a brief history of the organisations selected for research focusing on the nature of the industry in which these firms operate, their corporate governance structure and the environmental conditions faced by these organisations. The background discussion covered in sections 5.4 to 5.6 provides some context and greater understanding to the outsourcing relationship analysis that follows. An overview of the management process is provided in Section 5.7 followed by the timeline of events in section 5.8 before the case analysis is provided. The life cycle stages are discussed in Section 5.9 and the chapter concludes with a summary.

### ***5.2 Background on the vendor (ITC)***

ITC is a multinational organisation that operates out of all major countries with over 400,000 employees worldwide, including Australia and New Zealand (with over 10,000 employees). ITC specialise in various IT services and products for clients and are heavily invested in providing IT

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outsourcing solutions based on specialised customer requirements. Historically, ITC specialised in providing hardware to the clients, however recently they have been involved in providing IT services to their clients. As per the company's internal website, the shift in the strategy was mainly to capitalise on the growing trends by the organisation to outsource their IT infrastructure in an attempt to reduce operational cost and focus on their core activities. In addition, the environment in which ITC operates is characterised as continually evolving due to constant growth, product and services innovation and transformation initiatives. As a result, ITC differentiate themselves from their competitors by focusing on providing innovative IT solutions to their clients.

ITC has a varied portfolio of clients that comprise of small, medium and large organisations, ranging from automotive industries to communication to the energy and financial sector. They have a worldwide reputation as an organisation that provides constant innovation to service client needs and have been operating in this industry for over 100 years.

### ***5.3 Background on the outsourcer (EGP)***

EGP is an Australian-based company that provides gas and electricity nationwide. It was established in the early 1800s and employs close to 2000 staff across different states within Australia. Their portfolio includes traditional thermal generation (gas and coal) as well as renewable sources of energy. During and prior to 1994, electricity was supplied mainly through vertical integrated state monopolies. However a decade later these integrated monopolies were disaggregated into different businesses with the competitive aspects of supply broken into dozens of independent firms, many privately owned and the rest corporatised and operating at arm's length from their government owners (Morgan 2006). Deregulation of the electricity market increased competition and affected industries that operate in this environment. Due to the establishment of numerous independent firms supplying electricity, customers were able to switch between distributors thereby making the customer base vulnerable and increasing competition (Langfield-Smith and Smith 2003). To remain competitive in

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this market, firms are focusing on providing enhanced customer service and reducing operational costs.

EGP seeks to differentiate itself from the competitors by creating a sustainable energy future for the investors, communities and customers. They invest heavily in renewable sources of energy such as solar, geothermal, biomass, bagasse and landfill gas. EGP also operates retail, merchant energy and upstream gas businesses and has over three million customer accounts. In addition to focusing on alternative modes of energy EGP decided to reduce their operational cost by outsourcing their IT infrastructure to ITC as explained in Section 5.4.

#### ***5.4 Decision to outsource***

In late 2006, EGP went through a major corporate restructuring which resulted in the merging of their infrastructure assets with another company. This restructuring was soon followed by seeking an approval from the Federal Government to begin trading EGP's energy shares on the Australian Stock Exchange. During this time, EGP's executive committee were analysing the business requirements to outsource their IT infrastructure services. There were growing management concerns around their IT environment/ hardware which had aged considerably, thereby making it difficult to manage the IT infrastructure in-house. Due to the state of their IT environment, the operational cost of delivering the project on this platform was substantial. As stated by a member of the executive who was involved in the initial negotiation of the outsourcing relationship:

*"The significant driver for EGP to outsource was because they could not control IT. This is not their business and they could not do it. So they were looking for someone who can manage this while they focus on their core activities."*(Exec 3)

Another factor that influenced EGP's management to outsource was the risk of running projects on aged and neglected hardware. Further concerns were raised by the EGP staff based on the possibility to deliver these projects given the in house IT expertise as evident in the comment below:



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*“Their environment and hardware was ageing and it had to be refreshed and upgraded very quickly and ITC is one of (the) few companies that can do that. I have been in the industry for a very long time and I do not think any other vendor would have gone with this deal. We had a worldwide reputation in providing services and (the) CIO would mention that over the years.”(Exec 1)*

## **5.5 Reason for choosing ITC**

During early 2007, there were two IT vendors (including ITC) present on EGP's premises assisting with some ad hoc projects which were considered as potential responders for the outsourcing bid under review. The main focus of EGP was to employ an IT vendor that could manage their IT services, upgrade their existing hardware and environment, provide innovation and leadership, reduce operational costs and deliver business critical projects in a timely manner.

As stated by a manager from ITC: *“The key thing is the customer expects us to innovate and provide IT service that is a differentiator, so meeting service level and providing operational support is a bare minimum. What they want is for ITC to step-up and provide that extra support in terms of projects, architecture and leadership”. (Exec 3)*

Given the awareness about a potential outsourcing deal, ITC volunteered their expertise by assisting with ad hoc application development projects up until the outsourcing bid was finalised. This was an interim time and material (T&M) arrangement until an actual contract was put together for the potential responders. The issues faced by EGP were that the IT support required was quite complex and having an ongoing T&M based contract would have been very costly as stated below.

*“EGP paid a lot of money to ITC for services (on a T&M basis providing ad hoc services). They could have saved a lot of money if it was a services contract (like an outsourcing agreement whereby ITC manage their entire IT infrastructure and provide services). It was an ongoing T&M basis contract and the CIO was under (a) lot of criticism for not getting value for money. He was advised to go from (a)\_ T&M contract to a services contract. The state of their environment and hardware was aging and*

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*neglected. ITC do not maintain the hardware under the common T&M contract, so it was a smarter move to go into a services contract". (Exec 1)*

Therefore, EGP decided to put forward a tender for a vendor that could support their IT infrastructure for a period of time while they focused on their core activities.

## **5.6 Bid and negotiation process**

The preliminary negotiations started during May 2007, where the initial bid was proposed by ITC to provide services for the management of infrastructure and application development. ITC employed a third party to negotiate the contract on their behalf. At the same time EGP employed an external legal team to discuss the deal and agree on the terms of the agreement. Furthermore, ITC sent in an engagement team which included a client services executive, bid manager, technical solution manager and a finance representative who as a group worked to negotiate the price for the deal. However, when the final bid was put forward to the client it was lacking recommendations provided by the engagement team as the sales team and team mentioned above had differing objectives in terms of winning the bid. The sales team was more focused on winning the bid as opposed to negotiating a favourable position as evident in the quote below.

*"From a business point of view it is a good policy to have sales marketing departments different from the delivery team as the delivery team is good at fixing issues and deploying them initially will be too expensive and completely risk free (If the delivery team is involved during the bid and negotiation process the contract would never be signed as they are very cautious on what can be delivered. On the other hand sale team tries to win business by selling proposals that might be hard to deliver). Some are commercial risks that need to be accepted." (Exec 3)*

Interesting, none of the people who had worked with EGP before were consulted when the final bid was put together as evident from the statement made by the project executive, who played a significant role in the engagement team: *"I had all the resources who knew the client and they were*

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*giving me all the understandings of what EGP does- but the bid and sales team had really not engaged any of us. The people presenting did not understand EGP at all.” (Exec 3)*

This gap in communication between the parties sent from ITC is evident in the quotes above. As a result, the final contract was structured in a way that provided significant benefits to EGP rather than equal bargaining power for both the parties. Even though the contract mainly favoured EGP, ITC continued to negotiate the deal in an attempt to maintain their reputation as market leaders in providing end to end IT services and support.

This attitude is evident in the quote captured from an ITC executive: *“ITC does not walk away from deals”.* (Exec 3)

The bid and negotiation process continued for six months and in December 2007 EGP decided to award the contract for infrastructure support to ITC while the application development portion of the bid was awarded to a third party<sup>2</sup>. The scope of the contract covered maintenance of IT assets and environment, hardware and software refresh, delivery of project P<sup>3</sup>, work in collaboration with other third party vendors with sole responsibility on ITC to manage IT services. The selection of ITC was based on several factors such as prior relationship, favourable reputation as market leader in providing IT services and support, ability to leverage global knowledge base, quality of the proposal, ability to innovate and provide effective IT solutions as evident in the majority of the interviews. As one manager reflected:

*“We have a worldwide reputation as the number one company in providing services. We have very good reputation for our systems and tools. Of course, if you need those kinds of products it is logical to engage the vendor that sells those skills and tools” (Manager 2).*

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<sup>2</sup> For the purpose of this case study only the outsourcing relationship that existed between ITC and EGP was used to ensure manageability of the data and ensure applicability to research questions

<sup>3</sup> EGP funded a critical IT project (project P) to migrate their current IT system to a new platform. This was a complex project which required ITC to work with other third party vendors to deliver the project by late 2008.

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Once the preliminary terms of the outsourcing relationship were finalised, ITC employed several employees to work in collaboration with EGP's staff to commence the transition project in order to finalise processes and procedures that were not covered in the original contract. The transition period is when both parties to the contract work in collaboration with each other to exchange knowledge and information in order to finalise the expectations of the relationship which might be difficult to anticipate at the beginning. The contract that was established between ITC and EGP provided a generic framework around the tasks and activities and the expectation was to amend the agreement as and when more information emerged during transition.

During this time the intent was to perform due diligence to establish baselines and to further discuss and agree upon all the details of the relationship. The duration of the transition was estimated to be three months from the contract signature date and following that the business as usual (BAU) activities and request for service (RFS) activities would commence. RFS activities were ad hoc project work requested by ITC as and when the requirements emerged.

## ***5.7 Management of the relationship***

The first six to twelve months of the relationship were quite challenging as EGP was constantly disappointed with ITC's performance. The key issues originated during transition. The initial timeline for transition was three months from the contract signature date however the actual transition activities did not start until two months into the contract and it was further extended for another six months which resulted in processes not getting finalised in time and ITC not delivering services on schedule.

One of the project executives stated that: *"The contract started however the transition never started in the first few months and deliverables were not completed and we often got signoff for deliverables that were not delivered and penalties were often backdated."*(Exec 3)

Another project executive said:

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*“We got (an) extension in transition through March and again till 30<sup>th</sup> June 2009 and nothing was getting done...Transition is a very difficult task where you set up to win or fail. This was a five year contract. We did not recognise the importance of transition and did not put enough resources or focus during that time.” (Exec 1)*

Some of the major issues that had to be managed were understanding the contract language, getting agreement on the baseline level of service to be included in the agreement, finalising processes, verifying the cost of the baseline services, establishing effective communication processes, finalising governance plan and developing mutual trust between parties. These are discussed below.

One of the main issues that were brought forward during transition was the continual confusion around the contract language. The language in the original contract was kept generic and the intention was to renegotiate the details as and when they became evident during the transition. However, most of the managers interviewed subsequently believed that having the contract written in this way created a lot of disagreement and disadvantages to ITC . Further, there was a lot of reluctance from EGP to amend or make changes to the original contract as mentioned below.

*“The way the contract was structured was very adversarial showing that all vendors are to be distrusted. It was contradictory in some places and when this was brought forward to the client they would either avoid it or get upset about it. They were not willing to discuss it.”(Manager 1)*

*“One criticism that is apparent now and was not apparent during the signature is that they allowed as an addendum in the actual proposal that was put forward by ITC which is actually not written to be legally binding and it helps to excite the imagination of the client in terms of what is a possibility if you work with ITC. However, when inserted in the contract what it was, it can be seen as a commitment to delivering stuff. But in reality what it was we can make these services available in addition to the original scope but with extra charge. This caused a lot of conflict.”(Exec 1)*

*“Sometime they negotiate the contract in a way that brings down the outsourcer as there is not enough detail in the contract.”(Exec 3)*

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Another issue that dominated the first six months of the relationship was the confusion around establishing baseline levels for the services. As explained by a member of the project executive at ITC *“We are not very good at reviewing the contract. Also during the transition period we should be doing due diligence. However the transition was done by the people who said everything was rosy and there was nothing on the paper/ evidence to suggest that things were created. This was done either because there was so much work to be done or the skills sets were not correct”.* (Exec 1)

The project executive believed that this could have been averted if due diligence was performed to establish baselines and that could have assisted with getting agreement on the baseline costs. However, there was an urgency to complete the transition as the penalties were mounting and processes were not getting finalised. Also during 2008, project P had to be delivered which required ITC to finalise transition. As a result the transition was completed in a hurry and lacked essential details.

Following a challenging start in early 2008, ITC's entire contract management team was replaced in an attempt to improve the client-provider relationship. Improvements were slow to emerge however there was a small shift in attitude when ITC was able to deliver project P on schedule.

There were still reservations from EGP in terms of ITC's ability to deliver the services due to the bad start to the relationship. Improvements were often overshadowed by constant issues in the delivery of the BAU services. The relationship stabilised a little during the middle of 2009 and the frequency of projects requested by EGP reduced as well. The tasks and activities were lot more repetitive. In early 2009, ITC went through another shift in the team and moved all the staff from the ITC site to the EGP site. During this time the internal ITC team initiated a process improvement project to tighten the processes and effectively improve the client satisfaction ratings.

*“With the whole new resources we brought in we were able to start achieving things that we were not achieving previously.”(Manager 4)*

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*“Effectively they were looking to relaunch (the) business office. Recently (the) business office had gone through an audit and it was not meeting the requirements, so I came to manage that and change things around. The first project management review (PMR) audit we passed it and second PMR we passed as well. (In) KCO<sup>4</sup> we got a couple of defects which is very normal and they were addressed”. (Manager 5)*

However this period of stability was temporary before certain events increased the level of activities again. There were two major IT incidents that prevented EGP employees from performing day-to-day IT operations resulting in an increase in the level of activities undertaken by ITC to restore the system quickly. The biggest issue was during July 2009 which was a near corporate failure. EGP were facing some technical IT storage issues and ITC implemented a project to assist with these issues. It was supposed to be a routine change however because EGP’s IT platform was old, this change was not successful. As a result EGP’s several critical IT servers were removed from the network and critical situation one (critsit 1) was declared, which is an ITC management term identifying the level of urgency. Critsit 1 means it is top priority for ITC and all the employees working on this relationship were reallocated to assist with this issue. Even though ITC was not responsible for this incident directly, ITC’s team led by the project executive assisted in resolving this issue as stated below.

*“This affected EGP’s core activities as it knocked off their front end systems and a crit sit (critical situation 1) was declared. We had to bring up 60 critical servers and build them from scratch. It lasted about 6 – 8 weeks for critsit management program. Later it was low level critsit”.(Manager 2)*

After ITC volunteered their services to resolve some of the major incidents at the time of the crisis, EGP saw this as an act of goodwill and that resulted in a shift in attitudes. The relationship was stabilised again till the later part of 2009. Following this period of stability there was another incident during late 2009 where EGP’s office floors were flooded. This caused water damages to their floors and equipment and ITC provided employees to enable them to recover their infrastructure and move their personnel to a different location. This was done to ensure there were no major delays in day to

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<sup>4</sup> KCO testing is Business office specific and the tester tests the performance of the business with Business unit guidelines. This happens once or twice a year. KCO is internal and PMR is external to the business unit.

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day IT operations and activities. Following the flooding incident there were no major activities or events till early 2010 when EGP decided to terminate the contract. The decision to terminate, as stated below by ITC executives were mainly around trying to reduce the operational cost by selecting a cheaper vendor.

*“EGP got a proposal from our competitor which was a lot cheaper and made more sense .”(Exec 1)*

Following EGP’s intent to terminate the relationship, a decision was made within ITC to try to revive the relationship. The strategy as outlined by one of the executive was to bring in a new management team comprising of senior leaders who were very well regarded in their area of expertise in an attempt to revive the relationship. The main focus of the management team was to understand the key issues and address them in order to fix the situation. There was lot more focus around improving the core activities and increasing the level of communication both internally and externally with EGP. However it was too late as EGP had already decided to award the outsourcing contract to a third party. Therefore the management team effectively carried out the transition for the next six months until the contract was finally terminated. The last few months of the relationship were considered good by EGP as ITC had invested a lot of staff and time to ensure the transitioning out project was collaborative and smooth as explained by one of the employees *“Our objective was to ensure that the experience for the client was a positive one and in the future if certain opportunities materialised the client will invite us back as opposed to them claiming that the transitioning out was done poorly.”(Exec 4)*

The contract was formally terminated in September 2010, however ITC still has a presence at EGP to assist with ad hoc tasks and projects.

## **5.8 Timeline of events**

Table 5.1 establishes the timeline of the events which assisted in identifying the life cycle stages of the outsourcing relationship. The first column represents the life cycle stages of the relationship, followed by the dates during which the events occurred and the third column highlights the events that occurred over the course of this relationship.



**Table 5-1 Timeline of events on the outsourcing relationship between ITC and EGP**

Life cycle stages	Timeline	Events
<b>Birth</b>	<b>May-07</b>	EGP decides to outsource IT infrastructure
	<b>Jun-Nov 07</b>	ITC bid for the contract
		Negotiation continues for six months
	<b>Dec-07</b>	Master Services Agreement (MSA) signed
	<b>Jan-08</b>	Transition project delayed by two months
	<b>Feb-08</b>	Project P commences on schedule
<b>Mar-Apr 08</b>	Senior management team replaced	
	Transition commenced behind schedule	
<b>Growth</b>	<b>May-08</b>	New management team hired
		Transition extended by three months
	<b>Jun-Jul 08</b>	New staff hired to expand the team
	<b>Aug-Sept 08</b>	Transition team replaced and new team brought in to finalise transition
	<b>Oct-Nov 08</b>	Increase in the number of new projects and changes in staff Project P delivered on schedule and transition finalised
	<b>Dec-08</b>	ITC team moved to work from the client site
	<b>Jan-09</b>	Volume of projects increase and more employees are assigned
<b>Feb-Mar 09</b>	Business office manager and service delivery manager replaced	
<b>Maturity</b>	<b>Apr-09</b>	Number of activities reduces
	<b>May-09</b>	New project director hired
	<b>Jun-09</b>	Service improvement project commence to improve customer service ratings
	<b>Jul-09</b>	Major system failure leading to energy traders not able to log into the system and critical situation one declared
	<b>Aug-09</b>	ITC working over time to bring the system back on line. The system is recovered after 21 days
	<b>Sep-09</b>	Number of projects reduced
	<b>Oct-09</b>	Work slows down
	<b>Nov-09</b>	EGP Floors flooded ITC declares critical situation one. Lot of activities undertaken to restore the situation
<b>Dec-Mar 10</b>	Constant pressure on EGP to cut operational costs	
<b>Revival</b>	<b>Mar-10</b>	Senior management team replaced Notice of termination issued Transition out period identified as July 2010
	<b>Apr-10</b>	New management team hired to revive the relationship Early termination Invoice paid in full by EGP
<b>Decline</b>	<b>May-Jun10</b>	The strategy to revive changed to effectively transition out Transition out activities commences
	<b>Jul-Sept 10</b>	Transition out extended till 30th of Sept Transition out activities finalised Contract officially terminated

## **5.9 Life cycle stages of EGP and ITC**

The negotiations for the outsourcing relationship started in May 2007 and after six months of negotiations the contract was signed in December 2007. The transition timeline was identified in the contract as three months from the contract signing date. During this time all processes/procedures were required to be finalised. In line with the definition provided in Chapter 2, events such as contract

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negotiation, contract signing and transition activities are usually characterised by birth stage of a relationship. Therefore, the period from May 2007 until April 2008 was identified by the researcher as the birth stage of this relationship. As mentioned in Chapter 5, transition was delayed by several months. As a result routine activities had to commence in parallel with transition activities. Also during this time, due to a poor start to transition, the quality of services delivered were judged to be unsatisfactory which created conflicts between ITC and EGP. Hence, in early 2008, the senior management team of ITC were replaced twice in an attempt to improve the relationship. In summary the start of the relationship was challenging.

Following a bad start, the new management team that was hired focused on improving the relationship as a result the period starting from May 2008 to March 2009 was characterised by events such as an increase in number of staff, finalisation of processes/procedures and an increase in the frequency of activities. These events indicated that the relationship was going through a phase of acceleration and growth as mentioned below:

*“We had a huge influx (increase) of PMs(project managers) as there was a lot of RFSs that were coming in which was good. There was a significant amount of BAU stuff (activities) going on as well just before and after project P”.(Manager 2)*

This continued into early 2009 when the tasks and projects gradually slowed down after the transition had finalised. The number of SLA misses and incidents reduced during this time *“The customer was relatively happy and my experience tells me we were meeting all the SLA targets” (Exec 1)* which implied that the level of understanding between parties had improved. At the same time, BAU tasks were more repetitive and fewer RFSs were being requested by EGP. During this time, the relationship was characterised by events which are consistent with the definition of a maturity stage as evident in the quote below:

*“This was mid-2009.The things did settle down a bit and we were making progress with the customer.”(Manager 4)*

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However, the maturity stage was associated with two events that occurred during middle and late 2009 which increased the level of activities indicating that the relationship temporarily shifted from a state of a maturity. One of the major events was an IT failure during July 2009 which increased the volume of work. As a result of this increase in tasks, extra staff were contracted to assist with the situation. After the system was restored in August 2009, ITC was once again performing routine tasks and some RFS requests, the level of communication had improved and the number of incidents had reduced. The increase in the level of communication indicated that both parties were becoming comfortable with each other and the level of understanding was improving as evident in the comment below:

*“We were able to get the customer into regular meetings, provide updates and give reports. We were able to start achieving things that we were not able to achieve previously.”(Manager 4)*

Following this period there was another incident during late 2009 where EGP offices' floors were flooded, and this increased the number of activities. Following the flooding incident, the number of RFS's reduced along with the staff working on this relationship. The day-to-day operations stabilised and the staff was performing routine tasks and activities. This period lasted until March 2010 when the letter of termination was issued by EGP to ITC .

In March 2010, EGP issued ITC with a letter indicating their intent to terminate the relationship. Several interview transcripts indicated that the intent to terminate was not expected by ITC given that the relationship was going through a phase of maturity and the delivery of services were seen as being satisfactory by EGP. Soon after the letter was issued the acting project executive and the delivery project executive were replaced and a team of senior leaders were brought in to revive the relationship.

From March 2010 until April 2010, the activities and events were consistent with the revival stage mentioned in Chapter 2 where the focus was around the strategy and tasks in order to improve the situation. The environment was characterised as dynamic and challenging and new management

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team comprising of senior leaders who were very well regarded in their area of expertise were brought in manage the relationship as stated below:

*“We were brought in to revive the contract that we thought we had lost”. (Exec 5)*

However, the management team was not able to change EGP’s decision to terminate the relationship. The decline stage was identified by the researcher as occurring from May 2010 till September 2010 where the projects were finalised, staff were assigned to a different client and there were minimum activities. This period saw the staff performing tasks to transition out of the relationship.

## **5.10 Summary**

This chapter provided a detailed overview of the outsourcing relationship between EGP and ITC that was used as the case study. The initial engagement between these two organisations was for a period of five years however this relationship was terminated prematurely within three years of establishment. Given the focus of the research, this relationship was considered appropriate to be used for the case study. The chapter commenced with a brief discussion on the history of the two organisations selected for research focusing on the nature of the industry in which these firms operate, followed by a timeline of events that occurred over the course of the relationship. These events assisted in identifying the various life cycle stages of the relationship which were presented in Table 5.1.

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## **6 Analysis of data**

### ***6.1 Introduction***

As stated in Chapter 1, the research questions to be addressed in this thesis are “Do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?” and “If so, what factors drive this change?” This chapter analyses the data collected from the case and classifies this in line with the theoretical framework presented in Chapter 3. The idea is to examine the interaction between the constructs, namely transaction characteristics, trust and MCS over the life cycle stages of an outsourcing relationship.

The chapter is organised as follows. Section 6.2 presents transaction characteristics from the outsourcing relationship between ITC and EGP. Later, a discussion on the changes in these transaction characteristics over the life cycle stages is provided. Section 6.3 highlights the various control mechanisms used to manage the relationship and how it evolved over time. Section 6.4 introduces the final construct, that is, trust, and identifies the development of trust over the course of the relationship. The chapter concludes with a summary under Section 6.5.

### ***6.2 Transaction characteristics***

TCE has been highlighted as an economic theory used for studying the design of MCS within an outsourcing relationship (Langfield-Smith and Smith 2003). TCE predicts that the type of governance structure (markets, hybrid and hierarchies) used within a relationship is based on the lowest transaction costs (Williamson 1979; Dekker 2004). The transaction costs are governed by three transaction characteristics; frequency of the transactions, uncertainty pertaining to the transactions and the level of asset specificity (Williamson 1979). This section highlights these transaction characteristics over the course of the relationship.

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## 6.2.1 Tasks programmability and output measurability

The contract consisted of a few routine pre-defined BAU tasks and some ad hoc RFS activities. Due to the prior relationship, ITC had some level of understanding around EGP's day-to-day operations and the level of services required in managing their IT environment. However, the initial engagement was limited to only providing services for ad hoc projects as opposed to the complex IT outsourcing agreement which was signed in 2007. High levels of uncertainty arose from the range of activities, complexity of the IT environment, ageing hardware, inexperienced staff and ambiguity around the contract language. Due to the unpredictability of tasks, it was difficult to establish a complete contract at the start of the relationship as stated below.

*"The devil was in the details. There was a lack of information in the contract and we knew we had to be there to support the client."(Manager 3)*

In addition, the performance measures used to assess the quality of delivered services by the outsourcer were not fully identified. In the case of generic BAU activities, the uncertainty level was low and therefore the output measures were pre-specified in the agreement. However, the majority of the performance measures, in terms of their accuracy, relevance and the reports used to validate the output, had to be negotiated during the transition period as evident in the contract extract below:

*"The Supplier must provide the following services to EGP, EGP Group Members and each Authorised User, as such services may **change and evolve** and as they may be supplemented, enhanced, modified or replaced in accordance with the terms of the Agreement throughout the term".(Contract extract part 3, p. 13 )*

Similarly another manager noted *"In the contract we have it written as this is what ITC will deliver, however the processes are established during the transition. Maintenance, ongoing management, asset management compliance, and how we manage things etc was not there and we worked on that as the contract unfolded."(Manager4)*

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However, as the transition was unsuccessfully managed there was limited attention given to performing due diligence, establishing baseline values and finalising processes required to deliver BAU and RFS activities. Ideally when an outsourcing relationship is established both parties perform due diligence during the transition period to finalise the baselines which act as benchmarks. Baseline costs are covered under the contract and any new services provided by the vendor over these baselines are chargeable on a monthly basis. The charges for these services are variable in nature depending on whether it is an addition or a removal of services. Due to a lack of due diligence performed by both the parties there were constant disputes around the baseline values as stated below:

*“We still could not tell the client what they owed. One of the major issues that were brought forward was during our transition in period we never had a clear understanding of the contract and we never baselined things that are in the contract”.*(Exec 3)

In addition, the accuracy of the reports used to measure performance were questionable as suggested by the executives below.

*“There was no reporting to the client, no regular meeting and some governance issue. There were aspects of reporting that were not delivered, for example there were major incident management processes that were not put in place, process were not in place at that time.”* (Manager 4)

*“In service delivery we had our standard tools we use to calculate our SLA but whether that was accurate was another story.”*(Exec 3)

Along with the poorly managed transition, lack of details within the original contract, inaccurate reporting and constant shuffling of staff there were concerns about EGP’s ability to define requirements as stated by manager 1 *“ The client was not clear on what they wanted. When we go to the client they do not necessarily communicate effectively this is what they want”*. Given the incomplete nature of the contract, interim processes were established to deliver services in the birth stages of the relationship.

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Over time both parties became more familiar with each other's business activities, and the level of knowledge and information sharing improved which assisted in providing visibility around task requirements, processes and procedures and how to measure performance accurately. As a result, the level of task programmability and output measurability gradually improved during the growth stage of the relationship once communication increased between ITC and EGP and transition finalised. This is evident in the comment below.

*"Once we were able to establish open communication with the client and determine people roles, setup procedures it was working very well".(Manager 4)*

During early 2009, the relationship shifted towards a phase where both the parties to the contract were aiming to stabilise the day-to-day operations. The interim processes and procedures that were established during the transition were now being corrected through the process of regular exchange between the parties to the contract. The volume of projects slowed down and the tasks were mostly generic BAU activities. As a result, there was an increased focus from the ITC management team on recognising the processes and performance targets that were no longer appropriate given the requirements of EGP. The performance measures were further refined during the process improvement initiative project when EGP gained a better understanding of the output targets and could specify their requirements more accurately as stated below.

*"SLA changed over the years as it is in the best interest for both the organisations. Sometimes it costs us lot of money to deliver a report that no one reads."(Exec 1)*

As the level of understanding grew between parties and the reports used to measure the output gained more accuracy, EGP agreed to renegotiate some of the SLAs to assess their validity. This was evident from the SLA credit earn back scheme by which ITC could earn back the SLA credit when the minimum SLA was not met due to a single failure in a month. Following the process improvement initiative, the original contract was amended to reflect the relevant output measures and the requirements around the deliverables reports.



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In the later stages of the relationship, the revival and decline stages, the amount of project work requested by EGP was high to begin with but reduced considerably. The focus was more on finalising projects currently under implementation and at the same time performing routine tasks before transitioning out. As a result, the expectations around task requirements and output targets were already established and defined. Specifically during the decline stage the transition out tasks were well defined in the contract as stated by one of the executive: *"The original MSA has predefined transitioning out clauses. One is for convenience where they have to pay us a fee for terminating prematurely. Within that transition out scope of work there are fairly well defined activities to perform and execute".*(Exec 4). Therefore, the level of task programmability and output measurability remained high until the contract was effectively terminated in March 2010.

## **6.2.2 Environmental uncertainty**

Within the relationship it was difficult to forecast the changing IT requirements for EGP. Thus, the RFS process was established to assist with any ad hoc project work as and when the requirements arose. However, due to changing market conditions and technology, the future business requirements were unclear which resulted in a high level of unpredictability.

Some of the other challenges faced by ITC were EGP's aged/neglected IT environment and the data centres which were not fit for the purpose. Since they were ageing, there were power restrictions which created issues when delivering projects as stated below.

*"Power constraints – They had two data centres and the power they had to use was always on the edge and it became quite problematic to make any major changes without going over the power limit. This meant we had to shut something down in order to do a change".*(Manager 2)

Also, the outsourcing contract consisted of a mix of pre-defined routine tasks and ad hoc project activities. For instance, the birth stage of the relationship was dominated by a high level of transition activities, standard BAU tasks and few RFSs while the growth stage was characterised by an increase

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in the level of RFSs activities. This combination of tasks and activities increased the level of complexity within the relationship.

Additionally, there was a presence of a third party assisting with ad hoc projects and ITC had to constantly differentiate themselves to ensure the contract was not awarded to a competitor. At the same time, there was high level of dependencies between ITC and this third party vendor to collaboratively work together to deliver projects and services. This increased the level of competition and risk as stated below.

*“ITC managed the program however some other vendor ran the actual program. That made things difficult, if we were chosen as the holistic provider we would have delivered before time as with someone else involved we were struggling with timelines, and there was lot of pressure. We had no direct control.”(Manager 4)*

As a result, the level of uncertainty remained high all throughout the course of the relationship.

### **6.2.3 Asset specificity**

The level of asset specificity within the outsourcing relationship, in terms of physical IT hardware and other assets was low given that EGP owned their own IT infrastructure while ITC only managed it on their behalf as mentioned in the quote below:

*“EGP owned most of the assets, software, operating system licenses and they also hosted their infrastructure in the data centres that they leased/ rent from a third party. So they owned their data centres and we were providing people to manage their infrastructure in the data centre of their choice.” (Exec 3)*

However, ITC needed to invest staff to setup the services, monitoring, management of the services and some infrastructure to manage the transition. As explained by the delivery executive *“from the base contract we say this will be the investment in resources from the start based on our cost case to*

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*solution the project however when we finish this would be hugely over due to increase in resources, number of service improvement issues, number of overheads, additional resources coming on board".* This created a high level of human asset specificity. Also, the outsourcer was located on the premises of EGP, thereby increasing the level of site specificity as evident from the statement below.

*"When the client asked us to be on site we had to get the team in Melbourne. Therefore a lot of resources were travelling to Melbourne from Sydney on the client's wishes. The client requested us to be situated on the client site."(Manager 1)*

Additionally, EGP's IT assets were aged and in a need of upgrade to ensure projects were delivered on schedule. ITC was one of the few companies that could manage this IT environment for EGP given their high level of IT skills, which created uneven bargaining power. In addition, ITC was granted exclusivity in terms of managing the end-to-end infrastructure that involved managing and liaising with a third party vendor, which created a high levels of dependency between ITC and EGP. During the transition period, both parties invested considerable amounts of time to establish the processes and procedures which were tailored to EGP's requirements to effectively deliver the contract. Any withdrawal of services by ITC would have had a negative impact on the delivery of ongoing services, thereby, making the switching costs for EGP high.

The level of overall asset specificity was initially at a low level, however as the relationship progressed over time the level of asset specificity increased. This was mainly due to the high level of relationship specific investment with regards to the number of ITC staff working on the relationship, processes and procedures customised to ITC's requirements and the infrastructure provided to deliver the services.

### **6.3 Control mechanisms**

The control structure within the outsourcing relationship between EGP and ITC is examined by distinguishing between formal and informal controls.

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### 6.3.1 Formal controls

The Master Services Agreement (MSA) that was signed between EGP and ITC covered generic roles and responsibilities of both parties, ITC's code of conduct, broader tasks and activities and standard performance measures. However, given the complexity and uncertainty around tasks and activities in the birth stage of the relationship, the contract was incomplete and lacking details. The senior management team of ITC described the contract as being vague, for example: *"Usually contracts are not very clear and you try to interpret the contract in a given situation. The contract is always up for interpretation as they are usually drafted as being vague".(Exec 4)*

*"There was a lack of information in the contract and we knew we had to be there to support the client. The level of detail differs and most of the contracts do not have details."(Exec 3)*

The relevant information required to establish formal controls was hard to determine at the beginning of the relationship and could only develop over time. The language in the original contract was kept generic and the intention was to renegotiate the details around tasks, roles and responsibilities, policies and procedures as and when they became available during the transition, as mentioned in the quote below:

*"As part of the transition, you have basic stuff in the contract in terms of this is what we will provide. There is a basic concept they put in the contract however actual use of the tools and when the meetings will take place and what conspires etc are all agreed upon later".(Manager 3)*

The controls that were utilised within this outsourcing relationship were mainly to measure performance at a generic level and establish preliminary benchmarks. These controls focused on areas such as a customer satisfaction survey, delivery responsiveness by establishing service level agreements (SLAs), service improvement initiatives, issues and risks registers, problem management, IT innovation and leadership, cost savings and the quality of IT solution which were defined in the contract or agreed on at later stages. This was evident from the meeting minutes below, highlighting

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the interim process of identifying deliverables from the contract and correcting them during the transition period by having regular dialogue between EGP and ITC.

*“A comprehensive list based on decomposition of the contract that includes the initial list of deliverables was drafted which was referred to as Master Program Activity List (MPAL). It is generally generated during the transition and becomes redundant at the end of the transition period after the deliverables are finalised.” (Meeting minutes, 21 December 2008)*

The contract extract below provides further evidence that the performance measures were generic in nature during the birth stage of the relationship.

*“Tools for measuring any new critical service levels will be implemented according to the change control procedures. If, after the commencement date or the date of implementation of tools for new critical service levels, the supplier desires to use a different measuring tool for a critical service level, the supplier shall provide written notice to EGP, in which event the parties will reasonably adjust the measurements as necessary to account for any increased or decreased sensitivity in the new measuring tools. However, if the parties cannot agree on the required adjustment, the supplier shall continue to use the measuring tool that had been initially agreed by the parties.”(MSA schedule 4, p. 26)*

However, this changed in late 2008 when the transition was finalised and there was greater clarity of the tasks and shared knowledge between ITC and EGP.

*“The controls were mostly formal due to the situation we were in. So we were formally documenting everything and sending meeting minutes out to the client to ensure everyone was on the same page”.(Manager 3)*

*“Performance was measured at a very granular level during transition in terms of reports at the time it occurred, steps taken to resolve, how long it took, reoccurrence, penalties associated.”(Exec 1)*

This assisted in establishing detailed roles and responsibilities of the individuals working on the relationship, identifying EGP's service requirements, defining processes around tasks/ activities and establishing dispute resolution processes. Additionally, the obligation for ITC to report services and deliverables increased in frequency from monthly to weekly, in an attempt to tighten output controls. This was also apparent from the increased frequency of meetings as shown in Table 6.3. Initially, there were key meetings identified within the contract, which were held on a monthly and quarterly basis to assess performance and discuss key issues. However, this changed when EGP requested to have additional meetings on a weekly basis to assess the performance of ITC following the difficult start to the relationship. Table 6.1 indicates additional meetings which were scheduled on EGP's request.

**Table 6-1 Meeting schedule extract from the contract**

MEETING	FREQUENCY
Management Committee	Monthly
Service Delivery Committee	Bi-weekly
Executive Steering Committee	Quarterly
Strategic Planning Review	Yearly
Project Reviews / RFS Meetings	Bi-weekly
RFS/Demand Pipeline Meeting	Weekly
Account Team Meeting	Bi-weekly
Pre Steering Committee Meeting	Weekly

The level of understanding and knowledge sharing between the parties improved further in 2009 during process improvement initiatives. The project focussed on listing all the performance measures such as, performance reports, customer satisfaction surveys, productivity measurement and key deliverables (in terms of SLAs for both BAU and RFS activities), which were either established during transition or added at a later stage, in an attempt to reassess their efficacy. This was witnessed in an email communication between the ITC project executive and the CIO of EGP, dated early 2009 where a workshop was scheduled to restructure SLAs. Several benchmarks and controls were imposed on the employees of ITC to ensure they were performing as per the agreement in an attempt to better establish the requirements of the relationship as stated below:

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*“The initial contract that was signed in December 2007 changed over the years. They signed a contract variation to amend the contract language and make it easier to understand without changing any of our commitments”.*(Exec 1)

Apart from modifying the controls there were also a number of schemes established as an initiative to encourage both parties to have an open dialogue and improve understanding around the requirements of the relationship. There was an SLA earn back scheme introduced which provided added incentive for ITC to provide excellent service to earn back the penalty. There was another initiative agreed on between ITC and EGP which was referred to as an “all lessons learnt forum”. These forums were conducted immediately after critical incidents. The focus of the forums were to establish an open communication between parties to the contract with regard to issues that occurred during the period and to determine the steps to be taken in the future to avoid these issues.

Following the maturity stage, the formal controls that were established and corrected over the course of the relationship were now added to the original contract. As a result, the later stages of the relationship ,that is, the revival and decline stages had detailed formal controls embedded into the contract. Also, soon after the notice of termination was issued, ITC appointed a new management team who would assist in transition out activities, provide direction and guidance to the rest of the account team and at the same time manage potential risks. All the queries relating to termination were handled by the management team and the behaviour of the employees working on the transitioning out was monitored closely to ensure their actions would not be deemed as a breach of the contract. A legal representative was hired to review the terms of the contract and ensure that the transition activities as well as the behaviour of the employees were in line with the agreement.

*“We relied on a legal person to give us direction as we had a lot of risks that we had to manage from transitioning out .We were worried about a lot of things, none of which were related to the commercial side. However we needed direction in terms of what are obligations were during the transitioning out period, penalties, what were the clauses that we had to ensure we met and what things they can sue us with. We had to ensure we met all our obligations. There was a lot of risk mitigation during that time”.* (Exec 6)

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*“As far as corridor chit chats is concerned it was minimum. We had formal reviews in terms of minute keeping and what was discussed and what decisions were made. Everything was very formal and detailed and that was a key to a great transition. Three things that were considered were formality, quality of communication and visibility”.*(Exec 4)

Towards the end there was an added focus from the ITC's management team to keep EGP informed on all the progress ITC was making in order to improve the situation. This was evident in the increased frequency of meetings and reporting to the client.

*“We had strengthened the BO (Business office) and we kept a close eye on governance in terms of reviewing issue and risks regularly. We also had fortnightly all hand meeting (this involved everyone working on the relationship) to advise everyone on updates and it was a good internal communication and rallying troops. There were also regular, weekly meeting with ITC exec to inform them of the progress and an information pack used to go out to the senior exec team regularly”.*(Exec 6)

Given the high level of risk and uncertainty during this time there were more formal controls imposed to manage the relationship.

### **6.3.2 Informal control**

As mentioned in Chapter 2, informal controls cannot be designed explicitly and are implemented through the culture of the organisation. They are built on shared norms, attitudes and can be influenced by activities such as frequent interactions, meetings, negotiation of disputes, codes of conduct, senior management attitudes and style, and rituals (Langfield-Smith and Smith 2003, Ouchi 1979). Due to the incomplete contract, several activities were undertaken by the managers from ITC and EGP to establish requirements of the relationship through participatory process and knowledge sharing during transition. The informal controls were imposed through the process of information sharing to establish an effective communication plan for formalising the processes.



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In the early stages of the relationship, ITC and EGP identified key personnel that were responsible for managing the relationship, establishing protocols for effective communication, formalising the processes/ procedures through regular meetings as stated below.

*“Meetings, commentary, the social engagements were regular which formed part of the social control”.*  
(Exec 1)

*“There was lot of collaboration amongst the team members and communication across the account team”.* (Exec 3)

*“The informal controls were in terms of customer satisfaction and managing client expectations. We have a regime of attempting to set client expectations, manage the client expectations so we can meet them and generate better client satisfactions and generate high level of trust”.* (Exec 1)

The interviews also provided evidence around EGP and ITC having joint dispute resolution process. Even through the process in the contract identified that any dispute raised between the parties need to be formally addressed by senior executive in the main headquarters, in most instances ITC decided to handle the dispute informally as mentioned below.

*“There were some major disputes but they were reviewed through discussion and negotiations”.*  
(Manager 1)

*“There were escalating process to resolve disputes to go up the chain however because of the relationship it was done in house”.* (Exec 1)

The process by which ITC and EGP established performance measures also became part of a participatory information sharing process. The initial performance indicators identified within the contract were generic in nature and over the course of the relationship both parties established forums to discuss the effectiveness of these indicators. The forums assisted in increasing familiarities between parties to the contract through the process of joint dealing and negotiations. As the level of understanding grew between ITC and EGP an SLA earn back scheme was introduced to reward ITC

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when they met all the SLAs in a given month. This scheme contributed to the strengthening of the relationship.

## **6.4 Trust**

Trust is a phenomenon that exists at personal, organisational, inter- organisational and international levels (Das and Teng 2001a). At the inter-organisational level, trust has emerged as an important aspect of a firm's governance structure as the presence of trust is essential in situations that are characterised by uncertainty, strong interdependence between parties and where contracts cannot cover every aspect (Ring and Van de Ven 1992; Van der Meer-Kooistra and Vosselman 2000; Nooteboom, Berger and Noorderhaven 1997; Langfield-Smith and Smith 2003). These characteristics usually form part of an outsourcing relationship where risks are high and trust plays a key role in effective formation and functioning of the relationship (Langfield-Smith and Smith 2003). As mentioned in Chapter 2, trust can develop from prior outsourcing relationships between parties or it can grow over the duration of the relationship (Van der Meer- Kooistra and Vosselman 2000; Dekker 2004). Regular interactions and repeated transactions between parties lead to mutual adaptations and learning which in turn leads to establishment of trust (Van der Meer-Kooistra and Vosselman 2000).

### **6.4.1 Competence trust**

Competence trust was high during the birth stage of the relationship (just prior to the transition commencing) due to the earlier relationship between EGP and ITC, and ITC's reputation in the market. The majority of the interviews highlighted technical competence as one of the key reasons for choosing ITC. On close examination of the interviews, it was evident that EGP had an aged IT environment which required an upgrade and they were in a market for a vendor that could support this deal from a technical competence perspective, where the entire infrastructure needs to be upgraded and managed. Therefore the decision by EGP was to award the contract to a vendor that had high credibility, a good reputation in the market and a high level of technical competence as explained by several account managers.

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*“ITC is a large service provider and we would have taken on the contract as we manage risks quite well. We won this business as we are good at this.”(Exec 1)*

*“ITC’s reputation is always the key factor in us winning bids in collaboration with a great sales team. ITC is a big company and it has internal presence so if you have an international client it is always helpful as a small provider will never have that much coverage.”(Manager 2)*

However, this changed during the first six months of the relationship due to poorly managed transition, unsatisfactory delivery of services by ITC, lack of communication and constant disputes as mentioned below.

*“EGP had lost trust in us to perform the job. For example there was an issue with the environment (in terms of email that was highlighted by the client) as it was flaky and in a need for an upgrade/ redesign and some of the recommendation that ITC had put up together did not work so EGP had lost faith and the credibility in our guys to manage this.”(Exec 4)*

Soon afterwards, ITC replaced the senior management team in an attempt to improve the relationship. With the new team brought in ITC was able to gradually improve the quality of services delivered to EGP as mentioned below.

*“In the first six months when ITC was not delivering what was promised, the trust evaporated. We then started the 18 month journey where we tried to win that trust back”. (Exec 1)*

Once the transition finalised, constant negotiations assisted ITC and EGP to interact regularly and in turn increased the familiarity between the parties to the contract. This allowed for the operations of the contract to be established and the relevant performance measures to be developed. The development of performance indicators assisted with the establishment of trust as they communicated performance expectations as stated below.

*“That last part of the year 2008 we would have been considered excellent. Without us the project P would not have been delivered.”(Executive 1)*

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As the relationship shifted towards the maturity stage following the completion of transition, the level of competence trust showed signs of further improvement. This was mainly due to ITC volunteered their services to resolve some of the major incidents that occurred as a result of a third party negligence which was received positively by EGP, thereby asserting their competence. This is evident in the quotes below:

*“ITC had done a fabulous job in recovering their environment they went above and beyond to recover this issue and the feedback that came back from the client was very positive”.(Exec 4)*

The level of competence trust remained high all through 2009 following several activities undertaken by ITC such as process improvement initiative to improve performance which was evident in the quote below.

*“From April 2009 I think the contract ran really well until termination. The customer was relatively happy and my experience tells me we were meeting all the SLAs. When we first started we were paying 30% of our revenue back into service levels. This reduced to 1.5 to 0% in last six months of the contract which was great.” (Manager 4)*

During the revival stage of the relationship, there was lot more focus from the ITC team to provide satisfactory services to EGP in order to ensure that the transition out was successful and that ITC would be considered for any future opportunities. This period leading up to final termination saw the high level of competence trust as ITC was able to deliver a successful transition out as mentioned in the comments below.

*“We were able to gain credibility by solving all the outstanding issues and to the point that in the end they were thinking twice for leaving us and going with the competitor.(Exec 4)*

#### **6.4.2 Goodwill trust**

During the birth stage of the relationship, goodwill trust was slow to improve mainly due to a challenging transition. This is evident from the statements below:

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*“At the executive level there was distrust. It was about processes, relationship issue at the exec level. Trust was an issue in the first year.”(Manager 2)*

Even though the transition project was designed in a way to have constant dealing with EGP and agree on process and procedures collaboratively, it was not implemented as per agreement. There were obvious disagreements between the transition team and EGP. As a result transition was getting regularly delayed and that created constant conflicts between the parties to the contract.

*“A lack of collaboration amongst the team members and communication gap across the account team was the major failing point.”(Exec 3)*

Following a challenging start there were several changes to the management team of ITC in an attempt to improve the relationship. ITC managers focused on developing trust to make the relationship work considering the high level of dependency between EGP and ITC and the level of risk within this relationship. Both the organisations had to work in collaboration with each other to resolve disputes and issues. As mentioned by Das and Teng (2001a), the level of goodwill trust can improve within a relationship through the establishment of mutual interest, building individual and team based trust and joint dispute resolutions. These in turn assist in reducing the level of risk with an outsourcing relationship. Furthermore, establishment of mutual interest involves partners to the relationship arriving at common area of interest and caring about each other's interests. In addition building trust between individuals/ teams and outsourcer is important for building goodwill trust. Lastly, joint dispute resolution allows partners to develop strong understanding around each other and approaches specifically in situations where contract are not written to cover every aspect.

Improvements were slow to emerge however there was a small shift in attitude in late 2008. The positive shift in attitude was mainly due to the fact that new management team focused more on improving the relationship by setting up regular meeting and improving communications. The strategy was to earn back trust by working in collaboration with EGP. Evidence from the case suggests that during late 2008 and early 2009, the operational team of ITC decided to move to the client premises in an attempt to build individual, as well as team-based, trust with EGP employees. The intent was to

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appear available to EGP as and when required, this also assisted with informal dealing between the parties. Increased interactions further enhanced the level of goodwill trust over time.

*“We wanted to give the client a chance to talk about their disappointment and frustrations in a forum and where the major issues were”. (Exec 1)*

Another milestone in the development of goodwill trust was during 2009 when ITC launched a project to improve existing processes/ procedures and draft contract amendments for deliverables that are no longer relevant to the scope of the services. Also during this time ITC’s willingness to assist EGP through time of crisis was seen as a sign of major goodwill trust. EGP decided to reward for ITC’s services by agreeing to not charge for the SLA penalties for that month as mentioned below:

*“There were SLA credits being waved after the IT disaster which was in their favour but we could have also been accused of working at risk, as there was no contract variations signed for us to jump into this disaster. We could have waited for that contract variation signed but by then there would have been no corporation to save.”(Exec 1)*

*“So we made the conscious decision when we proposed to them that we will wave out expense or cost in return for waving our Service levels penalties. There was a level of trust why we did this, if I did not like him I would have given him a statement of work (SOW) but we did it the best way. There was a position of trust”. (Exec 1)*

Even though the relationship was terminated prematurely, the interview transcripts suggest that the level of trust present between EGP and ITC was good during the revival and decline stages of the relationship. This was because, ITC continued to deliver services over and beyond what were required in an attempt to leave on good terms as mentioned below.

*“At the end of the contract we were getting phone calls from the client saying how appreciative they were with the service we were providing. We had RFS consulting free of charge to EGP and they*

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*were using that to make benchmarks and we did it as we wanted to make EGP happy and leave in best terms".(Manager 4)*

*"There was no condition in the transition out clauses that states that we have to offer to help them for additional time, this was done purely voluntarily to make sure client had a good experience and as seamless as possible".(Exec 4)*

The level of goodwill trust continued to be high until the contract was terminated officially in 2010.

## **6.5 Summary**

This chapter presented the data collected from the outsourcing relationship between EGP and ITC focusing mainly on the three constructs, which are transaction characteristics, MCS and trust. The chapter commenced with reintroducing the theory on the concepts of transaction characteristics, MCS and trust. Later, the data collected from the case were classified in line with the theoretical framework presented in Chapter 3. This chapter also discussed the changes in transaction characteristics, MCS and trust at each individual life cycle stages of the relationship.

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## 7 Summary and conclusion

### 7.1 Introduction

This chapter concludes the thesis by incorporating the summary of the findings, detailing the contributions of the study and highlighting the limitations of the paper. The chapter also provides directions for future research. The aim of this research was to answer the following research questions: do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?" and "if so, what factors drive this change?"

The data suggested that MCS and trust do change over the life cycle stages of an outsourcing relationship which addressed the research question. The results indicated that during the birth stage the reliance was more on a trust-based pattern of control due to limited predictability of tasks and activities, high level of uncertainty and high level of asset specificity. The level of competence trust was high during this stage, however goodwill trust was difficult to improve at the start of the relationship. As the relationship unfolded and the level of understanding between the parties improved through the process of regular interactions and joint dealing, it assisted in overcoming the information asymmetry between parties. The growth stage of the relationship was mainly reliant on establishing a bureaucratic-based pattern of control to manage the relationship. Also during this stage the level of goodwill trust started to improve gradually. Following the growth stage, the relationship progressed into a period of where the activities were repetitive and predictable. However certain events during this stage moved the relationship into a state of temporary growth. Hence, there was a combination of controls used to effectively manage the relationship. The level of trust within this relationship was high mainly due to reliable performance monitoring tools established which provided reports to ascertain the level of competency. The revival stage of the relationship was associated with a high focus on a bureaucratic-based pattern of control which continued into the decline stage. The level of trust remained high all throughout the last two stages of the relationship.



The chapter is structured as follows. Section 7.2 discusses the findings from the case by drawing on the theory presented in Chapter 3. Section 7.3 provides an overview of the study by summarising all the chapters from the thesis. Section 7.4 states the implications of this research followed by Section 7.5 that outlines the limitations of the study. Section 7.6 details the areas for future research and the chapter concludes with a summary.

## 7.2 Findings and discussion

The following section divides the results as per the life cycle stages of the relationship with a view to assist the reader in understanding the development of the constructs over time. Table 7.1 presents a snapshot of the interplay of the various constructs examined in this thesis. The first column lists the three constructs analysed in this paper and the following columns identify the various life cycle stages of the relationship broken down by the major events that contributed to the development of the constructs. For instance, the level of competence trust showed signs of improvement after the project P was delivered and transition was finalised.

**Table 7-1 Summary of the constructs and their evolution over the life cycle stages of an outsourcing relationship**

Constructs	Birth stage		Growth stage		Maturity stage		Revival stage	Decline stage
	Contract signed	Transition commenced	Pre project P	Post project P	Pre critical situation	Post critical situation		
Task programmability	Low	Low	Low to Medium	Medium to high	High	High	High	High
Output measurability	Low	Low	Low to Medium	Medium to high	High	High	High	High
Frequency of tasks	High	High	High	High	Low	High	High	Medium to low
Environmental uncertainty	High	High	High	High	Medium	High	High	High
Asset Specificity	Low	Medium to High	High	High	High	High	High	High
Competence trust	High	Low	Low	Medium to high	Medium to high	High	High	High
Goodwill trust	Low	Low	Low	Medium to high	Medium to high	High	High	High
Behaviour control	Low	Low to Medium	Low to Medium	High	High	Low to Medium	High	High
Output control	Low	Low to Medium	Medium to high	High	High	Low to Medium	High	High
Social control	High	High	High	Medium to Low	High	High	High	High

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### 7.2.1 Birth stage

The birth stage of the relationship was characterised by a high level of uncertainty due to EGP's ageing IT hardware, high level of dependency with a third party vendor that increased competition, changing market conditions, high frequency of transition/BAU activities and unpredictable IT requirements. This is consistent with the findings from Langfield-Smith and Smith (2003) who claimed that the environment within which the outsourcing relationship operates is often characterised by high risk and high uncertainty, particular in the early days of the contract. The implications of these issues were limited predictability of tasks, low output measurability, a high level of uncertainty and a medium to high level of asset specificity which created difficulty in drafting a complete contract. Therefore, the reliance was to manage the relationship by building high levels of trust between the parties to the contract. This is consistent with several prior studies (see for example, Kamminga and Van der Meer-Kooistra 2007; Langfield-Smith and Smith 2003; Van der Meer-Kooistra and Vosselman 2000; Das and Teng 2001) that concluded that a trust-based pattern of control was recommended in situations which are characterised by a low level of task programmability, a low level of output measurability and a high level of asset specificity. The possible reason for this is because the uncertainties caused by the low predictability of tasks and low output measurability may make it difficult for the parties to specify the necessary behaviour and output controls (Langfield-Smith and Smith 2003). The relationship is characterised by contracts that are more generic in nature as opposed to being specific. Performance measures are based on broad emergent standards and information sharing is through an interactive nature of the process of contract execution (Spekle 2001; Langfield-Smith and Smith 2003). The reliance is on a trust-based pattern of control where the outsourcer ensures that they engage only trustworthy vendors and both parties continue to develop trusting relationship over the course of the relationship (Ring and Van de Ven 1994; Moores and Yuen 2001).

There was a certain degree of competence trust present within this relationship at the start given the prior working relationship between ITC and EGP. Also the market reputation of ITC was the driving factor for EGP to award the bid to ITC implying the level of competence trust during the relationship commencement was high. This is in line with the prior studies that suggested that the competence trust is likely to be high during the birth stage of the relationship as competence and skills are critical

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to judge the quality of the work to assist in selecting a suitable outsourcer (Langfield-Smith and Smith 2003; Das and Teng 2002; Free 2008). However, delays in transition and poor delivery of services by ITC contributed to a reduction in the level of competence trust in the first three months of the relationship.

The goodwill trust was slow to improve due to an incomplete contract which created constant conflicts between the parties around understanding the requirements of the relationship. Also, as the contract unfolded due to bad start to the transition the level of goodwill trust reduced further. Prior studies have indicated that the goodwill trust is hard to establish in the early stages of the relationship (Das and Teng 2001a, Langfield-Smith and Smith 2003). The information gathered to examine competence might not be that relevant for goodwill trust as parties might withhold information that will be damaging for their reputation (Emsley and Kidon 2010).

### **7.2.2 Growth stage**

As the relationship progressed and transition commenced, the level of knowledge sharing increased between the parties which assisted in developing a more precise contract and establishing detailed expectations of the relationship. As a result, tasks gained some clarity and performance measures were refined. Given the volatile nature of the relationship especially in the early stages due to delays in transition, the focus was to move towards a more bureaucratic-based pattern of control during the growth stage in order to manage the relationship. This was seen during the latter part of 2008 which was also associated with finalising the project P and transition where the focus was to establish more detailed formal controls to manage the relationship. Also over time, the contract was amended to provide clearer specifications through communication and interactive process. The level of communication had increased given the high frequency of meetings between parties specially during the transition period which assisted in reducing the knowledge gap and improving understanding around the tasks and requirements.

This is consistent with the findings from Emsley and Kidon (2010) that indicated that in the growth stage, regular interaction between parties and joint activities assist in exchange of information and certain degrees of expectation are established pertaining to each other's behaviour. Due to internal

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and external learning processes, the possibility of gaining insight into the activities could lead to information asymmetry between parties to decrease (Kamminga and Van der Meer-Kooistra 2007). Thereby, the knowledge of transformation process and measurability of activities and output may increase over time leading to both parties collaborating to implement all agreements of the relationship (Langfield-Smith and Smith 2003). With expansion of activities and tasks, the growth stage is more likely to rely on formal rules and procedures to measure goals and monitor participants' activities (Moores and Yuen 2001; Simons 1995; Das and Teng 2002; Miller and Friesen 1984).

The competence trust gradually improved during late 2008 once the controls were implemented and the performance was measured with lot more certainty. This is in line with the theoretical framework presented in Chapter 3 that suggests that competence trust might be enhanced in this stage, as accurate, objective and independent performance related information is available to make informed assessment of the competence levels (Emsley and Kidon 2010).

Also, over time the level of communication improved which assisted in the establishment of goodwill trust. The presence of ITC on EGP's premises showed ITC's intention to assist with any queries as and when required. As a result the level of goodwill trust gradually started to develop. This is consistent with the theory presented in chapter 3 that suggests the level of goodwill trust is likely to strengthen over time through repeated interactions, development of mutual interests, building individual and team-based trust, engaging in joint-dispute resolution (Das and Teng 2001a; Langfield-Smith 2008; Free 2008). Therefore, parties' perceived trustworthiness would be expected to increase in this stage (Das and Teng 2002).

### **7.2.3 Maturity stage**

During the maturity stage the tasks became repetitive, the relationship stabilised and all the process and procedures were documented within the contract. This was possible due to both parties being able to establish more detailed rules and responsibilities through the process of regular interactions and communication. Also, over time it was evident that the uncertainty around the tasks reduced gradually which assisted in gaining better understanding around task requirements and output

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measurability. The level of asset specificity remained high during this stage due to number of staff assigned, customised processes and procedures as per ITC's requirements and infrastructure provided to deliver services. This is consistent with the findings of Kamminga and Van der Meer-Kooistra (2007) that indicated that following the growth stage, the maturity stage might be associated with a period of stability where due to the process of co-operation, parties become more familiar with each other and their business activities. Also over time the task difficulty, insufficient knowledge of the task transformation process and performance measures may reduce which might assist in drafting a more accurate controls (Das and Teng 2002). The level of asset specificity will remain high during this stage as parties develop considerable levels of skills and experience that are tailored to the needs of the other party (Langfield-Smith and Smith 2003).

The focus was to stabilise the day- to- day operations, manage the relationship and refer back to the contract only during a dispute. Several interviews suggested that contract provided a framework of what was required; however the day-to-day operations were conducted through a process of constant communication and informal dealings between the parties. Performance measures in the contract were still very formal in nature however the performance results were usually negotiated during informal meeting and forums. ITC being present on EGP's premises assisted with resolving issues more efficiently by having open dialogue as opposed to formalising the dispute and resolving it at senior management level.

There were activities undertaken such as process improvement initiative which focused on formalising all the activities and dealing between parties to the contract in an attempt to improve customer satisfaction ratings. During this time the reliance was on bureaucratic-based pattern of control to manage the relationship. However, during other instances such as the critsit one and flooding events the nature of the controls were more inclined towards informal and trust-based pattern of controls given the unpredictable nature of the tasks undertaken during this time. The contract was hardly referenced as there were no details in the agreement to address such unexpected situations. The operations team relied on constant communication with the counterparts to agree on a possible solution to ensure that the IT systems regained connectivity. During this time combination of controls were used to manage the relationship.

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A review of the literature seems to suggest that as the level of trust increases, the day-to-day operations and activities might be managed through a more informal based control to achieve efficiency as opposed to imposing rigid formal controls to manage the relationship (Moore and Yuen 2010). This argument was partially true for this study; however the past literature failed to take into account events that might occur during this stage which are not typically consistent with the definition of that stage and might require a combination of controls to monitor the relationship. For instance, during the maturity stage of the outsourcing relationship the level of task programmability, output measurability and the level of asset specificity was high, which would indicate that the control structure utilised may be a more bureaucratic-based pattern of control. However, there was evidence that suggested that a trust-based pattern of control and informal controls were utilised to manage the relationship during temporary events such as flooding within the maturity stage. In summary, the maturity stage of the relationship was managed through a combination of control starting with a more bureaucratic- based pattern of control in early 2009 which was replaced by a more trust-based pattern of control, combined within formal controls during late 2009.

The level of competence trust was high given the reports were generated that clearly demonstrated the performance of ITC. In addition there was constant dealing between the parties and activities undertaken to improve the relationship which assisted in developing goodwill trust. This is consistent with the theory presented in Chapter 3 where Das and Teng (2002) indicated that once the performance is evaluated with high level of certainty given the increased amount of information available and parties can establish if the objectives of the relationship are in line with the expectations. If the outcomes match the objectives, parties become more committed to the relationship (Das and Teng 2002) and the level of competence and goodwill trust might increase.

#### **7.2.4 Revival stage**

The revival stage of the relationship was associated with ITC imposing more formal controls to manage the behaviour and activities of their employees. Also more communication was established between ITC and EGP to monitor and evaluate the performance of the services provider at a more

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granule level in order to show signs of improvements. This period was associated with a high level of focus from the management team to drive the results; the environment was challenging and risky. The level of task programmability and output measurability was high given the expectations of the relationship was already established during the earlier stages. The level of asset specificity was high similar to other stages of the relationship given both parties had invested considerable amount of staff and capital; thereby making the switching costs quite high. This is consistent with the theoretical framework presented in Chapter 3 that indicated that the level of asset specificity is quite high in this stage of the relationship (Zaheer and Venkatraman 1995). The focus was on a more bureaucratic-based pattern of control to manage the relationship. As mentioned in Chapter 3, to achieve turnaround, parties at the revival stage of the relationship will aim to improve the relationship by delivering services in timely and efficient manner. There might be added focus from the management team to assess the performance at a more granule level to witness improvements. Hence, under such conditions there might be added reliance on both formal as well as informal controls to avoid termination (Moore and Yuen 2001).

The level of competence trust and goodwill trust was high during this stage of the relationship as there was lot more focus from the ITC team to provide excellent services to EGP. This was done in an attempt to ensure that they transition out on good terms and maintain the relationship in order to be considered for any future opportunities. This period leading up to final termination saw a high level of trust which is not consistent with the theoretical framework presented in Chapter 3. As mentioned previously, the level of competence trust and goodwill trust is likely to be low during this stage given that the relationship was unstable and going through a phase of revival.

### **7.2.5 Decline stage**

During the decline stage the activities were a combination of transition out activities which were well documented in the contract as well as some in progress projects. As a result, the expectations around the tasks were already established leading to a high level of task programmability and high level of output measurability. The level of asset specificity was high given the increase in staff employed in an attempt to revive the relationship. Also, as mentioned previously within this agreement the level of

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asset specificity was high all throughout the relationship mainly because over time both parties had invested considerable amount of staff, capital and skills that were tailored to each other's requirements. The level of environmental uncertainty continued to remain high throughout this stage. During this period the reliance was on both formal and informal controls to ensure that ITC was performing as per the agreement to avoid penalties or breach of contract. This is consistent with the theory presented in Chapter 3 that suggests that the formality of the control structure might be high in order to ensure that parties perform in line with the contractual obligation to avoid penalties or breach of contract. However, it reduces during the later stages as the number of activities reduce and staff availability is limited. As a result, the focus on providing detailed performance reports may no longer be required (Moores and Yuen 2001, Miller and Friesen 1984).

The level of trust continued to be high during the last stage of the relationship even though it was terminated which is not in line with the theoretical framework presented in Chapter 2. Given the relationship was terminated ahead of schedule, it might signal a lack of trust between the parties to the contract. Also, the intent of the outsourcer to not extend the contract might signal a lack of confidence in the vendor's ability to perform as per the agreement. However all the interview transcripts mentioned that the decision to terminate the relationship was not based on poor performance or conflicts; rather it was a business decision to reduce operational costs. Also ITC's ability to successfully hand over the services to a new vendor assisted in enhancing the level of trust.

### ***7.3 Thesis overview***

This section provides a basic overview of the thesis by summarising each of the seven chapters.

Chapter 1 focused on providing the research question to be addressed in this thesis. The main research question of this study was "Do MCS (specifically formal and informal controls) and trust (specifically competence and goodwill trust) change over the life cycle of an outsourcing relationship?" and "If so, what factors drive this change?". The chapter also presented the primary motivation for conducting this study followed by the main contributions of the research.



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Chapter 2 reviewed the existing literature on MCS, trust and life cycle stages of an organisation. In order to answer the research question, it was necessary to conceptualise MCS and trust. TCE theory was used to study the design of MCS and two forms of management controls were investigated which comprised of formal and informal controls. Trust was conceptualised using goodwill trust and competence trust. The life cycle stages of an outsourcing relationship were examined using the concepts of life cycle stages of a standalone organisation.

Chapter 3 built on the literature review to establish a framework in order to address the research questions presented in Chapter 1. Specifically a model was developed to examine the relationship between MCS and trust by incorporating transaction characteristics, namely level of task programmability, level of output measurability, uncertainty and asset specificity over the life cycle stages of an outsourcing relationship.

Chapter 4 was the research method chapter contained in the thesis. The information relating to data collection and data analysis was presented. A single case study was conducted to examine an IT outsourcing relationship that progressed through all different life cycle stages. Data were collected by interviewing 10 managers that were involved at different stages of the relationship and later these interviews were validated by documentary evidence primarily contract extracts, meeting minutes, meeting schedules and performance reports.

Chapter 5 covered the outsourcing relationship that was used as a case study for this research. It included sequence of events that occurred prior to and during the relationship to provide background to the study and establish various life cycle stages of the relationship.

Chapter 6 was dedicated to providing evidence from the case analysed and presenting it in line with the three constructs examined in this thesis. The chapter was divided by the constructs namely transaction characteristics, MCS and trust and later the development of each individual construct was discussed under these sections.

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Chapter 7 concludes the thesis by incorporating the summary of the findings, detailing the contributions of the study, highlighting the limitations of the study, and outlining the direction for future research.

## ***7.4 Implications of the study***

The findings of this thesis will be of interest to managers who enter into an outsourcing relationship and to researchers who wish to explore the relationship between the design of MCS and trust over the life cycle stages of an outsourcing relationship.

As mentioned earlier, the design of MCS in inter-organizational relationships has been researched in the existing literature either by using the TCE model or by extending that model to incorporate trust. However few studies have examined the design of MCS as continually changing over the life cycle stages of an outsourcing relationship. These relationships are usually long term and complex arrangements that require both parties to work in collaboration with each other to establish the expectations. Given the risk and volatile nature of these arrangements, the structure chosen to govern these relationships at the start might not be practical at later stages of the relationship. This is especially true within outsourcing relationships where circumstance are bound to change over the course of the relationship due to changing environment, level of knowledge sharing between the parties, evolving requirements and understanding around the tasks. All these changes need to be incorporated when drafting an agreement and this might be altered all throughout the life of the contract. Hence, the framework used within this research extends our knowledge on the design of MCS as continually evolving over the course of an outsourcing relationship.

The findings of this research also suggest the managers need to consider the design of MCS based on specific circumstances witnessed at different stages of the relationship lifecycle. They might benefit by developing trusting relationships with the outsourcer as opposed to ensuring compliance with procedures and other formal control mechanisms. They may relax the control mechanisms to build a stronger relationship with a view to seek opportunities to improve service quality, reduce operational costs and increase efficiency in service delivery.

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Additionally observations provided within this thesis such as involving employees who understand the outsourcer in the outsourcing decision, and ensuring that the transition period deliverables and penalties are adequately described in the contract will equip the managers to make informed decisions before entering into these relationships.

Although this study has several advantages, the limitations need to be acknowledged as a means to direct future research.

### ***7.5 Limitations of the research and suggestions for future research***

One of the main limitations of this research is the lack of generalisability, given the paper provided evidence from a single case study; thereby adding to the argument that the findings cannot be generalised to a larger population. Some of the other limitations are; this study focused on a relationship whereby the activities were outsourced to a single vendor. Clearly, more extensive studies need to be undertaken to explore how the relationship between MCS and trust evolve over the life cycle stages of an outsourcing relationship when multiple vendors are involved within the same relationship. Also, the data collected from the case was mainly from the vendor's viewpoint and future studies would benefit from conducting interviews with both parties to the contract in order to compare the responses and further validate the study. Additionally, the case study was conducted after the contract had been terminated and it is often suggested that one of the issues of interviewing people about events that happened in the past is their inability to recall. For future it would be beneficial to collect data through direct observation to gain an insight into the day-to-day operations. In addition, future research might benefit by incorporating risk as a variable to consider within this research framework. Given outsourcing relationships are characterised as being very risky, it has been argued that right combination of controls and trust can assist in reduction of risk within these relationships (Das and Teng, 2001a). Therefore, it would be beneficial to examine the influence of risk over the design of MCS and trust during different life cycle stages of an outsourcing relationship.

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## **7.6 Summary**

The purpose of this chapter was to summarise the findings of this thesis, as well as to indicate the limitations of the research followed by areas of future research. The aim of this research was to answer the following research question: Do MCS (specifically, formal and informal controls) and trust (specifically, competence and goodwill trust) change over the life cycle of an outsourcing relationship?" and "If so, what factors drive this change?". The data suggested that MCS and trust do change over the life cycle stages of an outsourcing relationship which addressed the research question. Following the findings of the research, the main limitations of this paper were also presented. These included presenting data only from the vendor's viewpoint, collecting data after the relationship had been terminated and excluding other variables from the model for instance risk.

Section 7.5 provided directions for future research. Future research would benefit from including other intervening variables that may affect the design of MCS and trust within an outsourcing relationship such as risk. In addition, collecting data from both outsourcer and vendor would assist in comparing responses and providing greater reliability to results.

# Appendices

## Appendix 1

### Interview questions

General	Initial questions to build rapport	Q1. Could you please tell me about your role? How long have you been performing this role? Q2. What was your involvement in the initial discussions and negotiations leading up to this relationship formation?
Life Cycle	Stages	Q1. Could you provide dates as to when the negotiation process started? and when was the actual contract signed? Q2. How long was the transition in period? Q3. Could you provide rough timeline of major events over the years? Q4. When would you say things settled down? Could you give some dates or examples?
Trust	Competence trust:	Q1. What sort of preparation was done in terms of showing technical competency? Q2. What would you say was the major reason that EGP choose ITC? examples Q3. What made ITC believe that they could do the contracted tasks and did that change? Q4. How did ITC convince EGP that they had required skills to do the tasks? Q5. Can you recall certain events that can assist in determining how EGP perceived ITC in terms of technical competency?
Transaction Characteristics	Task measurability Output measurability Frequency Asset specificity Environment uncertainty	Q1. What was ITC contracted to do and how did it change? Q2. What was the initial investment from ITC and how did it change? Q3. Were the tasks documented upfront and was ITC clear on what was required?
MCS	Formal controls	Q1. How was the performance measured and did it change? Examples? Q2. How detailed was the governance plan and how was it monitored? Q3. How accurate were the KPIs and SLAs?
	Informal controls Social controls	Q1. What other controls were used outside of contract to manage the relationship? Examples Q2. How much was the reliance on the contract at the start of the relationship and did it change?
Trust	Goodwill trust:	Q1. How would you describe the nature of the working relationship and how has it changed over the years? Q2. How frequent were the interactions between the parties? Q3. Were there any major disputes and if yes how were they resolved? Q4. Could you describe why the relationship was terminated and what actions led to that event?

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## Appendix 2

### Explanatory statement

28/02/2011

Explanatory Statement

**Title: Factors that contribute to the success or failure of outsourcing relationships**

My name is Neha Sandher and I am conducting a research project with Assoc. Professor David Smith and Professor Kim Langfield-Smith in the Department of Accounting and Finance, Monash University as part of my Masters of Philosophy degree. This means that I will be writing a research thesis.

The aim of the research is to examine factors that contribute to the success or failure of outsourcing relationships. Outsourcing is one of the fastest growing trends among businesses globally. With vast developments in technology and increasing competition, organisations are heavily involved in outsourcing relationships as a means to reduce operational costs and enhance quality. However growing failure rates amongst these types of arrangements has sparked interest amongst researchers to investigate what causes this failure. This is one of the prime motivations of conducting this research in order to assist managers in implementing a more effective outsourcing relationship.

You have been invited to participate in this study based on your involvement with the initial outsourcing decision of the MSA (Master services agreement) contract as well as the management of this relationship. Your knowledge is very valuable as it provides the researcher with useful feedback to validate and conduct this research.

The research will involve your participation in individual face-to-face interviews. With your permission the interviews will be tape recorded. Interviews will span about one to two hours during business hours. Participation in this study is voluntary. If you decide not to participate, you may withdraw before or during the interview process.

Storage of the interview transcripts will adhere to University regulations and kept on University premises in a locked cupboard/filing cabinet for 5 years. All the documentation utilised to conduct this research will be kept confidential and names of the organisations as well as names of participants will remain anonymous throughout the research.

If you would like to be informed of the overall research findings at the completion of the project, please contact Neha Sandher via email at [neha.sandher@gmail.com](mailto:neha.sandher@gmail.com).

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<p><b>If you would like to contact the researchers about any aspect of this study, please contact the Chief Investigator:</b></p>	<p><b>If you have a complaint concerning the manner in which this research &lt;insert your project number here&gt; is being conducted, please contact:</b></p>
<p><b>Associate Professor David Smith</b>  ██  ██  ██</p>	<p>Executive Officer  Monash University Human Research Ethics Committee (MUHREC)  Building 3e Room 111  Research Office  Monash University VIC 3800</p> <p>██  ██</p> <p><b>IMPORTANT:</b> For projects in non-English speaking countries, a local person who is also fluent in English must be nominated to receive complaints and pass them onto MUHREC. Please replace above section (in blue) with the details of that person.</p>

**Thank you.**

Neha Sandher

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## Appendix 3

### Consent form

#### Consent Form

Title: **Factors that contribute to the success or failure of outsourcing relationships**

**I agree to take part in the Monash University research project specified above. I have had the project explained to me, and I have read the Explanatory Statement, which I keep for my records. I understand that agreeing to take part means that:**

**I agree to be interviewed by the researcher**  Yes  No

**I agree to allow the interview to be audio-taped and/or video-taped**  Yes  No

**I agree to make myself available for a further interview if required**  Yes  No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way.

**I understand that any data that the researcher extracts from the interview for use in reports or published findings will not, under any circumstances, contain names or identifying characteristics. Also any information I provide is confidential, and no information that could lead to the identification of any individual will be disclosed in any reports of the project, or to any other party.**

I understand that I will be given a transcript of the interview for confirmation before it is used in the write up of the research.

**Participant's name**

**Signature**

**Date**



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