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Reframing outsourcing through social networks: evidence from Infocert's case study

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Abstract. In an over-connected world where ICTs dominate firms' development and evolution, outsourcing is an increasingly adopted practice by IT firms facing a third-generation of inter-firm interactions: after the IT and business processes' outsourcing, and then the offshore outsourcing, now we face a sourcing ecosystem tagged as human cloud, where the online work and virtual workers are the center of the new system. Notwithstanding some relevant contributions to the literature about IT outsourcing, still few is known about how coordination between client and supplier can achieve superior outcomes through the development of collaborative practices. In particular, the use of IT tools devoted to sociality as a coordination mechanism has been under-investigated. This research provides insights about how a company can change attitudes and behaviors of client and supplier thanks to an IT tool deputed to collaboration: the social collaboration system. Through an explorative case study, our paper provides two main contributions to the literature about IT outsourcing: i) we show how the adoption of a social collaboration system improves ITO governance and performance, providing further empirical evidence on the role of social mechanisms in ITO relationships; ii) we show how the introduction of a social collaboration system in outsourcing management can influence and change the building blocks of its life-cycle.

Keywords: IT outsourcing, governance, social collaboration, relational view, outsourcing lifecycle.

JEL Classification Numbers: L24, M55.

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1. INTRODUCTION

In the last two decades the intensive use of Information & Communication Technologies (ICTs) and internet have driven the rise of new organizational frames, providing opportunities in terms of productivity and efficiency. Scholars have examined multiple aspects of ICTs as enabler of forms of work that are more based on networks and alliances with other, internal or external, organizational units (temporally and spatially dispersed) (Kaganer et al, 2013).

Today, companies have increasing opportunities to step into virtual workforce redrawing organizational boundaries and changing the global labor market. For instance, with the crowdsourcing and other similar emerging phenomena, organizations (or individuals) can develop large-scale projects through the involvement of a collective of people across the globe, without recurring to any formal organization. As Kaganer et al. (2013) stated, we are experiencing a third generation of inter-firm interactions: after the IT and business processes' outsourcing, and then the offshore outsourcing, now we face a sourcing ecosystem tagged as human cloud, where the online work and virtual workers are the center of the new system. This relevant turning point is mainly characterized by the social processes driving the change, which foster coordination through cooperative processes, sharing practices, and communities development. From this point of view, especially small buyers would benefit the new technological trajectory, since they partially missed global sourcing opportunities mostly for barriers related to coordination and control costs.

IT Outsourcing as a strategic tool is reshaping so fast thanks to ICT achieving a step-change in its maturity. According to Whitley and Willcocks (2011), there is a trend for IT outsourcing relations, with customers looking for business idea, innovation and environmental scanning. However, in their work, Whitley and Willcocks (2011) argue that strategic relationship, partnering and innovation are very rarely converted into practices and superior outcomes. Among the different mechanisms, *collaboration* is identified by the authors as one of the key points to facilitate the step-change in sourcing maturity: it

is a “co-operative arrangement in which two or more parties work jointly on a common enterprise toward a shared goal. In the context of business relationships, collaboration signals close partnering behaviors developed over and for long term. These behaviors are characterized by the high trust, flexibility, risk sharing, and investment of resources and time essential if high performance on individual and shared goals is to be achieved” (Whitley and Willcocks 2011, p.97). Notwithstanding some relevant contributions to the literature about IT outsourcing (among the others, Lacity et al., 2009), still few is known about how coordination between client and supplier can achieve superior outcomes through the development of collaborative practices. In particular, the use of IT tools devoted to sociality – differently from the "interfaces" used by the modularity argument (Langlois, 2002) – as a coordination mechanism has been under-investigated.

This research provides insights about how a company can change attitudes and behaviors of client and supplier thanks to an IT tool deputed to collaboration (hereafter: social collaboration system), in the landscape of an outsourcing relation. We develop an empirical case study to show how the adoption of a social collaboration system has impacted both on the governance of the relation and the outsourcing life cycle. In particular our paper provides two main contributions to the literature about IT outsourcing: i) we show how the adoption of a social collaboration system improves IT Outsourcing governance and performance, providing further empirical evidence on the role of social mechanisms in IT outsourcing relationships; ii) we show how the introduction of a social collaboration system in outsourcing management can influence and change the building blocks of its life-cycle.

2. THEORETICAL FOUNDATIONS OF THE STUDY

In the last decades, literature on IT outsourcing devoted some attention to the issues regarding relationships' governance and performance. In particular, the investigation of *IT outsourcing*

governance has mainly explored the issue of coordination mechanisms, analyzing the use of informal arrangements instead of the more traditional formal ones.

De Looff (1997) and Saunders et al. (1997) argue that since requirements, volumes and technology change continuously, contracts have an unstable nature being often object of redefinition and renegotiation. Recent empirical evidence (Goo and Huang, 2008; Goo et al., 2009) shows that companies are trying to set up long-term partnerships with the vendor to share risks and rewards to manage complex IT system supply. In more recent times, IT outsourcing projects are based on the creation of a network of partnerships, with a shared culture, where “personal contacts” are essential and flexibility is crucial, since it is not always possible to plan and cover ex-ante all company’s needs. Moreover, suppliers are asked to take risks and to guarantee a two-ways knowledge transfer. In this scenario, contracts become “incomplete” (Willcocks et al., 1999) and additional governance mechanisms must be used. As a consequence, the parties involved in the relationship tend to attribute to contracts a secondary governance role. Governance of IT Outsourcing relationships through informal mechanisms is thus based on common knowledge, trust, expectations and understandings, that are integrative part of network governance (Powell, 1990, 1996). Interactive coordination among teams spreads across firm’s boundaries thanks to widespread communication, giving the opportunity for joint sense-making to emerge; intensive coordination bears positive effect and shared cognition thanks to larger information sharing and prompt feedback (Granovetter, 1985; Uzzi, 1997). Trust also emerges from voluntary problem-solving, “extra-effort” and reciprocity (Zaheer, McEvily, & Perrone, 1998). This is critical to share resources, also intellectual, and to avoid the risk of opportunism that inhibits clear and trustful relationships on which coordination through social mechanisms can be sustained (Podolny, 2001; Schrank & Whitford, 2011).

This focus on the social aspects of outsourcing governance is sustained by some contributions focusing on *IT outsourcing relationships' performance*. In particular, some recent studies (Willcocks et al. 2004,

Cullen and Willcocks 2003) have shown how IT outsourcing can fail due to the lack of commitment and knowledge sharing between client and supplier, with detrimental consequences for company's value creation processes. Willcocks et al. (2004) report on the client's frustration due to endless cost-service debates and a significant loss of control over their IT. On the other hand, the authors describe vendors as lacking knowledge about their client's long term business strategy, that might imply a high risk of adverse selection and moral hazard. They conclude highlighting the need for a "closer partnering to get close to the customer: to create and leverage customer capital to both parties advantage, and also create and leverage social capital across client and service provider". This empirical contribution brings evidence supporting the idea that social aspects are crucial in managing IT sourcing, especially for its success and its role in value creation processes.

Other contributions are present in the literature supporting this point, especially regarding the specificities of inter-organizational relationship governance when the object of the exchange is not a standard IT service and a certain level of customization is required. We can briefly summarize the main points made by the literature through the empirical evidence collected in this domain as follows:

1. There is no room for spot market relations between vendor and buyer due to the high level of idiosyncrasy of the relationship also in IT outsourcing relationships (Kern and Willcocks, 2000);
2. In the case of customized IT service outsourcing contracts play a minor role in the governance of the relationship (Kern and Willcocks, 2000);
3. There is a trend of emergence of hybrid governance structures characterized by a mix of competitive and collaborative thrusts in IT outsourcing relationships (Barthelemy, 2001).

Thus this stream of research highlights the central role of relational aspects (i.e. trust, communication, cooperation, information sharing, commitment) for successful governance and performance of the outsourcing relationship.

Starting from the analysis of governance forms in IT Outsourcing relations, Miranda and Kavan (2005) propose a link between governance and *outsourcing lifecycle*. Starting from two moments of governance (the formal contract, labeled *promissory contract*, and post-contractual relationship management, named *psychological contract*) and the three organizational forms – market (institutionally derived, and transaction- or contract-based governance form), hierarchy (an institutionally derived and authority-based governance form), and network (socially-derived and informal form of governance) – they develop a model of ITO as a “series of governance choices that constrain or promote certain outcomes” (Miranda and Kavan 2005, p.153). Whilst market vs hierarchy are at the foundation of formal governance, hierarchy and network are the means of the more relational phase (the psychological contract).

In IT outsourcing studies (Willcocks and Kern, 1998; Hu et al., 1997), negotiation (one of the first stage at the beginning of the outsourcing lifecycle) impacts on the contract terms and then on the execution of the contract, leading to define more formal (hierarchy-based) or informal (network-based) relationships.

The negotiation phase leads to the promissory contract that, as a formal mechanism, can involve different levels of interdependence and participation, and in which the contract's content specifies the commitments and obligations of parties. For example, internalized authority and dispute resolution systems “are associated with extended and committed relationship” (Miranda and Kavan, 2005).

Miranda and Kavan (2005) also argue that after signing a promissory contract an additional governance mechanism is required: the psychological contract. This additional mechanism is needed to enable cooperative work in terms of shared and mutual understanding about parties’ obligations. In this phase, similarly, we have both a more "hierarchical" governance approach based on written documents and a network governance approach that results from social interactions between the parties.

The literature has mainly focused the attention on the use of social mechanisms to govern network relationships already constituted by formal contracts, sustaining the post-contractual phase labeled, in Miranda e Kavan's terms (2005), the psychological contract. But even if the relevance of networks to govern ITO relationships is quite established, the role of social mechanisms in the negotiation phase that leads to the promissory contract (Miranda and Kavan, 2005) are, to our knowledge, still under-investigated.

The case we propose in this working paper is a powerful example about how social collaboration systems can be used to develop the promissory contract, thanks to interactions between client and a “group” of suppliers. The set-up of a virtual environment for collaboration gives evidence on how outsourcing governance and lifecycle can be reframed, opening to new questions and opportunities for investigation.

3. THE STUDY

Methodology

The empirical material on which this paper is built has been collected at Infocert, the first Certification Authority in Italy, having issued and managing more than 4.500.000 qualified certificates of digital signature. Infocert, with 30M of revenues and roughly 150 employees, is a market leader for services like electronic archiving and long-term storage, Registered E-Mail, and designs and implements IT solutions for document dematerialization. The company has clients in several industrial sector such as: banking, insurance, pharmaceutical, manufacturing, energy, utilities, retail trade, environment, quality, security, healthcare, government, trade associations and professional associations. It got a competitive advantage in delivering projects and complex solutions on paper dematerialization thanks to skilled professionals, experienced in latest technologies. They guide clients to transition from paper to digital

management, streamlining document flows and promoting the adoption of tools to support the dematerialization, where continuous updates and technology partnerships ensure Infocert unique skills in design and development.

As far as the data gathering method is concerned, the consideration of process-related, historical, and contextual features and the need to explore ill-defined and sensitive issues in depth, called for exploratory research by means of a case study. The nature of the research questions made the choice of the exploratory case study method the most appropriate (Eisenhardt, 1989, Pettigrew, 1990, Yin, 1994). Our field work started at the beginning of year 2013. Two data collection methods were used. The first was the study of archival sources. We analyzed all project documents and chat logs into the platform. The second, has been based on semi-structured interviews. As per today, more than 20 hours of interviews were carried out by the authors individually and in various combinations, both to explore and to get a deeper understanding of particular issues. Interviews involved the IT Manager, Purchasing Manager and individuals directly involved in outsourcing management processes at the buyer side. This confirmed the reliability of the data in those instances in which they were consistent and induced a new round of interviews when inconsistent. Given the units of analyses, inconsistencies have been considered indicative of different perspectives and used to better explain the very nature of vendor-buyer relationships.

In addition to the intrinsic limitations of case study research (Miles and Huberman, 1994), the sample could be partially biased by the fact that we observed only the client. As a consequence, further investigation on other vendors operating in Italy can be useful to validate the existing findings.

For the finality of the paper, we report here on an IT service for which a particular level of customization is required.

Managing outsourcing through social tools

Infocert started in 2007 and have based its business much on technology exploitation thanks to the collaboration with its technology suppliers.

Since 2007 technology suppliers are quite stable. During interviews, people reported that the number of suppliers ranges from 30 to 50, and over time the rotation rate is roughly 10%. 10 suppliers are tagged as partners because are more proactive and they share with them business goals and priorities.

A partner is an external company with which I can share business intents, continuously, where all is synchronized and fluid (Infocert's CIO)

In the first semester of 2012, Infocert decided to approach to outsourcing mostly as a strategic tool, but they realized to have some weaknesses:

- lack of a sourcing strategy, while it is a tactical tool used by the C-levels of the company;
- low use of advanced negotiations techniques;
- low involvement of the legal office;
- lack of process Key Performance Indicators (KPIs) and supplier's evaluation methods;
- no Service Level Agreements (SLAs) in place;
- high transaction costs due to a huge effort finding the best supplier and to a long cycle of negotiation;
- lack of a structured workflow with clear responsibilities, roles, goals.

On these basis, Infocert, during July 2012, put in place a 6-months project to structuring the outsourcing lifecycle in order to: standardize contracting and categories of services; improve the selection and monitoring of suppliers; design a workflow for authorizations and document management; define clear criteria for negotiation and organizational level involved. Results expected from this project were a reduction of time spent in the whole process of about 30% and a cost saving of about 15%.

Infocert decided to approach to this strategic and organizational change through two parallel projects.

Firts Project. The first project started in July 2012 and it was concerned with the internal reconfiguration of functions: they introduced three new organizational unit – Demand Management, Supplier Management and Project Management & Architecture Design – to focus activities on internal demand and to integrate technical competences for specific services (Figure 1);

Figure 1: The internal reconfiguration of functions

Source: Infocert's internal documents

Second project. The second project started on November 2012 and it was on the introduction of a social collaboration tool for the management of supplier engagement, evaluation and monitoring (tool's functions: Internal Workflow; Supplier Scouting & Ranking; Supply Specification Build; Supplier Evaluation). The 70% of activities during the outsourcing lifecycle were concentrated outside the procurement office with a loss of information and transparency. They noticed to have more informal

and collaborative interactions during the supplier selection (Figure 2 and 3 show the formal process vs the informal process for an order request).

Figure 2: Order request – formal process

Source: Infocert's internal documents

Figure 3: Order request – informal process

Source: Infocert's internal documents

The company, by means of a social collaboration tool, would get several benefits, such as:

- a more transparent process of information gathering about supplier rankings from internal and external sources (like decision makers and influencer communities),
- the possibility for suppliers to candidate themselves for the required service,
- having a strong collaborative relationship with suppliers during the early stage of service design (before defining the Request for Proposal) (Figure 4).

Figure 4: The social collaboration system's overview

Source: Infocert's internal documents

An IBM's tool was selected (IBM Connections) and implemented by the end of 2012.

The Social Collaboration System in use

In January 2013 started the first outsourcing deal managed by the “social network”. The tool includes all functionalities of social collaboration like profiles (to find and discover expertise), communities, blogs, activities (to view, manage and organize tasks and tap into the professional network), wikis, files (to share documents, presentations and other files with colleagues), forums etc.

Infocert structured the tool environment in four key areas:

1. Information about the outsourcing process (object, deadlines, people involved, milestones);
2. Internal collaboration area, shared with suppliers, to design the service and write documents on requirements;
3. Supplier's area to collect individual offers;
4. Internal discussion area, restricted to suppliers, for offers evaluation.

The IT service outsourced was about the design of a solution for backup and data storage (software and hardware were included) (Figure 5).

Figure 5: The solution for backup and data storage

Source: Infocert's internal documents

Internal roles involved into the platform were (totally 7 people): demand specialist, procurement office, CIO, managing director, legal office, and requestor.

Four suppliers were invited to the tender that helped to shape and design the IT service in a collaborative way, sharing questions and comments on the first draft of service description published by the client into the platform. The bid closed at the end of June 2013 and three out of four supplier published a final proposal with a price.

One supplier (hereafter: Alfa) offered a solution in line with the technology in place and two were more disruptive. In all cases the price raised about 100%. The client decided to start negotiations with Alfa and at the end of the process they agreed for a saving of 30%.

First insights from the empirical work

In the table below we compare formal and relational views on outsourcing relationships, juxtaposing them with our preliminary case study's results. We propose a list of items borrowed from the literature on the bases of which we develop the analysis. The table here proposed allows to highlight the differences between the traditional approach to the study of ITO relationships and the evidence coming from our data.

COMPARING DIFFERENT APPROACHES TO ITO GOVERNANCE					
	Item	Formal view	Relational View	Case study results	
1.	involvement	Timing of	Late in the service implementation process	During the negotiation phase	During the shaping of the service required
2.	vendors on service/process design	Influence of	None/low	Medium/High	Very High
3.		Selection of	Competitive bid	Competitive bid	Competitive bid/Pre selection based on trust and reputation
4.	vendors	Selection criterion	Price	Relational Trust	Competence Trust, reliability
5.		Duration of the	Close ended	Open-ended	Open-ended
6.	relationship	Role of contracts	Central	Relative	Marginal
7.		Main coordination	Price, service specifications	Service specifications, informal communication, standard	Social interactions, trust, loyalty
8.	mechanism	Participation	Limited	Extended (dyadic)	Extended (multiple payers)
9.		Interdependence	Use of pro-forma contract	Bilateral negotiation of contract	Collaborative design of the scope and the service
10.		Affect	Presumed opportunism	Presumed trust	Factual trust
11.		Overall transparency of the relationship	Low	Medium	High
12.	sharing (vertical – horizontal)	Information	Minimum	Intense	Intense
13.		Knowledge sharing	None	Intense	Medium/Intense
14.		Cognition	Discrete identity	Shared identity	Sense-making: emerging of a common identity

4. DISCUSSION AND CONCLUSIONS

The case shows how a large involvement before the contracting process promotes relational mechanisms that our informants defined as “*partner intimacy*”. The informal environment in which internal employees and suppliers discussed about the design of the service, not on negotiating the contract terms, led to a mutual understanding of company’s objectives and processes and on a shared understanding on how the inter-organizational relationships function.

Before the use of the social collaboration tool, the procurement office was mainly involved during the price negotiation with some difficulties.

Now the relational impact with the supplier during negotiation is less hard, we shared all the process from the beginning and now I know the effort behind a solution. The supplier does not allow a saving just to recognize my role, as in the past, but we agree on the project and future target.

Moreover, in the past often I had the feeling that my colleagues and the supplier already set the price. (CPO)

Our case also highlighted how technicians managed the relationship with suppliers on the basis of personal relationships and outside formal lines of communication, with a consequent negative effect over time on the level of (relational) trust (Goo et al., 2009; Poppo & Zenger, 2002). In fact, the low transparency within the company, due to the negotiation carried out “behind the scenes”, had a detrimental effect on the level of trust among colleagues. This level of mistrust had two main consequences: i) a low integration among procurement, legal and technical units with the result of ineffective governance tools to manage suppliers; ii) a low level of innovation, since standard solutions were considered fairer.

The procurement and the top management participation, that in the past assumed a passive role in the bid simply monitoring the process, through the social collaboration system achieved the necessary commitment to undertake more innovative solutions. These “exclusive” relationships forced both

parties to find new solutions, and the interaction via participation (allowed by the adoption of the social collaboration system) enabled the emergence of sense-making processes necessary for specifying more detailed requirements (see Figure 6). As a fact, the contract was slightly discussed and a standard template was used, both symptoms of the marginal role assumed by the formal agreement.

We need to remain unbiased but we need flexibility i.e. sometimes we need to move beyond requirements we have ... and the tool gave us the chance to have a balance between transparency and innovation (Technical buyers/Demand unit)

Figure 6: From Social Collaboration Systems to outsourcing performance

Source: Our elaboration.

In our case study these interaction-based mechanisms enabled by the social cooperation system – giving the opportunities for parties to socialize and to develop positive feelings and shared understanding – bear the basis for a network governance structure, marginalizing the role of the contract. Also within a "competition", people developed sympathetic and *social* (in the sense used in popular applications like Facebook) interactions and activities. Trust emerged because parties offered

extra effort on a voluntary basis, and this was reciprocated. So, they perceived new opportunities and motivation for all parties.

Scholars have demonstrated that a successful outsourcing depends on three major categories of determinants as: ITO decisions, contractual governance, and relational governance (Lacity et al., 2009). Moreover, the combination of ITO decision and contractual governance and the combination of contractual governance and relational governance are associated with higher levels of ITO success (Lee et al., 2004; Goo et al., 2009; Poppo and Zenger, 2002; Sabherwal, 1999). Our work contributes to this stream of literature providing further evidence that social mechanisms are crucial for ITO governance and performance: through the adoption of a social collaboration system, the firm we analyzed improved both governance and performance of outsourcing relationships. Our case not only corroborates previous results, but also suggests that superior ITO performance can be achieved not only through a combination of formal/contractual and informal/relational approaches, but that a new approach which stresses some specific features of the two can emerge, and needs further investigation.

Moreover, with our research we uncovered also an interesting aspect about the reframing of the ITO lifecycle. Cullen et al. (2005) described the Outsourcing Life Cycle Model consisting of four phases (architect, engage, operate, and regenerate) and nine building blocks (Figure 7).

Figure 7: The Outsourcing Life Cycle Model: Phases and Building Blocks

Source: Cullen, Seddon and Willcocks. 2005

1. The *Architect Phase*, where the foundation for outsourcing is laid, consists of the first four building blocks – investigate, target, strategize, design. At the end of this phase, the organization knows itself well enough to confidently publicize its needs.
2. The *Engage Phase*, where one or more suppliers are selected and the deal is negotiated, consists of the fifth and sixth building blocks – select and negotiate.

The goal of both of these pre-contract phases is for the client organization to collect and analyze information so that its decision makers can make rational and informed decisions in the phases when they have the greatest leverage with the prospective suppliers.

3. The *Operate Phase* is where the deal is put in place, operationalized, and managed through its term. It is comprised of the seventh and eighth building blocks – transition and manage. At this point, the client organization generally faces a monopoly provider. If the deal is not working, management rarely has economic or political options other than to continue with the supplier. Outsourcing deals can be prohibitively expensive to renegotiate, terminate and either backsource (bring back in-house), or transfer to another supplier at this point.
4. The *Regenerate Phase*, where next-generation options are assessed, consists of one building block: refresh.

Other contributions to this stream of research, such as Miranda and Kavan (2005), linked these phases with the governance of ITO relationships, highlighting the use of formal and informal mechanisms which intervene at different stages in the process, but confining the social interactions to the operate and regenerate phases.

With our work, we contribute to advance this theory and to open to future research questions highlighting the role of social interactions in the early stages of ITO lifecycle, starting from its second building block (Figure 8).

Figure 8: Reframing the Outsourcing Life Cycle

Source: Adapted from Cullen, Seddon and Willcocks, 2005.

Moreover, through the use of a social collaboration system, the ITO lifecycle of our case study has been reorganized, partially eliminating the negotiation building block in favor of more cooperative interactions based on mutual trust and aimed at concluding the agreement with reciprocal benefits and satisfaction for both client and supplier.

We believe that this research could be interestingly extended to answer to some future research questions, especially regarding the emergence of a new approach to ITO governance and the reframing of ITO lifecycle.

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