Collaborative and Non-collaborative Vendor Selection Processes: Three stories from Umbria

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Abstract
Over the last decade, outsourcing has become a widespread phenomenon. Many outsourcing process frameworks have been proposed to support this development. A typical outsourcing process consists of five phases – preparation, vendor selection, transition, managing relationship, and reconsideration. This paper focuses on the vendor selection phase. The tendency of outsourcers to engage in more collaborative and relational oriented outsourcing arrangements is discussed with comparison to the formal non-collaborative (transactional) relationships. The chosen outsourcing relationship (collaborative vs. non-collaborative) will influence the process of selecting a vendor. A general framework for the vendor selection process consisting of several stages is proposed. We used a case study method, involving three Umbrian companies, to explore validate the vendor selection framework and to explore if the framework’s stages differ between the con-collaborative and collaborative vendor selection processes.

Introduction
Outsourcing is becoming a fundamental leverage to help enterprises to increase their competitiveness. The main idea is that outsourcing should not be seen only as a cost reduction opportunity by following an operational approach (Porter, 1998). Instead, companies should act strategically in relation to outsourcing, in order to view BPO (Business Process Outsourcing) as the main gate to sustainable competitive advantage. BPO can become the leverage to rethink the business model in order to innovate and transform an old business into a new one. This corresponds with surveys that have shown that senior managers in manufacturing industry are in complete accord that outsourcing should be part of their business strategy (Probert, 1996).

Outsourcing is the process of establishing and managing a contractual relationship with an external supplier concerning provision of capacity that has previously been provided in-house (Momme, 2001). A minimum of two organisations are involved in an outsourcing arrangement – an outsourcer and a vendor. The outsourcing process consists of the following stages: preparation, vendor(s) selection, transition, managing relationship, and reconsideration (Perunović et al., 2006). Each of the stages has to provide an answer on various questions, thus emphasising the complexity of the outsourcing process and arguing for a need that it has to be managed carefully throughout all of its life cycle. The phases of the outsourcing process are highly dependant among each other, and flow of information is not straightforward. The output of one phase can deliver an input for both antecedent and preceding phases.

The complexity of the process makes most of the researches focus on one phase or even on one or limited group of activities within a single phase. That is the case with this paper as well. We have selected one phase of the outsourcing process – the vendor(s) selection phase. The purpose of the paper is to set a scene for exploring the tendency of outsourcers to engage in more collaborative and relational oriented outsourcing arrangements is discussed with comparison to the formal non-collaborative (transactional) relationships. The paper is organised in the following way. The following section presents existing body of knowledge about the vendor(s) selection phase. Thereafter we develop a framework for selecting a vendor with both collaborative and non-collaborative paths. In the fourth section we use the example of Umbrian companies to test whether and how companies follow decision making logic proposed in the framework. Results, discussion and concluding remarks end the paper.
Outsourcing Literature on Vendor(s) Selection Phase

Input for decision making within the vendor selection phase comes from the preceding preparation phase. If vendor scanning activities from the preparation phase didn’t reveal the final candidate for entering the negotiation process, than vendor selection shall be carefully designed. It shall follow more or less pre-determined paths, consisting of writing the request for proposals (RFP), determining evaluation criteria, evaluating and selecting vendor, negotiating and finalising the contract.

However, RFP is not the only way to seek for the vendors. Actually, with growth of more collaborative outsourcing arrangements, more collaborative approach in seeking and selecting the vendor is emerging (Corbett, 2004). This tendency is confirmed by the emergence of partnership and alliance arrangements as alternatives to the formerly more popular transaction based contracts (Kakabadse and Kakabadse, 2000). However, in transactional outsourcing arrangement it is still prevailing way to find appropriate partner. Michael Corbett (2004) mentions a few critical principles that shouldn’t be neglected in the process of writing the RFP:

- Need to focus on objectives and results, not resources and methodologies.
- The RFP answers two questions: What results does the organisation seek? How will the organisation determine whether or not those results are being achieved?
- Describe all of the factors that will go into evaluating the vendors’ proposals, and even the relative weight that will be applied to each.
- Specify the information and format required so that the proposals can be readily compared to each other.
- Define the current problems and costs associated with the existing process.
- Position the organisation as good prospective customer.

Before RFP is sent out, the evaluation criteria should be established. Even in the case of collaborative outsourcing, there should be evaluation criteria that will help judge the vendor in the forthcoming phases of the process. Three types of the evaluation criteria should be developed (mandatory, qualitative and cost based), while throughout the whole vendor selection process, the probity issue shall be ultimately emphasised (Cullen and Willcocks, 2003). An extensive list of potential criteria may include (McIvor, 2005):

- Financial issues
  o Economic performance
  o Financial stability
- Organisational culture and strategy issues
  o Feeling of trust
  o Management attitude/outlook for future
  o Strategic fit
  o Top management compatibility
  o Compatibility across levels and functions of buyer and supplier firms
  o Supplier’s organisational structure and personnel
- Technology issues
  o Assessment of current manufacturing facilities/capabilities
  o Assessment of future manufacturing capabilities
  o Supplier’s design capabilities
  o Supplier’s speed in development
Other factors
- Safety record of the supplier
- Business references
- Supplier’s customer base

In addition to that, an outsourcing company shall secure that it matches supplier capabilities with its own strategic intent. Fenny, Lacity and Willcocks (2005) provide a list of 12 supplier’s capabilities that need to be considered while setting the evaluation criteria and actually choosing the partner. These are:

- Domain expertise – capacity to apply and retain sufficient professional knowledge of the target process to meet the user requirements
- Business management – ability to consistently meet both client SLA and its own business plan
- Behaviour management - ability and history record in training, managing and motivating people
- Sourcing – ability to tap the resources needed to meet service targets
- Technology Exploitation – ability to deploy technology to support critical service improvements
- Process re-engineering – ability to design and implement changes to the service process to meet improvement targets
- Customer development - ability to transform user to customer
- Planning and contracting – ability to develop and execute business plans that can deliver win-win results for both customers and suppliers over time
- Organisation design - capability to executing business plans
- Governance - approach and attitudes towards government of outsourcing arrangement
- Programme management - project and change management capabilities
- Leadership - ability to identify, communicate and deliver the balance of the activities required to achieve success, both for the client and the vendor.

In spite of the preparedness of outsourcers and their carefully thought deterministic approach in the vendor selection there are numerous factors that may influence the assessment of vendors bids (Willcocks et al., 1995):

- Pre-existing evaluation practice
- Sources of hidden costs (in particular the failure to fully define present and future requirements, and unforeseen in-house contract management costs)
- Economic myths in outsourcing (IT outsourcing vendors are inherently more efficient; savings of 10-50 per cent can only be achieved through outsourcing)

Negotiation of outsourcing agreements requires a different mindset than that required in traditional commercial contract negotiation. Rick Click and Thomas Duening (2003) argue that the negotiation in outsourcing should start as a positive sum negotiation where both parties are interested in creating more resources than there currently are and dividing gains from them. They also suggest that outsourcing negotiation should be collaborative, long-term oriented with flexible terms that create a win-win situation.

Finally, the vendor selection phase shall provide the major output, the contract. The outsourcing contracts may be developed as a single term (fixed one-term), rollover (extendable) or evergreen contracts (Cullen and Willcocks, 2003). The outsourcing contract is the only certain way to ensure that expectations are realised. It may
comprehend standard elements, although each outsourcing arrangement shall take into account specificities of parties involved and characteristics of the work that is about to be outsourced. An outsourcing contract will include some of the following (McIvor, 2005):

- Service Level Agreement
- Transfer of staff and assets
- Price and payment terms
- Liability
- Contract termination
- Flexibility

Flexibility of contracts is an emerging characteristic of contracts which is being explained by the theory of incomplete contracting. Robustness of the contract is very important and who should serve as effective mechanism in the case of activities for which complete information exists and future uncertainty is manageable. Ronan McIvor (2005) illustrates numerous methods of incorporating flexibility into a contract through incomplete contracting, thus ensuring that the outsourcer is not locked into a relationship with an uncompetitive partner. These mechanisms include Price flexibility, Renegotiating, Contract length, Early termination.

**Vendor Selection Process Framework**

The literature and practice suggest two types of approaches towards the vendor selection. One is transactional, the other is relational. In the transactional the outsourcer doesn’t want to engage itself deeply into a relation with a vendor. That usually happens when the outsourced activity or function is far from being core to the outsourcer. In this case the company may try to find the vendor from a large pool of vendors existing on the market. The best price/quality offer will probably win the contract. On the other hand when the outsourcer decides to develop a closer relationship with potential vendor, it does so because the outsourced activity or function have strategic importance for the outsourcer and because there is a limited number of potential vendors whose knowledge is critical to the success of outsourcing arrangement and to business performance of outsourcer.

This reasoning that emerges during the preparation activities entails different approaches in selecting the vendor. If transactional relationship is outsourcer’s choice than it will have more formal vendor selection process containing activities like writing the formal request for proposal, developing criteria for evaluation, developing quantitative methods for choosing the vendor, etc. When collaborative relationship is chosen outsourcing approach, an outsourcer will have more informal vendor selection process. This may involve direct contact to the desired vendor or even the vendor may suggest collaboration. In this case the criteria for evaluating the vendor may differ significantly from those in the transactional relationship.

Based on the literature review we have developed a framework that reflects steps of both collaborative and non-collaborative vendor selection processes (Figure 1). The framework is structured in five main steps (see Figure 1): type of relationship, evaluation criteria, vendor selection, negotiation and contracting. What emerges during the preparation activities implies different approaches in selecting the vendor i.e.
collaborative or non-collaborative approach. Independently of the approach, due to vendor selection complexity, companies consider multiple criteria, either by using managerial intuition and preferences, or more formally by deploying some of the multi-criteria analysis methods. At the end, the company will negotiate with top vendors and will arrive to contract signature.

![Diagram of the proposed framework for vendor selection](image)

**Figure 1 - The proposed framework for vendor selection**

**Non-collaborative approach**

The non-collaborative approach can be identified by the request of the outsourcer to the vendor of a formal request of proposal (RFP). In this way, there is no active interaction between the possible partners. This procedure is typical of traditional outsourcing, where transactional outsourcing arrangement is still the prevailing way to find an appropriate partner. This solution is often chosen since many organizations may not have the specialized talents and capabilities to be involved in a more complex and time-requiring collaborative processes. Therefore, they prefer to use a RFP. This is beneficiary to the outsourcers because they can compare the proposals by using a common format, hence making the vendor selection much easier.
The simplicity of this approach becomes a limit when the outsourced process becomes strategic for the outsourcer. In this case, the vendor selection phase becomes particularly critical and many times determinant for the whole outsourcing activity success. In consequence of that, a more collaborative approach with vendor is needed, so as to share risk and promote vendor participation.

**Collaborative approach**
The collaborative approach can be identified by the absence of preliminary formal documentation between the outsourcers and the vendors. This approach can be pursued by the outsourcer that looks for a vendor, or by a vendor that approaches a possible outsourcer. Actually, a more collaborative approach in seeking and selecting the vendor is emerging (Corbett, 2004), and we explain this phenomenon in consequence of the growth in strategic outsourcing arrangements. This is aligned also to the tendency of companies to radically reduce the vendor portfolio, in the direction of a few vendors able to furnish global and integrated solutions. This model has significant implications in the field of innovation, since the outsourcer can explore and evaluate vendor capabilities and promote common innovation. The collaborative approach can lead to the creation of the new growth platforms (Laurie et al., 2006) where strategic outsourcing becomes the link between the growth and innovation.

However this solution requires high relationship investments and participation in the vendor selection phase for both the outsourcer and the vendor. In particular, we identify the collaborative approach as an attempt of the outsourcer and the vendor of achieving the excellence across many parameters. This procedure gives the chance to the vendor to adapt and optimise his internal business and service, while giving the outsourcer a real comprehension of vendor capabilities and margins of improvement.

Figure 1 suggests that organisations undergo more or less structured procedures to select the vendor or vendors, despite the predetermined preferred relationship type. Still the content and the inner decision making mechanisms of the stages differ between the con-collaborative and collaborative vendor selection processes. Therefore, we test the proposed framework and seek to elucidate the determinants of two distinctive paths regarding the characteristics of outsourcing relationship

**Research Methodology**

This research represents the preliminary work of a broader project involving Umbrian Companies with the general aim of understanding the nature and structure of non-collaborative and collaborative vendor selection processes within outsourcing arrangements. In the first instance, in order to optimise the questionnaire and validate the framework proposed, we have deployed a set of conceptual and exploratory studies. Qualitative case method is suitable for early, exploratory investigations where the variables are still unknown and the phenomenon not completely understood, and when exploration is deployed to develop research ideas and questions.

In order to have an overview over the vendor selection process from several standpoints we have selected outsourcers that have two distinctive approaches toward selecting their vendors, and one vendor that should provide us with the vendor’s perspective. The
The purpose of investigating vendor’s perspective is to understand vendor’s perception of outsourcing relationship trends, so as to understand outsourcer’s approaches and vendor’s leverages.

The interviews were conducted with the relevant executives who are in charge for outsourcing activities and have lasted from 90 to 120 minutes. Informant in the case of the collaborative vendor selection process was a Supply Chain Manager (SCM). He is in charge of the BPO management, and his work is supervised by the CEO. In the case of the second outsourcer, with a non-collaborative approach, the interview was conducted with one of the company owners. He is in charge for the BPO management and he manages the procurement department. The interview in the vendor company was conducted with the sales manager. With the aim of having a perfect alignment with company outsourcing practices, the content of the interviews here presented have been reviewed and approved by informants.

Case Studies

The Collaborative Vendor Selection Process - Gruppo Poligrafico Tiberino (GPT)

The GPT is a Virtual Development Office (VDO) (Lunghi et al., 2005) operating in Umbria since 2005. The company originates from the Pulp and Paper District of Città di Castello, and today it groups a network of more than 150 small and medium enterprises. GPT is substantially identified by the presence of a commercial office and a research and development office. GPT operates using various innovative models, such as Collaborative Product Development and Multi Agent Systems. Business Process Outsourcing (BPO) is one of the dominant business models in the company. As a VDO, GPT operates in three main steps:

- It identifies business opportunities;
- It builds the optimised supply chain to deliver product and services;
- It coordinates all operations in the network.

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Figure 2 – The scope and level of outsourcing in GPT
Figure 2 shows the level of the outsourcing in GPT. They are an organisation that builds the business model around outsourcing. Procurement, engineering, manufacturing, and distribution are almost completely outsourced. The activities not outsourced are considered as core competencies to GPT, and they decided to maintain them in order of preventing loss of control and capability, and for protecting intellectual property. GPT is today satisfied of goals achieved through outsourcing, and they plan to maintain their outsourcing best practices.

GPT business process outsourcing is quite particular, since it operates in a network context. The typical company outsourcing arrangements run from a few months to few a years, and they involve partners (that can play the twofold role of suppliers or investors) and suppliers. For GPT, the preparation phase output is the clear plan of all processes they need to outsource in order to build the “virtual organization” inside the network. In this phase, they typically fix the desired “Service Level Agreement”.

The SC manager affirms to substantially agree with the framework proposed in Figure 1, and he specifies that they use a similar process for “big contracts” and “important processes outsourced”, while, in the other cases, the vendor selection process is faster and less structured. Focusing on the vendor selection phase, they declare to adopt a “collaborative approach”, through informal search of vendors inside and outside the network. In some occasions, they received also some vendor offers of “Collaborative relationships”. In particular these offers were made by bigger companies inside the network aiming to establish strategic partnerships with GPT. Each time GPT is involved in the vendor selection phase, they typically use a multi-criteria methodology to evaluate the vendors. This evaluation is conducted through informal meetings, usually two or three, where the process to be outsourced is presented to the vendor together with the SLA desired. These meetings are usually held by the SC manager and the CEO, and sometimes by other specific employers or partners. In these meetings, they try to understand the vendor’s capability and strategic plans, and they try to focus and evaluate all criteria previously fixed. This analysis is conducted completely informally, with the aim of relaxing the vendor, in order to better understand its profile and start, since the beginning, a collaborative relation. The SC manager told us that “the aim of these meetings is not to find vendors, but to find potential partners”. Regarding the last four steps of the framework proposed by the authors, the SC manager said he manages the “evaluation criteria definition” phase personally, while in the “vendor selection”, “negotiation” and “contracting” phases he is often supported by the CEO.

Since the beginning, GPT has never used request for proposals or other “non-collaborative approaches” to manage its outsourcing processes, but they are sure that the “collaborative approach” is the most successful way to manage outsourcing vendor selection inside network contexts. They declare claim to pursue collaborative outsourcing relations, since they perform better to obtain:

- Major contract stability and service quality
- Growth of vendors that become strategic partners
- Strategic acquisitions and partnerships
- Network growth
- Major control of costs, quality and delivers
The Non-Collaborative Vendor Selection Process – ISA Italy

ISA is a manufacturer of professional refrigeration units and furnishings for bars, restaurants and shops. Today ISA’s knowledge relies on the experience and skills developed over 60 years in the field of commercial refrigeration and 55 years in the field of ice cream and pastry shop furnishings. ISA core competencies are: customer focus, quality, innovation, design and flexibility. Nowadays ISA reaches 142 million Euros consolidated turnover, five plants and 72% of products exported in over 72 countries.

Figure 3 shows the level of the outsourcing in ISA. They are very cautious when it comes to outsourcing. Legal services are totally outsourced, while research, IT and manufacturing are on the lower scale selective outsourcing level. The activities not outsourced are considered as core and profitable competencies to ISA, and they decided to maintain them in order to prevent loss of control and lack of adequate supply base. In some cases, the decision of not outsourcing is also related to the possibility that a vendor could become a competitor, and to the difficulty of reversing these decisions in the future. ISA is today satisfied with goals achieved through outsourcing, and they plan to maintain their outsourcing best practices. ISA doesn’t push on outsourcing, and the typical company outsourcing arrangements run for few months and are often renewed.

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Figure 3 – The scope and level of outsourcing in ISA

For ISA, the preparation phase output is the clear plan of all processes they need to outsource in order to build a competitive advantage, and decisions are substantially made through formalized financial considerations.

The vendor selection phase doesn’t follow a specific framework, and cross-functional decision-making is used only a few times to evaluate vendors. The ISA approach in the vendor selection phase can be defined as non-collaborative, since they prefer to follow formalized approaches to vendors by fixing service level agreements and systematic processes to determine what information to share with each other. Joint education and
training for the outsourced activities is pursued only in particular cases, and they do not conduct motivation management. The non-collaborative approach is also maintained in the ongoing management and control of outsourced activities, where ISA prefers to have a strong control of relations through the respect of high quality standards and accurate performance metrics.

**A Vendor’s Perspective – SUSA SpA**

SUSA Spa is an important player in business-to-business logistics in the Italian automotive sector. The company has the loyalty of important customers, such as Toyota, VW, General Motors, Volvo, Porsche and others. They have 24 subsidiaries in Italy with approximately 1600 employees who generate a turnover of more than 100 millions. Services offered to customers extend from distribution to packaging, labelling and documenting carried out directly in customer warehouses. In some cases, they offer warehouse spaces and related management also.

The interviewee (sales manager) claimed that the automotive field is predominantly characterised by non-collaborative arrangements, even if sometimes there is room for collaborative outsourcing arrangements. The sales manager also highlighted how companies’ environment and tradition influence their outsourcing approach. He stated that the confirmation of this reality are outsourcing arrangements with Japanese and Swedish companies. They manifest in fact, a more clear, transparent and collaborative approach in outsourcing arrangements, “you have the sensation of being a partner”, while other companies, located in other countries, maintain more rigid, close and less-collaborative relations, “the vendor is and remains a vendor !”.

However, the automotive field is substantially dominated by non-collaborative arrangements, where RFP and “contract games” represent the every day business. Sometimes, collaborative requests are associated to RFP, but these occasions can not be considered to be representative. Anyway, it is important to remark that companies occasionally looking for more collaborative approaches are small and medium companies, not big companies. Besides, in this target, a collaborative approach is pursued also by SUSA, but the sales manager declared that this approach is not destined to grow, but it will maintain the same importance in the future.

**Discussion**

In the first story, we had the testimony of GPT, a company clearly adopting a collaborative approach in the vendor selection process and, more in general, in outsourcing arrangements. The framework proposed by authors fits in with company vendor selection management practice. Particularly, the company follows an extreme "outsourcing collaborative approach", in consequence of its embedded context: in fact, the company was born with the purpose of managing outsourcing relations in a network environment, and therefore it emphasizes "collaborative arrangements" that are typical of network relations. Further, GPT pursues a strategic use of Business Process Outsourcing, and consequently of the vendor selection phase, since they use BPO as a strategic leverage for grouping new partners and to grow the network.

After GPT, we had the testimony of ISA, a different company clearly adopting a non-collaborative approach in the vendor selection phase and, more in general, in
outsourcing arrangements. ISA outsourcing behaviour can be explained by its confined use of outsourcing. Especially, their use of outsourcing exactly fits in the definition of “traditional outsourcing”, and their plans are far from the practice of a “strategic outsourcing”. This management practice is the reason why the company carefully manages its outsourced activities especially from an economical and cost-saving point of view. This general conduct is coherent with their management of the vendor selection phase, where collaborative approaches are not used, since they do not want to be involved in longer and more restricted outsourcing arrangements, typical of collaborative relations. Another explanation can be identified in their extreme will of control, which poorly fits in with collaborative relations. This strict non-collaborative outsourcing approach is influencing the lack of structured outsourcing process. Still ISA follows a loose logical pattern when it comes to the vendor selections. Consequently they recognized proposed framework as business correct.

Finally, we had the testimony of SUSA, a company that offered us a vendor perspective. This story gave us some interesting reflections on the outsourcing approach. The first one is related to the fact that BPO practices depend on company traditions and outsourcing attitude, as remarked by the difference of outsourcing arrangements with Japanese and Swedish companies on one hand, and other companies on the other. The second remark originates from the fact that very structured sectors, such as the automotive, present enormous players, typically multinational companies, that leave little room to collaborative outsourcing arrangements, while imposing their RFP or, more in general, their models. Partially confirming this scenario is the vendor’s perception that collaborative approaches and arrangements substantially work only with smaller companies. This is due to their less structured processes which leaves room for more collaborative outsourcing arrangements.

**Conclusions**

The three stories from Umbria probably do not differ from some other similar stories from other places in the world. This paper has revealed several themes that could add to the existing body of knowledge about the outsourcing process:

The content of the stages of the vendor selection process is highly influenced by the outsourcing approach chosen in the preparation phase. Organization’s attitude towards collaborative or non-collaborative approach towards outsourcing strongly influences the structure of the outsourcing process and therefore the vendor selection phase. If an outsourcing arrangement is considered to be “big” and important a “collaborative” company may pay stronger attention to structuring the vendor selection process. Otherwise, it follows the steps suggested in the framework in a loose way. Companies that do not have an open approach towards outsourcing may have problems in structuring their outsourcing process, and the vendor selection phase as well. The choice of the outsourcing and vendor selection approaches are subjects to strong external contingencies like, the type and structure of industry, national business culture, and the size of outsourcer.

The paper indicates that there are two distinctive vendor selection approaches. After determining the type of the approach, the outsourcers follow two different paths to announce their attentions to outsource and to get in touch with the vendors. Afterwards
they steps in the process are the same for both types of outsourcers, but the structure, attitudes and approaches towards evaluation criteria, selection, negotiation and contracting differ. Three stories from Umbria didn’t look into these differences in detail; rather we have noticed that they do exist. Therefore one of the directions of the future research in this area could be to explore and explain these differences

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