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ABSTRACT

Many outsourcing contracts are expiring, and vendor transition is an increasing concern. This paper attempts to develop guidelines for vendor transition by applying balance of threat theory, which suggests 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. Balance of threat theory is explored across two contrasting case sites. In addition to demonstrating the relevance of balance of threat theory, the cases identify specific tactics associated with hard and soft balancing, as well as key areas of conflict in vendor transition.

1. Introduction

One emerging outsourcing phenomenon is vendor transition, where client organizations replace incumbents with new vendors. A new vendor is chosen for many reasons, including client dissatisfaction with the incumbent, the inability of a vendor to scale to future client needs (Veltri et al., 2008), vendor consolidation (Dibbern et al., 2008; Levina and Su, 2008), or that the vendor no longer desires the client's business. Regardless, vendor transition is risky and complex, and therefore requires careful management.

Typically, such transitions occur after some years, with the vendor becoming entrenched in the outsourced operations. Moreover, transitions often occur under tight time frames, limited resources and staffing capacity. The outgoing vendor leaves upon contract expiry, regardless of whether the incoming vendor is ready; the client must ensure the incoming vendor can assume new responsibilities. Technologies, tools, business processes, intellectual property and knowledge have to be transferred. Furthermore, outgoing vendors may behave opportunistically, as they have client-specific knowledge and expertise to hold clients hostage. Vendor transitions thus pose a serious threat of business disruption.

Yet, little research examines this emergent phenomenon (Lacity et al., 2009). Most research focuses on determinants of the outsourcing contract, contract execution of and the assessment of outsourcing outcomes (Blaskovich and Mintchik, 2011). Recent research investigates multi-sourcing (Bapna et al., 2010; Levina and Su, 2008; Su and Levina, 2011; Tiwana et al., 2008), back-sourcing or insourcing (Qu et al., 2010; Veltri et al., 2008), and the cost of vendor switching (Whitten et al., 2010; Whitten and Wakefield, 2006). None focuses on the delicate process of vendor transition – what should clients do after the decision to switch vendors has been made? As discussed later, insights on vendor management from the wider outsourcing literature cannot be readily applied to vendor transition.

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This paper *suggests tentative guidelines for vendor transition management from the client perspective* and proceeds as follows. We first review vendor management in the outsourcing literature, highlighting how it does not fully explain the weak governance and dual-vendor context of vendor transition. We then demonstrate how balance of threat theory (Walt, 1994, 1996) helps close these gaps by suggesting vendor management strategies. We next present our research methodology and a description of two contrasting but successful vendor transition cases. Findings are then analyzed and discussed. We conclude with limitations, contribution and future research.

2. Challenges in vendor transition

While not directly addressing vendor transition, the outsourcing literature highlights that clients manage vendors using formal and relational governance (Poppo and Zenger, 2002; Puranam and Vanneste, 2009). Formal governance employs institutional structures such as laws, contracts, service level agreements, and the appointment of vendor liaisons to align vendors with client needs. Relational governance employs social exchange and non-contractual agreements (Poppo and Zenger, 2002). Trust is often required for relational governance because it generates confidence and cooperation in the relationship (Goo and Huang, 2008; Heiskanen et al., 2008). The client continuously evaluates its trust in the vendor based on three vendor characteristics: (1) integrity – the vendor's openness, honesty and sincerity; (2) benevolence – the vendor's willingness to consider client interests, even when they conflict with the vendor's; and (3) ability – the vendor's capability to deliver to the client (Ganesan, 1994; Gefen, 2004).

These governance mechanisms assume a continuing relationship between client and vendor (Ganesan, 1994; Gefen and Carmel, 2008). A vendor desiring to continue is less likely to engage in opportunistic behavior, and more likely to fulfill contractual obligations and build the relationship.

In vendor transition, the outgoing vendor knows it will be terminated and is thus more likely to behave opportunistically and recourse to formal governance is limited (Natovich, 2003). Sometimes, the client does not adequately specify contractual clauses to protect itself. Initial outsourcing contracts tend to favor the incumbent, given vendors are generally savvier at negotiating contracts than inexperienced first-time clients (Saunders et al., 1997). Even where clauses to ensure smooth transition exist, the outgoing vendor may renege on contractual terms, gambling that contract complexities, the time required to resolve a legal dispute, or a history of practice deviating from contract terms make it unattractive for a client to pursue legal recourse. Indeed, factors outside the law such as negative publicity may be stronger influences on vendor behavior than the contract.

The client's ability to rely on relational governance is also limited. Even when the relationship with the outgoing vendor is good, the vendor may not reciprocate client goodwill. Vendors operate under constraints, e.g., other engagements require vendor resources, and face competing interests, e.g., protecting proprietary knowledge from a new vendor. Helping an ex-client transit is unlikely to be a priority.

Moreover, existing vendor management research assumes either a single bipartite relationship between one client and vendor, or a multi-sourcing arrangement where vendors have different work roles. In a vendor transition, the client simultaneously deals with two different vendors, one outgoing and one incoming who is the substitute (Anonymous, 2006). This influences interaction dynamics. Clients must anticipate what a vendor may do and how the other vendor may react. A client's engagement with one vendor is therefore dependent on its engagement with the other. To illustrate, while the outgoing vendor may transfer source code to the client in back-sourcing, it may not do so in vendor transition because the incoming vendor, who competes in the outgoing vendor's market space, gains access to its proprietary knowledge. Similarly, the outgoing vendor may tolerate its client hiring vendor personnel, but such moves by the incoming vendor are considered staff poaching.

3. Balance of threat theory

Hence, we need a different theoretical lens that suggests client strategies in the vendor transition context. Specifically, we draw on balance of threat theory from political science. Balance of threat is an international relations theory that explains and predicts how a focal nation perceives, and reacts to the perceived threats posed by others. Balance of threat is predicated on weak institutional law and trust in international relations as well as unstable alliance dynamics among nations as they counter the threats from one nation (or group of nations) with another nation (or group of nations).

- **Weak institutional law and trust**: Balance of threat's underlying assumption is that nations are self-interested, constantly seeking their own long term stability and survival (Sterling-Folker, 2006). Yet, they exist in a world where formal governance provides limited recourse. International laws exist, but are rarely invoked, and often cannot help nations during turbulent periods (Waltz, 1979). Moreover, relational governance among nations is often weak, and subject to regime change, shifts in national interests, and emergence of new threats (Walt, 1996). Agreements between nations are done under uncertainty, and often renegotiated or broken (Wu, 2005). This mirrors the vendor transition context, where formal (e.g., contracts) and relational governance provide only limited recourse during the actual vendor transition.

- **Balancing between hostile and allying nations**: Balance of threat also argues that a nation's behavior towards one nation is driven in part by its relations with others. Alliances are formed to aggregate capabilities to confront threats from hostile nations. Intra-alliance dynamics must also be managed, as conflicts of interest arise among alliance partners. Changing circumstances mean adversaries today might become allies tomorrow. Similarly, a client must tactfully balance outgoing and incoming vendors during vendor transition. The strategy for managing transition is enacted through actions affecting both outgoing and incoming vendors.

In balance of threat theory, the focal nation considers not only its own ability, but also the possibility of allying with others to counter threats. The level of perceived threat affects the strength of a focal nation's alliances. A focal nation constantly evaluates threat based on three factors (Walt, 1996):

- *Aggressive Intent*: A nation that demonstrates hostility towards the focal nation is viewed as having aggressive intent.
- *Aggregate Power*: The total capability of the other to initiate hostile action against the focal nation.
- *Mitigation Ability*: The ability of a focal nation to defend against aggregate power.

A nation is perceived as low threat if it does not demonstrate aggressive intent, or the focal nation can, on its own, offset the other nation's aggregate power. A nation is perceived as high threat if it demonstrates aggressive intent, and the focal nation's mitigation ability is insufficient to thwart the other's aggregate power. The focal nation balances threats it cannot mitigate by leveraging relationships with yet other nations.

If the perceived threat is low, the focal nation *soft balances*. Soft balancing refers to indirect, non-confrontational strategies (Paul, 2004), where the focal nation enters transient alliances of convenience, and acts to maintain a balance of power. Thus, the focal nation sometimes supports nation A against B, B against A, or does not intervene between A and B with the intention of preserving the status quo.[4] The focal nation attempts to align capabilities of other nations to the focal nation's benefit. Thus, the focal nation often does not seek to reduce others' aggregate power – the power other nations hold may offset an unknown, future threat. The focal nation also does not materially shift resources into defending its interests or building its capability, there being no obvious threat for the focal nation to guard against.

If the focal nation perceives a high threat, it *hard balances* against that threatening nation. This involves direct and confrontational strategies where the focal nation develops strong alliances with others. To counter aggressive intent, the focal nation identifies and protects areas of intent with the assistance of its allies. To counter aggregate power, the focal and allied nations reduce the perceived threat's capability to exert power (e.g., through war or sabotage). Finally, the ally helps the focal nation build mitigation ability by providing resources to protect the focal nation's interest with training and equipment.

Despite being a nation-state theory, balance of threat is an appropriate lens to analyze vendor transition as it is grounded on assumptions similar to the weak governance and dual-vendor context in vendor transition. Also, as in a vendor situation where client and vendor can be argued to have overlapping goals (e.g., the completion of a project), balance of threat theory allows for shared goals. Indeed, much Balance of Threat research examines commitments to shared goals and organizations like NATO (Auerswald, 2004; Duffield, 1992).

While there may be risks in applying theories developed for national problems to an organizational context, there is a general recognition that nation-state theories can apply to organizations. Many organizational theories trace their roots to such theories. For example, the dialectics perspective that stems from Hegelian and Marxist explanations on social change was used by Robey and his colleagues (2002) to study organizational learning. The Foucauldian power-knowledge perspective, originally employed to study discipline through state-related apparatus such as the prison, is applied to human resource management in organizations (Townley, 1993). Similarly, modern notions of bureaucracy partly originate in studies of administration of the state (Weber, 1968). Indeed, March (1962) argues that so long as the focus is conflict systems (e.g., client–vendor or vendor–vendor disputes), political theories (including those of nation-states) are as applicable to firms as other political entities. This paper thus continues March's call for further application of political science theory to an organizational context. Finally, Balance of Threat and its precursor, Balance of Power Theory have been previously applied to business research (Doh and Guay, 2004; Rao and Reddy, 1995; Sachs et al., 2010). For example, Rao and Reddy (1995) highlight the parallel between competitive alliances in international business and alliances of nation-states, while Sachs et al. (2010) use it to analyze organizational governance in multinational organizations.

4. Theory development: extending balance of threat theory to vendor transition

When extended to vendor transition, the balance of threat perspective suggests client organizations must simultaneously manage: (1) the (immediate) threat from the outgoing vendor, and (2) the (longer-term) threat from the incoming vendor. This paper assumes the immediate threat from the incoming vendor is low. Incoming vendors generally have no significant client-specific knowledge yet, but they desire client approval so as to secure the client as a long-term revenue stream. Thus, our focus will be on countering the outgoing vendor threat.

[4] There is a third, rare, case called bandwagoning, found principally in protectorates or other small nations that must curry favor in a strong, hostile neighbor (Schweller, 1994). In vendor transition, bandwagoning occurs when an unhappy client does not engage in vendor transition because the client cannot seek an alternative.

Balance of threat theory overlaps with the vendor trust literature. The client's assessment of vendor aggressive intent is influenced by vendor integrity and benevolence (Ganesan, 1994; Gefen, 2004), while client assessment of vendor aggregate power is influenced by vendor ability (Ganesan, 1994; Gefen, 2004). However, while vendor ability affects an ongoing vendor relationship positively, it has a negative impact in vendor transition because the vendor can withhold critical services. The threat assessment perspective looks beyond the different aspects of vendor trust to consider the client's own mitigation ability, i.e., the client's ability to perform the outsourced task (Sia et al., 2008).

The balance of threat perspective also suggests distinct client strategies to address low and high threat vendor transitions in the dynamic, multilateral context. When the threat from the outgoing vendor is low, the client adopts a soft balancing approach. The client makes concessions to either vendor to reciprocate concessions made. The client also pitches vendors against each other, to maximize client benefits. The client further maintains the relative capabilities of the vendors, and enacts policies that do not overly weaken the outgoing vendor, thereby keeping the outgoing vendor as an option for future outsourcing and as a check on the incoming vendor.

When the outgoing vendor threat is high, the client adopts a confrontational stance, aggressively interprets or defines issues to its own advantage, and demands the outgoing vendor adhere to contractual obligations. The client also allies closely with the incoming vendor, and takes sides to help the incoming vendor. The client actively encourages the transfer of resources from the outgoing to the incoming vendor, thereby weakening the former while strengthening the latter. The client also invests in building capabilities, with the help of its new ally, the incoming vendor.

The following sections describe how we apply balance of threat to two contrasting low- and high- threat cases, enabling us to explore overall client soft and hard balancing strategies, and specific client tactics.

5. Methodology

Obtaining access to a vendor transition is difficult as they occur sporadically within a given organization and time frame. We observed Case 1 (a low threat situation) serendipitously as part of an ongoing longitudinal study of a long enterprise system implementation program. We obtained access to Case 2 (a high threat situation) specifically to study vendor transition.

5.1. Data Collection

In both cases, the client's IT division invited us to observe the case site and develop internal reports. We obtained comprehensive access to written project documentation and conducted interviews with key stakeholders. Case 1 occurred from April 2005 to November 2005, and Case 2 from October 2005 to May 2006.

Documentation included minutes of meetings, presentation slides, tender and contract specifications, bug reports, transcripts of speeches made by senior executives, independent auditor reports, and other project documents. Essentially we had access to all project-related archival documents.

We conducted 25 and 16 interviews for Case 1 and Case 2 respectively. Table 1 presents interview summaries.

The client-heavy interviews reflect on-the-ground realities. In Case 1, the client comprised multiple stakeholder groups from corporate headquarters and a range of subsidiaries. We interviewed across stakeholder groups to obtain a balanced assessment of the organizational perspective. In Case 2, as the atmosphere was tense, the outgoing vendor only accepted one interview request. Incoming vendor personnel faced tremendous pressure to succeed. For example, the vendor essentially rewrote the application. Thus, we conducted fewer interviews than planned.

Nevertheless, while we obtained 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 action. Furthermore, as our research focus is on client strategies during vendor transition, this is not an overly problematic confound.

Most interviews lasted an hour. At least two, and more commonly, three researchers took notes. A tape recorder was not used, as interviewees were more comfortable without one. Interview notes were consolidated, typed within 24 h and circulated to all interviewers. Differences in interview notes were then resolved through discussion. Case write-ups were also presented to the organizations for comments, as suggested by Mason (1996).

5.2. Data analysis

In keeping with traditions of exploratory qualitative analysis (Dubé and Paré, 2003; Miles and Huberman, 1994; Strauss and Corbin, 1990), we iterated between data and theory. Guided by balance of threat theory, we first reviewed each case to

Table 1
Interview summary.

	Case 1	Case 2
Client	17	13
Outgoing vendor	5	1
Incoming vendor	3	2

determine the client's assessment of threat from the outgoing vendor. *Aggressive Intent* was inferred from activity by the outgoing vendor prior to the transition period. We also examined the rationale of outsourcing exits (i.e., positive or negative), the re-contracting expectations of outgoing vendors, and vendors' expectation of future business opportunities. *Aggregate Power* was determined by identifying ways the outgoing vendor could compromise client operations. As both clients did a risk assessment of the vendor transition, this data was readily accessible. *Mitigation Ability* was determined through clients' risk mitigation strategy. If a client could offset aggregate power on its own, it had mitigation ability.

Threat Balancing Strategies were inferred from clients' actions to resolve the various episodes of conflict. We systematically examined project minutes and interviews to identify all key episodes of conflict. In this, we were guided by practitioner literature (e.g., http://www.collabera.com/documents/VendortoVendorTransition.pdf) which suggested conflict was likely to

Table 2
Threat balancing tactics in Case 1.

Conflicts	Tactic	Resolution
Conflict #1: "Write" access to source code – Incoming vendor requested early "write" access to source code. Outgoing vendor wanted to bar access until expiration of warranty	*Non-Interventionist:* Client let vendors sort it out between themselves	Access to source code was limited until expiration of warranty period
Conflict #2: Staff "poaching" – Incoming vendor wanted staff of outgoing vendor to ease knowledge transfer. Outgoing vendor objected	*Neutral facilitation:* Client involved itself in negotiation, but adopted a neutral "fair" market practice stance	Parties agreed only independent subcontractors could be recruited from outgoing vendor's team
Conflict #3: Interface design "flaw" – Incoming vendor argued existing design would slow down system and wanted outgoing vendor to redesign. Outgoing vendor insisted design was fine	*Independent 3rd party arbitration:* Client hired another vendor to mediate dispute	Third party decided that design could work, but required more detail
Conflict #4: Cost of interface redesign – Redesign was undertaken by incoming vendor, and cost was borne by client. The question arose as to whether client had remedy against outgoing vendor	*Reciprocate positive actions:* Outgoing vendor willingly stayed for extra 3 months to provide system and helpdesk support despite expiration of warranty. Client reciprocated by bearing cost of interface redesign	No action taken against outgoing vendor for cost of interface redesign
Conflict #5: Inadequate project management – Client noted inadequacy in project management by incoming vendor	*Play-off leverage:* Client repeatedly compared incoming vendor to outgoing vendor to reiterate need for greater project management and soft skills in consultants	Incoming vendor improved

Table 3
Threat balancing actions in Case 2.

Conflict	Client tactic	Resolution
Conflict #1: Disagreement over ownership of key resources – Outgoing vendor wanted a "7-figure sum" for portal domain name and claimed log-in accounts were also their customers	*Partner incoming vendor to circumvent outgoing vendor demands:* Client acquired alternative domain name and worked with incoming vendor to migrate customer log-in accounts	Alternative domain name was used, and customers were moved to new site
Outgoing vendor owned much of the portal code	Incoming vendor, with client assistance, rewrote source code	Rewritten source code employed in new portal
Conflict #2: Poor quality of system and process documentation – Outgoing vendor claimed they should be paid for updating and handing over documentation	*Monitor vendor- vendor interaction:* Client paid for outgoing vendor work. Client monitored outgoing vendor performance during hand over	New portal essentially redeveloped from scratch
Subsequently, outgoing vendor submitted incomplete and erroneous documentation	*Client builds internal capability:* Client allocated large team to recreate missing information	
Conflict #3: Uncooperative behaviors of outgoing consultants – Consultants from outgoing vendor failed to attend project meetings	*Insist that outgoing vendor meet obligations:* Client coordinated with incoming vendor to work around outgoing vendor's schedule, leaving outgoing vendor few excuses to avoid obligations	Outgoing vendor attended meetings
Conflict #4: Staff "poaching" – Incoming vendor advertised on-site and recruited staff of outgoing vendor	*Active support of incoming vendor interests:* Client used formal and high level negotiation and actively lobbied for support for incoming vendor to facilitate smooth transition	Outgoing vendor agreed to recruitment of some staff by incoming vendor, but only released them a few days before cutover
Conflict #5: Drop in service level – Outgoing vendor scaled down portal and call center support	*"Calculative" haggling:* Client insisted outgoing vendor meet contractual obligations. Fulfillment gaps were actively pursued or used as bargaining chips to trade for other client demands	Outgoing vendor agreed to work with incoming vendor to manage scale down. Outgoing vendor agreed to release staff recruited by incoming vendor
Conflict #6: Failure in meeting agreed KPIs – Incoming vendor was concerned with its ability to meet KPIs in first year	*Supportive actions with willing compromise:* Client relaxed contracted performance expectation	Client did not insist on meeting of KPIs for payments

arise around the ownership/transfer of knowledge assets (e.g., intellectual property), staff transfer, scope of work, and vendor performance. We analyzed the nature of each conflict, client tactics, and conflict resolution. Examples of tactics included the client electing to stay neutral, rejecting a claim made by the outgoing vendor, supporting one vendor against the other, or reciprocating a positive action by a vendor. For each case, the conflict, tactic and resolution were tabled (See Tables 2 and 3), and the overall threat balancing strategy inferred.

6. Findings

6.1. Case 1

Case 1 was a vendor transition on a major enterprise system project in a large logistics organization. This project involved replacing ageing systems in the client's three subsidiaries (A, B, and C) with a single enterprise system. The contract was valued in the hundreds of millions of dollars and the project team involved several hundred people.

The company employed two separate vendors for individual implementation phases. The first performed requirements analysis and a common design for the three subsidiaries and implemented the design in subsidiary A. Tender was then opened on the implementation contract for subsidiaries B and C. The first vendor lost based both on price and deliverables. This vendor transition was successful; the second vendor completed their job on time. At the end of the implementation for subsidiary C, the client noted that*"[it] looks like things are going well."*

6.1.1. Client assessment of threat

The client viewed the outgoing vendor as low threat. While the outgoing vendor had some ability to make the transition difficult, it exhibited little aggressive intent. Moreover, the client had sufficient mitigation ability.

6.1.1.1. Aggressive intent. At no point during the run up to vendor transition did the outgoing vendor exhibit aggressive intent despite losing the tender. The client also did not expect vendor hostility because both vendors were leading international companies, and the client believed there was a quid pro quo between them.

> *"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)

6.1.1.2. Aggregate power. The outgoing vendor developed the design, and implemented the system architecture and thus understood the enterprise system. While the incoming vendor was familiar with the enterprise system package, their understanding of the client's configuration was superficial.

> *[Client Manager] noted the issue that [incoming vendor] did not participate in [design] sessions and therefore may not have full visibility until the handover* [is completed]. (Minutes of meeting, 8 June, 2005)

The outgoing vendor's customer-specific technical knowledge gave it power – by withholding knowledge or providing incorrect information, it could disrupt the transition. However, the outgoing vendor owned no code or intellectual property. Furthermore, freelance consultants had been contracted who continued with the incoming vendor. The outgoing vendor thus had some power to disrupt the vendor transition, but its power was constrained.

6.1.1.3. Mitigation ability. The client possessed good mitigation ability as it had built technical expertise and worked closely with the outgoing vendor on system design. Unusual tasks the client performed included rewriting vendor documents to conform to client format requirements, and participation in system integration testing. Normally, such testing is only done by the vendor.

6.1.2. Threat-balancing strategy

The various conflict episodes observed suggest the client adopted a hands-off and non-interventionist stance to manage both outgoing and incoming vendors.

6.1.2.1. Conflict #1: early "write" access to source code for development. In one conflict, the incoming vendor requested write access to source code. The outgoing vendor argued they could not allow changes while subsidiary A was under warranty as inappropriate action by 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)

The client elected not to get involved, thereby allowing the outgoing vendor to set permissions on the server. The incoming vendor had no write access until the legal expiration of the outgoing vendor's run-in clause – three months into the transition.

6.1.2.2. Conflict #2: "poaching" staff from outgoing vendor. The incoming vendor wanted to hire outgoing vendor staff to graft knowledge quickly. However, outgoing vendor staff employment contracts forbade them working with competitors. While non-competition clauses have dubious standing legally, the client did not challenge the clause.

> *[Project team] scrambled to transfer incumbent knowledge to [incoming vendor] without breaking rules. [Outgoing vendor] has a non-competitor type clause. [Consultants] who can come over are [only] the [subcontracted] people.* (Client)

6.1.2.3. Conflict #3: interface design "flaw." Another disagreement concerned a menu/navigation interface for the enterprise system. The original design employed a third party menu engine mounted on a central server. The incoming vendor argued this required processing by too many emulators and 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, information sent across the network would slow down the system so much that transactions would time out. The incoming vendor recommended that menus (and development engine) be mounted on the client end. The outgoing vendor argued these issues did not require the extensive redesign recommended, but could be resolved by proper configuration of the emulators/engines.

The outgoing vendor had strong reasons to dispute the incoming vendor's argument, as acceding meant it would perform a multimillion dollar redesign for free. For the incoming vendor, a failure in the menu system might be ascribed to the incoming vendor. The client had a strong financial incentive to pressure the outgoing vendor. However, instead of making a decision, the client hired a third vendor to mediate.

> *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)

6.1.2.4. Conflict #4: bearing the cost of interface redesign. The non-committal response by the third vendor meant the two vendors continued arguing about the redesign. Although the client felt the incoming vendor design was more efficient, it did not want to publicly agree and subject its relationship with the outgoing vendor to strain. The outgoing vendor was providing extra services. For example, they stayed beyond the warranty period to maintain the information system and helpdesk for subsidiary A for free, 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)

The outgoing vendor left without the dispute being resolved. The incoming vendor then charged for the redesign. Despite incurring a substantial cost in the redesign, the client was satisfied as it did not compromise its relationship with either vendor.

6.1.2.5. Conflict #5: inadequate project management. The client "played off" the relative strengths of outgoing and incoming vendors. For example, while the incoming vendor was technically competent, its soft skills were weaker. The client highlighted its good working relationship with the outgoing vendor to delineate expectations. 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.* (Client)

Table 4 summarizes the threat balancing actions deployed by the client in Case 1.

6.2. Case 2

Case 2 was a high-threat vendor transition involving a public organization's online portal and call center that served almost half a million customers. Users averaged about 500,000 transactions and made close to 30,000 calls every month. The vendor had about 50 people on site, and the total contract value was almost 100 million dollars.

The vendor was recruited in 2001 to develop, operate, and manage the online portal facilities for five years. At contract expiry, the client changed vendors. Although the transition was challenging, the incoming vendor successfully took over operations. System stability was achieved within seven days from cut-over, well ahead of the 15 days planned. In less than a month, more than 500,000 portal transactions were conducted. As a client executive noted, "*The fact that the transition was a non-event showed that it was an achievement.*"

6.2.1. Client assessment of threat

The vendor transition in Case 2 was adversarial, given the aggressive intent of the outgoing vendor. The outgoing vendor's aggregate power and client's limited mitigation ability resulted in a high threat situation.

6.2.1.1. Aggressive intent. The original contract performance indicators were worded poorly, and failed to correctly incentivize the outgoing vendor. The client expressed unhappiness with vendor performance. However, the vendor refused to amend its behavior, pointing out that it was fulfilling contractual obligations.

Table 4
Threat balancing – hard and soft strategies and tactics.

Client's	Soft balancing strategy	Hard balancing strategy
Orientation towards outgoing vendor	Neutral, reciprocal, hedging	Antagonistic, formal, calculative
Orientation towards incoming vendor	Neutral, reciprocal, hedging	Close ally, informal, supportive
Involvement	Passive, hands-off, non-interventionist	Active, hands-on, interventionist
Tactical actions	Encourage direct vendor-to-vendor negotiation	Active client involvement in vendor negotiation
	Balanced client facilitation emphasizing "fairness" to both vendors	Active support of incoming vendor interests
	Reciprocate "favors" for positive vendor actions outside formal contractual obligations	Scrutinize contract to ensure fulfillment of vendor obligations while limiting client efforts strictly to contractual obligations
	"Play-off" strengths of one vendor against the other	Calculative haggling with outgoing vendor while compromising on incoming vendor deliverables
	Show consideration to outgoing vendor, in not undermining their ability	Build client mitigation capability, often with help from incoming vendor, and sometimes at expense of weakening outgoing vendor

Although the vendor knew the client was unhappy with the contract, when contract renewal was raised, the vendor produced exactly the same contract terms as previously. The vendor also took a threatening stance.

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. (Client)

6.2.1.2. Aggregate power. The outgoing vendor had strong aggregate power. The vendor had built the portal, and owned many associated proprietary technologies, such as a voice recognition technology. Furthermore, the vendor legally owned much of the portal infrastructure, including the servers, database management system, and domain name. Finally, the contract did not clearly specify ownership of other critical assets such as source code and data.

6.2.1.3. Mitigation ability. The client's ability to mitigate threats was limited. The client had limited internal e-commerce capabilities and little understanding of the system's technical configuration. In addition, the client lost significant process knowledge during the five years as client staff turned over. There was little updated documentation, which was in the hands of the outgoing vendor. The incoming vendor described their experience requesting a document essential for call center operations:

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.

6.2.2. Threat-balancing strategies

The various conflict incidents (summarized in Table 3) suggest the client adopted a confrontational stance towards the outgoing vendor, allied with the incoming vendor, and built its mitigation ability.

6.2.2.1. Conflict #1: agreement over ownership of key resources. The vendor owned key portal assets like the domain name. As part of portal development, the vendor purchased the domain name (for less than 30 dollars). The vendor charged the client "market rate," "*a seven-figure sum*" to transfer it. Instead, the client purchased a new domain name. References, both within the portal application and in applications linking to the portal had to be restated. A publicity campaign was also mounted to notify the portal's almost half a million customers to create new accounts with new passwords on the migrated system.

The client also had to address assets with unclear ownership status. For example, the outgoing vendor claimed data in the databases belonged to them. For example, even usernames and passwords were considered owned by the outgoing vendor. This issue was resolved by distinguishing between data created 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)

The ownership of interfaces to the client's internal applications was also in dispute.

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—the incoming vendor had to rewrite the disputed code.

6.2.2.2. Conflict #2: poor system and process documentation. The outgoing vendor raised other obstacles, for example, arguing it should be paid for the transfer of transferable intellectual property. The client agreed. However, the outgoing vendor delivered "*piecemeal and incomplete*" work.

One transferable document was the database schema. The database had to be rebuilt because the outgoing vendor owned the database platform license. Tables and attributes were missing from this document. As most database platforms have automated facilities for describing a database, it is difficult to ascribe this to a technical error.

Meeting minutes showed that this challenge went on for months, with the incoming vendor submitting a comprehensive list of project information required to the outgoing vendor in early October 2005, running through the list with the outgoing vendor again in mid-November, and still struggling with getting needed information even in January the following year.

In other cases, code the incoming vendor wanted was argued to overlap with 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.

Because of difficulties in obtaining system and process documentation from the outgoing vendor, the client increased staffing, involving over 100 IT staff and subject matter experts in portal operations. These staff helped the incoming vendor gain knowledge on user requirements. The incoming vendor redid the portal, essentially from scratch; the vendor team put in 18-h work days and worked over weekends.

6.2.2.3. Conflict #3: uncooperative behaviors for transition project meetings. Although the outgoing vendor agreed to facilitate transition, their actions belied their words. For example, the outgoing vendor did not attend meetings regularly, resulting in delays. The client demanded an outgoing vendor presence, adjusted 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 November, 2005)

6.2.2.4. Conflict #4: staff "poaching.". The incoming vendor attempted to ease learning by recruiting employees from the outgoing vendor. The incoming vendor put on a road show in front of the outgoing vendor office advertising for positions and recruited approximately 40% of outgoing vendor employees.

> *[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)

After much discussion, the outgoing vendor agreed to release staff to the incoming vendor with a caveat that staff be only released a few days before the actual cutover.

6.2.2.5. Conflict #5: drop in service level by outgoing vendor. Although the vendor transition was still in progress, the outgoing vendor pulled staff, resulting in a drop in service level.

> *[Outgoing vendor] doesn't see itself having a significant flow of business from [Client]. . . 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].* (Client)

The client raised this as a contractual breach. The outgoing vendor agreed to work with the incoming vendor to manage their scale down more systematically, including the early release of staff recruited by the incoming vendor.

6.2.2.6. Conflict #6: incoming vendor's failure to meet agreed KPIs. Given various transition challenges, the incoming vendor failed to meet agreed Key Performance Indices (KPIs) and was concerned with their ability to do so in the near future. The client gave repeated assurance that they would not insist on the meeting of KPIs for payments. The client actively found ways to help the incoming vendor when vendor personnel came *"crying on [client] shoulders."*

> *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.* (Incoming vendor)

Table 3 summarizes the threat balancing actions deployed by the client in Case 2.

7. Discussion

The findings suggest two distinctive client strategies in managing vendor transition. The low threat assessment in Case 1 encouraged a neutral and non-confrontational client stance towards both vendors. The client ownership of the source code (lower vendor aggregate power) meant it was not threatened by code ownership and hence the client adopted the tactic of waiting for the outgoing vendor's warranty to expire before allowing the incoming vendor to change code. The client's close

involvement in the project and knowledge about system and processes (high mitigation ability) also made the client less anxious about the transfer of personnel from the outgoing to the incoming vendor, leading to the client tactic of supporting the outgoing vendor's "no-poaching" clause. The outgoing vendor's strong professional reputation and ongoing good conduct (low aggressive intent) predisposed the client to maintain a good relationship with the vendor and consider it for future projects. Indeed, the client rehired the outgoing vendor to implement a human resource enterprise system.

The client preserved and leveraged outgoing vendor capability. The client had several opportunities to weaken the outgoing vendor, for example, by insisting on the transfer of vendor employees, or a redesign of the user interface. Instead, the client maintained its relationship, especially because the vendor loaned its capability to support the helpdesk after warranty expiration.

In summary, the overall pattern of client actions observed in Case 1 conform to a soft balancing strategy where the client hedges its bets with both outgoing and incoming vendors (Paul, 2004). This can be seen from the client encouraging direct negotiation between outgoing and incoming vendor, facilitating fair discussion, playing off the strengths of one vendor against the other, reciprocating favors from either vendor, and preserving (not undermining) the capability or position of the outgoing vendor.

In contrast, the client perceived high threat in Case 2. This drove a more confrontational, and interventionist stance towards the outgoing vendor and a strong allying stance towards the incoming vendor. This is reflected in the client's tactics across episodes of conflict. For example, the client's low knowledge of systems and processes (low mitigation ability) led to client tactics of investing in knowledge by increasing the number of internal staff assigned to the transition project. Low knowledge meant the client relied on incoming vendor technical expertise. The outgoing vendor's ownership of key assets such as source code and portal domain name (high aggregate power) led to client tactics of acquiring a new domain name and working with the incoming vendor to build a new portal. The outgoing vendor's uncooperative attitude (high aggressive intent) led to the client tactic of supporting processes that simultaneously weakened/strengthened the outgoing/incoming vendor. For example, the client tacitly allowed the incoming vendor to acquire 40% of outgoing vendor staff. Similarly, the client did nothing to weaken its incoming vendor, for example, by not enforcing penalties for KPIs the incoming vendor could not meet. Finally, the client protected its interests. When the outgoing vendor presented excuses not to meet, the client reset meetings to bring the vendor to the table.

In summary, the overall pattern of client actions observed in Case 2 suggest a different approach from Case 1. The two strategies are contrasted in Table 4. These tactics parallel actions taken by nation states. For example, the soft balancing tactics we observed such as encouraging direct vendor-to-vendor negotiations and emphasizing fairness to both vendors are similar to soft balancing tactics of a focal nation that does not intervene between countries A and B to preserve the status quo (Wu, 2005). Similarly, hard balancing tactics observed in vendor transition such as active support of incoming vendor interests, and building client mitigation ability, are similar to hard balancing tactics of a focal nation that develops strong alliances to counter high threat from another nation, and builds mitigation ability with the help of its ally's provision of training and equipment (Duffield, 1992).

8. Contribution and further research

The following sections conclude by summarizing our contribution to research and practice, acknowledging limitations of this study and offering suggestions for further research.

8.1. Contribution to research

The application of balance of threat theory to the two cases extends the vendor management literature to the weak governance and dual-vendor context of vendor transition. First, the assessment of threat encompasses, but goes beyond the antecedents to trust identified in the literature. Aggressive intent reflects the trust-related concepts of integrity and benevolence, while aggregate power reflects vendor ability. However, the client's ability to mitigate vendor power is also taken into account.

Second, instead of the formal and relational governance framework that works best in an "in" outsourcing relationship, balance of threat theory suggests new client strategies to manage the "between" outsourcing relationship of vendor transition. Such strategies arise from an assessment of vendor threats, and leverage relationships and capabilities from other vendors to counter threats. Soft balancing hedges relationships by playing one vendor against another, while hard balancing aggregates the capabilities of the incoming vendor and client to counter the outgoing vendor. The balance of threat lens shifts vendor management from a traditional focus on building internal capabilities, or bilateral governance enacted through formal contracts or/and trust relationships, to a more strategic perspective where capabilities and relationships with other vendors in the market are leveraged. The BOT strategies presented here are consistent with suggestions from existing outsourcing research that have called for preemptive maneuvers such as multi-sourcing practices (Sia et al., 2008; Su and Levina, 2011) and the active cultivation of vendor alternatives (Poston et al., 2009). Such maneuvers help lay the foundation for the effective exercise of soft and hard balancing strategies during vendor transition.

8.2. Contribution to practice

The study also provides guidance to practitioners in managing vendor transitions by suggesting dimensions for threat assessment and tactics for soft and hard balancing. Specifically, the two cases reveal specific tactical actions a client may use for each strategy (see Table 4), as well as dispute scenarios a client should pay attention to during vendor transition.

More importantly, the client can take steps, even before transition arises, to reduce the threat from both vendors. The four types of disputes (i.e., knowledge asset, staff transfer, scope of work, and vendor performance observed) occur consistently across both cases, thereby suggesting specific areas the client should proactively and continuously address. For example, the cases suggest that clients should safeguard ownership of key assets such as domain names and source code at the outset of the outsourcing arrangement, thus reducing potential vendor aggregate power. The client should ensure it develops sufficient competence in key aspects of the outsourced processes, data and technology, thus building mitigation ability, and reducing concerns about transitioning vendor personnel. Similarly, to reduce outgoing vendor hostility, the client can hold out the possibility of future contracts (Gefen et al., 2008).

8.3. Limitations and further research

While the clear variation in perceived threat from the outgoing vendor enabled us to explore the two main strategies of soft and hard balancing, the perceived threat level from the incoming vendor was low in both cases. Further research should study transition contexts where the perceived threat from the incoming vendor is high. One example situation occurs in immature markets with few vendors. If the outgoing vendor does not renew, the incoming vendor could approach the client in a hostile manner, as the client has no options. Because the threat arises from the incoming vendor, balance of threat theory suggests the client allies with the outgoing vendor to diminish the incoming vendor threat, for example, by retaining the outgoing vendor in a smaller, consultative or audit capacity.

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