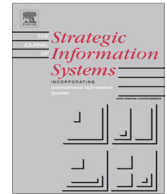




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## Conflict resolution in business services outsourcing relationships

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### ABSTRACT

Many organizations source administrative business services like information technology, human resources, procurement, legal, financial and accounting services through external service providers, a practice known as Business Services Outsourcing (BSO). Many of these relationships are strategic, in the sense that they are large, underpin clients' business strategies, and the client can become highly dependent on service provider capabilities and performance. The BSO market is over \$1 trillion in size and has been growing for two decades. Despite the size and maturity, up to 50% of BSO relationships result in poor outcomes, partly because partners cannot resolve conflicts. Based on interviews with client and provider leads from 13 BSO relationships, we answered the research question: "What types of inter-organizational conflicts arise in BSO relationships and how do partners resolve them?" We extended the prior literature on inter-organizational conflict frameworks by conceptualizing three types of conflicts specific to BSO: commercial conflicts, service conflicts, and relationship conflicts. Conflicts as we study them here are not minor disagreements, but have a strategic dimension. Commercial conflicts were the most serious because outsourcing relationships are firstly commercial transactions—a provider must earn a profit and a client must meet its economic business case to be viable. Theoretically, we found Thomas and Kilmann's typology of conflict resolution styles to be robust enough to characterize the BSO conflict cases, provided a switched style category was included. In our data, we found that only the collaborative and switched-to-collaborative styles resolved conflicts to the satisfaction of both partners, which is consistent with theory. Novel findings that extend or contest prior theory are identified as part of a future research agenda. For practitioners, we also identified five effective conflict resolution behaviors.

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### Introduction

*"[Conflict] is inevitable in outsourcing arrangements due to technology complexities, dynamic and fast-paced business environment, and disparate goals of the two parties. Given that a certain amount of conflict is expected, how such conflict is managed is important because the impact of conflict resolution on the relationship can be productive or destructive."*

[Goo et al., 2009, p. 125]

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*“Sooner or later, some conflicts arise in inter-organizational relationships, and the way conflicts are settled has great implications for future collaboration. Given the complexity and interdependence of business processes, conflict resolution is particularly important in BPO ventures.”*

[Rai et al., 2012, pp. 223–224]

*“How organizations handle conflict can affect the strength and future of the outsourcing relationship, yet there is a serious shortage of research on conflict handling in outsourcing relationships and its consequences.”*

[Ndubisi, 2011, p. 109]

Business services outsourcing (BSO) is the sourcing of services like information technology, human resources, procurement, legal, logistics, financial and accounting services through external service providers. Growing from about a \$150 billion global market in 2000 to over \$1 trillion by 2016, BSO 2015–20 growth estimates vary across sources between 2.2% and 4.9% per year (e.g., [Avasant, 2013](#); [Fersht and Snowden, 2016](#)).

Increasingly clients have been reducing external service provision to a small group of strategic suppliers. At the same time, clients demand much more from these providers, expecting them to co-deliver innovation, impact on business outcomes, contribute to strategic direction, provide scarce skills, be closer to the business, and invest in their sourcing relationships ([Cullen et al., 2015](#); [Fersht and Snowden, 2016](#)). The change is most noticeable with the issue of innovation. [Lacity and Willcocks \(2013\)](#) point to business innovation through outsourcing being rare until recently, but cite many cases where it has become a requirement that is delivered on. [Aubert et al. \(2015\)](#), suggest a similar development, as do [Kotlarsky et al. \(2015\)](#) in a recent *JSIS* special issue Editorial on the subject. Meanwhile, [Cao et al. \(2014\)](#), pointed to the rising strategic importance of contractual and relational governance. They found that conflicts between the two forms of governance can be addressed by ambidextrous ITO governance processes. On another issue, [Jain and Thietart \(2013\)](#) point to the potentially strategic dimensions of knowledge based transactions costs in IT outsourcing. Moreover, knowledge loss can lead to serious over-reliance on the service provider that can be grounds for subsequent conflicts with strategic implications. Outsourcing can also be part of strategic intent, as [Sandeep and Ravishankar \(2015\)](#) demonstrate in their work on impact sourcing companies in India. In all this, it is easy to underestimate how all three forms of conflict we identify in this paper – commercial, service, and relationship – can have strategic repercussions. Even operational conflicts that seem quite small—typically over contracts and service—can lead to underperformance, damage relationships, and in a highly connected business eco-system, disable strategy. Recent bank cybersecurity issues and software failures in air transport systems, for example, seriously harmed corporate reputation and customer confidence in the organizations involved ([Rayner, 2014](#); [Shirbon, 2016](#)). There is also now considerable evidence of large-scale outsourcing both enabling and also disabling the execution of business strategies ([Lacity et al., 2016](#); [Willcocks et al., 2017](#)).

BSO becomes concerning because—like all inter-organizational relationships—BSO has a mixed report card. Some sources estimate the failure rate for inter-organizational relationships to be as high as 70% ([Barringer and Harrison, 2000](#); [Hughes and Weiss, 2007](#)). In the specific context of BSO relationships, a review of 1304 empirical findings from 20 years of academic research found 30% of client-reported BSO outcomes were negative or unbeneficial (such as poor service quality, significant hidden costs and/or poor customer satisfaction) and 21% of client-reported findings resulted in no demonstrable impact on BSO outcomes as a consequence of outsourcing ([Lacity et al., 2016](#)). BSO failure rates as high as 50% have been reported (e.g., [Gefen et al., 2008](#); [Mani et al., 2012](#)). The inability to resolve conflicts that arise in BSO relationships is a major cause of poor BSO outcomes ([Goo et al., 2009](#); [Lacity and Willcocks, 2015](#); [Rai et al., 2012](#)).

The topic of **BSO conflicts**, defined as serious disputes between clients and service providers (e.g., [Lee and Kim, 1999](#)), remains an important yet under-researched issue. While prior research has examined the types of inter-organizational conflicts and conflict resolution styles in joint ventures, networks, consortia, alliances, and trade associations ([Barringer and Harrison, 2000](#); [Cropper et al., 2008](#)) and in various inter-organizational contexts such as natural resource rights, labor relations, international relations, volunteering and manufacturing alliance networks (e.g., [Dyer and Nobeoka, 2000](#); [Mandell and Keast, 2008](#); [Molnar and Rogers, 1979](#); [Renner, 2007](#)), relatively little research has examined inter-organizational conflicts in the BSO context ([Ndubisi, 2011](#)).

Concerning BSO conflict research, the review mentioned above of empirical business process outsourcing (BPO) studies revealed only six findings that examined conflicts or conflict resolution ([Lacity et al., 2016](#)). In general, prior studies found that the ability to resolve conflicts in BSO relationships was significantly correlated with BSO outcomes ([Goo et al., 2009](#); [Ndubisi, 2011, 2012](#); [Rai et al., 2012](#); [Swar et al., 2012](#); [Winkler et al., 2008](#); [Wüllenweber et al., 2008](#)). Only two of these papers examined specifically how conflict resolution styles (integrating, accommodating and compromising) affected trust and commitment in human resource outsourcing (HRO) relationships using a survey of 122 Chinese and Indian providers ([Ndubisi, 2011, 2012](#)). The author found interesting cultural and gender differences: The compromising style had a significantly greater effect on commitment for the Chinese service providers than the Indian service providers ([Ndubisi, 2011](#)) and a “compromising conflict handling/trust relationship” had a significantly stronger effect for females than for males ([Ndubisi, 2012, p. 26](#)). Finally, from a qualitative study of 12 ITO relationships, [Kern and Willcocks \(2002\)](#) identified two types of BSO conflicts: (1) day-to-day problems and (2) operational, cultural and contractual problems. They found that the conflicts were either resolved by the operational managers or escalated to senior managers as specified by contractual procedures. While these BSO-specific studies established a link between conflict resolution and better BPO outcomes, it is clear that more research is needed to better understand BSO conflict types and the most effective conflict resolution processes.

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