EVALUATING THE VENDOR CLIENT RELATIONSHIP IN INFORMATION SYSTEM OUTSOURCING

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ABSTRACT
Outsourcing of information technology services has seen a steady growth in recent years. IT Outsourcing agreements are fraught with dangers as various case studies in the IT literature have illustrated. A number of factors have been identified that influence and shape the relationship between the organisation and a third party. The success of the adoption of information technology by organisations is characterized by various social interactions – management buy-in, technology championing, communication, training, multidisciplinary teams/user involvement and most notably for this paper, the interactions with consultants and suppliers. Given the importance of the interaction with IT suppliers/vendors particularly for Small to Medium Enterprises (SMEs) IS research has placed little emphasis on exploring this relationship. This paper describes a study which explores the client-vendor relationship in two exploratory case studies as well as a further four case studies found in the literature on outsourcing. A subset of MacNeil’s intermediate contractual norms was used as the exploratory framework of this relationship: flexibility, information exchange and solidarity, all of which are needed for sound relationship development between organisations. A continuum of client-vendor relationships is developed through the evaluation of the case studies.

KEYWORDS:
Outsourcing, Client-Vendor relationship, IS implementation, Relational Contract theory.

1. INTRODUCTION
Outsourcing has seen phenomenal growth since its first occurrence in the 1980’s. The outsourcing market is expected to grow to $150 US billion in 2004 (Lacity and Willcocks, 2001). The adoption of outsourcing as a viable alternative to provide information systems services has also seen an acceptance in Australia (Kern et al 2002).

During the implementation process several social interactions are important to the success of the adoption of information technology (Linton 2002) – management buy-in, technology championing, communication, training, multidisciplinary teams/user involvement and most notably for this paper, the interactions with consultants and suppliers. The interaction related to the procurement of IT from another organization can also be classified as IT Outsourcing. IT outsourcing is defined by Kern (1997) as “a decision is taken by an organisation to contract-out or sell the organisation’s IT assets, people, and/or activities to a third party vendor, who in exchange provides and manages assets and services for monetary returns over an agreed time period” (p.37, Kern 1997). Due to their limited IT experience, SMEs rely heavily on external IT expertise. Thong et al (1994) states that it is critical for SMEs to have high quality external IT expertise; even more critical than top management support (Thong, Yap et al. 1994). Attewell (1992) emphasised the important role that external consultants and vendors play in reducing the knowledge barriers for IT adoption by organizations and this is particularly relevant to SMEs (Attewell 1992). Following tradition, SMEs for the
purposes of this paper are organisations with less than 100 employees (Igbaria et al 1997; Kuan and Chau 2000).

The relationship between client and supplier in such an outsourcing environment is an important success factor (Pinnington and Woolcock 1995; Willcocks and Lacity 1999; Kern and Willcocks 2000; Albortz, Seddon et al. 2003). Such a relationship is defined as “a long-term commitment, a sense of mutual cooperation, shared risk and benefits, and other qualities consistent with concepts and theories of participatory decision making” (p.8, Henderson 1990). Albortz et al (2003) has attempted to provide a model to explain the dynamics of managing such an IT outsourcing relationship. Others have focused on strategic and guiding principles of the relationship (DiRomualdo and Gurbaxani 1998) and how to negotiate a contract for such a relationship (for example, Yao 2002).

A number of theories have been developed to understand the intercompany relationships in the organisational and marketing literature. MacNeil (1980) developed the relational contract theory to explain the social relationships between two parties in a contractual agreement. He identified 12 contractual norms that operate in a contractual agreement. The norms identified by MacNeil were used as starting point for Heide and John (1992) to develop a higher order construct of three dimensions – flexibility, information exchange and solidarity. These higher order constructs are used in this paper as an exploratory framework to investigate the client-vendor relationship in two exploratory case studies as well as a further four case studies found in the literature on outsourcing. Kern and Blois (2002) state that these three dimensions are “needed if sound relationships are to be developed between organisations” (p.37, Kern and Blois 2002). We address the question of whether a continuum of client-vendor relationships can be developed through the use of the subset of intermediate contractual norms.

The paper is structured as follows. First, we review the literature on intercompany relationships. We evaluate the exploratory case studies and four case studies from the literature by means of the subset of intermediate contractual norms. We illustrate how these are significant in the case studies of IT outsourcing. We conclude with the development of a continuum of client-vendor relationships that can be used to classify and evaluate IT outsourcing relationships.

2. LITERATURE REVIEW

The following section discusses the current literature on intercompany relationships from organisational and marketing literature and from IS literature.

2.1 Organisational and Marketing Literature on Intercompany Relationships

There have been a number of theories in organisational and marketing literature developed for understanding intercompany relationships. Most of the organisational and marketing intercompany interaction theories, however, have focused on the exchange transaction as the unit of analysis and the transaction at a single point in time (Homans 1958; Thibaut and Kelley 1959; Pfeffer and Salancik 1978; Williamson 1981). Others have argued strongly that business exchanges do not exist as individual events but occur as a number of interactions over time and it has been suggested that a full understanding of the exchange and the associated intercompany relationship cannot be achieved if each exchange is examined in isolation (Turnbull and Ford 1996). There has also been some criticism of Transaction Cost Analysis and Exchange theories and their underlying behavioural norm assumption of opportunism as the sole motivator for intercompany relationships. As Heide and John (1992) state the criticism comes from sociological studies which argue that “exchange typically is embedded in social structures in which opportunism is the exception rather than the rule” (p.32, Heide and John 1992). As Pessali and Fernandez (1999) state, “opportunism can be relevant to transactions, but human behaviour cannot be reduced to it” (p.268, Pessali and Fernandez 1999).

As a reaction to the way lawyers were viewing contracts and to the prevailing Transaction Cost theory, MacNeil (1980) developed his relational contract theory. He argued that all contracts are embedded in the overall social relationship of the two parties and should be viewed within this context. He identified intermediate contractual norms – Role Integrity, Reciprocity (originally Mutuality), Implementation of Planning, Effectuaction of consent, Flexibility, Contractual Solidarity, linking norms (Restitution, Reliance, Expectation Interests), Creation and Restraint of Power, Proprietary of means (added after 1980 list),
Harmonization with the Social Matrix, which operate within all contractual arrangements. These must be “attended to” or the exchange will “fall apart” (MacNeil 2000). Artz and Brush (2000) in a study which looked at relational norms within the framework of Transaction Cost Economics, found that “by altering the behavioural orientation of the alliance between OEMs (Original Equipment Manufacturer) and their suppliers, relational norms lowered exchange costs” (p.337, Artz and Brush 2000). However, researchers, while appreciating the insights provided by MacNeil’s work, have had difficulty in operationalizing these norms in practice. Blois (2002) lists a few researchers who have attempted to operationalize the norms (Kaufman and Stern 1988; Heide and John 1992; Gundlach and Achrol 1993) but he notes that each were selective of the norms that they used. None used all of the twelve common norms (Blois 2002).

Others who were also concerned with the limitations of the transactional cost approach formed the International Marketing and Purchasing (IMP) group in 1976 to conduct research into the nature of buyer-seller relationships. In 1982 the Interaction approach was developed as part of the group’s work (Håkansson 1982). The unit of analysis for the interaction approach was the relationship itself rather than the exchange transaction. The interaction approach sees relationships as both “important in themselves and as predictors of transaction behaviour” (p.45, Turnbull and Ford 1996). The research has lead to the view that the management of the company’s portfolio of relationships is the basis of enhancing its network position and competitiveness (Ford, McDowell et al. 1996).

Heide and John (1992) researched the role that norms play in marketing relationships. They abstracted MacNeil’s contractual norms into a higher order construct of three dimensions. These dimensions are - Flexibility, Information Exchange and Solidarity. Flexibility is the expectation of each party in the relationship that the other will be willing to make changes and adapt as circumstances change. Information exchange is the expectation of each party in the relationship that the other will “proactively provide information useful” to them. Solidarity is the expectation of each party in the relationship that the relationship is of high value to the other (Heide and John 1992). The study found that the three dimensions had a significant influence on the intercompany relationship.

### 2.2 IS Literature on Intercompany Relationships

Given the centrality of the relationship between IS vendors and clients, particularly with SMEs, it is surprising to see how little research in Information Systems has focused on this relationship (Thong, Yap et al. 1997). As Kern and Willcocks (2000) note, there has been a “dearth of explanatory frameworks that could be used to holistically delineate the client-supplier relationship properties” in IS literature (p.323, Kern and Willcocks 2000). Following a similar layout to that used by Kern and Willcocks (2000), Table 1 lists some IS studies which have looked at this area of research. Most have focused on outsourcing intercompany relationships.

<table>
<thead>
<tr>
<th>Author</th>
<th>Research Focus</th>
<th>Conceptual Origin</th>
<th>Research</th>
<th>Describe relationship model (key dimensions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Kern and Willcocks 2002)</td>
<td>Outsourcing IT</td>
<td>Interaction Approach</td>
<td>Interview of 14 IT outsourcing participants</td>
<td>Interaction Processes, Relationship atmosphere, Environment, Participants</td>
</tr>
<tr>
<td>(Kern and Blois 2002)</td>
<td>Outsourcing IT</td>
<td>None</td>
<td>Longitudinal Case study</td>
<td>Relational Norms – Flexibility, Information Exchange, Solidarity</td>
</tr>
<tr>
<td>(Kern and Willcocks 2000)</td>
<td>Outsourcing IT</td>
<td>Social Exchange Theory, Social Contract Theory, Relational Contract theory</td>
<td>Interview of 7 organisations who had outsourced their IT</td>
<td>Context, Contract, Structure, Interactions, Behaviour</td>
</tr>
<tr>
<td>(More and McGrath 1999)</td>
<td>Strategic Alliances</td>
<td>None</td>
<td>Interviews of 3 telecommunication</td>
<td>Interaction, Structure,</td>
</tr>
<tr>
<td>Author</td>
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<td>Research</td>
<td>Describe relationship model (key dimensions)</td>
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<tr>
<td>(Zviran, Ahituv et al. 2001)</td>
<td>Outsourcing relationships</td>
<td>None</td>
<td>Single in-depth case study – UPS and Motorola</td>
<td>Legal Arrangements, Trust and Commitment, Communication, Senior management involvement</td>
</tr>
<tr>
<td>(Klepper 1995)</td>
<td>Outsourcing and partnering relationships</td>
<td>Social exchange Theory and Dwyer et al (1987) model</td>
<td>2 case studies with interviews of IS managers involved in partnerships with vendors</td>
<td>Attraction, Developing expectations and norms, Power and Justice, Communications and bargaining, Expansion and commitment</td>
</tr>
<tr>
<td>(Lacity and Hirschheim 1993)</td>
<td>Outsourcing relationships</td>
<td>Transaction Cost Theory, Political Theory</td>
<td>13 case studies of firms considering outsourcing some or all of their IS function</td>
<td>None</td>
</tr>
</tbody>
</table>

One notable exception is the study by Kern and Blois (Kern and Blois 2002) (take the Kern and Blois out between the brackets) that investigated the failure of the creation of a consortium by BP. The main finding in this study was that the absence of norms contributed to the failure of this venture. The authors used the dimensions as developed by Heide and John (1992) to evaluate the situation. They identified four major questions about norms – what do norms do?, how are norms formed?, how do norms operate within complex relationships? and how can norms be classified?

3. CASE STUDIES

This section explores the different forms a client-vendor relationship can take, in particular between a small IS vendor and two SMEs. The SMEs chosen for the study are two residential aged care facilities in Melbourne, Australia. Both facilities are in the process of implementing or have already implemented an aged care mobile computing application to be used by all staff at the residential aged care facility. Lacity and Hirschheim (1993) and Zviran, Ahituv and Armoni (2001) have provided fairly rich descriptions of the cases used for their studies and this has enabled the authors to further the research by utilizing these descriptions to evaluate the client-vendor relationship. Firstly we will describe the two exploratory case studies that were conducted by the researchers and then we summarize four case studies to be used in our discussion section.

3.1 Exploratory case studies

The following section will outline the background to Australian residential aged care which prompted the development of a mobile computing application by SmartHealth (a pseudonym). An exploratory case study method was used.

Research Method

Case study research lends itself to the exploration of new areas of research (Eisenhardt 1989) such as mobile computing. The research strategy allows for in-depth description of the relationships in context (Benbasat, Goldstein et al. 1987; Galliers 1991). Due to the novelty of mobile technology applications within organisations, a case study research strategy was chosen, This also allowed us to examine individual use contexts in depth (Yin 1994).

Three in-depth, 1-hour interviews were conducted in 2003-2004: One with the CEO of AgedCare facility A, another with the Director of Nursing at AgedCare facility B and another with one of the Directors of SmartHealth.
The Vendor and the Aged Care Mobile Computing Application

SmartHealth, a small IS vendor in Melbourne, Australia recognised the need for a computing application which addressed the requirement for documenting all the care interventions conducted by the carer throughout their day-to-day tasks with the residents. They were in an ideal position to develop the software because one of their directors had previously been a Nurse in the Aged Care sector and was very familiar with the processes required.

The AgedCare mobile computing application was developed by SmartHealth. It also allows domestic staff to enter observations, kitchen staff to be able to view dietary changes and maintenance staff to view their tasks for the day. (Note: Both “AgedCare” and “SmartHealth” are pseudonyms).

Case A – AgedCare A

AgedCare A, located in Melbourne, Australia, has 80 staff members consisting of office staff, Division 1 nurses, Personal Care Assistants (PCAs), domestic staff, a handyman and kitchen staff. They currently only take low care residents at registration stage and at the time of writing have 102 residents of whom 10% are now high care. All staff, except the office staff, use the handheld device in their day-to-day activities. The staff at AgedCare A began using the mobile computing application in February 2003.

Case B – AgedCare B

AgedCare B, located in Melbourne, Australia, caters for high care residents. They have 74 staff members consisting of office staff, Division 1 nurses, PCAs, domestic staff, a handyman and kitchen staff. At the time of writing they have 74 residents with an average age of late 80s to early 90s. The staff at AgedCare B began using the mobile computing application in October 2003.

3.2 Case Studies from the Literature

The following will give some background to four different case studies found in the literature that allow the researchers to evaluate the intercompany relationship associated with the outsourcing arrangement. Each of the case studies will outline the detail of the outsourcing arrangement.

Case C – Energy

The case study was described by Lacity and Hirschheim (1993) and was originally called FIRM 7. The case study is an example of an outsourcing arrangement in the Energy industry and took place in 1988. The Energy company’s decision to look at outsourcing was economically motivated according to Lacity and Hirschheim (1993). They had undergone a series of mergers and acquisitions requiring consolidation of IS budgets and more than doubling the requirements of the data centre. In spite of this expansion, the CIO was told to keep costs down. The decision to outsource was made by the CEO as he saw this as a way of containing costs.

Case D – Mining

The case study was described by Lacity and Hirschheim (1993) and was originally called FIRM 9. The case study is an example of an outsourcing arrangement in the Mining industry and was signed in 1990. The duration of the contract was 10 years. The Mining company’s decision to look at outsourcing was to get access to up-to-date technical expertise. The skills of their IS staff were outdated and their systems were past their use-by-date. The decision to outsource was made by the IS manager and at the time of writing the case by Lacity and Hirschheim (1993) they were happy with the outsourcing relationship.

Case E – Information services

The case study was described by Lacity and Hirschheim (1993) and was originally called FIRM 10. The case study is an example of an outsourcing arrangement in the Information Services and Marketing industry and was signed in 1988. The contract started in 1990. The Information Services conglomerate’s decision to look at outsourcing was to get access to a cash infusion and divert liquidation. The decision to outsource was made by the CFO and the decision process took almost two years due to in-fighting. Due to the delay and difficult financial situation the contract ended up having to be approved in bankruptcy court. In spite of the
difficulties the contract was signed in 1991 and the CFO expressed confidence that the outsourcing relationship would continue to work.

**Case F- Telecommunications**

The case study was described by Zviran et al (2001) and was originally called UPS-Motorola. The case study is an example of an outsourcing arrangement in the Package tracking and delivery industry. The contract was from 1989 to 1997. The Telecommunications company decision to outsource was to gain access to technical expertise. The decision to outsource was made by the UPS project team. Motorola (US), the outsourcing vendor, were reluctant to take on the contract due to it being outside of their usual product set, however, they were convinced by the CEO of Motorola (Israel) who saw it as a great opportunity for the company. Motorola (Israel) took on quite a lot of risk in agreeing to provide a comprehensive warranty for the product and accepting a penalty clause on failure to meet the timetable. As the project proceeded, Motorola’s “tremendous flexibility, in addition to proven technological capability, contributed to an improvement in the working relationship and greater openness in the relationship between the companies”. It also paved the way for flexibility to be shown by the CIO at UPS as well.

**4. DISCUSSION**

MacNeil (1980, 2000) explored a number of different types of relationships – discrete transaction and a contractual relationship. For each of these relationships he developed twelve norms. Heide and John (1992) developed the three higher order norms based on the work done by MacNeil. In this section we evaluate all the case studies by way of the three higher order norms. From this evaluation and drawing on the biology phenomenon of symbiosis, 4 different types of intercompany relationships have been identified. We conclude by utilizing the concept of dependence to develop a continuum of intercompany relationships.

The case studies described by Lacity and Hirschheim (1993), highlight that the relationship between the client and the outsourcing vendor is shaped by how the business area views the information systems group. If the business area views IS as simply a cost centre and a drain on the business finances, then the pressure to outsource the IS function is very high. It also suggests that the relationship with the client and the outsourcing vendor will tend to be on a transactional basis rather than a relational one. On the other hand, if the business areas see IS as integral to their business then the relationship with the outsourcing vendor will tend towards a relational one. If the outsourcing vendor then moves to providing key product innovation then the relationship will move towards a symbiotic one. The three constructs – Flexibility, Information Exchange and Solidarity, provide a way to gauge the closeness of the client-vendor relationship. The client-vendor relationship is more likely to endure where there are high levels of flexibility, information exchange and solidarity. Table 2 shows the analysis of the client-vendor relationship in the case studies in light of the three higher order norms.

<table>
<thead>
<tr>
<th>Case Study</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Case A – AgedCare A</td>
<td><strong>Flexibility:</strong>&lt;br&gt;The client was unhappy with the initial training provided by the vendor so SmartHealth changed the training. Instead of the 2 day training session on transfer of data then a four week break then a 2 day training session on how to use the console, they now conduct a 6 day training course covering the entire system.</td>
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<td></td>
<td><strong>Information Exchange:</strong>&lt;br&gt;Vendor provided client with survey forms to hand out to staff to determine the staff’s level of expertise with computers. They found that 40% of the staff had never touched a computer. Has ongoing user group forum. Vendor invests heavily in training process. Used the Aged Care Facility A ‘live’ data for training. Client well-prepared to feedback limitations of system to vendor and suggestions for enhancements.</td>
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<td><strong>Solidarity:</strong></td>
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Table 2. Relationships construct analysis of IS literature case studies
<table>
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<th>Case Study</th>
<th>Comments</th>
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| Case B – AgedCare B     | **Flexibility:**
Vendor willing to accommodate requests for change raised in user Group forum meetings. High flexibility demonstrated by the vendor. Changed the way they conducted training to a train-the-trainer approach rather than training each individual carer.  

**Information Exchange:**
Provided information leaflets to facility. Used the Aged Care Facility B ‘live’ data for 6 day training session. Provides very close assistance with implementation process. Works with the client to prepare their individual implementation plan. Has ongoing user group forum. Client well-prepared to feedback limitations of system to vendor and suggestions for enhancements.  

**Solidarity:**
Vendor willing to accommodate requests for change raised in user Group forum meetings. Aged Care Facility B has higher care residents which require additional features to be built into the AgedCare application. These are being prioritised for next release. |
| Case C - Energy         | **Flexibility:**
Very low flexibility demonstrated by both the client and the vendor. Standard/minimal services provided by vendor and shared with their other clients.  

**Information Exchange:**
Strictly limited to scope of bid and most of the details were not decided before the contract was signed.  

**Solidarity:**
Some. Although the CEO was very happy with the results as it reduced his costs by 20%, the business managers directly affected by the outsourcing deal were very unhappy. However, as the CEO said “They bitched about IS before outsourcing, they bitch now – but at least it’s costing me a lot less”.
| Case D – Mining Company | **Flexibility:**
High flexibility demonstrated by the vendor  

Vendor: “We were willing to invest some money to develop within our company a mining center of expertise”.

The vendor also provided “several analysts free of charge so that they can learn the mining business”.  

**Information Exchange:**
Not discussed explicitly in case description.  

**Solidarity:**
High solidarity demonstrated by both vendor and client. The vendor was willing to invest in learning the mining industry applications. The client expressed the possibility of handing over their strategic mining systems to the vendor once the vendor had “proved themselves”. |
| Case E – Information Services Company | **Flexibility:**
Not discussed explicitly in case description  

**Information Exchange:**
Not discussed explicitly in case description  

**Solidarity:**
High solidarity demonstrated by both vendor and client. The vendor was willing to loan FIRM 10, millions of dollars at a low interest rate. The client expressed his view of the outsourcing arrangement as a partnership: |
### Case Study: Telecommunications Company (Case F)

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<th>Comments</th>
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<tr>
<td>“You really have a partnership where there is a shared risk, shared goals, shared vision. They are really a partner as opposed to a vendor.” The client said that “the outsourcing vendor is using this account as an entrée into industry. Their future revenues depend on the success of this account.”</td>
</tr>
</tbody>
</table>

**Flexibility:**
High flexibility demonstrated by both the vendor and the client.

- Motorola agreed to go outside of their normal product set and develop a DVA (Delivery Information Acquisition device Vehicle Adapter) for UPS vehicles using cellular communications.
- UPS agreed to change the content of the original proposal so that Motorola engineers would do the design rather than the UPS engineers after they had worked with the Motorola Engineers and were impressed with their capability.
- Motorola Engineers were willing to build two product lines - one with changed requirements to meet new design of DVA and one based on original requirements. Their willingness to do this greatly impressed the UPS representatives.

- “Motorola’s tremendous flexibility, in addition to its proven technological capability, contributed to an improvement in the working environment and greater openness in the relationship between the companies.” (Zviran, Ahituv et al. 2001)

**Information Exchange:**
Weekly meetings between UPS representatives and design team. Monthly senior staff meetings. Close discussion on design issues and creative joint resolution of these issues.

**Solidarity:**
Motorola took an “enormous risk’ when taking on the contract as it had a penalty clause for failure to meet timetable and a comprehensive warranty for the DVA.

- They obviously considered the investment in the relationship as worth the risk and were looking to longer term opportunities.

- “The UPS team was convinced of the technical capabilities of Motorola Communications engineers, their understanding of the customer’s needs, and their willingness to accommodate UPS requests. In some cases, Motorola’s engineers took the initiative to suggest design changes.” (Zviran, Ahituv et al. 2001)

In Case C, the motivation for exploring the option for outsourcing as far as the client was concerned, was to save money. The CEO and other business executives saw “IS as a cost pit” and therefore decided after a few high-level meetings with the vendor to ”make a marriage”. The contract was signed with very little detail on how that contract was to be executed. The relationship, as far the vendor was concerned, was on a transactional basis. They were going to provide the client with data centre operations shared with other clients, applications development and maintenance on a fixed number of manhours and utility services vaguely defined as those that were already being provided by the existing IS department. There was no indication or perception of growth of relationship opportunity on either side of the relationship. The outsourcing agreement, although successful in the CEO’s mind due to reduced cost, was far from successful for those business areas directly affected by the relationship. The performance of the vendor was very poor.

In Cases D and E on the other hand the outsourcing option was seen as more of a business opportunity for both the client and the vendor. The client in Case D wanted to outsource to “eliminate personnel and technical problems”. The vendor in Case D wanted to participate in the outsourcing agreement to “learn the mining business”. The client in Case E, wanted to increase the efficiency of their delivery of IT services. The vendor in Case E, wanted an “entrée into the industry” in this case the Information Services and Marketing industry. These cases therefore showed more of a relational intercompany relationship.

In Cases A, B and F the relationship is considered vital to both the client and the vendor. Information is shared freely and options for improving the product explored together. There is a strong sense of solidarity projected into the future. The solidarity is “organic”. Macneil (1980) mentions Durkheim’s (1964) views on
two types of solidarity – mechanical and organic (Durkheim 1964). Mechanical solidarity is between like parties and organic between unlike parties. According to MacNeil (1980) organic solidarity consists of “a common belief in effective future interdependence”. This is evident in Case A, B and F. We have therefore classified these cases as “symbiotic” which is an appropriate fit with Durkheim’s organic solidarity concept.

This paper suggests that there are a range of different types of intercompany relationships and this can be seen as a continuum as shown in Figure 1 below. These relationships range from independent and “at-arms-length” transactional exchanges through to a symbiogenetic relationship with total interdependence. The higher two levels of relationships – symbiotic and symbiogenetic are based on the phenomenon of symbiosis in biology. Symbiosis is defined in biology as a “close, prolonged association between two or more different organisms of different species that may but does not necessarily, benefit each member” (www.dictionary.com). In more colloquial terms it usually refers to a relationship of mutual benefit or dependence. Symbiosis in nature exhibits a range of dependencies from occasional random interaction such as with bees and flowers to a more permanent interaction such as with the soybean plant and the nitrogen-producing soil bacteria rhizobia (Anonymous 2003). Symbiogenesis is the bringing together of two different species to bring about an entirely new species. The term symbiogenesis was first introduced by a Russian botanist, K S Merezhkovsky, to describe how evolutionary innovation occurs through symbiosis (Haygood 1993; Bull 1999). Symbiosis becomes symbiogenesis when a symbiotic association becomes heritable, that is, passed on through generations and thus new life species are formed bearing the characteristics of the original individual species but together in new and in countless ways. A well-known example is lichen, which is a symbiotic composite of algae and fungi (Margulis 2003). Organisations are symbiogenetic when two or more separate organisations come together to form a single organisation either through mergers or acquisitions.

![Figure 1. Continuum of intercompany relationships](image)

### 4.1 Transactional Intercompany Relationships

Transactional intercompany relationships range from those involving a once-off buy-sell transaction between two organisations through to an ongoing buyer-seller relationship governed by a formal contract as in an outsourcing agreement for a commodity service or product. The essence of this category is that the execution of the relationship is conducted under the expectations of buyer-seller etiquette with minimal communication as in the case of a single transaction or within strict guidelines of the original contract with minimal variation on the original intent of the contract. MacNeil (1978, 1980) explored this form of relationship referring to it as “discrete transactions” listing several characteristics exhibited by this form of relationship (MacNeil 1980). Some of these are minimal personal relationships, ritual-like communications, governed by external social norms with complete transferability (MacNeil 1980) as adapted (Dwyer, Schurr et al. 1987).

### 4.2 Relational Intercompany Relationships

Relational intercompany relationships on the other hand usually involve personal relationships between two or more companies with both formal and nonformal communication, joint effort for execution and planning over time and limited transferability – the exchange is heavily dependent on the identity of the parties.
involved (MacNeil 1980) as adapted (Dwyer, Schurr et al. 1987). An example of this type is an ongoing outsourcing arrangement which has developed over time to the point where new opportunities are actively sought by all parties for extending the dimensions of the relationship well beyond the original intent of the foundational contract. The relationship holds so long as there is mutual benefit to both partners and it is therefore imperative for those involved to look for other avenues of growth and opportunity as circumstances change over time. This is done as Hall (1995) says by moving from implicit relationship management to intelligent explicit management of the relationship. Unlike what is commonly thought, Hall (1995) says that companies who have formed an ongoing working relationship or some form of alliance should not base that relationship on trust but should aim for an understanding of the intention of the partner over time (Hall 1995).

4.3 Symbiotic Intercompany Relationships

Relational intercompany relationships become symbiotic where each company becomes dependent on the other for survival. Each is providing the other with core services vital to the other’s competitive position. In the symbiotic relationship, however they still remain as separate identities. There has been an increased interest in how social structures affects organisational and economic outcomes. Studies have discussed embeddedness and the affect of embedded relationships on the ability for organisations to maintain their competitiveness (Granovetter 1985; Uzzi 1997). In Uzzi’s (1997) study, he shows how embedded relationships can facilitate the performance of each party particularly through cooperative information exchange and learning. However, he also raises the paradox of an embeddedness threshold. Once crossed, the embeddedness becomes a liability, making the firms involved vulnerable to external market changes and insulating them from important external information outside their network. Uzzi (1997) therefore suggests the importance of companies maintaining an appropriate mix of “at-arms-length relationships” and “embedded relationships”. It is suggested that symbiotic relationships exhibit high levels of Flexibility, Information Exchange and Solidarity.

4.4 Symbiogenetic Intercompany Relationships

Symbiotic intercompany relationships evolve into symbiogenetic intercompany relationships when one or both companies find that they would be in a stronger position competitively if they combined as one. The following reviews the 6 case studies to determine the type of client-vendor relationship:

- **Case Study C - Energy**
  Exhibits a transactional relationship. The energy company was aiming to reduce their IT costs and the vendor was only willing to proceed with a standard contract sharing resources with their other clients. The relationship was very much an at-arms-length relationship.

- **Case Study D – Mining Company**
  Exhibits a relational intercompany relationship. The vendor was willing to invest money in training their staff to gain mining industry experience so that they could gain more contracts in that area.

- **Case Study E – Information Services Company**
  Exhibits a relational intercompany relationship. The vendor saw the account as an entrée into the industry so that they could gain more contracts in that area.

- **Case Study F – Telecommunications Company**
  Exhibits a symbiotic intercompany relationship. The vendor and the client worked very closely in designing and redesigning the product and both invested large resources and time into the project and into the relationship. They both see the relationship continuing well into the future.

- **Case Study A and B – Aged Care facility A and B**
  Exhibits a symbiotic intercompany relationship. The vendor and the client are working very closely together to implement the AgedCare mobile computing application into each aged care facility. The vendor is very dependent on each aged care facility for their competitive survival. The client depends on the vendor for their IT expertise.
The case studies which were classified as exhibiting a relational intercompany relationship showed medium levels of Flexibility, Information Exchange and Solidarity and the case studies which were classified as exhibiting a symbiotic relationship showed high levels of Flexibility, Information Exchange and Solidarity.

It appears that the client-vendor relationship in the aged care facilities has been symbiotic from the beginning and it is considered important to explore this further to see how it evolves and affects the infusion of the AgedCare mobile computing application into each aged care facility.

5. CONCLUSION

The paper explored the intercompany relationships of 6 case studies. The paper suggests that the intercompany relationships can be classified in four different categories of relationships. These four different relationships can be structured based on the dependency on a continuum.

The study has the following limitations. First, we have compared the results of an exploratory case study in SME organisations (Case A and Case B) with results from outsourcing arrangements of large organisations. Second, our study was conducted from both the client and vendor perspective and the other cases derived from published literature do not necessarily include the same perspectives. Third, Case A and B are at the initial stages of the relationship and a longitudinal study is necessary to confirm the findings.

REFERENCES