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Erik Beulen, Pieter M. Ribbers

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Albert Plugge, Marijn Janssen

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10

GOVERNING AND ORCHESTRATING RELATIONSHIPS IN OUTSOURCING WITH MULTIPLE VENDORS

Albert Plugge and Marijn Janssen

10.1 Introduction

Today, firms are not able to neglect the impact of the digitalization on their business [1]. As a result, business processes transform into digital end-to-end-oriented processes that even go beyond their own organization. When firms have outsourced their information systems, vendors have to cater for digitalization too as information systems are intertwined with business processes. Literature revealed that single outsourcing vendor relationships have declined and are replaced by smaller selective contracts provided by multiple vendors [see for example 2, 3]. Multisourcing outsourcing can be defined as ‘a one-to-many relationships, in which one client uses multiple vendors while the division of labor is jointly negotiated and understood by all parties to the agreement’ [4, p. 8]. The authors of [5] argue that as an effect of a firm’s digital business strategy vendors share digital infrastructure. This implies that sourcing vendors need to work together, for instance by means of sharing technical insights, while they also operate in a competitive environment at the same time. Managing the tension of collaboration and competitions requires strong governance mechanisms.

Managing multiple vendors is much more complex in comparison to managing a single vendor [6] due to the many dependencies. Additional management attention is required to guard the boundaries related to the scope of services provided by each vendor and governance is needed to ensure coordination of their activities for both service delivery and digital innovation. Governance and communications are needed to ensure that vendors do not compete and work together to fulfill the clients need. In general, communication results in more effective governance [7]. In contrast to dyadic relationships, multisourcing relationships create an inherent coordination problem in which activities and resources from client and various vendors need to be coordinated. As each party in a multisourcing relationship can be considered as a fragmented or monolithic system, sourcing governance is needed to manage interdependencies between systems and vendors. Establishing sourcing governance structures encourages a firm’s behavior to achieve their business performance goals [7]. Although each vendor aims to create business value for the client, the conditions

of each stakeholder might be different and at the same time they might compete for market share. This may result in tensions between parties as vendors' objectives might be conflicting as they are also intertwined competitors [8,9]. Therefore, governance of the relationship is necessary to ensure the proper functioning of a multisourcing outsourcing relationship.

The authors of [10] called for more research on multisourcing in the post-contract stage, specifically on how governance mechanisms affect interdependent relationships. The aim of this research is to develop a better understanding of governance in multisourcing relationships. This has been given scant attention in outsourcing literature. Multisourcing can only be understood by using multiple theories. The governance of resources is investigated by focusing on how resources are coordinated and which resources the organizations are dependent on. As governance is related to coordinating the activities of multiple organizations, we opted for the *Coordination Theory* (CT) to study the interdependencies between the parties involved. As both client and vendors are dependent on each other, the *Resource Dependency Theory* (RDT) was used to investigate how vendors' resources effect the client.

The remainder of this chapter is organized in the following way. Section 10.2 provides the background of both CT and RDT. Section 10.3 presents a research approach that is based on a case study methodology. Section 10.4 relates to the findings of the empirical case study, highlighting a client and three IT vendors. In Section 10.5 we discuss the findings by using the two theories and finally we present our conclusions in Section 10.6.

10.2 Literature background

In this study both concepts from governance, CT, and RDT will be used to understand multisourcing relationships.

10.2.1 Governance in multisourcing relationships

In the 2010s both scholars and practitioners agreed on a common understanding of multisourcing, to use two or more external vendors as part of an outsourcing arrangement [11]. We built on [12, p. 211] who define multisourcing 'as the situation where a client firm delegates projects and services to multiple external vendors who must, at least partly, work cooperatively to achieve the client's business objectives'. Multisourcing relationships results in new challenges with regard to the way that the dependencies among vendors and the client can be coordinated, roles and responsibilities between client and vendors, and decision-making among parties is determined. This is the domain of sourcing governance, which represents the framework for decision rights and accountabilities to encourage desirable behavior in the use of resources [7]. Enterprises generally design three kinds of governance mechanisms: (1) decision-making structures, (2) alignment processes, and (3) formal communications [7]. Often a distinction between contractual and relational governance is made. Some scholars address the importance of contractual governance agreements to manage the relationship [13]. Specifying long-term contracts is complex and inherently incomplete because firms have to deal with uncertainty and unanticipated obligations. Hence, firms should govern an outsourcing relationship beyond traditional contractual agreements and also consider relationships [14,15]. The relational governance concept largely grows out of the work of [16]. Importantly, relational governance attempts to address some of the deficiencies in contract governance: the failure to account for social structures within which the inter-firm exchanges are embedded, and the overestimation of hazardous elements in the exchange [17]. The authors of [18] found that relational governance was realized most frequently by means

of effective knowledge sharing, communication, trust, and viewing the vendor as a partner. Literature suggests that contractual governance and relational governance influence each other and can be perceived as complements in that both need to be strong to produce positive outsourcing outcomes [19]. In this study both forms of governance will be taken into account.

10.2.2 Coordination and orchestration

CT has been applied to design the relationships between systems (Malone and Crowston 1990) as well as the design of processes [20]. The authors of [21, p. 87] define coordination as ‘the process of managing interdependencies between activities’. As scholars disagree about the definition of interdependence, it is difficult to formulate an exact description [22]. Based on our literature review, interdependence is the extent to which tasks in a network require various elements, e.g. departments and people, to work with one another [adapted from 23]. Based on our literature review, interdependence is the extent to which the tasks and decisions in a network require various resources (e.g. departments, people) to work with one another [23]. The authors of [24] described three types of dependencies, namely flow, sharing, and fit dependencies. Flow dependencies relate to an activity that produces a resource that is used by another activity. Next, sharing dependencies occur when multiple activities share the same resources. Finally, fit dependencies arise when multiple activities collectively produce a single resource. These types of dependencies can be managed by means of coordination mechanisms. As different dependencies may occur, different types of coordination mechanisms can be identified, e.g. standardization, coordination by plan, and coordination by mutual adjustment [25]. Standardization can be characterized as establishing routines to coordinate activities. Orchestration is a particular kind of coordination form and is studied in various domains such as value chains [26], business services [27], eGovernment [28], and relationships [29]. We define orchestration as the ability of a firm to manage interdependency challenges by means of coordinating process steps [adapted from 26]. While coordination uses a process view to identify interdependencies and allocate relevant mechanisms, orchestration, however, focuses on the ability of organizations to apply mechanisms to manage interdependencies.

The goal of an orchestrator, which can be perceived as an organizational entity, is to ensure that different organizational dispersed units cooperate in a concerted fashion [26]. With regard to an orchestrator two modes of operation can be distinguished, namely: customer servicing mode and service delivery mode, consecutively characterized as front office and back office [30].

10.2.3 Resource-dependency theory

RDT addresses the organizational necessity of firms to adapt to environmental uncertainty while coping with complex interdependencies [31,32]. Essentially, the central proposition of the RDT is that organizations must be able to procure critical resources from the external environment in order to survive. Access to external resources is a widely adopted strategy and a primary stimulus for organizations to engage in interactions with others [33]. RDT focuses on a wide range of choice behaviors that can be applied by organizations to manage external dependencies. Examples include coping with interdependencies, adaptation, reduction of uncertainty, and power and influence [25,31]. As multisourcing relationships include various parties, the dependency between multiple actors becomes important as they

influence each other. Over time, this may result in changes of power and dependency in the relationship between organizations. However, multisourcing relationships are based on the premise that the nature of exchanges (e.g. information, services) between clients and vendors is determined by the client perception of their inter-organizational dependence (power) and the degree of uncertainty within the multisourcing environment. Therefore, it can be argued that in cases of a high interdependence between client and vendors parties have to invest in building relationships to decrease the level of uncertainty. Related to a multisourcing relationship, the client holds a contractual position in the network and influences the number of vendors to be governed (span of control). The determinant of power is dominant in shaping outsourcing relationships. Therefore, we will use this view in our research.

10.3 Research approach

Since empirical research related to governing multisourcing relationships is limited, the aim of this research is to develop a better understanding in this field. Due to the complex nature of multisourcing relationships, we opted for an exploratory, case-study-based research. This would gain us a deep understanding of the phenomenon under study [34]. Case study research is one of the most common qualitative methods used in the field of information systems [35]. A case study approach does not allow statistical generalization since the number of entities as described in case studies is too small. However, our main objective is to expand and generalize theories (analytical generalization) and not to enumerate frequencies (statistical generalization) [34]. Applying a semi-structured interview method as a research instrument is useful to select data and information for exploratory-descriptive studies that may be extended later [36]. We use two main criteria to select a multisourcing case study. First, we identify the aspect of type of Information Technology (IT) services as IT multisourcing arrangements are perceived to be complex due to interdependencies between parties [12]. Depending on the vendors' type of IT services (e.g. IT infrastructure, application maintenance, application development), governance in delivering services may vary. Second, the role of each vendor in a multisourcing relationship can differ. Some vendors are only responsible for the delivery of their own services while others are assigned with the responsibility to integrate IT services delivered by various vendors, which, however, affects the degree of coordination. We selected a case study in which a client outsourced their entire IT function to the market and multiple vendors are involved in the provisioning of IT services.

As such a large variety of IT services were outsourced (selection criterion one). Three global IT vendors have been contracted in which one operated as IT infrastructure vendor and the other two as IT service integrators (selection criterion two). All vendors are acting in the field of IT outsourcing specifically.

10.3.1 Data collection and analysis

We collected data by conducting in-depth interviews with both the client's and the vendors' staff members, including IT executives, transition managers, service delivery managers, contract managers, and experts positioned across the firm. In this way, we avoid 'elite bias'. The interviews were semi-structured and based on a protocol that included open questions on how to improve governance. In total, we conducted 19 interviews and all interviewed participants had been engaged in the multisourcing relationship. This was to ensure internal consistency within the multisourcing landscape. As the interviews were confidential, we anonymized the company names as listed in Table 10.1. The varying hierarchical levels of the

Table 10.1 Case study characteristics

Party	Focus	Geographical position	Type of services	Start of the contract	Length of the contract	Generation	Number of FTE transferred
Client		Europe	Complete IT function is outsourced			Second generation	800
Vendor 1	Focus on infrastructure	Top 3 global vendor	IT infrastructure service desk, workplace automation	2009	Seven years	Extended contract period (first time)	350
Vendor 2	Service integrator (old world)	Top 3 European vendor	Application development, Application maintenance	2010	Five years	Extended contract period (first time)	450
Vendor 3	Service integrator (new world)	Top 5 Indian vendor	Application development, Application maintenance	2008	Five years	First contract	N.A.

interviewed staff members prevent potential limitations of the evolving phenomenon from arising. The interviewees were asked to describe their role in the multisourcing relationship and specifically how they dealt with governance. Interviews varied from 60 minutes to 90 minutes in duration. Additional information was gathered from three contracts, governance schedules, and satisfaction reports. All the interviews were then transcribed, and the transcripts were sent to the participants to be confirmed.

When executing our qualitative research concept, maps are used to guide us through the process of data analysis. Since knowledge is fairly nonlinear, concepts can be seen as organized networks. By selecting and organizing relevant information, we are able to identify links between concepts, so that we can fathom the data [35]. Interview data of the staff members were translated into concept maps. As a result of the coding process, we were able to create more insight in relevant concepts and relationships.

10.4 Findings

10.4.1 Context of the multisourcing case study

The case study is positioned in the retail market, and concerns a company (the client) that provides services in Europe. Importantly, the client’s business processes are highly dependent on IT to fulfill customers’ need in time (e.g. ordering systems, logistic function, replenishment, retail payments). Today, the client is expanding their portfolio as online business is growing while new store formats are developed to extend the range of products. In order to retain their competitive position in the market the client had to decrease their IT cost level. To accomplish this, they decided to outsource various IT functions to the market. In the sourcing ecosystem, the client holds a dominant position toward three key vendors. Vendor V1 is responsible for IT infrastructure services that are geographically dispersed among

various data centers. Vendor V2, who acts as a service integrator, provides services related to various legacy applications, also called the ‘old world’.

Next, Vendor V3 also acts as service integrator, however, related to Cloud services enabling applications which support the new business strategy (e.g. online shopping). In addition, the client extended the ecosystem by contracting 60 smaller IT vendors all acting as subcontractors providing services to the three key vendors (see Figure 10.1, label S). The empirical setting for this case study focuses on collaboration between the client and the three core IT vendors.

10.4.2 Governance between the client and its vendors

10.4.2.1 Inter-organizational governance

While studying the multisourcing relationship, we found that the focus of the client was on utilizing resources at the lowest costs and, in doing so, paid insufficient attention to the coordination of the multi-vendor relationship. This immaturity is reflected in a lack of a coherent inter-organizational structure, strategy, and plan related to the coordination of various roles, activities, and responsibilities of each party. Addressing the determinant strategy, we find that the way in which the client governs the multisourcing landscape is ambiguous. For example, the execution of IT infrastructure-related IT tasks can be allocated to Vendor 1 or Vendor 2, depending on the client employees’ knowledge and experience. This resulted in fierce discussions between vendors and the client regarding the boundaries of IT services. Addressing the inter-organizational structure of the multisourcing landscape, we find that at

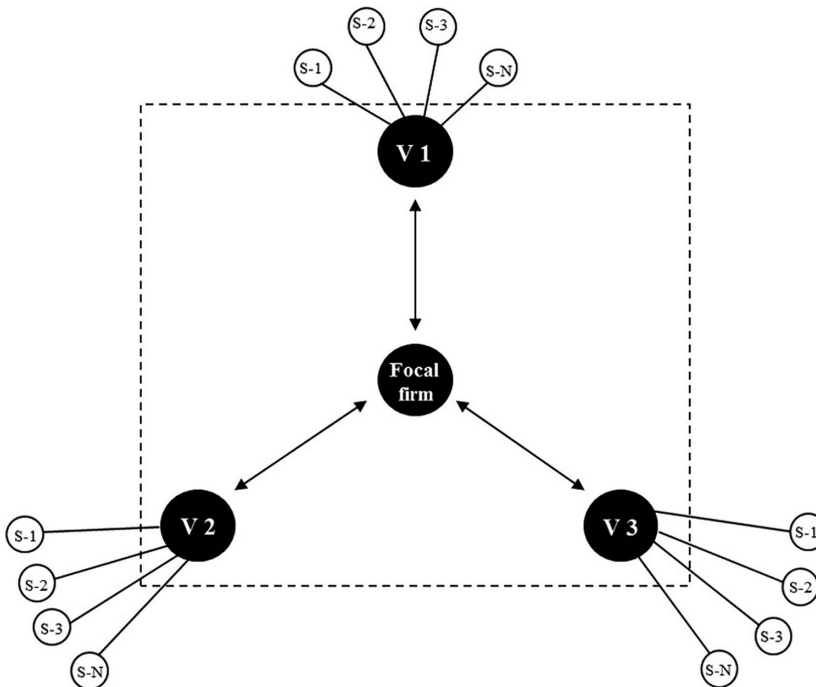


Figure 10.1 Multisourcing relationships

the start of the relationship the client did not describe the position of each vendor and third parties and their mutual relationship. In particular, our analysis of documentation revealed that the responsibilities and boundaries of vendors' service agreements, including their position and mandates in the landscape, were vague with regard to the exact type of IT service that is to be provided.

Previously, our organizational structure and strategic plan was weak as we exchanged vendors quite often. We created more stability in the landscape as each vendor is authorized to deliver IT services within an IT domain for two years. In turn, vendors are more willing to set up OLA's with their competitors to ensure end-to-end delivery of IT services.

(Source: CIO client)

The client have setup a strategic plan that describes the boundaries of each IT domain but this plan is not sufficient. In fact, the existing plan can be seen as high level with limited details, actually it's a workflow diagram that lacks concrete activities such as organizational roles and responsibilities.

(Source: Account executive Vendor 2)

The absence of a coherent strategic plan describing the position, role, and mandate of each party resulted in fierce discussions about service provisioning between the client and its vendors over time. For example, we found that the deployment of software technology partners (e.g. Oracle, Microsoft) by the client is based on an ad hoc approach. Vendor 2 and Vendor 3, which provide application services, are responsible for the deployment of software and the relationship with technology partners. However, when initiating new IT projects, the client decided to choose for technology partners directly without any involvement of Vendor 2 and Vendor 3. Consequently, the client's ad hoc decision-making in this area resulted in multiple misunderstandings and debates between client and vendors and between vendors and technology partners with regard to technical and financial issues. Importantly, both Vendor 1 and Vendor 2 were selected originally to develop and implement software technology projects, which is conflicting with the client's selection of software technology partners to fulfill these activities.

Addressing the determinant of roles, our study revealed a lack of governance agreements. The roles and corresponding responsibilities of the employees of the client and the vendors are not described and implemented. At the start of each client-vendor relationship, all parties had the intention to set up clear roles and responsibilities to govern the relationship. However, interviews revealed that due to a lack of management attention the client and vendors did not address this aspect in a proper way. In addition, we found that no regular meeting structures had been developed and implemented consciously. Meetings between the client and each vendor were organized ad hoc, while inter-organizational meetings were bypassed. The result was insufficient alignment between parties as developments on the side of both client and vendor were not shared and assessed on their impact by each party.

Figure 10.2 depicts the formal and informal inter-organizational dependencies within the multisourcing landscape. The straight lines (A) represent the formal contractual and relational agreements between the focal firm and its vendors. The dotted lines (B) represent the informal service agreements between Vendor V1 toward Vendor 2 and Vendor 3.

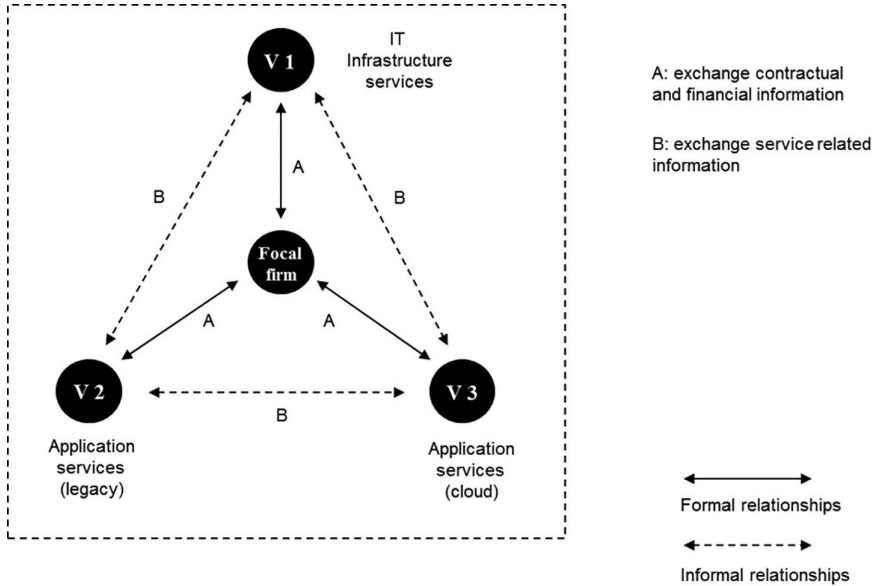


Figure 10.2 Inter-organizational governance

10.4.2.2 Contractual governance

Our interviews show that the way in which the client coordinates the multisourcing relationship is predominantly based on the financial contract and targets related to each vendor. This approach leads to a lack of inter-organizational governance while relational and substantive aspects were neglected. We found that vendors were reluctant in allocating resources to staff future projects in advance. When projects were initiated, vendors addressed severe staffing problems as resources were not available. This way of working resulted in a delay of projects and it affected the service delivery performance negatively. Moreover, fierce financial disputes arose between the client and vendors that were related to the scope and the content of the contracts (e.g. changes are in scope or out of scope of the contract).

The contracts are fiercely negotiated meaning that we got the best price. However, the vendors established their 'B teams' as their resources are cheaper. Too much focus on getting the lowest price resulted in strict rules from the vendors. For instance, each change is discussed from a financial perspective (in or out of scope of the contract).

(Source: Program manager client)

As the client focuses on achieving financial benefits based on the agreed contracts, we perceived an opportunistic behavior. This behavior is reflected, for instance, in setting up short-term contracts with technology partners instead of doing business with their selected key vendors. The client's motivation to use this approach was to create a competitive market exploiting external resources offering services at lowest cost. When studying the contracts between the client and the selected vendors, we noticed that the contracts and the related schedules were only described on a high level. Many details were postponed to the transition phase. Examples include the service scope, roles, responsibilities, meeting structures, and steering mechanisms. Based on the interviews, it became clear that the fierce time pressure

during the outsourcing selection and the contract negotiation phase resulted in incomplete contacts.

Importantly, these inconsistencies were not repaired during the transition phase or the service delivery phase. Interestingly, we found that the contracts with the three key vendors include a clause that allows the client to terminate the contract within 60 days.

Related to the degree of contractual flexibility, we set up contracts with a strong focus on flexibility. There are no long term commitments agreed with our vendors. The contracts include a clause in which we agreed a 60 day termination period with no financial commitments. Vendor 3 wanted to agree a multiyear BIG contract, however, we do not give anything more than 60 days.

(Source: IT manager client)

Contracts run out on short notice (60 days) with no single commitment from the client. The client is micro managing the contracts, resources and utilization. Their culture and behaviour in the retail business is insufficient to manage and coordinate IT, instead it's a hostile environment!

(Source: global head of software Vendor 3)

The client's rationale is that if a vendor is not able to provide a sound service performance over time they have the right to select and switch to a new vendor. Although the vendors agreed to this clause, their perception is that the client is repressing the relationship strictly focusing on achieving financial benefits. As a result, the vendor has a short-term view and is not prepared to commit resources and invest in long-term commitments.

10.4.2.3 Relational governance

Interviews show that less attention is paid to investing in the relationship between the client and its vendors over time. We did not find evidence that the personal bonds between the client and the vendor counterparts were strengthened. In contrast to building relationships, both the client and the vendors focused on controlling the contracts in a rigid way. Particularly, the relationship between the client and its vendors creates a tension as the client plays a dominant role by playing off the vendors against each other. For example, the client's approach to select technology partners instead of the key vendors under study decreased the degree of trust on the vendors' side. The absence of regular meetings and the strict contractual clauses underpin the lack of relational governance. Consequently, the lack of trust on strategic level of both the client and the vendors affects the operational performance of the vendors significantly as the vendors are not willing to allocate employees in view of uncertain projects with regard to services or projects.

There is a lack of trust in the relationship towards our vendors. The basic attitude of all parties, however, is based on mistrust instead of trust. The type of deal is financially driven which is an influencing factor that lead to this lack of trust.

(Source CIO client)

There is an unbalance regarding power and dependency as we apply a strong power behavior. We have the opinion that we know how IT services should be provided by the vendors instead of managing the delivery and relationships.

(Source: Sourcing manager client)

Since the start of the relationship limited attention was given to improving the relationship with the client. Recently, we introduced the third relation manager. From an operational view, too much time is spend that refer to issues of the past. It's all about facts versus expectations.

(Source: Account executive Vendor 1)

Although the contract includes governance mechanisms for conflict resolution (e.g. escalation mechanisms), the client did not intervene in service boundary conflicts between vendors. The client has the opinion that vendors have to solve any conflicts themselves. Hence, the relationship between the client and vendors was negatively influenced as the degree of trust between parties further decreased.

10.4.3 Governance between vendors

10.4.3.1 Inter-organizational governance

The absence of a coherent strategic inter-organizational structure that describes the position, role, and mandate of each party in the multisourcing landscape had a severe impact on the governance between vendors. As the number of key vendors increased over time (see Table 10.1), the lack of the client's inter-organizational coordination between the vendors leads to ad hoc governance between vendors. Clear strategic roles and division of responsibilities were missing.

Today, there are no back-to-back agreements (OLAs) that are related to the cooperation between parties. This lead to disproportional alignment between client and vendors, which increases the costs.

(Source: Account executive Vendor 1)

We do cooperate with other vendors on an operational level. At a strategic level, however, we do not have in-depth relationships and discuss strategic developments.

(Source: Account executive Vendor 2)

The multisourcing culture is 100% better compared to the start because vendors implemented operational IT processes. This lead to more successful delivery of IT services.

(Source Delivery program manager Vendor 3)

Importantly, we find multiple interdependencies between the vendors as service provisioning is interrelated. Vendor 1 is responsible for IT infrastructure services while Vendor 2 and Vendor 3 are responsible for managing applications running on top of the infrastructure. As clear boundaries of IT services were not described, multiple misunderstandings occurred with regard to maintenance activities, which resulted in a decrease of service performance toward the client. We found that in the case of the client's request to configure applications Vendor 1 as well as Vendor 2 did not respond as each had the impression that the other party would take the action. Interestingly, while clear client directions were missing the vendors initiated inter-vendor meetings to align and coordinate their service provisioning. As a result of multiple disputes between all parties, the client developed a strategy to improve the coordination of the multisourcing landscape. A strategic multisourcing framework was created that determines the scope of IT services and the way of working related to major IT projects

of each vendor for a period of two years. As a result, the vendors experienced more stability as the roles, responsibilities, and mandates of each party on a strategic level were described unambiguously. Moreover, the interviews revealed that the degree of trust between the client and the vendors increased significantly.

We found a strong interdependency between Vendor 2 and Vendor 3 equal toward Vendor 1 and other third parties due to their role as service integrator. As Vendor 2 and Vendor 3 are not in control of the contracts with these parties, both vendors experienced various conflicts in delivering an end-to-end service performance to the client.

Agreements regarding end-to-end services do not fit. The client holds us responsible for meeting end-to-end KPIs. However, SLAs provided by various parties (e.g. other vendors, third parties) are not aligned. As the client is responsible for managing the contract to all parties, they are responsible for SLA alignment.

(Source: Manager service integration Vendor 2)

Due to their role as contract owner the client is responsible to verify if the service conditions (e.g. SLAs, KPIs) as part of the end-to-end services are reflected in the contracts of Vendor 1 and third parties. We find that the client neglected this activity, which resulted in a breach of service level agreements (SLAs) of Vendor 2 and Vendor 3 regularly. In fact, Vendor 2 and Vendor 3 are dependent on their persuasiveness to other parties to ensure a sound service performance. Our research shows that informal relationships with other parties become more important when compared to contractual relationships.

10.4.3.2 Contractual governance

Studying the contracts we find that the structure of all contracts is strictly based on dyadic relationships. Since Vendor 2 and Vendor 3 are dependent on Vendor 1 in supporting the client's digital end-to-end processes, their mutual interdependencies are described in the contract. Interviews revealed that the service delivery of multiple vendors and third parties is stressed regularly as various SLAs are breached resulting in a decrease of the service performance to the client. We noticed that during the outsourcing relationship Vendor 2 and Vendor 3 set up Operational Level Agreements (OLAs) with Vendor 1 and third parties as a way of working to improve the end-to-end service performance. After implementing these OLAs, the satisfaction reports showed an increase of service performance. This was executed independent of the client's involvement.

The contracts are dyadic by nature, there are no mutual agreements to exchange services between vendors. We experience a lot of informal relationships between vendors to deliver services in a successful manner. We also experience compensation behavior as vendors fulfill tasks that should be done by the client.

(Source: Account manager Vendor 1)

We experienced that vendors are also competitors. They all fight against each other in achieving to win a piece of the landscape at the cost of their competitors.

(Source: CIO client)

Various contracts such as with Vendor 1 and Vendor 3 are contradictory as they have an overlap. This resulted in fierce disputes towards Vendor 3 about projects, responsibilities

and off course fees. We even defined a non-aggression pact. Later, we improved our mutual relationship with Vendor 3 to settle our disagreements and focused on improving the delivery of services to the client.

(Source: Account executive Vendor 1)

To minimize management attention, the client decided to consolidate the multisourcing landscape by decreasing the number of subcontractors (60 parties). Their services will be divided among the three vendors under study. Interestingly, we found that during the selection phase of Vendor 1 the client primarily transferred staff to Vendor 1 that focuses on application maintenance tasks, whereas Vendor 2 also performed these types of task. However, as the boundaries between the vendors' service scope are not well defined and described conflicts arose with regard to the question which vendor was officially responsible for service provisioning. After two years of discussions, both the client and Vendor 1 and Vendor 2 decided to retransfer staff of Vendor 1 to Vendor 2 to streamline the operational application maintenance tasks. This retransferred activity contributed to clear service boundaries, and, subsequently, an increased service performance.

10.4.3.3 Relational governance

As a result of unclear strategic roles and responsibilities and lack of structure (e.g. meetings, forecasts), vendors experienced a strong degree of distrust between each other. In particular, the vendors' inability or unwillingness to cooperate in delivering IT services to the client affected their relationship negatively. With regard to the mutual relationship between the vendors, our study demonstrates that Vendor 2 focuses on solving problems first while Vendor 1 requires the client's approval first before solving the problem. This example shows that the employees' behavior with regard to organizational procedures influences the relationship toward the client and between the vendors. With regard to conflict resolution, we find that during the first two years of the relationship Vendor 1 applied an aggressive sales strategy at the cost of their competitors. Their behavior resulted in multiple conflicts between the vendors.

The key vendors are too focused on fulfilling their own tasks which result in much finger pointing between parties. Actually, more interaction between vendors is needed as they are mutually dependent on each other. That's why multisourcing requires tactical coordination. Moreover, we have the opinion that the client should manage the interaction between vendors which is not set up right now.

(Source: Account manager Vendor 1)

As the client was not willing to interfere in these type of conflicts, Vendor 2 and Vendor 3 limited their cooperation with Vendor 1, which resulted in a decrease of service performance of Vendor 1. This shows that multisourcing relationships between vendors are intertwined as IT services involve multiple vendors. Ultimately, the client did intervene by means of a strategy change creating clarity for each party. As a result, conflicts between vendors decreased while the level of trust increased. In turn, the vendors' willingness to cooperate improved positively.

10.5 Discussion

Applying governance, CT, and RDT as a lens, we investigate the types of dependencies and subsequently the coordination mechanisms that are used to manage interdependencies.

Related to the governance area between the client and the vendors, our research shows a lack of coordination between all parties. The various roles, activities, and responsibilities of each party were not clear. Studying the interview analyses and contracts, we found that the client is coordinating the delivery of IT services by the vendors based on dyadic relationships. Related to IT service delivery, a flow type of dependency is used for managing the dependencies between clients and vendors. For instance, technical application resources provided by the vendors are used by the client's resources to use applications from a functional perspective. As a result of the indistinctness with regard to multiple interdependencies between parties, the client and the vendors experience coordination problems. The sharing and fit type of dependency of [25] categorization was not found. Consequently, strategic and tactical information was not shared between the client and the vendors, resulting in a deterioration of service performance. Coordination mechanisms such as coordination structure, strategy, and plan were not defined. Importantly, the authors of [37] argue that coordination is essential to leverage digital resources in building a digital strategy and create value. The coordination mechanism that is used by the client for an individual vendor is based on standardization of work processes to support service delivery. Only routines and work instructions are established. The coordination of IT activities that reflects the relationship between the client and the vendors, however, reveals that no particular coordination mechanism is used. Based on our analyses of the type of dependency used, we conclude that the coordination mechanisms in place are not suitable for coordinating the dependencies. Coordination by standardization of work processes is not able to deal with ad hoc situations [38]. We argue that to apply coordination in a more structured way the mechanism coordination by plan will deal with unclear responsibilities, functions, and roles. Moreover, the coordination mechanism mutual adjustment would fit in the relationship between the client and the vendors to deal with unanticipated events. Applying these mechanisms may decrease the vagueness of the vendors' strategic role and position and, therefore, improve service performance to the client.

Addressing the governance area that includes mutual activities between the vendors, we identified two types of dependencies, namely (1) sharing type of dependency and (2) fit type of dependency. There is a sharing type of dependency between Vendor 1 and both other vendors with regard to the exchange of information. We found that at an operational level information was exchanged by employees of Vendor 2 and Vendor 3 to prevent underperformance of their IT services. According to the literature [39], this type of dependence seems consistent since multiple activities (e.g. application maintenance, IT infrastructure) share the same resource (e.g. information). Next, a fit type of dependency is found that is related to the integration of end-to-end services by Vendor 2 and Vendor 3. As Vendor 2 and Vendor 3 were held responsible by the focal firm for service integration tasks, their employees shared technical information among all parties that was related to application work-a-rounds, reporting information, and IT tooling. This is also consistent with literature [24] as a fit type of dependency is related to multiple activities (e.g. information and services from separate vendors) that collectively produce a single resource (e.g. digital end-to-end process and service). Our analysis shows that originally no specific coordination mechanisms were used to exchange information between the vendors. The vendors experienced severe coordination problems in managing mutual interdependencies resulting in a breach of service levels regularly. During the outsourcing relationship, vendors established various types of coordination mechanisms independently of the client. Two types of coordination mechanisms were introduced. Coordination by plan was implemented to exchange information related to knowledge management while the type of mutual adjustment was used to support the integration of end-to-end services. Remarkably, the client did not play a role in encouraging the vendors

to establish coordination mechanisms. There was no cooperative relationship between the client and the vendor as the client's financial measurements were leading. This finding is consistent with literature as a high level of interdependence indicates a strong cooperative relationship [40,41]. Based on our analysis of the vendor interviewees, an explanation can be found in the client's rationale to focus on achieving financial benefits and apply a procurement strategy to their IT vendors. This is consistent with literature related to outsourcing non-core activities, such as retail suppliers and facility service vendors (e.g. cleaning, security), that focus less on strengthening the relationship and creating loyalty [42] as a means to improve service delivery. The overall case study findings are summarized in Table 10.2.

Interviews show a lack of both client and vendors orchestration capability to govern the relationships. We did not find evidence that each party established a dedicated organizational entity (e.g. orchestrator) to manage tasks, cross-functional processes, allocating resources and manage conflicting goals. Essentially, all parties governed these tasks as regular tasks similar to internal governance tasks. This lack of orchestrating entity may explain the governance challenges as identified between client and vendors and between vendors. The results of our study identify that the implementation of an orchestrator, related coordination mechanisms, and regular adaptation are perceived to be critical factors. Client interviewees explained that at the start of the multisourcing arrangement their opinion was to manage the dyadic relationships toward the vendors as high-level service boundaries were determined. However, practice revealed that interdependencies between client and vendors and between vendors had to be governed intensively (e.g. services, architecture, finance). We argue that each party should apply a holistic view with regard to multisourcing relationships, and implement an organizational entity to orchestrate governance-related tasks. Hence, an organizational entity forms a prerequisite to limit governance issues and create an opportunity to cater for digitalization effectively.

Using the concept of the RDT, first we focus on the construct power-dependency and subsequently on the construct uncertainty. Addressing the construct power-dependency we

Table 10.2 Case study findings related to coordination

<i>Governance area</i>	<i>Coordination focus area</i>	<i>Example</i>	<i>Type of relationship</i>	<i>Type of dependency</i>	<i>Coordination mechanism</i>
Area 1: between client and vendor	Client and single vendor	Providing a single services (e.g. AD, AM, service desk, IT infrastructure)	Dyadic	Flow	Standardization
	Client and multiple vendors	Generic information sharing (e.g. strategy, policies, risks)	Triadic	Flow	N.A.
Area 2: between vendors	Multiple vendors working together	Application and IT infrastructure alignment (e.g. knowledge management)	Triadic	Sharing	Coordination by plan
	Multiple vendors working together	Vendors B and C act as service integrators providing end-to-end services	Triadic	Fit	Mutual adjustment

found that as the client is responsible for managing the interdependencies between the vendors, their position can be described as powerful. This means that their hierarchical level is strongly influencing their organizational position in the multisourcing landscape [43,44]. On the one hand, the vendors' solutions are relatively unique due to the degree of customization and the provisioning of end-to-end services. On the other hand, the vendors perceive the client's account as attractive due to their annual revenue and position in the market.

However, when terminating the contracts switching costs for both the client and the vendors are high as their transaction costs will increase due to the search for alternatives and initiating a transition. Remarkably, the example of short-term contract termination shows that the contractual exit barrier between the client and the vendors is low in some areas, whereas other exit barriers are high. A long-term outsourcing relationship having low exit barriers is inconsistent with literature [41,42]. An explanation of our findings might be that due to their contracts and encouraging competition among vendors the client perceives their position as power dominant while they characterize the vendors' position as dependent. Interviews with the vendors' representatives reveal that their IT services are essential for the client's digital business strategy. Examples include online ordering, distribution, and replenishment. When the vendors' IT services underperform, the client's businesses might be at risk resulting in a decrease of their customer satisfaction. From this view, the vendors' position can be considered as power dominant too, equal to the client's power position.

10.6 Conclusion

Although companies are more and more using multisourcing relationships, empirical research on relationships remains scarce. Our study aims to contribute by partially filling this gap. Multisourcing is a multi-faceted domain, which needs to be tackled using a variety of theories and methods in which outsourcing vendors and clients are dependent on each other that can be understood by the RDT. The use of resources needs to be managed, which requires coordination mechanisms. Coordination mechanisms should be designed for the management and governance of clients and vendors in multisourcing relationships. The exchange of services and information of both the client and the vendors are intertwined, and, as such, are highly interdependent on each other that require governance mechanisms. Governance should achieve the objectives of both parties to avoid conflicts.

We contribute to the outsourcing literature by creating insight in how client and vendors deal with multisourcing relationships and the exposition of the way in which multisourcing arrangements are governed and orchestrated. Our findings illustrate that both contractual and relational governance are needed to manage the complex arrangement among the parties. Contractual governance should reflect interdependencies, not only between client and vendors, but also between vendors. Clear responsibilities need to be defined to avoid that problems are not tackled or that it is to clear who is in charge. Relationship procedures and processes need to be in place to coordinate the dependencies. Also, conflict resolution mechanisms are needed as part of the governance mechanisms. A lack of coherent governance mechanisms results in multiple misunderstandings between client and vendors and between vendors, which lowers performance. The high interdependence seems to be best managed by creating strong ties between vendors and client in which all the parties need to invest. Effective governance mechanisms will facilitate smooth communication and can decrease potential uncertainties, while the degree of mutual trust between parties can be strengthened. To make multisourcing a success an orchestration entity at each party is needed, which requires more research on governing relationships.

Our research also aims to contribute to the vendor's best practices. Most fundamentally, our research demonstrates that clients have to develop a coherent strategic plan describing the position, role, and mandate of each party. This requires an inter-organizational governance structure that needs to be monitored over time to prevent fierce discussions about service provisioning between the client and its vendors. Moreover, the client plays an important role in creating a power and dependency balance between all parties. In doing so, the degree of trust between parties will increase that contribute to the performance of the arrangement as a whole. From a vendor perspective, mutual operational agreements (OLAs) have to be set up and governed to improve end-to-end service performance. In addition, we argue that vendors invest in employees' behavior to solve problems first and settle formal approvals later. This way of working influences the relationship toward clients and other vendors positively. The ability and willingness to adapt to changing client circumstances is a prerequisite for retaining business and staying competitive.

We conclude that governing multisourcing relationships requires a view in which the dependencies between multiple vendors are also coordinated. This study contributes to clients and vendors involved in IT multisourcing relationships in that it increases their awareness of the multiple factors that affect the way in which these relationships are governed. Clients and vendors may benefit from the insights of this research by setting up inter-organizational structures and corresponding contracts. From a managerial perspective, our results suggest that assessing the governance of a multisourcing relationship is a prerequisite for both clients and vendors to meet the objectives as stated at the start. Our research demonstrates that clear governance structures and mechanisms and an orchestrating entity are seen as critical in multisourcing relationships to support a client in applying a digital business strategy.

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