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OUTSOURCING IN AUSTRALIA: THE VENDOR'S PERSPECTIVE

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Abstract

Almost all outsourcing literature takes the client's perspective. Clients' concerns been studied but the vendor's perspective has been neglected. We hypothesized that an outsourcing vendor's behaviour is strongly influenced by several concerns e.g. unrealistic client expectations; negotiating and updating contracts; and maintaining appropriate relationships with clients. We interviewed eight senior executives of organisations supplying a variety of outsourcing services and three senior client executives responsible for outsourced services. The findings broadly verified hypotheses. Unanticipated findings were vendors being very jealous of their reputations, clients using outsourcing to defer capital expenditure, the importance of continuous contact with clients, and emerging problems of intellectual property.

OUTSOURCING IN AUSTRALIA: THE VENDOR'S PERSPECTIVE

INTRODUCTION

Outsourcing is defined as “Having work that was formerly done inside the organization performed by an external organization” (Beaumont & Sohal, 2004) or as the “act of transferring some of a company’s recurring internal activities and decision rights to outside providers as set forth in a contract” (Greaver, 1999, p 3). Lonsdale & Cox (2000, p 445-9) summarize the history of outsourcing, noting its supplanting of once fashionable enthusiasms for conglomeration, horizontal integration, and vertical integration.

In this paper, *vendor* means the organisation supplying outsourced services; the *client* is the recipient of those services. The term *outsourcing* is normally (and illogically) applied only to the supply of services (not goods). Outsourcing originated in information technology but is now used in numerous fields such as property maintenance, security, call centres, cleaning, construction, mail room operation, myriad back-office business processes, data entry, employee health services, hospitality, human resource management, logistics, professional services, customer relationship management and marketing, and printing and distribution. Hurley & Costa (2001) describe a variety of applications of outsourcing.

Coase & Williamson (1937) sought reasons for firms performing tasks internally or externally (the term *firm* encompasses all organisations: profit and non-profit). Some specialist work is perforce done internally because it requires (a) special skills (pertaining for example to special production techniques or to customers with “state-of-the-art” requirements) not available on the market or (b) a cluster of associated skills. The market for these skills may be very imperfect or nonexistent because they may be acquirable only through on-the-job training and/or protracted exposure to an organisation's culture. Such skills are exemplified by engineers managing a large oil refinery with a unique technology. Ascertaining prices, availabilities, product quality, and supplier reliability, even in a nearly perfect market, may be costly and time consuming.

Coase and Williamson’s perspective and modern technology suggest that there is no need for an organization to perform common business processes internally. Now that technology (exemplified by the Internet) allows organisations to exchange digital data instantly and accurately at nearly zero marginal cost, free market mechanisms should be allowed to allocate resources to these tasks. The internet also enhances market mechanisms by simplifying investigation of availabilities and prices and making vendors’ locations irrelevant.

This perspective helps explain why firms choose to outsource some activities and retain others. Numerous reasons for outsourcing have been cited (Beaumont & Sohal, 2004) including access to economies of scale; access to expertise; and "sticking to the knitting” instead of inexpertly managing non-core activities such as IT. Disadvantages of outsourcing include dependence on the vendor and erosion of in-house expertise.

Deciding whether to outsource depends on comparisons of the long-term costs, benefits, and risks of different modes of supply. A long-term outsourcing relationship with a trusted vendor who contributes to business process improvement may be preferable to securing supply by backward integration, developing an in-house capacity, or relying on the market.

Outsourcing, especially of information processing (IP) functions, has been facilitated by Web Based Technologies (WBTs) that make it easy, quick, and cheap to transfer internal data (e.g. payrolls or delivery instructions) to a vendor. The vendor can analyse the data and instantly transmit results to the client, employees’ banks, and the tax office, eliminating problems caused by time delays and making distance irrelevant. Some business processes can be performed in low wage countries and/or a centralized facility that provides economies of scale. The vendor may also provide expertise manifest in lower unit costs and/or improved service.

Outsourcing decisions can be complex. Outsourcing a single IT application can be difficult because IT applications tend to be integrated with each other and permeate the firm, touching most activities performed. It may be difficult to ascertain all relevant tangible and intangible costs and benefits of an internal operation, especially that operation’s share of overheads. Besides cost savings, the firm must consider possible effects on customer service and its own staff (some of whom may become redundant); the potential advantages of access to expertise; whether it might become uncomfortably dependent on the service provider (Kern & Willcocks, 2000), or hamper adoption to a changing environment.

LITERATURE REVIEW

Almost all outsourcing research has taken the client's perspective, although several writers have discussed the relationship between vendor and client. Few papers consider the vendor's perspective (Hussey & Jenster, 2003; Kim, Chen, & Aiken, 2005; Levina & Ross, 2003; Pinnington & Woolcock, 1997; Velocci, 1995).

Hussey & Jenster (2003) consider the vendor’s viewpoint in the context of different modes of outsourcing identified as traditional, peripheral, critical, and strategic. These modes entail increasing involvement, intimacy, criticality, mutual dependence, and risk sharing between the parties. The two parties’ motivators (“decision drivers”) depend on the mode. For example, vendors of traditional and peripheral activities (exemplified by supplying parts, cleaning, catering and back office functions) provide cost savings derived from specialist knowledge and economies of scale. Suppliers of strategic services (exemplified by taking over the client’s IT function) use outsourcing to exploit their key competencies and enhance their expertise and reputation.

Levina & Ross (2003) considered the vendor’s perspective on Information Technology outsourcing in a case context. The value obtained from outsourcing depends on characteristics of the client, vendor, and relationship. They note that, on the face of it, a large client should be able to access internally economies of scale and scope enjoyed by a vendor. However, IT outsourcing can be mutually profitable because the client can “stick to the knitting” and the vendor (unlike an internal supplier) can exploit reputational gains; give staff better training, experience and careers; and, protected by the contract, decline to indulge client executives’ change requests. When an internal provider implements a new system, it may be very difficult for the provider to resist change requests (couched as favours that will be reciprocated) from senior managers on whose future goodwill the provider depends.

Koh & Straub (2004) cogently note that vendor-client relationships have legal and psychological dimensions whose relative importance varies amongst circumstances and actors. Different participants (e.g. top management, those who negotiated the outsourcing contract, and the managers responsible for its day-to-day operation) may have different perspectives, especially on the value of the relationship. Relationships are not static because people adjust to new roles and become more willing to trust their counterparts, and because business conditions change. Kob & Straub’s interviewees conceptualised each party’s obligations, but these were not always symmetric: some aspects important to one party were not important to the other.

Costs/Risks and Benefits for Vendors

The literature identifies up to 20 benefits, costs and risks for clients from outsourcing (Beaumont & Sohal, 2004; Quinn & Hilmer, 1994). A review of the literature, informal discussions with vendors, and formal interviews suggested that the advantages and disadvantages of outsourcing, as perceived by vendors are as summarised in Tables 1 & 2.

Table 1: Outsourcing's Benefits: Vendor Perspective

Benefits	Comment
An enhanced reputation	Allows the vendor to expand business within existing clients and attract new clients.
Economies of scale	Taking on an extra client's payroll function entails only a marginal increase in costs.
Transfer of skills	Skills acquired in solving one client's problem may be applicable elsewhere.
Requirement expressed in a contract	An internal supplier may be forced to accede to a colleague's demands entailing exception processing. The CIO belongs group maintained by reciprocating favours.
Specialisation	A vendor may have special skills uneconomic for a single organisation.

Table 2: Outsourcing Costs and Risks: Vendor's Perspective

Cost/Risk	Comment
Specification	The work to be done has not been accurately or adequately defined. The parties have to argue about who pays the difference.
Underquoting	Competitive pressures force the vendor to underquote.
Disclosure of Intellectual Property	It may be hard to conceal proprietary methodologies or technologies from clients and suppliers with whom one must co-operate.
Reputational	Being wrongly blamed for the failure of a client's vital business system.
Relationship failure	Relations between parties becomes toxic, problems cannot be resolved.
Premature termination	The vendor, having made a loss in the first three years, expects to recoup the loss when the contract is extended but the client does not renew.
Transition costs	Exemplified by having to employ the client's displaced staff.
Negotiation failure	Most frequently manifest in a contract that includes nearly impossible targets and excessive penalties.
Client failure	The client is bankrupted.

Issues Investigated

At the start of the project we hypothesized that some of the issues and questions most relevant to vendors are:

Unrealistic client expectations: Clients underestimate the investment required to understand their inefficient and undocumented internal operations and modify them to meet changing business and legal requirements. Clients may overestimate the saving obtained from outsourcing. Expressing excessive expectations is a natural part of negotiation.

The most appropriate relationship with the client. We hypothesized a spectrum ranging from an arms length, black letter contract, to a cooperative relationship (the vendor works with the client to improve a business processes for mutual benefit) and that the relationship depended on the process outsourced.

Designing appropriate mechanisms for changing contracts and Service Level Agreements (SLAs) to accommodate changing business requirements and unforeseen circumstances.

Ascertaining the size and growth of the Australian outsourcing market.

Ascertaining the threat to the Australian outsourcing industry posed by overseas competition.

The transferability of knowledge. Do vendors profit by applying already learnt skills to new contracts?

Transferring the business process.

We anticipated that some of these issues were no longer current and that others had emerged.

METHODOLOGY

42 outsourcing vendors operating in Australia were identified (1) from advertisements in a variety of Australian computer and trade magazines (e.g. *MIS Quarterly)* and newspapers' computer pages (2) by searching the Web, (3) from the author's personal contacts from industry seminars. Eventually, eight vendor executives agreed to be interviewed. It is not possible to precisely identify their areas without breaching confidentiality. These informants were identified as V1…V8. A complimentary view was sought from four client executives responsible for selecting and/or managing outsourced services. These people were a senior civil servant and his successor (C1 & C2), a legal firm partner who advised clients on outsourcing contracts (C3), and a public company executive managing outsourcing contracts (C4) (see Table 3).

Table 3: Summary of Informants

Informant	Industry and responsibility
V1	Customer relationship management, especially call centres
V2	Human Resource Management
V3	Call centres and customer relationship management
V4	Back office services
V5	Comprehensive IT services
V6	Building clients' web presences
V7	Primarily ICT outsourcing
V8	Vendor project manager
C1 & C2	An Australian government department outsourcing back office services
C3	Giving clients legal advice on outsourcing contracts
C4	A poacher turned gamekeeper. Was employed by a variety of vendors, now responsible for managing outsourcing contracts for a manufacturer.

A semi-structured interview schedule was prepared and approved by Monash University's ethics committee. Interviewees were advised that data obtained during interviews would be used only for research and that the identity of interviewees and their organisations would not be able to be inferred from published reports. Interviewees not obliged to answer questions or give reasons for not answering. The interviews were conducted in Sydney, Melbourne, and Canberra (Australia) from late 2004 to early 2006. They took between 40 and 120 minutes and comprised discussion with the following headings:

Identification of the interviewer and organization and the organisation's size (by revenue and number of employees). Where supplying outsourcing was only part of the organisation's business, questions on size pertained only to the relevant part of the business. The kinds of service provided were ascertained.

The number of clients, the average length of a contract, and an indication of the average size of contracts.

How they obtain new business (e.g. personal contact, by invitation, by exploiting an existing relationship or by participating in formal and competitive bidding process).

The original quality of the business processes being transferred, comparative costs, and the process of transferring the business.

The nature of the relationship, the use of Service Level Agreements (SLAs), and the benefits provided to the client.

The prospects for the Australian outsourcing industry and the threat of offshoring.

The effects of experience. Some Australian clients were near the end of three-year outsourcing contracts, have they learnt from their experience?

The costs and benefits of outsourcing: has outsourcing contributed to your clients' objectives?

FINDINGS

The findings are organised in terms of the issues raised in the section *Issues Investigated* (above) but other salient issues that informants raised are noted.

Client Expectations

Clients have excessive expectations but experienced clients: e.g. those who have managed the outsourced function are more realistic (V1). Some of the reasons advanced and comments made were:

Affecting excessive expectations is a natural bargaining tactic. And some salespeople over-promise (C1, C4).

When procurement departments manage outsourcing, a simplistic view prevails. Expectations of lower costs are especially pronounced and intangible benefits are discounted (V2).

Clients' expectations are exacerbated because, for some "soft" functions such as HRM services, the market has low barriers to entry and is crowded with marginal and inexpert vendors (V2) placing low bids to stay in business.

Clients often do not have a clear picture of their internal costs or the scope of (e.g.) a computer system marked for outsourcing. They underestimate the cost (to the vendor) of analyzing extant computer systems prior to rationalising and transferring them (C1) and the cost of making parallel changes to internal procedures and systems (C4). Older systems especially tend to have many interfaces with other systems, some of which may be imperfectly document. These interfaces make transferring a system to a vendor more difficult and hazardous.

The cost of managing a relationship is often underestimated (C1, C4). The client must maintain a small, expert group to monitor the vendor's performance, maintain its alignment with the client's strategy, and consider the effects of changing technologies. Estimates of relationship costs range from 4% to 12% of annual revenue, but the way in which these figures are arrived at is mysterious.

Relationships, Contracts and Service Level Agreements

This small sample suggests that when success criteria are intangible (e.g. building new Information Systems), "partnering" is preferred. When performance criteria are clear-cut (classically back office processing) there is more emphasis on "hard" mechanisms such as SLAs incorporating quantitative targets and penalties.

Informant V8 noted that an outsourcing relationship is asymmetric. A client's CIO can commit an IT department's resources to an outsourcing project. However, each client project is competing with other projects for the vendor's resources and may be unsuccessful if the client is unimportant. Informant V7's organization had a complex system with four different roles for managing long-term relationships with significant clients. The roles reflect maintaining the relationship, allocating resources amongst clients, advising clients, and selling inside clients.

Relationships are not always one-to-one. It is fashionable to use multiple specialist vendors although coordinating complimentary parties' efforts may be time consuming. "We are moving away from single sourcing to multiple sourcing, the argument being that a single vendor was unlikely to be equally efficient in varied areas" (C2).

Most informants opined that although an SLA was "absolutely necessary", it should "gather dust" (V1, V7) or "[you should] set it and forget it" (V3): to invoke penalty clauses would signify the relationship's failure. It was universally agreed that the client/vendor relationship was critical and that the appropriate relationship is close and co-operative. Phrases used were "client centrality" (V5), being "members of the same team", "Responding in minutes, not days" (V6), and "commitment" (V2, V4); "Honesty, trust, and openness will help generate a successful relationship" (C4). Informants acknowledged that the relationship was multidimensional, in one case (C1), the relationship between top managers was strained but vendor and client operators worked happily together. SLAs do not address critical aspects such as parties' behaviour and culture (C1).

A strongly held common opinion was that a significant outsourcing contract exposed both parties to reputation risk (V8). Clients entrusted critical activities (e.g. developing computer systems) and their business reputations to vendors. This compels co-operation. Clients expect vendors to be proactive and use their expertise to identify business process improvement opportunities (V6). There was general agreement that a contract would not anticipate all future circumstances, parties acknowledged that their reputations and profits depended on cooperation. Changes in the client's business would require that changes to the contract were negotiated in good faith.

The idea that an initial contract is "A license to sell" is "enormously applicable" (V5, V6). Some vendors regarded a first contract as an opportunity to demonstrate efficiency and initiative (V7), and become intimate with the client's personnel and business processes. An incumbent is well-placed to take over other business processes and thereby "Thicken the relationship" or "Create mutual dependence" (V2). Public tendering is expensive for both parties (V1, C4).

Maintaining and enhancing the relationship is easier if parties have similar philosophies, cultures, and values. Vendors are advantaged by recognizing and respecting their client's culture. Banally, vendors must conform to clients' dress codes, working hours, cultures, and procedures (Are decisions made formally or informally?) (V2).

Two vendor informants (V4, V5) endured their clients' routine use of penalty clauses. It is significant that these two informants were providing routine back-office services. In one case the SLA contained so many targets that it was unlikely that the vendor would meet all of them in one month, paying penalties was routine (V5). "In this organisation we live and breathe them [SLAs], it's is the only way to keep vendors honest." (C4): his organisation routinely extracted monetary penalties for underperformance. V7 opined that, although penalties might have been incurred, to exact them would adversely affect the relationship.

Some clients have been influenced (perhaps shocked and awed) by the firms Technology Partnership International (TPI) and Boston Consulting Group (BCG) that advise outsourcing clients and whose methodologies stresses tangible performance measures. TPI recommends performance measures for individual functions, individual time periods, and measures averaged over several months and several functions; all of which can attract penalties. When the vendor builds a computer system, TPI recommends tough timelines and substantial penalties for time overruns on the whole project and each of its phases (V3, V5, V7)

Offshoring

Most vendors were domestic companies experiencing high and growing demand so that, unless cost pressures rose sharply, they would not bother trying to exploit cheaper foreign labour. Good relationships with clients depended on an almost instant turnaround facilitated by a local, 24/7, presence. Having staff on the client's premises is the strongest way of signaling commitment. They would neither put the relationships at risk by exposing themselves to misunderstandings generated by different cultures and/or languages, nor expose themselves to failures of foreign infrastructures (V1, V3, V5). Two vendors were international and could improve customer service by drawing on worldwide expertise and/or their Asian "software shops". One international vendor (V5) duchessed its clients' top management by inviting them to global seminars. One vendor (V6) noted that the work they did was pretty much independent of geography and that they were exploiting Australia's relatively low wages by servicing foreign clients.

Transferring Procedures and Problems

The problems of transferring business processes from client to vendor were not marked. For vendors providing back-office services, transferal was usually routine (V4). In some cases, computer systems to be transferred were poorly documented, interfaced with other systems in complex ways (the term "hair ball" signified myriad, often undocumented, interfaces with other systems) and serious vendor effort was required to understand and document them, and preserve the interfaces (V5).

Vendors had varied attitudes to employing displaced staff. These were determined by how useful the client staff were likely to be. In some cases the vendor incurred only a small marginal cost by taking over a back-office operation and the vendor's staff requirements increased little if at all (V4). In one case, the vendor business was originated by a major client divesting its IT department. It was natural for almost all client staff to move to the new created vendor and continue the work they did in-house. In another case (C1 &C2), many of the client's IT staff had appropriate skills and transferred to the vendor, with some subsequent winnowing out. Another vendor (V6) ran a small shop with specialist skills and refused to take on displaced staff. His employees, required to work in teams comprising vendor and client staff, had to have strong human as well as technical skills. He could not afford to dilute his power to select employees. Another vendor reluctantly employed displaced staff but moved on those without requisite ability or unable to adapt to a very entrepreneurial culture (V2).

Intellectual Property Protection

Several vendors valued their methodologies (for analyzing clients' requirements and translating them into action plans) and technologies. Informant V6 noted the difficulty of keeping Intellectual Property (IP) secret from other vendors supplying complimentary services in a complex project. The need to conceal tended to poison otherwise fruitful relationships. Ownership of any IP (e.g. software) developed by the vendor as part of the project (V3). Should be specified in advance. IP protection is a problem that will become more pressing (C2).

Key Success Factors

Informants were asked what they considered to be the key success elements in an outsourcing relationship. The answers included: "clearly articulated and shared goals"; commitment from both parties; precise specification of each party's obligations; the ability of the vendor to actually do the job; and that; in a project team, there was no discernible difference between vendor and client employees, all being equally committed to the project's success.

These key success factors reflect the extremities of a spectrum of outsourcing relationships. One extreme is represented by the black letter contract, the other by a partnership predicated on mutual trust and benefit from an improved business process. The spectrum of key success factors appears to range from tangible and explicitly expressed obligations ("clearly articulated and shared goals") to a less well define relationship based on mutual trust, even empathy.

The former kind of relationship is underpinned by qualitative targets and contractual obligations (the SLA) and is appropriate to the outsourcing of an established business process. The latter is underpinned by both parties' obvious commitment and anticipated mutual benefits of a long-term engagement. It is exemplified by tasks, e.g. computerising a business function, with difficultly quantified objectives. Often, when a vendor agrees to computerise (or recomputerise) a complex business function whose change has ramifications for many of the client's departments, the vendor has imperfect knowledge of the process and the client has imperfect knowledge of modern technology. During the project, the vendor may learn more about the client's business and be able to suggest changes to the specification that have high benefit/cost ratios. Similarly, the vendor may learn of aspects of information technology that can be exploited by the business. Both kinds of new knowledge will suggest changes to the business process that enhance its efficiency, effectiveness, and scope. In these circumstances, a rigid and detailed specification with a fixed schedule may counter-productive; "partnering" is appropriate.

"Partnering" is roundly criticised by Sturm et al. (2000) who strongly advocate written contracts. Nevertheless, most vendors act on the basis that the real contract is a psychological one: for noble or ignoble reasons, most vendors will go beyond the letter of contract. This might be because they make rational calculations of the effect of their actions on the likelihood of increasing business with the client and/or their reputation in the marketplace. It is more likely because they grow a psychological stake in their client's success. This is analogous to the employment contract, which may give a wholly misleading impression of the relation between committed employees and their organization.

Vendors can recognise and change nonproductive cultures. Staff at a call centre had come to assume that many incoming calls were complaints and had adopted a defensive culture. The vendor (V3) claimed to have changed the culture to allow selling (V1).

Vendors may be better able to provide scalability, especially by servicing many geographic locations (V1).

SUMMARY AND CONCLUSION

The interviews showed that:

Outsourcing generally results in improved efficiency manifest in lower costs and improved service quality (almost all informants). Vendors can improve on internal systems by applying expertise and experience, and/or exploiting economies of scale. Vendors are advantaged by having access to benchmark information (Hurley & Costa, 2001, p 88) and thus being better able to gauge the efficiency of an in-house operation.

Outsourcing allows client management to concentrate on core competencies; client executives want to exploit technology but not to have to manage it. Clients like an appreciation, not of current technology, but of next-generation methods (V4, V7). Big benefits came, not from merely transferring business processes, but from transforming them, this is exemplified by moving old business processes from mainframes to the World Wide Web (WWW).

Forcing change and uniformity. When an internal IP Department introduces a drastically new IT system, there may be pressure to delay the change and/or create exceptions for individuals, offices, functions, or locations. Autonomous business units that have been acquired by takeover may have different cultures, business procedures, and software and vigorously resist change consequent upon incorporation. External vendors encountering resistance are not constrained by histories or long-developed webs of mutual obligations. They can point to the contract and proceed despite anguish.

There were some unanticipated findings.

A surprising number of clients used outsourcing to avoid or delay capital expenditure. Clients may be able to defer a capital expense, convert a capital expense to a periodic expense, change cost structures (e.g. from a monthly charge to a payment per transaction) and (most importantly) make costs explicit and predictable (C2, C4).

Vendors claim to be able to recognise and change nonproductive cultures. Staff at a call centre had come to assume that many incoming calls were complaints and had adopted a defensive culture. The vendor (V3) claimed to have changed the culture to allow selling (V1).

Some clients appreciate that vendors are change agents. One client (C4) profited from his vendor’s comparatively high staff turnover. Vendor staff rotated through his operation were more inclined to notice opportunities for improvement and had been is relatively static staff. Another client (C2) noted that vendors were sources of information on new technologies.

All vendors stress the importance of preserving and enhancing their reputation. Outsourcers have to sell their services. To persuade a potential client to entrust critical operations to an outsider is difficult and would be impossible if the vendor’s reputation was tarnished.

Intellectual property is a small but growing problem. Consider a case in which a vendor creates intellectual property (IP) manifest as computer programs. By charging for creating the software and/or running the programs for the client, the vendor is able to, in effect, charge for use of the intellectual property. Difficulties may arise is the client wants to copy the software to and use the software at other sites. The client’s use of the IP at other sites should be negotiated in advance.

One difficulty arise when the vendor’s "A" team (that negotiated the deal) is replaced by a "B” team. An extreme manifestation is given in the following scenario [private communication]:

A complex outsourcing arrangement between two firms (A and B) is being negotiated by two teams each led by a "fast tracker". After many sleepless nights the contract is finally signed amidst euphoria. After a bedding-down period, the teams disperse and the fast trackers are replaced by comparatively pedestrian executives who have no knowledge of the background or feverish negotiations and who take a literal view of the contract. These difficulties are exacerbated by the vendor discovering that the contract is not as profitable as anticipated and refusing to divert resources from potentially more profitable tasks. Accumulating difficulties and lack of empathy make the relationship dysfunctional. Morale plummets. Eventually, both parties' top managements, sadder and sometimes wiser, have to intervene and effectively renegotiate the agreement. A working arrangement emerges and the client wonders whether the exercise was worthwhile.

Suggested Future Research

There is only a small number of heterogeneous Australian vendors. Some vendors had turnover exceeding A$1 billion, others were small, entrepreneurial organizations. Some provided a complete range of information technology services, others a narrow range of specialist services, some had one dominant customer, others had many. It is difficult to generalise from a small, heterogeneous sample. It would be desirable for the research to be replicated in comparable countries.

The research did not investigate the concerns and attitudes of large international vendors, exemplified by Indian based companies such as Satyam. It would be appropriate to interview people from such companies, obtaining their answers to *Issues Raised.*

As stated, there are indications that the vendor-client relationship is influenced by the kind of work being done (quantifiable or not). A larger sample is needed to test this hypothesis.

Several informants mentioned that internal CIOs were hampered by the accumulation of reciprocal obligations with other executives and the need to compromise to get a coalition of executives to accept a new IT system. This means that, for example, when computerising a business process, the CIO may have to make compromises entailing anomalous treatment of some transactions (special arrangements for some departments or locations, especially important customers, or especially important products). Such compromises make it more difficult to write, test, and update the system, and more difficult to prepare reports that compare different units' performances. This issue, relevant to the comparative value of outsourcing and retaining an operation in house, merits research.

Interviewees are describing their own policies and actions, probably favourably; no vendor mentioned a failed relationship. It would be desirable to be able to conduct case research that followed a vendor and client from the genesis of an outsourcing requirement, through its development, tendering process, and transferral of the business process until the termination of the contract. This would be difficult to organize.

The nature of the relationships between vendors and clients merits continuing research. We hypothesised that black leather contracts are appropriate to stable circumstances and tasks for which performance is quantifiable; but that "partnerships" are more appropriate to tasks (exemplified by building new computer systems) whose performance is difficult to quantify. In practice, vendors usually go beyond what the contract specifies. Vendor staff, at least, often internalise the client's success. Even If the originally written Service Level Agreement exactly reflected the requirements, the client's work changes and the SLA is rarely revised accordingly. In effect, the parties trust each other to do the decent thing; exposing themselves to the risk of the other party refusing to co-operate is less expensive than constantly updating the SLA to reflect changing requirements or expressing in legalese a "spirit of cooperation".

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