CLIENT STRATEGIES IN VENDOR TRANSITION: A THREAT BALANCING PERSPECTIVE

Abstract

Many outsourcing contracts are expiring, and vendor transition is becoming an increasing concern in business. However, little research exists to help organizations manage vendor transition, a tripartite problem between the client, outgoing and incoming vendor. This paper applies balance of threat theory, a political science theory about interactions among nations, to explain and predict client strategies in vendor transition. The theory suggests that a client organization should pursue either a “soft” or “hard” balancing strategy, depending on the outgoing vendor’s capability and aggressive intent to disrupt client operations. A soft strategy is adopted when the perceived threat is low, while a hard strategy is adopted when the threat is high. A soft strategy requires the client to balance the incoming and outgoing vendors by reciprocating vendor overtures or remaining neutral in vendor disputes. With a hard strategy, the client allies with the incoming vendor and actively engages in the vendor transition process to directly counter the power and threat posed by the outgoing vendor. Balance of threat theory is explored across two case sites, one low threat, and one high threat. In addition to demonstrating the explanatory and predictive power of balance of threat theory, the empirical cases enable us to identify, in the context of vendor transition, specific tactics associated with the two broad strategies of hard and soft balancing, as well as key areas of dispute in vendor transition. The cases also demonstrate how hard and soft balancing tactics are used in these disputes.

Keywords: outsourcing, vendor transition, balance of threat
Client Strategies in Vendor Transition: 
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1. Introduction
IT outsourcing has become a mature industry, generating transactions of over USD 200 billion in value (Whitten and Leidner 2006). Given the field’s maturity, one emerging phenomenon is vendor transition, where client organizations engage new vendors after the expiry of outsourcing contracts with incumbent vendors. Studies project that 35 to 47% of outsourced contracts are expected to be re-tendered or back-sourced (Sweet 2006, Willcocks and Lacity 2006). 47% of organizations terminated at least one outsourcing relationship prematurely (Diamond Management Technology Consultants 2006). This further stresses the critical role of smooth vendor transition in reducing such untimely business disruptions to its lowest. In addition, with Gartner (2009) predicting that 25% of the top business process outsourcing (BPO) providers would likely disappear in 2012 due to market exits and acquisitions, as well as the rise of new vendors, the question of vendor transition has dramatically shifted from *if* to *when*.


Some research has explored the decision to back-source (Veltri, et al. 2008). However, work on this emerging phenomenon of vendor transition exists principally in the practitioner literature. Even in the practitioner literature, the focus is on vendor transition planning (Peterson 2003), for example, how vendor transition mechanisms should be embedded into outsourcing contracts (Veltri,
et al. 2008). A substantial amount of work laments that such planning is often not done (Barthelemy 2001, Barthelemy 2003). Work on the management of the vendor transition process is essentially non-existent.

The need to transit vendors can surface for a multitude of reasons not necessarily related to the performance of the outgoing vendor. For example, the vendor might be unable to meet future needs of the client because vendor operations cannot scale (Peterson 2003, Veltri, et al. 2008), the client might be undergoing a rationalization exercise, and wish to consolidate vendors (Anonymous 2006, Bahli and Rivard 2003, Dibbern, et al. 2008, Kern and Blois 2002, Levina and Su 2008), or the vendor could decide it no longer desires the client’s business (e.g., because the client is too small). Such a transition typically occurs after some years, during which the initial outsourcing arrangement settles and stabilizes, as both the client and vendor become entrenched in the outsourced operations.

Ensuring smooth vendor transition is challenging and such transitions pose very real possibilities of business disruption and even malicious sabotage. For example, the CEO of Minecode (a web design company) remotely deleted Vinado’s (a wine merchant) website, e-mail server, and database after a contract dispute (US Department of Justice 2009). After a contracting dispute with its vendor, marketing firm MarketingHelpNet found that it lost its website and e-mail, as its vendor had shut the site down. When Powergen purchased TXU in 2002, it attempted to end TXU’s relationship with the vendor Vertex. Vertex promptly sued Powergen to keep the contract in place (Hawtin 2006).

Given the importance of the topic, but the lack of existing research, the objective of this paper is to develop a theory of vendor transition management from the client perspective. The contribution of our research is an adaptation of balance of threat theory to the context of vendor transition management. Specifically, our study suggests that:

- The client’s response toward the outgoing vendor depends on the latter’s aggressive intent, aggregate power, and the former’s ability to mitigate that power.
- The client’s response toward the incoming vendor is associated with its posture towards the outgoing vendor.

Our research proceeds as follows. We first review the outsourcing literature, highlighting how the extant literature does not apply to the politically-charged and tripartite context of vendor
transition. In the next section, we elaborate on balance of threat theory (Walt 1988, Walt 1992, Walt 1994, Walt 1996), a tripartite theory from political science, and apply it to the context of vendor transition. We then present our research methodology and a description of two successful vendor transition cases – one where the perceived threat is low and the client organization responds with a “soft” balancing strategy, and the other where the perceived threat is high and the client responds with a “hard” balancing strategy. From our cases, we identify four areas of dispute in vendor transition, and highlight how a soft or hard balancing strategy shapes the client’s attitude and interaction in each kind of dispute. We also identify factors that predispose a client to soft or hard balancing. We conclude by highlighting limitations, contribution and exploring avenues for future research.

2. Challenges in Vendor Transition

A key challenge in vendor transition is the need to transfer all assets (physical, systems, people, knowledge, etc.) under extremely tight time frames and with limited staffing capacity. Once the decision to switch vendor is announced, the outgoing vendor leaves upon contract expiry regardless of whether the incoming vendor is ready. Within a short span of time, the client must ensure the incoming vendor can take on the new responsibilities. Technologies, tools, business processes, intellectual properties and knowledge have to be transferred between vendors, not just between client and vendor. Unlike initial outsourcing, such transfers occur under a more challenging context.

First, there is a stronger likelihood of vendor opportunism, given the outsourcing vendor, with its privileged access to details of clients’ operations and data over time, would have gathered sufficient in-depth and specific knowledge to hold the client organization hostage. This is particularly true in situations of unpleasant or “less than happy” contract termination. The outgoing vendor may be uninterested, dismissive, calculative, or even openly hostile during vendor transition. In many cases, the abilities of client organizations to address these issues during vendor transition are somewhat restricted, being bound by limits of contractual agreements. Saunders (1997), for example, noted that initial outsourcing contracts tend to favor the incumbent vendor, given that vendors are generally savvier at negotiating contracts than inexperienced first-time clients. Outgoing vendors may thus exploit such contract imbalance. These contracts limit client behavior (Natovich 2003) and may
not have adequate or effective clauses to ensure smooth vendor transition. For example, source code
developed to support client operations could be deemed the intellectual property of the outgoing
vendor, with the vendor holding the discretion to grant or deny access.

Second, unlike initial outsourcing that takes place in a bipartite client-vendor context, vendor
transitions typically involve an uneasy three-way relationship among the outgoing vendor, the client,
and the incoming vendor (Anonymous 2003, Anonymous 2006). The tripartite context changes the
dynamics of interaction. Outgoing vendors may have fewer concerns if the asset and knowledge
transfers are just back to the client organization. The presence of an incoming vendor who may
compete in the same market space creates inhibitions on the outgoing vendor. The outgoing vendor is
often reluctant to transfer assets such as source code or related documentation lest they give the
incoming vendor unintended access to its proprietary knowledge. This would hold true even for
client-specific assets (Barthelemy and Quelin 2006, Grover, et al. 1996, Hancox and Hackney 2000,
Levina and Ross 2003, Vandaele, et al. 2007), because such assets are often bundled with vendor-
specific assets (Anonymous 2007). Helpdesk tickets, for example, could be stored in the outgoing
vendor’s proprietary helpdesk application. In cases where knowledge of outsourced processes is
complex or tacit, moves by the incoming vendor to hire vendor personnel may be seen as staff
poaching by the outgoing vendor. Such sensitive scenarios are in stark contrast to the bipartite
context of initial outsourcing where the client is often too eager to transfer such personnel to the
vendor to reduce cost and to ensure seamless business continuity (Anonymous 2002, Costanzo 2002,
Jerry 2003). Client organizations may be surprised by the incumbent vendor’s antagonism towards
such personnel movement deemed by the latter as a mere “reverse” transfer. Thus, they need to
anticipate what a vendor may do and how the other vendor may react in managing vendor transition.
The way a client organization engages with one vendor is not independent of his engagement with the
other vendor. Vendor transitions must therefore be managed differently. Poor handling of such issues
will have severe consequences such as major business disruptions.

Generally, the literature examining IT outsourcing employs three principal theories (Sia, et al.
2008):
• **Transaction cost/agency economics:** The transaction cost/agency economics outsourcing literature postulates that costs associated with working with a vendor as opposed to an in-house team impact the decision to outsource (Barthelemy and Quelin 2006, Mayer and Salomon 2006, Miranda and Kim 2006, Oh, et al. 2006, Tanriverdi, et al. 2007, Tiwana and Bush 2007). It points out that differentials in labor cost can be offset by (for example) costs of control, coordination, and knowledge transfer (Dibbern, et al. 2008), cultural similarity (Gefen and Carmel 2008, Rai, et al. 2009), and business familiarity (Gefen, et al. 2008).

• **Resource-based Views:** Resource-based views postulate that the reason an organization outsources is because the vendor has valuable, rare, costly to imitate and organizationally embedded capabilities the organization lacks (Ang and Inkpen 2008, Barthelemy and Quelin 2006, Mayer and Salomon 2006, Wang, et al. 2008). The client outsources to the vendor to obtain these capabilities.

• **Social Exchange Theory:** Social exchange theory views suggest that outsourcing involves not only contracts, but relationships between client and vendor (Gainey and Klaas 2003, Goo, et al. 2009, Klaas 2003). Socially oriented trust, developed over time, strengthen an outsourcing contract (Gainey and Klaas 2003).

These existing theories do not explicitly address the heavy undertone of power and politics in vendor transition. Most tend to focus on rational analysis (e.g., in measuring level of asset-specificity of outsourced processes), but under-estimate the extent to which different parties (i.e., outgoing vendor, client, incoming vendor) actively bargain, negotiate, and engage in opportunistic or exploitative maneuvers. Moreover, none of these theories address the tripartite context in vendor transition. These outsourcing theories are typically bipartite in nature as they explore the management of client-vendor relationships through contracts and incentive design (transaction cost and agency theory) and relationship building (social exchange theory). For example, the way these theories would deal with vendor transition is to include provisions for smooth transition into the outsourcing contract or to rely on social obligations of the vendor to ensure smooth transition from their past relationship. The presence of the third party, and the possibility that the third party may shape the interaction.
between a client and vendor is not considered— a tripartite relationship is not the sum of two independent bipartite relationships, as actions by party A will influence the interaction between parties B and C. Existing theories are therefore inadequate in illuminating and guiding management strategies in vendor transition.

Moreover, the assumed context behind these outsourcing theories is often “in” an existing outsourcing relationship, rather than “out” of an existing outsourcing relationship context. How much of a contractual agreement negotiated or a good relationship built “in” an outsourcing relationship can remain effective in an “out” of relationship context is questionable. For example, an outgoing vendor could elect to violate contract terms, knowing that doing so would cause the client financial hardship. The outgoing vendor suffers no direct financial loss, as it is already exiting the contract, and could count on the client’s financial constraints and the complexity of the contract to deter a costly and hard-to-win lawsuit. The efficacy of contractual measures such as provisions for vendor transition is thus limited during vendor transition.

3. Balance of Threat Theory

We draw upon a political science theory called Balance of Threat Theory as a preliminary attempt to understand how vendor transition is best managed. Political science theories are not novel in IS and management research. Example theories employed include direct and indirect influence (Santos and Eisenhardt 2009), class conflict (Collins 1995), interaction theory (Markus 1983) and political leadership (Bryson and Kelley 1978). However, existing political science theories in IS are not easily applicable to the tripartite situation of vendor transition. It is for this reason that we introduce another theory, balance of threat theory, to the existing theories leveraged on by IS from political science.

Balance of threat theory predicts how one nation (the focal nation) perceives, reacts to, and balances the perceived threats to its survival posed by other nations. The focal nation considers not only its own ability to counter these threats, but also the possibility of allying with other nations to counter threats. Hence, threats arising from one nation can be mitigated externally by leveraging on the strengths of other nations. Depending on the level of perceived threat, the extent to which a focal nation allies with other nations differs. Balance of threat theory argues that the focal nation’s long
term stability and survivability derives in part from its ability to maneuver and achieve a balance of power against threats.

More specifically, a focal nation constantly evaluates the threat posed by other nations to its survival based on three factors (Walt 1996):

- **Aggressive Intent:** These are the actions of the other nation. A nation that has through words or behavior demonstrated hostility towards the focal nation is viewed as having aggressive intent. For example, historically, Russia and Germany have engaged in many wars. Germany is thus generally cautious when dealing with Russia. Russia’s recent action to cut gas supplies to Germany because of a dispute with the Ukraine demonstrates Russia’s aggressive intent.

- **Aggregate Power:** This is the total capability of the other nation vis-à-vis the focal nation. It includes the size of population of the nation, its industrial maturity level, arms investment and spending, and other capabilities to fight a war or initiate hostile actions. Such aggregate power can also be derived from a resource dependency of a focal nation on the other nation. For example, from the perspective of Germany, one aspect of Russia’s aggregate power over Germany is its role as a key supplier of natural gas to Germany. Disruption of natural gas supply could have severe consequences for the German economy.

- **Mitigation Ability:** This is the ability of a focal nation to defend and mitigate against the aggregate power of the other nation. Such capabilities need not require direct, offensive confrontation through internal building of military forces, but could also include indirect maneuvers such as media propaganda, economic embargoes, or in the earlier example of Germany, its ability to secure alternate sources of natural gas by investing in the planned Nabucco pipeline that routes through Turkey.

Where there remain threats that cannot be effectively mitigated by the focal nation, it will try to balance the residual threats by leveraging on its relationships with yet other nations. If the focal nation perceives a high threat, it will hard balance against that threatening nation. Hard balancing involves direct and confrontational strategies, where the focal nation develops strong allies with other
nations to diminish the threatening nation’s power (Sweeney and Fritz 2004). If the perceived threat is low, the focal nation will soft balance that threatening nation against others. Soft balancing refers to indirect and non-confrontational strategies (Paul 2004). In soft balancing, the focal nation enters into transient alliances of convenience, and acts to maintain a balance of power with other nations. In other words, if there are nation A and nation B, the focal nation would sometimes support nation A against nation B, sometimes support nation B against nation A, and sometimes not intervene between nation A and nation B with the intention of preserving the relative positioning of nation A and B against each other (Bar-Zohar 1972, Kinsella 1994, Wu 2005). The threats posed by one nation have a strong influence on the interaction dynamics of the focal nation with other nations. In hard balancing, the high threat from a nation encourages the focal nation to build a tight alliance with other nations (Auerswald 2004, Duffield 1992). In soft balancing, the lower threat drives an alliance of more equal tenor. The focal nation balances power by pitching the relative strengths of one nation against others. Hard balancing can be interpreted as a stance where one presents an aggressive face towards the threat, and a friendly face towards an ally. Soft balancing is a “neutral” point in the continuum, where one nimbly “balances” the power between two nations (Walt 1988, Walt 1994).

The balance of threat perspective seems highly relevant to the context of vendor transition. Organizations are not unlike nations in that they behave as self-interested actors that participate in an environment where multiple others compete and coexist. Like nations, organizations aim for long term stability and survival. Within the context of these assumptions, organizations (nation states) interact. The final outcome of the interaction depends on the power distribution among organizations (nations) involved in such engagements. Those holding more power can influence and control the others (Sterling-Folker 2006).

In an outsourcing context, client and vendor organizations are similarly engaged in political maneuvers to bargain, negotiate, and even “bully” to perpetuate their respective interest. Such

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1 There is a third, rare, case called bandwagoning, found principally in protectorate or other small nations that must curry favor in a strong, hostile neighbor (Schweller 1994, Sweeney and Fritz 2004). Bandwagoning occurs when a state has insufficient mitigation ability. Examples of bandwagoning include Denmark’s acquiescence to Nazi rule during World War II (Dethlefsen 1990), and Jordan’s alliance with Syria and Egypt during the six-day war (Oren 2002). In vendor transition, bandwagoning occurs when the client is unhappy with the vendor, but vendor transition does not occur, because the vendor is so entrenched the client cannot seek an alternative.
maneuvers are implicitly or explicitly deployed by clients and vendors even before the decision to switch vendor is made. For example, scouting for and conscious cultivating of alternate vendors strengthens clients’ power relative to their outsourcing vendors. Vendors, similarly, gain power by accentuating clients’ entrenched dependency as they adapt their offerings to the clients’ contexts and accumulate greater client-specific knowledge and assets. The threats behind these maneuvers, like military deployment and defense expenditure, remain “unrealized” until the actual decision is made to switch vendor. Then, unmitigated power of the outgoing vendor becomes a real threat that must be carefully counteracted to ensure smooth transition.

Client organizations involved in vendor transition need to simultaneously manage threats in two sets of inter-dependent relationships: (1) the (immediate) threat from the outgoing vendor which must be balanced by the availability of a strong incoming vendor alternative, and (2) the (longer-term) threat from the incoming vendor which must be balanced by the continued availability of the outgoing vendor as a credible future alternative. Similar to the context of threat balancing among nations, the outgoing vendor can be balanced against by leveraging on the strengths of an incoming vendor, and vice-versa.

Adapting the notion of hard and soft balancing, we would expect that with a hostile outgoing vendor, the client would reciprocate with a confrontational stance towards the outgoing vendor, insisting that the vendor meet contract obligations, and defining issues in a way that would protect its own interest. Conversely, the client would ally and be supportive of the incoming vendor, being ready to help the incoming vendor overcome problems that may arise during transition. In a dispute between the two vendors, the client is likely to support the incoming vendor over the outgoing vendor.

In a non-hostile outgoing vendor situation, the client would adopt a more arms-length and transactional stance. The client would make concessions to either vendor to reciprocate concessions made by the vendor. The client would also move to “play” or pitch the vendors against each other, for example, by explicitly and selectively comparing the strengths of one vendor vis-à-vis the other.

We believe balance of threat theory will give researchers insights to strategies in managing vendor transition. These threats (more likely to come from the outgoing vendor since the incoming vendor, being new, has relatively little aggregate power) should be assessable by analyzing the
aggressive intent and the aggregate power of the vendors, as well as the mitigation capabilities of the clients. We also argue that “soft” and “hard” balancing in BOT are plausible strategies in managing vendor opportunism in the tripartite relational context of vendor transition. In the next section, we describe how we select two contrasting cases to explore how clients enact hard and soft balancing strategies in vendor transition.

4. Methodology

Balance of threat theory focuses on the notions of perception of threat, and balancing actions (i.e., soft or hard balancing). To explore the relevance of balance of threat theory to vendor transition, we deliberately selected two polar cases (i.e., high threat versus low threat) to draw out conspicuous contrasts and differences (Yin 2003) in the client attitudes towards the outgoing and incoming vendor. This would allow an exploration of client strategies (hard or soft balancing) during vendor transition (Miles and Huberman 1994, Yin 2003).

4.1 Data Collection

In both cases, the IT division of the client invited us to observe the case site and develop case reports for the internal training of project managers. We obtained comprehensive access to written project documentation and conducted interviews with key stakeholders representing the client, incoming and outgoing vendor.

In both cases, vendor transition occurred over an 8 month period. Case 1 occurred from April 2005 to November 2005, and Case 2 from October 2005 to May 2006. Data for the cases were obtained from two sources: archival data, and interviews.

Archival data included minutes of meetings, slides of presentations made at meetings, tender specifications, contract bids, Excel worksheets, timeline and other project management charts, bug reports, transcripts of speeches made by senior executives about the transition, independent auditor reports, internal and client/vendor e-mails, tenders, bids, contracts, project schedule sheets, change request and other project documents. Essentially we had access to all project-related archival documents. Minutes of meeting were particularly informative. We had access to minutes of both operational level meetings (conducted on a weekly basis) and senior management meetings.
(conducted once every two months). We also obtained access to minutes written by the vendor, and client. In many cases, these minutes concerned the same meetings. This allows us a certain level of data triangulation (Klein and Myers 1999).

We conducted interviews both during the vendor transition, and after it. We conducted 25 interviews for Case 1, and 16 for Case 2. Since the focus of the study was on client perception of threat and client strategies in dealing with vendor transition, we primarily interviewed client personnel who were involved in the management of the project. To triangulate client perception of threat, and to better understand the issues that arose during transition, we supplemented client interviews with interviews of key personnel from the outgoing and the incoming vendor. Table 1 presents summaries of interviewees.

<table>
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<tr>
<th>Table 1: Interview Summary</th>
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<td>Case 1</td>
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<tr>
<td>Client</td>
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<tr>
<td>Outgoing Vendor</td>
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<tr>
<td>Incoming Vendor</td>
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It should be noted that while we solicited substantially more client than vendor interviews, this remains in keeping with balance of threat theory in that it is one’s perception of threat, rather than the degree of actual threat, that motivates one to act. This was also in keeping with our research question, which attempts to examine vendor transition from the client’s perspective.

Most interviews were at least an hour long. During interviews, at least two, and more commonly, three researchers were on hand to take notes. A tape recorder was not used, as interviewees were more comfortable discussing issues when a tape recorder was not present. To ensure that interview quality was not compromised by fatigue, we restricted ourselves to conducting usually two and no more than three interviews per day. Typically, there would be a lead interviewer, who asked most questions and maintained eye contact with the interviewee. The remaining two researchers focused on note-taking, paying close attention to nonverbal communication such as hand gestures and other actions (Eisenhardt 1989). The interview notes from all researchers were consolidated for each interview, typed within twenty-four hours by one of the researchers present at
the interview, and circulated to all interviewers. Any differences in the interview notes were quickly resolved through discussion and clarification among the interviewers.

Questions focused on strategies and issues surrounding the vendor transition, with a focus on the tripartite relationship between the client and vendors. In the initial interviews, interviewees were asked about their role in the vendor transition project, the tasks they were involved in, and the deliverables they were responsible for. In keeping with the research focus, we asked interviewees to highlight issues and problems raised during the vendor transition, and how the three separate organizations (client, and the outgoing and incoming vendors) attempted to address these issues, either as individual entities, as allies, or as adversaries. Further questions were asked, depending on what interviewees said, and what was gleaned from project documents, and other interviews.

4.2 Data Analysis
Our data analysis was performed at two levels. First, we reviewed each case at a macro-level to determine the client’s assessment of the threat from the outgoing vendor. We then moved to the micro-level to examine incidences of dispute during each vendor transition. We compared client assessments against the client’s dispute resolution strategies to unearth patterns.

Client Assessment of Threat: Given the exploratory and under-investigated nature of vendor transition, we did not have a priori guidelines to ascertain the client assessment of threat, and proceeded to do so in a grounded manner (Glaser and Strauss 1967, Strauss and Corbin 1990). We determined the client’s assessment of threat, by examining the interviews and project documents to identify evidence of the vendor’s aggressive intent, aggregate power, and client’s mitigation ability.

Aggressive Intent was inferred from observations of activity by the outgoing vendor prior to the transition period. We found that understanding the key rationale of the outsourcing exits (i.e., positive or negative), the re-contracting expectations of the outgoing vendors, and their expectation of the likelihood of future business opportunities was helpful in assessing vendor intent. For example, a vendor who did not expect to have repeat business with the client was likely to exhibit more aggressive intent. Such intent was demonstrated by actions detrimental to the interests of the client,
for example, withholding source code, or being uncooperative in the transfer of knowledge to the client.

Aggregate Power was determined by asking the client to identify ways by which a departure of the outgoing vendor could compromise client operations. As both clients did a risk assessment of the vendor transition, this data was readily accessible. Two factors were found indicative of aggregate power. First was whether the contract was for commoditized or customized work. The more customized a system was, the more likely a vendor would have aggregate power. A second factor influencing aggregate power was vendor span of control. Outgoing vendors who relied on subcontractors had less aggregate power, as the client or incoming vendor could circumvent the outgoing vendor’s authority by talking with subcontractors directly.

Mitigation Ability was determined by asking the client about its risk mitigation strategy. If a client could identify a way it could offset aggregate power on its own, it could be said to have mitigation ability. Two factors appeared to influence mitigation ability. First was the quality of the contract provisions. A contract that had vendor transition provisions gave the client more mitigation ability. Second was client knowledge of the outsourced business processes. A client that had business knowledge of the process the vendor was performing had better mitigation ability (Brusoni, et al. 2001).

Threat Balancing Strategies: Clients’ threat balancing strategies were most evident from client actions during disputes that arose during vendor transition. We first reviewed project minutes and interviews to identify key episodes of dispute. Examples of such disputes include the outgoing vendor objecting to the incoming vendor hiring of its employees, or the client disagreeing with the outgoing vendor over the ownership of IT assets such as source code. We then analyzed each dispute using the challenge, tactics, and resolution structure suggested by Paré (2004).

For challenge, we attempted to ascertain what the dispute was about. We then created a description and label for each dispute. For example, in case 1, the first dispute we identified was labeled “Dispute #1: “Write” access to source code”, and the summary description was that “Incoming vendor requested for early “write” access to source code for development, but outgoing vendor insisted on right to bar access until expiration of 3 month warranty period.”
For tactics, we identified the series of actions and counter-actions taken by the client. As balance of threat theory does not originate from vendor transition, it does not offer suggestions as to what tactics clients are likely to employ. We therefore identified tactics in a grounded manner (Glaser and Strauss 1967, Strauss and Corbin 1990). Examples of these actions included instances where clients elected to reject or dispute a claim made by the outgoing vendor, to support the incoming vendor in a conflict against the outgoing one, to reciprocate a positive action by the outgoing vendor, or to pitch the strength of one vendor versus another. We summarized client tactics associated with each dispute by creating a label and brief description that reflected the tenor of the client actions. For example, for Dispute #1 “Write” access to source code,” we characterized the client tactics as “Non-Interventionist: Client did not intervene, but let the two vendors sort it out between themselves.”

In resolution, we determined the outcome of the dispute. For example, in the case of Dispute #1 “Write” access to source code”, the client acceded to the outgoing vendor, and access to source code was limited until expiration of 3-month warranty period. In other instances of dispute, the client sometimes held the vendor to contractual terms, negotiated a compromise between outgoing and incoming vendor, or assumed the burden of filling in the performance gaps between the incoming and outgoing vendors.

After analyzing each instance of dispute, we characterized the client’s threat balancing strategy from the overall pattern of client actions that emerged from our analysis across the multiple instances of dispute within each case.

Case write-ups were presented to the company at the end of data collection. Multiple individuals in the organizations provided detailed comments which we have incorporated into our findings. Such validation by interviewees increases the quality of our data (Mason 1996).

5 Findings
We present each of the two vendor transition cases in turn, providing a brief overview of the transition context, and then describing the results of the analysis for client assessment of threat and threat balancing strategy.
5.1 Case 1
Case 1 involved a low threat vendor transition. The case focuses on the transition between vendors during a large enterprise resource planning system project in a large Asian logistics organization. This new system was to replace three separate systems for three subsidiaries (A, B and C) in the client with a standard enterprise system. The contract was valued in the hundreds of millions of dollars and involved several hundred people.

The company employed two separate vendors to be responsible for individual phases of implementation. The first vendor performed requirements analysis and design for three subsidiaries and implementation for one subsidiary. The design was to be largely standardized across the three business units, and modifications at implementation for each business unit were to be kept to a minimum. Near the end of the implementation for subsidiary A, senior management opened tender on the implementation contract for B and C. The first vendor participated in the tender but lost based both on price and deliverables. The second vendor won the bid and successfully implemented the system for the two remaining subsidiaries.

5.1.1 Client Assessment of Threat
Generally, the client viewed the outgoing vendor as low threat. While the outgoing vendor had moderate aggregate power over the client, it had exhibited little aggressive intent. Moreover, the client had sufficient mitigation ability against the outgoing vendor.

Aggressive Intent: At no point during the run up to the vendor transition did the outgoing vendor exhibit aggressive intent. The outgoing vendor performed its duties, and maintained a good working relationship with the client, despite losing the tender. We uncovered no obvious acts of hostility. Indeed, the client did not expect the vendor to be hostile, as they believed there was a quid pro quo between vendors in the industry.

In the IT industry, the top level know one another. They really work on a co-opetition model. [They could be] competing on one project, but could be working together for another bid. (Client)

Aggregate Power: Having developed the code and implemented the system architecture, the outgoing vendor had the capacity to seriously disrupt the transition. As it had configured the system
and implemented the custom code, it had specific knowledge about the system the client did not have. This was especially so, given that the system was poorly documented.

In preparation for upstream work, we realized the documentation was not in good shape. It was not organized. They had no strict document control, like a library, to keep track of key events. It was far from there. (incoming vendor)

However, the outgoing vendor did not have any particularly unique advantages in this case. For example, the outgoing vendor owned none of the code or intellectual property. Furthermore, the outgoing vendor had subcontracted portions of the work to freelance consultants who would continue with the incoming vendor. The outgoing vendor thus had a moderate level of aggregate power.

Mitigation Ability: The client possessed good mitigation ability. Members of the client’s project team had worked very closely with the outgoing vendor on developing the information system design. Unusual tasks client project team members performed included rewriting vendor documents to conform to client requirements, and participation in system integration testing. Normally, this kind of testing is only done by the vendor. Thus, despite the lack of good documentation, there was good knowledge retention as many of the client’s personnel were still around. Furthermore, the client legally owned the system source code, and other critical resources. It was therefore possible to reverse engineer the code to cover gaps in the documentation.

5.1.2 Threat-Balancing Strategies: Soft Balancing
By following the major disputes during the vendor transition, we noted that the client’s enacted strategies during the vendor transition were to stay hands-off and non-interventionist, preferring outgoing and incoming vendors to settle their disputes directly. Table 2 illustrates the soft balancing strategies in Case 1.

Dispute #1: Early “Write” Access to Source Code for Development. One conflict that arose concerned the incoming vendor’s request for early access to the source code. The incoming vendor wanted to make changes to the system to implement the system on time. The outgoing vendor argued that they could not allow such changes to be made while subsidiary A was still under warranty. They were concerned that inappropriate action on the part of the incoming vendor might be blamed on the outgoing one.
[Incoming vendor] also wanted access to the development system. But ... [outgoing vendor] could not open the system for writing, only reading until [cross-vendor governance rules were] in place. (Client)

### Table 2: Illustration of Soft Balancing Strategies in Case 1

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<tr>
<th>Challenge</th>
<th>Tactic</th>
<th>Resolution</th>
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<td><strong>Dispute #1:</strong> “Write” access to source code - Incoming vendor requested for early “write” access to source code for development, but outgoing vendor insisted on right to bar access until expiration of 3 month warranty period.</td>
<td>Non-Interventionist: Client did not intervene, but let the two vendors sort it out between themselves.</td>
<td>Access to source code was limited until expiration of 3-month warranty period.</td>
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<td><strong>Dispute #2:</strong> Staff “poaching” – Incoming vendor wanted some staff of outgoing vendor to ease knowledge transfer, but outgoing vendor objected.</td>
<td>Neutral facilitation: Client involved itself in negotiation between vendors, but adopted a neutral “fair” market practice stance</td>
<td>Parties agreed that only independent subcontractors could be recruited from the outgoing vendor’s team.</td>
</tr>
<tr>
<td><strong>Dispute #3:</strong> Interface design “flaw” – Incoming vendor argued the existing design would slow down the system and wanted outgoing vendor to redesign software code. Outgoing vendor insisted that the design was fine.</td>
<td>Independent 3rd party arbitration: Client distanced itself, refusing to be dragged into messy disputes and chose to hire another vendor to provide expert opinion in mediating the dispute</td>
<td>Third party decided that the design could work, but required more detail.</td>
</tr>
<tr>
<td><strong>Dispute #4:</strong> Cost of Interface Redesign – The redesign was undertaken by the incoming vendor, and the cost was borne by the client. The question arose as to whether the client had remedy against the outgoing vendor.</td>
<td>Reciprocate positive actions: Outgoing vendor willingly stayed on for another 3 months to provide system and helpdesk support despite the expiration of warranty. Client reciprocated by bearing the cost of interface redesign of several million dollars.</td>
<td>No actions taken against outgoing vendor for cost of interface redesign.</td>
</tr>
<tr>
<td><strong>Dispute #5:</strong> Inadequate Project Management - Client noted the inadequacy in project management by the incoming vendor.</td>
<td>Play-Off leverage: Client repeatedly compared the incoming vendor to the outgoing vendor, to reiterate the need for greater project management and soft skills in their consultants.</td>
<td>The incoming vendor improved.</td>
</tr>
</tbody>
</table>

The client elected not to get involved in this dispute. By doing so, they allowed the outgoing vendor to set permissions on the source code. The incoming vendor had no write access to the source code until the legal expiration of the outgoing vendor’s run-in clause. This meant the incoming vendor could make no changes to the source code until 3 months into the project.

**Dispute #2:** “Poaching” Staff from Outgoing Vendor. The incoming vendor wanted to hire some of the outgoing vendor’s staff to graft knowledge onto the incoming vendor team quickly. The
outgoing vendor refused to allow this, as its staff had signed a contract forbidding them to work with a competitor. It should be noted that such non-competition clauses have dubious standing legally. Nevertheless, the client respected the rights and prerogatives of the outgoing vendor by making no attempt to “unfairly” obtain vendor personnel. The client did not challenge the legality of the vendor’s non-competition clause with its consultants who worked on the client’s project. As a result, the incoming vendor could not hire full time employees from the outgoing vendor, but was able to hire independent subcontractors the outgoing vendor had recruited for the implementation.

Dispute #3: Interface Design “Flaw.” Another disagreement that arose between vendors concerned the design of a user-friendly menu/navigation interface for the enterprise system. The original design by the outgoing vendor employed a third party menu development engine mounted on a central server. The incoming vendor argued the design required processing by too many emulators/engines, including the Citrix remote connection emulator, the menu engine, and the enterprise system itself. Once users from subsidiaries B and C were factored in, the need to pass graphic and mouse-click information across the network would so slow down the system that transactions would time out. The incoming vendor recommended that the menus (and development engine) be mounted on the client end. This way, only menu instructions would be passed to the server. The outgoing vendor argued these issues did not require the extensive redesign recommended by the incoming vendor, but could be resolved by proper configuration of the various emulators/engines.

The outgoing vendor had strong reasons to dispute the incoming vendor’s argument. If it had acceded, it would have to perform a major redesign of a critical part of the implementation for free. The incoming vendor had strong reasons to dispute the outgoing vendor’s argument, because a failure in the menu system would have to be addressed by the incoming vendor during the implementation for subsidiaries B and C. The client also had a strong incentive to pressure the outgoing vendor, as requiring the incoming vendor to perform the redesign would cost the client millions of dollars in
additional change requests. However, the client elected to not make a decision in the dispute.

Instead, the client hired a third vendor to mediate the dispute.

_The requirement process - [Incoming vendor] says it can’t work, but [outgoing vendor] says it can. We had to bring [third vendor] to come in and arbitrate. [Third vendor] was very diplomatic and said, “It can work, but there’s not enough detail.”_ (Client)

**Dispute #4: Bearing the Cost of Interface Redesign.** The non-committal response by the third vendor meant the two vendors continued to argue about how the design was best carried out.

Although the client felt the incoming vendor had a more efficient design, it did not want to agree with the incoming vendor and subject its relationship with the outgoing vendor to unnecessary strain.

Indeed, the client was happy that the outgoing vendor provided a number of extra services that had not appeared in the contract. For example, they willingly stayed on beyond the warranty period to maintain the information system and helpdesk for subsidiary A, without charging additional fees, while the incoming vendor was ramping up.

_We’re happy they stayed around to close issues even after being paid. And we all knew. [Outgoing vendor] did their job. [Outgoing vendor] stayed around until November. The warranty ran out end August._ (Client)

Eventually, the outgoing vendor left without the dispute being resolved. The incoming vendor then charged the client for the redesign and implemented the redesign successfully on time. Despite having to incur a cost of several million dollars in the redesign, the client was satisfied with its hands-off approach as it did not compromise its relationship with either vendor.

**Dispute #5: Inadequate project management.** In other occasions, we observed the client “play off” the relative strengths between outgoing and incoming vendors. One example was the client’s attempt to pressure the incoming vendor into beefing up its project management. While the incoming vendor was technically competent in handling the transition, it was lacking in soft skills in managing the project. Its relationship with the client’s project team was deemed “cold.” The client highlighted its good working relationship with the outgoing vendor as a way to delineate its expectations with the incoming vendor. For example, the client would tell the incoming vendor what the outgoing vendor would do during management meetings.

[Incoming vendor] management team is very technical. But their project management is not as tight or savvy as what we were used to. ... The new team is not so tight. They’re not used
In summary, a coherent pattern of client actions was observed across the various episodes of disputes. The client was carefully neutral, neither allied to the outgoing nor the incoming vendor. Its actions were either non-interventionist, or when it did intervene, its actions were guided by fair market practice or reciprocity.

5.2 Case 2
Case 2 was a high threat vendor transition context involving a transition between the outgoing and incoming vendors responsible for a public organization’s online portal and customer call center. The development, operation and management of the facilities were established in early 2001 though a five-year outsourcing contract, as the client did not have such capabilities in-house. The portal provided e-services and lifestyle content to almost half a million individuals, linking them to the client on a 24x7 basis from any geographical location. Just before the vendor transition, the portal boasted a portfolio of over a hundred e-services. Users averaged about 500,000 transactions per month while the call center was handling close to 30,000 calls every month. The vendor had about 50 people on site to support the portal, and the total contract value fell just short of 100 million dollars.

Upon the expiration of the five-year contract, the client decided not to exercise the option to extend its outsourcing contract with the vendor. The incoming vendor was awarded the new contract through an open tender. Although the transition was challenging, the incoming vendor successfully took over the outsourced operations.

5.2.1 Client Assessment of Threat
The context of vendor transition in Case 2 was adversarial, given the aggressive intent of the outgoing vendor. Client dependence on the outgoing vendor accentuated its aggregate power. Making matters worse, the client only had limited mitigation ability against the outgoing vendor, resulting in a high threat situation.

Aggressive Intent: The rationale for exit of the outsourcing vendor was negative. The performance indicators in the old contract had not been worded well, and thus failed to correctly
incentivize the outgoing vendor. The vendor had focused narrowly on meeting the minimum performance standards required in the contract. The client had approached the vendor and expressed unhappiness with the vendor’s performance. However, the vendor refused to amend its behavior, pointing out that it was fulfilling its contractual obligations.

*The old contract lacked flexibility...It was not componentized. We didn’t have much control over the service level agreement, as it was tied to the main contract. Quality was not a strong factor and the qualitative KPIs were very vague. It was the minimum standard in the contract. [The analogy is like] if the light bulb is working, you cannot ask them to change the light bulb even though it’s not very bright. It’s not in the contract. The light bulb is still working.* (Client)

The vendor’s behavior was uncooperative. For example, although the vendor knew the client was unhappy with the contract, when the vendor was invited to bid, it spent little effort in wooing the client and produced exactly the same contract terms as previously. The vendor also took a somewhat threatening stance towards the client organization when it sensed that the contract might not be renewed.

*They isolated themselves, and tried to use different hard tactics to win the contract. They tried to frighten us with the risk of transition, that it would be a disaster if we switch vendor. They were so confident.* (Client)

**Aggregate Power:** The outgoing vendor had strong aggregate power over the client in this case. As the client had limited internal e-commerce knowledge and capabilities, the web portal and call center management was outsourced under a “develop-operate-own” arrangement with the vendor. Although the client provided inputs and received outputs from the portal system, it had little understanding of the technical configuration of the web portal and call center. Moreover, the vendor had customized the systems heavily to cater to the client’s specific requirements. Customized aspects of the system included specialized interfaces to multiple internal departments, security configuration, and work done to cater to changes in internal policies.

**Mitigation Ability:** At the same time, the client’s ability to mitigate threats was limited. For one, asset ownership and vendor transition provisions had not been clearly specified in the contract. For example, ownership of the source code and the data had not been clearly demarcated such that the outgoing vendor was able to make a claim to both.

*The previous contract was not as tight and there was argument of who owned the data.* (Incoming vendor)
In addition, the client had lost significant process knowledge over time as the outsourced operations had been developed and operated by the outgoing vendor for the last 5 years. Documentation on the web portal and call center management was essentially non-existent. The little existent documentation was in the hands of the outgoing vendor.

Initially we just needed the call flow from [outgoing vendor] but we got something from them that was outdated. Despite our best effort, we didn’t get what we want and it took us a lot of time. There were errors and omissions. It was a painful process also. (Incoming vendor)

The lack of up-to-date documentation coupled with client personnel turnover meant the client had forgotten the details of the portal operations. The client, thus, had little ability to address vendor strengths on their own.

Overall, the client’s assessment of threat for this vendor transition was high, since (1) the outgoing vendor had signaled aggressive intent through its uncooperative behavior, (2) the outgoing vendor had the upper hand in terms of knowledge of the system and operating processes as well as ownership of key assets, and (3) the client’s ability to mitigate risk was low due to inadequate knowledge of the system and processes, and inadequate contractual protection.

5.2.2 Threat-Balancing Strategies: Hard Balancing
We noted that the client’s enacted strategies during the vendor transition were to ally closely with the incoming vendor, given that the outgoing vendor was generally antagonistic and uncooperative. The client often intervened to negotiate and demand more from the outgoing vendor. Table 3 illustrates the hard balancing strategies in Case 2.

Dispute #1: Disagreement over ownership of key resources. The vendor owned a number of key assets of the portal. One critical asset in dispute was the domain name. As part of the portal development, the vendor purchased the domain name (for a cost of less than 30 dollars), with the URL bearing the initials of the client’ name. With the vendor transition, the vendor insisted on charging the client “market rate” for the domain name - “a seven-figure sum.” The client refused to pay for the domain name, and instead purchased a new one. A large number of references both within the portal application and in applications linking to the portal application had to be restated. A publicity campaign was also mounted to notify the portal’s almost half a million customers. All customers had
to create new accounts with new passwords on the migrated system. The outgoing vendor eventually converted the old portal into a commercial lifestyle portal, though without much success.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Tactic</th>
<th>Resolution</th>
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<tbody>
<tr>
<td><strong>Dispute #1: Disagreement over ownership of key resources:</strong> Client assumed that the domain name would be retained in the transition to the new vendor. Outgoing vendor wanted a “7-figure sum” for the portal domain name and claimed the log-in accounts were also their own customers.</td>
<td><strong>Partners incoming vendor to circumvent outgoing vendor demands:</strong> Client acquired alternative domain name and actively worked with incoming vendor to plan the migration of customer log-in accounts</td>
<td>Alternative domain name was used, and almost half a million customers were moved to the new site.</td>
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<tr>
<td>Ownership of interface scripts with client’s internal applications</td>
<td><strong>Incoming vendor, with client assistance, rewrote source code</strong></td>
<td>Rewritten source code employed in new portal</td>
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<td><strong>Dispute #2: Poor quality of system and process documentation</strong> Outgoing vendor claimed that they should be paid for updating and handing over documentation.</td>
<td><strong>Intervenes by monitoring vendor-to-vendor interaction:</strong> Client paid for outgoing vendor work. Client monitored outgoing vendor performance during the hand over.</td>
<td>New portal essentially redeveloped from scratch</td>
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<td>Subsequently, outgoing vendor still submitted incomplete and erroneous documentation.</td>
<td><strong>Client allocates large team to recreate missing information</strong></td>
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<td><strong>Dispute #3: Uncooperative behaviors of outgoing consultants</strong> - Consultants from outgoing vendor failed to attend transition project meetings, citing busy schedule and other work commitments. Incoming vendor complains that work cannot progress as planned.</td>
<td><strong>Intervenes by insisting that outgoing vendor meet obligations:</strong> Client insisted on the presence of outgoing vendor managers during project meetings to facilitate discussion.</td>
<td>Outgoing vendor attended the subsequent meetings.</td>
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<td><strong>Client coordinated with incoming vendor to work around outgoing vendor’s schedule, leaving outgoing vendor few excuses to avoid their obligations</strong></td>
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<td><strong>Dispute #4: Staff “poaching”</strong> – The incoming vendor advertised on-site and recruited some staff of outgoing vendor. The outgoing vendor protested this as “unethical” practice</td>
<td><strong>“Biased” facilitation:</strong> Client resorted to formal and high level negotiation, involving senior management for all parties and actively lobbied for support for the incoming vendor to facilitate smooth transition</td>
<td>Outgoing vendor agreed to the recruitment of some staff by the incoming vendor, but only releasing them a few days before the cutover</td>
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<td><strong>Dispute #5: Drop in service level</strong> - Outgoing vendor started scaling down portal and call center support operations and affected operations.</td>
<td><strong>“Calculative” haggling:</strong> Client was calculative, and did not feel obliged to “relax” requirements on outgoing vendor, but to insist that the vendor meet all its contractual obligations. Fulfillment gaps were actively followed up or used as bargaining chips for negotiation in trading for other client demands</td>
<td>Outgoing vendor agreed to work with incoming vendor to manage the scale down systematically, including the release of some staff recruited by the incoming vendor</td>
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<tr>
<td><strong>Dispute #6: Failure in meeting agreed KPIs during transition</strong> - Because of the various problems, incoming vendor was concerned with its ability to meet the KPIs in the contract in its first year.</td>
<td><strong>Supportive actions with willing compromise:</strong> The client was sympathetic to the incoming vendor’s concerns and willingly relaxed their contracted performance expectation</td>
<td>Client did not strictly insist on the meeting of KPIs for payments</td>
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Table 3: Illustration of Hard Balancing Strategies in Case 2
The client also had to address assets whose ownership status was not clear. For example, the outgoing vendor laid claim to the data in the databases. This issue was eventually resolved by distinguishing between data created by customers on the portal for transactional services (owned by client) and for lifestyle content (owned by vendor).

So it was decided that what comes out from our ... database belongs to us, and what [customers] sign up with them belongs to [outgoing vendor]. (Client)

For example, even usernames and passwords were considered to be owned by the outgoing vendor and not the client.

The ownership of the interface scripts with the client’s internal applications was also in dispute. Again, the outgoing vendor felt this was their intellectual property.

They said that since they developed the brokers, they owned the IPs [intellectual property]. They argued that they were not contractually bound to pass them over. (Client)

The dispute over code was never satisfactorily resolved. In the end, the incoming vendor rewrote the disputed code.

**Dispute #2: Poor system and process documentation.** There were aspects of the portal application whose ownership was not in dispute. The outgoing vendor nevertheless attempted to make vendor transition difficult by throwing up other obstacles. As one example, the outgoing vendor argued that while some of the intellectual property should be provided to the client, the outgoing vendor should be paid for the time spent doing the transfer. The client agreed to pay the outgoing vendor for their time. However, what the outgoing vendor delivered was clearly substandard.

[Incoming vendor] shared that we have already provided a comprehensive list of project information required from [Outgoing vendor] since Oct 05. [Incoming vendor] has also run through the list with [Outgoing vendor] on 17 Nov. However, the key challenge faced by the team was information provided by [Outgoing vendor] tends to be piecemeal and incomplete. (Minutes of meeting 25 Nov 2005)

As one example, the outgoing vendor was requested to produce documentation on the database schema for the incoming vendor. The outgoing vendor gave the incoming vendor incomplete information, literally omitting certain tables and attributes. It should be noted that most relational database management systems have automated facilities for describing an entire database. Thus, it is difficult to ascribe the omission of this data to a technical error.
[Vendor project manager] highlighted that his team had noticed some missing tables (e.g., missing ebook schema) and some of them were being referenced and seemed required, though they are not necessarily part of the eService (and thus not sure of impact). He requested [outgoing vendor] to release the entire database schema to [incoming vendor] to facilitate the apps testing. (Minutes of meeting January 6, 2006)

In other cases, code the incoming vendor wanted was argued to overlap with code that was the intellectual property of the outgoing vendor. The incoming vendor had to travel to the outgoing vendor’s offices to read paper copies of the code.

Through [Client IT] intervention, new vendor went to the incumbent to review code but were not given copies of it. Based on the review, [incoming vendor] reverse engineered it. [Outgoing vendor said they] cannot show full code, because they got other customers too. [They said, ‘there’s] ‘no documentation. You want it, you read the code.’ So we brought [incoming vendor] down to read the code. (Client)

Because of the difficulties in obtaining system and process documentation from the outgoing vendor, the client expended serious resources to re-learn and regenerate this knowledge. To cover the knowledge gaps, the client increased its staffing, involving over 100 subject matter experts in operations related to the portal. These staff helped the incoming vendor gain knowledge on user requirements. This building of knowledge proved to be critical, as in the end, the incoming vendor had to redo the portal, essentially from scratch. Employees worked “18 hour days,” “even coming back on Sundays” to perform this task.

Dispute #3: Uncooperative behaviors for transition project meetings. Although the outgoing vendor had agreed to facilitate transition, their actions during the transition project meeting were inconsistent. For example, the outgoing vendor did not attend vendor transition project meetings regularly, resulting in delay to the project handover schedule. The client demanded an outgoing vendor presence, adjusted the meeting dates to suit the outgoing vendor and changed the meeting format such that all issues requiring outgoing vendor input were discussed first.

As [Outgoing vendor manager] is not available every Friday morning due to his regular project meetings with [another company], the meeting has agreed to reschedule the subsequent Friday’s Coord meetings to the afternoon. (Minutes of meeting 25 Nov. 2005)

Client senior management had to spend significant amounts of time and effort exerting pressure on the outgoing vendor to ensure at least some level of knowledge sharing or transfer occurred during the transition.
Dispute #4: Staff “poaching.” The incoming vendor attempted to ease learning from scratch by recruiting several employees from the outgoing vendor. As the incoming vendor project manager noted, “If we bring them in, they know the business and we are immediately on par.” The incoming vendor put on a road show advertising for positions and some were willing to be transferred over. However, the recruitment of these officers was particularly sensitive. The outgoing vendor accused the incoming vendor of poaching their staff which would drain its staff resources and adversely affect service quality before termination.

[Outgoing vendor CEO] was complaining that [incoming vendor] was poaching their staff. [Incoming vendor] did go down to [outgoing vendor] for a road show. It was in an open manner and mainly for the call center staff ... All [Client] wants is seamless transition (Client).

The outgoing vendor protested that these actions of the incoming vendor were “unethical.” The client escalated the issue to the senior management of all three parties. After much deliberation, which included the client’s repeated emphasis to the outgoing vendor that they had to meet their professional obligation to ensure smooth transition, the outgoing vendor agreed to release staff to the incoming vendor. The outgoing vendor included a caveat that staff be only released a few days before the actual cutover.

Dispute #5: Drop in service level by outgoing vendor. Although the vendor transition was still in progress, the outgoing vendor had begun pulling its staff away from the portal and call center to work on other projects, resulting in a drop in service level.

[outgoing vendor] doesn’t see itself having a significant flow of business from [Client] from then (when they lost the contract), so they don’t need to leave a good impression. They were pulling out core resources even from [portal] ... [outgoing vendor now has] less than 50 people [onsite] – 20 plus from Helpdesk, about 15 for core. (Client)

Client raised this as a contractual breach and demanded no drop of service level. Outgoing vendor then agreed to work with the incoming vendor to manage their scale down more systematically, including the early release of some staff recruited by the incoming vendor.

Dispute #6: Incoming vendor’s failure to meet agreed KPIs during transition. Given the various transition challenges, the incoming vendor failed to meet the agreed KPIs and was concerned with their ability to do so in the near future. Instead of taking a tough stand, the client gave repeated assurance to the incoming vendor that they would not insist on the meeting of these KPIs for
payments. They were striving for a long term partnership. The supportive stance was consistent throughout the transition process. The client actively found ways to help the incoming vendor get things working when they came “crying on our shoulders.” As noted by the incoming vendor,

*For other projects, [Client] is like ‘I-am-managing-the-vendor’ type. Here, we worked closely as partners. We were very open with each other. If [Client] couldn’t do, we did, and vice versa. We didn’t bring in contracts during meetings. The relationship is that – if you fail, I fail as well. The support from [Client] was very strong.* (Incoming vendor)

In summary, the client’s action in this second case of high threat transition can be characterized as interventionist, with the client getting actively involved in all episodes of dispute. The client allied with the incoming vendor, and client actions towards the incoming vendor were supportive, with the client being willing to compromise and to help the incoming vendor do its job. On the other hand, the client responded to the outgoing vendor’s aggressive intent by taking a tough stand and emphasizing outgoing vendor obligations, engaging in calculative haggling and influencing negotiations to favor the client and incoming vendor’s joint interests.

### 6 Discussion

As we compared our findings across the two cases, we found broad support for our balance of threat theory of vendor transition – that the client takes a soft-balancing approach when it perceives that the threat is low (Case 1), and a hard-balancing approach when it perceives the threat is high (Case 2). These approaches are characterized by a set of specific tactics the client organizations employed. Table 4 summarizes our findings on the soft and hard balancing strategy and the associated tactics that we observed for each.

Our comparison of the two cases reveal a marked difference in the clients’ tactical actions in a high threat versus low threat situation that juxtaposes the contractual (Domberger, et al. 2000, Gefen, et al. 2008, Gopal, et al. 2003, Yost and Harmon 2002) and social relationship (Gainey and Klaas 2003, Goo, et al. 2009, Klaas 2003) considerations identified in the literature. Specifically, the extent of client involvement, the client’s orientation towards the outgoing vendor, and the client’s orientation towards the incoming vendor were in strong contrast.
Table 4: Threat Balancing – Hard and Soft Strategies and Tactics

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<tr>
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<th>Soft Balancing</th>
<th>Hard Balancing</th>
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<tr>
<td>Client’s involvement</td>
<td>Passive, Hands-off, Non-interventionist</td>
<td>Active, Hands-on, Interventionist</td>
</tr>
<tr>
<td>Client’s orientation towards outgoing vendor</td>
<td>Neutral, Reciprocal, Hedging</td>
<td>Antagonistic, Formal, Calculative</td>
</tr>
<tr>
<td>Client’s orientation towards incoming vendor</td>
<td>Neutral, Reciprocal, Hedging</td>
<td>Close Ally, Informal, Supportive</td>
</tr>
<tr>
<td>Client’s tactical actions</td>
<td>Encourage direct vendor-to-vendor negotiation</td>
<td>“Biased” facilitation, often involving senior client management to protect interests of incoming vendor</td>
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<td></td>
<td>Neutral client facilitation emphasizing “fairness” to both, resorting even to independent 3rd party for arbitration</td>
<td>Scrutinize contract to ensure full fulfillment of vendor obligations while limiting client efforts strictly to contractual obligations</td>
</tr>
<tr>
<td></td>
<td>Reciprocate “favors” for positive vendor actions outside formal contractual obligations</td>
<td>Calculative haggling with outgoing vendor while compromising on incoming vendor deliverables</td>
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<td></td>
<td>“Play-off” strengths of one vendor against the other</td>
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In a high threat situation, as in Case 2, we see active, hands-on involvement by the client, who intervenes to resolve problems or disputes. There is a strong determination by the client to hold the outgoing vendor to agreed contractual terms or its professional obligations. The stance is formal, calculative, and almost antagonistic. In contrast, the client’s orientation towards the incoming vendor was informal and supportive, to the extent where the client did not adhere to agreed contract provisions. The client preferred to prioritize the building of a stronger social relationship with the incoming vendor. In the hard-balancing strategy, the client embraces a short-term perspective and attempts to achieve immediate results, while running the risk of “burning bridges” with the outgoing vendor and locking itself into a long-term relationship with the incoming vendor.

In a low threat situation, as in Case 1, the client adopts a passive, hands-off approach, choosing not to intervene in resolving problems and disputes between vendors. We also see a greater
element of “fairness” and “impartiality” in its orientation towards both the outgoing and incoming vendors. The client’s stance is neutral and non-committal to any one party. Goodwill gestures by either vendor are reciprocated. The strategy is mixed, without consistently favoring one party over the other. Moreover, the client also pitches the vendors against each other, playing off their strengths to encourage vendors to match up to, or even exceed the performance of the other. The client appears to embrace a longer term perspective, as the soft balancing strategy enables greater market leverage by cultivating a set of ready and comparable vendors to protect the client’s future interests.

As we have seen in the two cases, the hard and soft balancing strategies confer some benefits and involve the incurrence of some costs. Their specific deployment seems contingent upon the level of threat perceived. Our case analyses thus suggest that the client manages vendor transition not only by ensuring adequate contractual provisions, building strong social relationship, and developing internal competency, but by balancing the threats posed by vendors. Such tactics are enacted as the client varies the extent of its involvement, and its orientation towards outgoing and incoming vendors. The BOT perspective appears useful as it not only sensitizes the client to the importance of strategizing for vendor transition, but also pushes the client to look beyond its own resources to manage outsourcing exits, i.e., how it can better tap the external market through the formation of vendor partnership and alliance in the wider eco-system of IT outsourcing. In fact, such balancing of threats should be more carefully monitored and managed even before they are realized in the actual occurrence of vendor transition.

The cross-case comparison also showed an interesting similarity between the two cases – that despite differences in threat perception, four types of disputes were observed across cases. The identification of these categories of disputes helps to further ground the theory in the vendor transition context. It highlights the likely areas of disputes that client organizations will need to be prepared to address through their selected soft or hard balancing strategy and related tactics.

**Ownership/transfer of knowledge assets:** In both cases, transfer of property was a key area of dispute. In case 1, a dispute arose between the outgoing and incoming vendor as to the incoming vendor’s write access to the source code. In case 2, the outgoing vendor laid claim to all manner of knowledge assets, including source code, data, and even the domain name.
Transfer of Staff: In both cases, the incoming vendor desired to obtain staff from the outgoing vendor. Tacit knowledge often resides with outgoing vendor staff, and there is therefore strong incentive for the incoming vendor to appropriate such knowledge through hiring. The outgoing vendor is likely to object, as it will not want its personnel moving to a competitor.

Scope of Work: Both cases highlight the scope of work disputes in vendor transition. In case 1, the vendors disputed responsibility over the design of the user interface. In case 2, disputes over the quality of the outgoing vendor’s documentation arose. Grey areas arise during vendor transition with regard to “who is responsible for what.” The incoming vendor may blame the outgoing vendor for defects found in the system, and the outgoing vendor may assert that outstanding work is the responsibility of the incoming vendor.

Vendor Performance: Finally, disputes arise over the incoming or outgoing vendor’s performance. The incoming vendor is less familiar with systems and client organization culture and processes than the outgoing vendor. In case 1, the client preferred the outgoing vendor’s project management style, and wanted the incoming vendor to step up project management efforts. In case 2, the incoming vendor had difficulties meeting its KPIs during the transition because the outgoing vendor was being uncooperative. In case 2, the client also had issues with the outgoing vendor’s performance, as service levels for the call center and portal dropped when the outgoing vendor scaled down its operations.

As the cases show, each type of dispute can be addressed using soft or hard balancing tactics. For example, in disputes over the ownership/transfer of knowledge assets, balance of threat theory suggests in a soft balancing situation, the client may not actively pursue disputed knowledge assets, while in a hard balancing situation, the client will actively intervene to secure or recreate knowledge assets. In case 1, the client allowed the outgoing vendor to enforce a three month block on the incoming vendor’s write access, even though this could delay the project. In case 2, the client invested significant resources to recreate a new portal and shift customers to it.

7 Implications for Research and Practice

The study contributes to the increasingly salient topic of vendor transition by providing a theoretically based framework for examining why and how organizations manage vendor transitions. Specifically,
we apply and adapt Balance of Threat Theory (BOT) from political science, because it is one of the few theories that concerns managing a tripartite relationship. BOT introduces several concepts that we find helpful to the study and understanding of vendor transition.

Why a client takes a particular approach to managing vendor transition may be explained by the concept of the client’s perception of threat (comprising the vendor’s aggressive intent, aggregate power, and client’s mitigation ability), and the concept of soft and hard balancing strategies, which provides a way to classify how clients deal with vendors during transition. The two empirical cases further enrich the framework by enabling us to surface the tactics that a client organization may use for each strategy, as well as identifying four types of disputes that will require the application of vendor management strategy and tactics.

Fruitful avenues for further research include examining how the level of threat can be managed, for example by identifying ways the client organization can increase its mitigation ability. Further research is also needed to increase our collective knowledge of the repertoire of hard and soft balancing tactics, and the relative effectiveness of various tactics for different types of disputes.

The study has several implications for practice. First, it shows that the client organization should assess the level of threat well before vendor transition takes place, and that the management of threat is an ongoing and dynamic process. For example, the client organization should ensure sufficient investment in knowledge of systems and processes (Brusoni, et al. 2001), as well as the cultivation of alternative vendors so that it will not be held hostage by the incumbent vendor.

The types of disputes identified are useful for sensitizing the client organization to types of eventualities (e.g., various knowledge assets, transfer of personnel, delineation of work among client, outgoing and incoming vendor transition performance) that it should consider upfront at the point of contracting. Also, given that not all disputes can be fully anticipated, it would be good to have an agreed upon approach for escalation and dispute resolution. Finally, client organizations may draw on the broad strategies and specific tactics identified to manage vendor transition.

As with all research, ours suffers from a number of limitations. Notably, our research examined and extrapolated findings from only two case sites. Furthermore, our sampling strategy focused heavily on the client, rather than seeking a balanced perspective across all three stakeholders.
(i.e., client, incoming, and outgoing vendor). These limitations do not invalidate our findings, especially given the lack of research in the field, and the fact our research question was client-focused. However, they do not allow us to examine vendor-specific strategies during vendor transition. Future research needs to be done using alternate methodologies to fully examine the emergent and critical phenomenon of vendor transition.

Our research also only examines successful incidents of vendor transition. Future work must investigate why vendor transition fails. Balance of threat theory would suggest such failures are a result of under-balancing (Schweller 2004, Schweller 2006), i.e., a situation where one party mis-evaluates the threat posed by another. If a client incorrectly employs a soft-balancing strategy, the incoming vendor is left to itself. The incoming vendor could be unfairly “bullied” by an antagonistic outgoing vendor. Frustrated with the lack of support from the client, the incoming vendor might grow resentful, thus affecting their future working relationship.

Finally, we do not examine the long-term implications of particular balancing strategies on the client-vendor relationship. For example, a hard balancing client who is overly supportive of an incoming vendor may face consequences such as over-dependence on a poorly performing vendor as the client burns bridges with outgoing vendors. Future research on all these topics is important to fully understand the complex phenomenon of vendor transition.

References


