THE MODERATING ROLE OF RELATIONSHIP QUALITY IN DETERMINING TOTAL VALUE ORIENTATION

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ABSTRACT

Among the several approaches to understanding value in business transactions, the one most frequently encountered in marketing, management, and economics literature is the tradeoff of benefits and costs, the difference or ratio of which is operationalized as value. In a complex business relationship involving goods and services as well as multiple business partners, assessing the total value of the system involves more complex transactional and relational dynamics than simpler one-time business transactions. Thus, the purpose of this paper is to offer a model of total value of a business system including antecedent factors and outcomes, and thereupon to study the role of relationship quality in moderating the value of the individuals in the business relationship. This paper uses the transaction cost approach to study the value in a business relationship to both the service-provider and client firm, considering the costs and benefits to each business partner. Next, it discusses the impact of the quality of the business relationship on the value perceived by each business partner. Finally, several outcomes of a total value orientation such as financial performance, competitiveness and, especially, end-customer value is considered.

JEL: M10; M20; M30

KEYWORDS: Value, Relationship Quality, Transactions, Costs, Benefits, Business Partnerships

INTRODUCTION

The concept of value in a business transaction has been studied by academic scholars in several diverse fields such as management, marketing, economics and accounting. A classic operational definition of value to the customer engaged in any characteristic transaction with a seller of goods/services would typically be the perceived benefits that the customer receives from the offering in relation to the costs incurred for availing of the same. Thus, clearly as the benefits outweigh the costs, the perceived value tends to increase for the customer. In the present business-to-business outsourcing context too, this notion of value tends to exist for each entity in the transaction environment in terms of the benefits perceived by that entity from the respective outsourcing arrangement in contrast with the costs incurred by that entity during the same.

This paper considers the transaction environment wherein a client firm outsources its work to an external service-providing organization, thereby constituting a basic dyadic relationship between client and service-provider; however, the essence of the entire discussion could be applied to all trading partners within the network. The outsourcing context here is viewed as a special case of business partnership relationships. The outsourcing initiative, treated from a transactional and relational perspective, contends to create value for each of these trading partners as well as a shared synergistic notion of value in the relationship between these entities. Outsourcing seems to have transitioned from a mere economic convenience business decision to a more strategically driven initiative based on shared governance and decision-making aimed at harnessing the synergies of the organization providing the service, the client firm receiving the service, and the entire value creation process occurring during this exchange. To this accord, the outsourcing process blends the perceived value of the service providing organization to whom

the work has been outsourced, the value of the client firm that outsources its work, and the value generated during the course of the relationship between the client firm and the service-provider. These three perspectives of shared value, respectively Outsourcing Service-Provider Value, Client Firm Value, and Relationship Value, manifest into a common synergy for the business system which this research labels as the 'Total Value Orientation' for Strategic Outsourcing decisions.

The paper as follows first entails the literature review discussing the manner in which various transaction costs arise in the outsourcing context here viewed as a special case of business partnership relationships, and the role of service quality to help mitigate these transaction-cost inducing elements in an effort to create value for the network. Then, the paper proceeds toward development of the cost-benefit framework for strategic total value orientation, wherein the costs and benefits are discussed for the client firm as well as the service-providing organization. Following that, the moderating role of relationship quality is articulated to impress its critical impact on maximizing the realization of value for both the client firm and service-provider, and thus its influence on the total value orientation of the business system.

LITERATURE REVIEW

The context of outsourcing with regard to transaction costs and service quality occupies the focal basis of this research study. In today's converging global business environment, outsourcing needs to be treated as a critical strategic business decision. "Outsourcing adds greater value of ownership, reduction of cost, assistance to your client's operation and increases customer satisfaction", said Sharad Bohra, director of the corporate supply chain for Tyco International. Rodriguez-Diaz and Espino-Rodriguez (2006) define outsourcing as a means of recognizing that there are suppliers in the market that are able to perform part of the transformation activity better than the firm itself. Leavy (2001) points out that in today's dynamic economy, driven by intensifying global competition, more knowledge intensive value chains, and more sophisticated intermediate markets, the make-or-buy decision is footing strategic impetus for industrial marketing and procurement, with the opportunities for outsourcing offering interesting routes to innovation, growth and competitiveness.

Kennedy (1993) conducted some experiments in outsourcing and found that several companies across the country are finding it cheaper and more efficient to outsource their legal work. They say the law firms can provide faster, better solutions to legal problems, and the exchange benefits as the firm providing the service would become more proactive in identifying and resolving situations before they become problems. The changing economic and labor conditions have motivated firms to outsource professional services activities to skilled personnel in less expensive labor markets (Gupta, Seshasai, Mukherji and Ganguly, 2007). According to Tas and Sunder (2004), the financial services industry is following a trend towards vertical disintegration similar to that in the manufacturing industry; the strategy of focusing on core competencies being a major driver for the growth of business process outsourcing. Bebea (2005) suggests that with more U.S. corporations taking advantage of cost-effective production in international markets, opportunities for outsourcing in all industries are raising the bar for minority business enterprises. Thus, minority business enterprises venturing into the global market must find ways to rise above the competition from outsourcing and provide services that make them invaluable to their clients.

Hutchins (2005) explains that companies outsource for various reasons; for low-tech products, cost control and cost reduction seem attractive; while, for high value products and services, technology access and business flexibility gain precedence. Totty (2007) explains that many information technology outsourcing deals tend to fall short of the promised cost savings due to three major reasons: companies failing to anticipate changes in business dynamics and varying technologies, resulting in surprise charges; companies unable to recognize and adopt varying skill-sets for managing their vendors/outsourcers, thereby resulting in unfathomed monitoring costs; and, misaligned expectations resulting from poorly specified contractual agreements, which lead to unexpected bargaining/maladaptation costs. Ultimately, a

successful outsourcing arrangement depends on finer service quality in terms of the knowledge, flexibility to adjust to market dynamics, competence in working systems, and cost-efficiency that the outsourcer brings (Totty, 2007).

Leavy (2001) suggests that outsourcing to leverage the special capabilities of suppliers sometimes carries risks of opportunism which manifest in the form of increased transaction costs for a firm looking to outsource. The risk of opportunism is small where the supplier's capabilities can be recreated in-house, or accessed through acquisition, at a reasonable cost. The threat of vertical integration alone is often enough to keep a supplier in check. However, in many cases, particularly those in rapidly evolving high-tech industries like information technology and biotechnology where the payoff from pooling capabilities is likely to be greatest, the impediments to integration are often too high (Leavy, 2001). Gewald, Wullenweber and Weitzel (2006) assess the risks associated with hidden costs, inexperienced vendors, failing interfaces, lack of cross-functional skills, under-achieved promises/benefits, default of vendor, communication mismatch, lock-in, loss of business flexibility, limited/bounded rationality, wrong measurements, misuse of trust, and security breaches which lead to increased transaction costs for the client organization. In a business process outsourcing context, limited rationality refers to the limited capabilities of the outsourcer that render complete contracts impossible; while opportunistic behavior entails that this incapability could be exploited by the service provider.

Gonzalez, Gasco and Llopis (2006) opine that offshore outsourcing involves greater risks derived from the cultural and physical distance existing between customer and provider, the uncertainty regarding use of suitable necessary infrastructure and technical/technological capacities, and opportunism on the part of the service providers who may probably try to optimize their costs and may compromise on the quality requirements of the client. Gewald, Wullenweber and Weitzel (2006) state that the perceived risks, particularly financial risk and performance risk, associated with business process outsourcing strongly influence managers' intention to outsource business processes. Grover, Cheon and Teng (1996) indicate that transaction cost theory provides a good framework for information systems outsourcing and that asset specificity of outsourcing transactions needs to be considered in any decision to outsource. Asset specificity refers to the uniqueness of the product or service being exchanged between two parties. Low asset specificity implies more standardized products and services could reflect lower outsourcing costs due to coordination, and vendors could increase their economies of scale and scope (Grover, Cheon and Teng, 1996).

Qu and Brocklehurst (2003) conduct an analysis of the role of transaction costs in supplier selection. They label certain important transaction cost-inducing factors such as language barriers, government support, quality, culture fit, financial robustness, process and methodology, and supplier reputation, and suggest ways and means by which more understanding dyadic relationships between buyers and suppliers may circumvent these costs and cost-inducing factors. Where language barriers are low, communication costs fall and there is less misunderstanding, which leads to lower uncertainty. High-level commitment by the government may reduce the opportunistic behavior of vendors. Government support in the form of incentives reduces production costs and attracts more investment into the sector. Quality is the basic requirement of a product or service, and adherence to preset standardized quality norms reduces monitoring costs. Culture fit can be a transaction costs barrier for others. People prefer to work with those who come from the same culture for a reassuring atmosphere. It is easier to communicate, understand and monitor, and thus reduces contractual costs. There is more chance of building a trusting relationship and this reduces the probability of opportunism. Financial robustness of the service-providing firm is generally desirable. If it is unlikely or costly for suppliers to declare bankruptcy, this will prevent them appropriating the quasi-rent. Customers can avoid the shifting costs of finding new vendors as well. Therefore, transaction costs are reduced. By means of standardizing processes and third party monitoring, the uncertainty and complexity of the transaction environment is reduced. Supplier reputation is also vital; giving consideration to reputation in source selection can reduce opportunism by sellers, thereby reducing

the uncertainty and thus the transaction costs for buyers. Ultimately, effective long-term networking between a buyer and vendor requires the building of trust. Trust and networking are effective measures for reducing transaction costs. According to Williamson (1975), not everyone behaves opportunistically; only someone sometimes. If the buyer and seller trust each other, the transaction costs of preventing opportunism will be reduced significantly. People tend to trust someone that other trustworthy people trust. Networking is proven to be a reliable vehicle for building such mutual trust; consequently, associations of clients, vendors or both are a good way of reducing transaction costs (Qu and Brocklehurst, 2003).

Under competitive conditions, organizations will seek governance structures that economize on transaction costs (Reidel, Lewis and Pawar, 1992). Hierarchy (the firm) tends to prevail when asset specificity and uncertainty are found to be high, while the market mechanism seems to be sought to under reverse conditions (Reidel, Lewis and Pawar, 1992), thus calling for better interaction between client and service provider for getting work done.

Thus, it appears that many of the transaction cost-inducing factors could be controlled and their potential adverse impacts on outsourcing arrangements even minimized through increased levels of understanding, cooperation, and commitment to symbiotic relationship wherein both transacting entities need to be involved. Grover, Cheon and Teng (1996) contend that both service quality of the vendor and elements of partnership such as trust, cooperation, and communication are important for outsourcing success. Service quality refers to the degree and direction of discrepancy between service receiver's expectations and perceptions (Parasuraman, Zeithaml, and Berry, 1988). The smaller the discrepancy, the greater the service quality achieved. Because of the imprecise nature of services and the difficulty in assuring consistent quality, service receivers often form ongoing relationships with service providers, in an effort to better specify service requirements and desired quality levels (Grover, Cheon and Teng, 1996).

The quality of service provided is critical to the success of information technology outsourcing and can be assumed to be independent of the outsourcing decision (Williamson, 1991). While the degree of outsourcing per se may or may not have a significant relationship with outsourcing success, it is proposed that this relationship will be stronger (moderated) under increased levels of service quality. Buzzell and Gale (1987) highlighted the importance of service quality with regard to the ‘Profit Impact of Marketing Strategy’; service quality was examined in its relationship with value, and a high level of correlation was observed between relative quality and profitability. Chusil and Downs (1979) contend that service quality forms an essential ingredient of the product quality being offered by a firm; thus the business will offer value when such ingredients of quality exceeds that expected for the given price. As per Crosby, Evans and Cowles (1990), the creation and recognition of quality or ‘value’ in a relationship require both parties to define quality from a long-term relationship perspective. These findings bear similar implication in the outsourcing context wherein better service quality of the service providing firm yields to higher profitability and increased value for the organization that outsources its work to this firm.

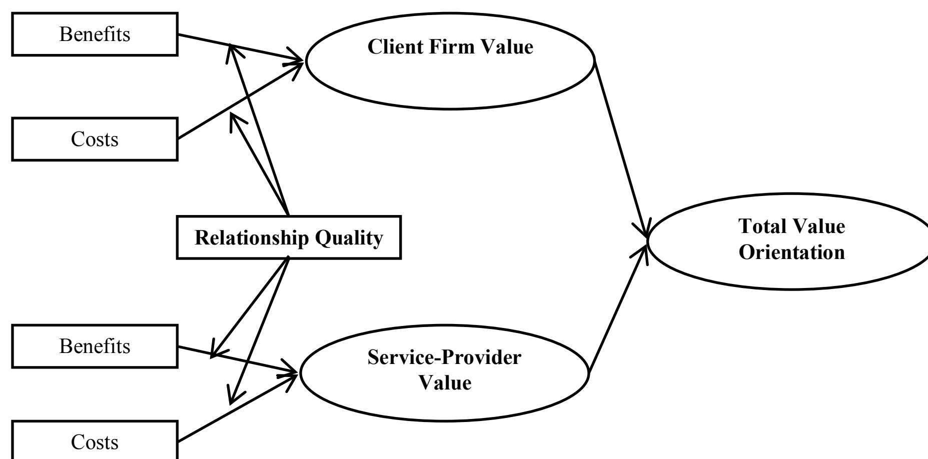
Besides optimizing on transaction costs, the client firm’s outsourcing decision, which tends to be greatly influenced by the service quality of the service-providing organization, contends to create value for each of these trading partners as well as a shared synergistic notion of value in the relationship between these entities.

BENEFITS AND COSTS FRAMEWORK IN THE OUTSOURCING CONTEXT

This paper attempts to model the value perspectives in terms of the perceived benefits and incurred costs for the client firm and the service-provider when each of these entities is engaged in a typical outsourcing arrangement. The objective is establish a costs and benefits framework for this transacting dyad. The

respective costs and benefits serve as antecedents to client firm value and service-provider value (Figure 1).

Figure 1: Proposed Framework of Total Value Orientation



This figure shows the conceptual model wherein the client firm and the service-provider each bear costs and benefits which together culminate in the form of their respective value dimensions which in turn result in the total value orientation for the business system. Relationship Quality will moderate the impact of costs and benefits on their respective value dimensions.

Benefits for the Client Firm

The client firm derives several benefits by outsourcing its work. Costs-savings evidently appear as direct benefit as the firm tends to seek for cheaper venues to give out work. It may many a times even be more efficient to place orders for work outside the hierarchical structure of the firm and press vendors/suppliers for on-time delivery. If the service-provider is responsive and committed, faster and better solutions tend to be provided to the client firm. If the outsourcing organization possesses specialized skill-sets, knowledge, technologies and operational know-how, this would prove advantageous to the client firm when availing of the outsourcer's services. When the client firm outsources work-orders pertaining to more standardized products and services, the amount of supervision and coordination needed with the service-provider would be lesser, thereby helping to generate economies of scale and scope at little cost. By seeking out and engaging with service-providers who bear respectable/decent reputation in the market, the client firm can be rest assured of being catered to with good service, thereby reducing risks of uncertainty and opportunism. Success on a global scale requires a firm to use its internal resources as optimally as possible and leverage those with skills and resources available outside the firm (Peters, 1992). By analyzing each link in its value-added chain and comparing itself to the competition, the client firm can determine its own strengths and core competencies where its in-house resources may be concentrated, giving it a distinct competitive advantage which differentiates itself from the competition (Kogut, 1985). The other links in the value-added chain represent areas where's the firm's lack of strength can be supplemented by outsourcing (Gupta and Zhender, 1994). Organizations that outsource activities are able to direct increased management attention to the tasks they can do well, while entrusting the management teams of other organizations with the activities where there is a supplier better able to perform them (Blumberg, 1998). The firm can deliver higher value to its prospective customer market by focusing on its core competencies, and complementing those with value-added activities provided by the work and functions outsourced to external worthy reliable vendors (Espino-Rodriguez and Rodriguez-Diaz, 2004). The strategy of offshoring non-core functions enables companies to focus their resources more productively in the areas of their mainstream activities. Thus offshoring derives more prominent benefits toward corporate innovations and growth, and optimization of in-house staff and resources, and

domestic job creation. The enormous gains in efficiency, productivity, quality, and revenues by leveraging offshore talent are far more substantial than the labor cost savings (Asher and Nandy, 2007). Business flexibility is a big advantage that the client firm enjoys by being able to place greater or lesser number of orders with the vendor in accordance with varying market demand (Hutchins, 2005). In the quest for providing customer value while yet minimizing costs, firms employ process benchmarking and process improvement projects wherein strategic planning decisions can then be made about how to generate greater customer value by eliminating excess capacity, outsourcing and modifying existing processes (Ralston, Wright and Kumar, 2001). Firms strive to identify and adapt best practices of their industry with regard to quality, cost, and productivity performance measures for their core processes, and scout the market to outsource peripheral work to suit their needs (Ralston, Wright and Kumar, 2001). Such strategic outsourcing decisions ultimately lead to increased productivity for the client firm and thereupon better profitability.

Proposition 1a.- Higher the perceived benefits, higher the perception of value to the client firm.

Costs for the Client Firm

In spite of the many putative benefits of outsourcing, the client firm also tends to be faced with costs beyond just monetary expenses, and these costs weigh importantly in the firm's outsourcing decision. When outsourcing work to an external organization, the client firm may have to make certain adjustments and comprises toward product reengineering and design in order to match the modesoperandi of the outsourcer. The client firm may also have to many a time assist the service-provider with intelligence, technology and technical specification, personnel, and infrastructure needed for getting the work done; all these costs may have to be borne in part or full by the client. Companies sometime fail to recognize and adopt skill-sets which differ from their current in-house practice in order to manage suppliers; these result in added costs (Totty, 2007). First and foremost, the client would have to incur search costs and information acquisition costs when scouting several vendors in the market, be it domestic or international, and judge the efficacy of the most productive and beneficial service-providing entity to get into business with. The client firm would have to then strike feasible negotiations and well-specified contractual agreements, all of which result in bargaining and contracting costs.

The outsourcing arrangement can lead to potential loss of supervision and control over work processes for the client firm; as a result the client may have to incur monitoring costs to keep periodic checks for ensuring quality control and systematic workflows of the service-provider. The client firm may also have to deal with maladaptation costs when misaligned expectations between client and vendor lead to hidden costs to be borne by the entities (Totty, 2007). When an outsourcer provides specialized service to a client, it is possible that the client may feel threatened as the outsourcer may possess the ability to replicate those services and oust the client in the open market; such opportunistic behavior of the service-provider could put the client firm at risk of losing its core capabilities, and pose costs for the client. An outsourcer could also create information asymmetries for the client by not divulging details of its processes and work systems involved in the service that it caters to the client, thereby creating a dependency and lock-in effect for the client who feels compelled to remain in the arrangement on account of the opportunistic behavior of the outsourcer. Qu and Brocklehurst (2003) label certain important transaction cost-inducing factors such as language barriers, government support, quality, culture fit, financial robustness, process and methodology, and supplier reputation, which firms could face during the process of supplier selection. Gewald, Wullenweber and Weitzel (2006) assess the risks associated with hidden costs, inexperienced vendors, failing interfaces, lack of cross-functional skills, under-achieved promises/benefits, default of vendor, communication mismatch, lock-in, loss of business flexibility, limited/bounded rationality, wrong measurements, misuse of trust, and security breaches which lead to increased transaction costs for the client organization.

Proposition 1b.- Lower the perceived costs, higher the perception of value to the client firm.

Benefits for the Service-Provider

The service-providing organization, i.e. the outsourcer also derives several benefits. By equipping itself to provide certain specialized services, an outsourcer can create and capitalize on its intellectual capital in terms of the knowledge it accumulates and uses to add value to its products or services, which in turn feeds in to deliver better value to the client firm (Gupta and Zhender, 1994). The outsourcer can leverage its economies of scale and scope when many alternative users want/order similar services, thereby paving the way for asset ownership for the outsourcer who gets motivated to take better responsibility for those processes (Baker, Gibbons and Murphy 2002). The outsourcing organization may many a times be encouraged to assume operational quality responsibilities as well (Hutchins, 2005), and enhance productivity and effectiveness of service by engaging in higher value-adding activities over time. The outsourcer can thereby benefit through exposures to new workflows, systems and technology transfers. It can derive higher revenues by adopting optimal utilization of its workforce and resources and providing formidable competition to other vendors in the market. Through interaction with clientele and work processes, it gets an opportunity to proliferate its portfolio of services, and also widen its access to newer markets and products. In vertical markets, suppliers typically attempt to create higher value-addition by moving from simple assembly and testing operations to component manufacturing, design, and marketing (Sako, 2006). In markets for business services, suppliers also operate on the notion of climbing the value-added ladder, by transitioning from simple to more complex transactions; thus, enhancing their productivity and effectiveness of service (Sako, 2006).

Proposition 2a.- Higher the perceived benefits, higher the perception of value to the service-providing organization.

Costs for the Service-Provider

The outsourcing service-providing organization also tends to be faced with costs beyond just the monetary expense incurred while providing service. The outsourcer is many a time forced to function as per the dictates of the client firm, especially when such clients bear strong reputation and power in the business channel. The outsourcer may have to live with such conditions of lower operational control and reduced flexibility of working processes in its struggle to hold on to clients' orders amidst tough competition. It may experience dependency on the client firm whose orders drive its business and have to adhere to the client's requirements and expectations. When catering to special services of a client firm, the service-provider may sometime have to establish transaction-specific locked-in assets necessary to comply with the modesoperandi demanded by the client; this leads to transaction costs arising from such asset specificity conditions for the outsourcer. Costs arising from frequency or infrequency of orders and transactions also induce uncertainty of steady work-load for the service-provider.

Proposition 2b.- Lower the perceived costs, higher the perception of value to the service-providing organization.

RELATIONSHIP QUALITY AND ITS MODERATING ROLE

Having established the costs and benefits framework for the client firm and the service-providing organization in the outsourcing relationship, this paper further builds on the conjecture that the relationship quality between these two entities plays a major moderating role in the ultimate realization of costs and benefits for each entity. The outsourcing argument has transited from pure 'cost savings from labor arbitrage' to that of 'value creation through leveraging of resources and scale economies' – a more sustainable proposition, that creates economic value for both clients and vendors, provided they are

prepared to get into a strategic, long-term relationship (Cachon and Harker, 2002). To reap the full benefits from outsourcing, clients need to treat offshore vendors as strategic entities, rather than as mere low cost service providers, engaged in long-term partnerships instead of merely arms-length contractual channel members (Gupta, Seshasai, Mukherji and Ganguly, 2007; Choudhury and Sabherwal, 2003; Kishore, Rao, Nam, Rajagopalan and Chaudhury, 2003). Better service quality resulting from symbiotic relationships between clients and service providers can serve to reduce the transaction costs arising from information asymmetries, opportunism, bounded rationality, uncertainty, and the kind as entailed by Williamson (1981); thus paving the way for client and service provider alliance as the efficient governance structure wherein institutional form and internal organization are blended with synergies of the market to drive the corporate strategy (Reve, 1990). The client firm and the service delivering organization both need to be cognizant and involved in the shared definitions of 'value' from a long-term relationship perspective (Crosby, Evans and Cowles, 1990). The 'value constellation' derives mutual value to be developed as a consequence of the reciprocal interactive relationship between these organizations who work together to increase their benefits and decrease their costs so as to co-produce value (Normann and Ramirez, 1994). The outcome of this inter-firm interaction and rethinking of the operating structure of firms is that an outsourcing strategy leads to new visions of 'total relationship marketing' and collaborative value generation (Gummesson, 1999), where the general competitiveness is increased, long-term cooperation is strengthened, and a culture and operating routines aimed at generating relational capabilities is generated (Espino-Rodríguez and Rodríguez-Díaz, 2004).

This determines that the value offered to end consumers is increased and a greater number of transactions performed, with the consequent indirect effect of strengthening the basic internal capabilities of each firm. Such nature of client-server interaction materializes in the integration of processes by related companies in such a way that greater integration generates greater cooperation, higher commitment and trust (Dwyer, Schurr and Oh, 1987; Ganesan, 1994; Morgan and Hunt, 1994; Doney and Cannon, 1997), greater transfer of knowledge, greater innovation capability and business flexibility. The economic dimensions (investments quality, value engineering, concurrent engineering, and cost reduction), strategic dimensions (core competencies, strategic fit, time to market, and goals), and behavioral dimensions (social bonding, trust, and culture) would all be optimized with better relationship quality between client and outsourcer (Wilson and Jantrania, 1993, 1994). Inter-firm relationship developed and matured over time leads to creation of quality and value for both the client firm and service-provider, which will ultimately be realized as perceived value by the end customer in the market (Gronroos, 1997; Payne and Holt, 2001).

Thus, better relationship quality and higher relationship value in the business dyad serves to increase/maximize the benefits and decrease/minimize the costs for the client firm and the service-provider, so as to ultimately maximize the value for each entity, and thereby maximize the total value orientation of the strategic business arrangement.

> *Proposition 3a.- Higher relationship quality will enhance the effect of the perceived benefits on client firm value.*
>
> *Proposition 3b.- Higher relationship quality will mitigate the effect of the perceived costs on client firm value.*
>
> *Proposition 4a.- Higher relationship quality will enhance the effect of the perceived benefits on service-provider value.*
>
> *Proposition 4b.- Higher relationship quality will mitigate the effect of the perceived costs on service-provider value.*

TOTAL VALUE ORIENTATION

There are several anticipated outcomes of the Total Value Orientation (for the business system) ranging from short-term financial gains to long-term competitiveness categorized as follows: Financial Performance, Competitiveness, End Customer Value, Innovation Capability, and Strategic Partnership Effectiveness. Traditional financial performance metrics such as total (joint) profitability and shareholder wealth are important to track as outcome measures. Increased competitiveness is achieved through improved value to end-customer, increased shared knowledge and resulting reduction in environmental uncertainty. The primary purpose of the client firm and service-provider relationship is to enhance value for the end-customer. Just as Dell uses Intel microprocessors to provide and communicate value to its computer users, the partnerships the client firm establishes with other firms such as outsourcing service-providers improve value to the end-customer. If this enhanced total value of the system as it benefits the end-customer is communicated effectively, the perceived end-customer value is higher. Improved innovation capability for both product and process modifications and breakthroughs are achieved through re-alignment of critical internal processes. Apart from the behavioral currency traded in a relationship, the currency of increasing value in today's economy is the currency of information and knowledge. In a genuine relationship, the client firm and the service-provider both seek empowerment through a two-way exchange of information and knowledge; thereby moving towards an effective strategic partnership, by sharing product, process and people knowledge (Bhagat and Williams, 2002). Finally, truly strategic partnership effectiveness takes root through shared values and goals and improved inter-organizational coordination (Table 1, Figure 2)

Proposition 5.- Higher the perceived value to the client firm and the perceived value to the service-providing organization, higher the total value orientation of the business system.

Table 1: List of the Research Propositions

1a.	**Higher the perceived benefits, higher the perception of value to the client firm.**
1b.	Lower the perceived costs, higher the perception of value to the client firm.
2a.	Higher the perceived benefits, higher the perception of value to the service-providing organization.
2b.	Lower the perceived costs, higher the perception of value to the service-providing organization.
3a.	Higher relationship quality will enhance the effect of the perceived benefits on client firm value.
3b.	Higher relationship quality will mitigate the effect of the perceived costs on client firm value.
4a.	Higher relationship quality will enhance the effect of the perceived benefits on service-provider value.
4b.	Higher relationship quality will mitigate the effect of the perceived costs on service-provider value.
5.	Higher the perceived value to the client firm and the perceived value to the service-providing organization, higher the total value orientation of the business system.

CONCLUDING COMMENTS

The outsourcing context here is viewed as a special case of business partnership relationships. The essence of the entire discussion could be applied to all trading partners within the business network. While this paper considers the partnership of only two firms, the Total Value Orientation perspective is not limited to only such dyadic relationships. The framework articulated here can be usefully extended to a network of relationships between the client firm and several of its business partners. These partners may be outsourcing service-providers for manufactured products, professional services, or business processes. Conducting such cost-benefit analysis can be useful for firms to decide upon the efficacy and effectiveness of their business partnership arrangements. Entities engaged in business transactions will always face costs and benefits during the course of their communication; however, the relationship quality which they develop and nurture as a function of time would determine how well the benefits arising amidst their business dynamics would override their costs in order to project and establish notions of value in the trading network.

Figure 2: Cost-Benefit Framework of Total Value Orientation

This figure summarizes the gist of all the conjectures elaborated upon by us in the paper. The benefits and the costs incurred by the client firm and the service-provider are respectively shown as indicators describing the domains of their respective constructs, namely client value and service-provider value. Relationship quality is shown as the moderator between the benefits/costs and the respective value constructs for the client firm and the service provider. The five strategic outcomes of the total value orientation are shown as reflective indicators for that construct.

It is our view that such an evaluation or measurement of value of an entire business system is critical for firms and organizations to develop greater competitiveness in today's world of global collaborations. Value may be operationalized in various ways and at different market levels. Some common metrics – direct measures or surrogates - include customer satisfaction, customer value-added, total cost analysis, strategic profit model or shareholder value (Lambert and Burduroglu, 2000). Naumann (1995) use the ratio of perceived benefits and "perceived sacrifices" to capture expected customer value – a perspective close to that considered by us in this paper. Gale (1994) proposes the quality-price differential to indicate

value to the end-customer. None of these perspectives, however, consider measuring and aggregating the value from multiple business partners. Extending the current models of such supplier or vendor analysis to a set of business partners should be the next step in this research. At the macro-level, the impact of outsourcing on productivity growth and efficiency in manufacturing and service industries has been studied (Heshmati, 2003). At the firm or micro-level, Grover, Cheon and Teng (1996) study the impact of service quality and partnership on outsourcing of information system functions. However, their measures of success of outsourcing are based on the strategic, economic and technological benefits and do not explicitly consider the costs. They do recognize the role of service quality as a moderating variable of the relationship between the extent of outsourcing and outsourcing success. Lee and Kim (1999) consider partnership quality as a mediating variable which leads to outsourcing success. The success measure considers both the firm perspective and the user perspective. Poppo and Zenger (1998) approach the make-or-buy decision from the three perspectives of transaction cost, knowledge-based and measurement reasoning and conclude that an integrated approach of measurement is needed for such a complex decision. We agree with these researchers and would consider measuring the total value of outsourcing as well as the value to the end-user. In conclusion, the model proposed here is the first step on understanding, evaluating and measuring the total value of a complex system of multiple participants, dynamic inputs and outputs as well as diverse contexts.

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