

# Chapter 8.8

## Supplier Capabilities and eSourcing Relationships: A Psychological Contract Perspective

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### ABSTRACT

The forces of globalization have influenced organizations to extend the concept of IT outsourcing to IT-intensive business process outsourcing (eSourcing). Most of the research on managing outsourcing relationships has focused either on legal contracts or on strategic partnerships. Advocating a different viewpoint, researchers like Rousseau (1995) found that in reality everyday working of contractual relationships was governed by individual's subjective interpretation and was fundamentally psychological in nature. The objective of this paper is to posit a relationship step model which projects a vital relationship management capability plus psychological contract perspective for eSourcing. It incorporates the stance of relational contract, interorganizational relationship and psychological contract theories. Using the qualitative research paradigm, the research model is preliminarily explored with case studies of two eSourcing suppliers. The

exploratory results of this research indicate that relationship management capability of suppliers is an important factor shaping the outsourcing value proposition. [Article copies are available for purchase from InfoSci-on-Demand.com]

### INTRODUCTION

The concept of outsourcing has spread from traditional informational systems (IS) outsourcing structures into new outsourcing service configurations, like IT-intensive business processes. This kind of outsourcing has been defined as 'eSourcing' by Carnegie Mellon University's eSCM-SP. The primary drivers for this trend are increasing competitive pressures, a need to access world-class capabilities and a desire to share risks.

The eSourcing relationship begins with a contract between two parties - the client and the supplier. Both these parties must possess certain

capabilities in order to make the engagement successful. Kern and Willcocks (2001) in their study on IT capabilities for clients found that supplier capabilities are critical for outsourcing success. Despite the growing interest in vendor capabilities, there has not been an in-depth examination of these capabilities and how they generate value in outsourcing relationships (Levina & Ross, 2003). Additionally, most of the prior research on outsourcing relationships has focused either on legal contracts or on advocating strategic partnerships for managing the relationship. But in reality, everyday working of contractual relationship is governed by individual's subjective interpretation, because all contracts, whether written or unwritten, are fundamentally psychological, i.e. existing in the eye of the beholder (Rousseau, 1995).

Rousseau's 1989 seminal research triggered much of the contemporary empirical work on the employment psychological contract. Adopting Rousseau's view, Koh, Ang and Straub (2004) have defined a new perspective on managing IT outsourcing relationships. They state that it is the individual's beliefs and perceptions of these obligations rather than written contract that drive their behavior. Hence to get a complete picture, it becomes relevant to view the sourcing relationships from the psychological contract perspective. Addressing these gaps, this paper aims to propose a relationship step model for eSourcing suppliers using a psychological contract lens. This study aims to explore how relationship management capabilities of suppliers help in fulfilling supplier obligations and hence add business value.

The paper proceeds as follows. In the next literature review section, we discuss the main concepts of the paper. We then move towards development of a model by delineating the theoretical foundations and the dimensions of relationship management capabilities. Next, we examine the relationship management capabilities via the psychological contract lens and posit a relationship step model for eSourcing suppliers. We then describe the methodology adopted for exploratory

research and discuss the two case studies. We conclude with our initial findings, limitations and directions for future research.

## **LITERATURE REVIEW**

### **eSourcing**

eSourcing or IT-intensive sourcing, uses information technology as a key component of service delivery or as an enabler for delivering services (Hyder, Heston & Paulk, 2004). It includes traditional IT sourcing, and task and business process sourcing (see Figure 1).

eSourcing is often provided remotely, using telecommunication or data networks. Carnegie Mellon University's eSCM-SP states that these services range from routine and non-critical tasks that are resource intensive and operational in nature to strategic processes that directly impact revenues. Adopting this view, we define eSourcing as "the delegation of one or more IT-intensive business processes to an external provider that, in turn owns, administers and manages the selected processes based on defined and measurable performance metrics."

### **Capabilities**

Organizational capabilities are the abilities underlying high performance in specific spheres of business (Dawson, 2005). They are the result of deliberate investments in organizational structure and systems to make important improvements in those routines and practices (Zollo & Winter, 2002).

### **Client-Supplier Relationships**

Outsourcing relationship can be defined as a state where client and supplier organizations are connected or related to via individual managers for the duration of the contract period of an

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