

# Management of the inter-organizational relationship between public contractors and external service providers

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**Abstract:** This article focuses on understanding the methods of managing the outsourcing relationship in Moroccan public establishments during the post-covid period in particular. It is interested in identifying and analyzing all the factors influencing the management of this relationship in the public sphere. First, we are interested in the development of the conceptual framework dealing with the management of the outsourcing relationship between public institutions and their external service providers. Subsequently and on the basis of our qualitative empirical study, we identify the factors influencing this inter-organizational relationship, particularly in the Moroccan public context. In the end, we present the results obtained from our study of multiple cases, carried out with Moroccan public establishments with commercial and industrial activity.

Compared to the methods of managing the outsourcing relationship between a public order giver and an external service provider, this research highlights endogenous factors such as: (resource differential, need for flexibility, proximity to the core business and finally the cost and complexity of control) and other exogenous factors such as: (pressures from the institutional environment, substitutability of service providers) as determinants of the design of the choice of management methods, namely: (management by the control, relationship management).

**Keywords:** inter-organizational relationship management, public management, outsourcing relationship, public principal, external service provider.

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## 1. Introduction

The appearance of new notions in the public sector such as flexibility, effectiveness, efficiency, governance or even performance evaluation, also gives rise to the emergence of a certain number of questions about the public context that accompanies the insertion of these new management methods. The modernization of public services depends on the openness of public establishments to new management practices (Barodi, 2022). Indeed, the main thrusts of the reforms focused on improving the performance of the public sphere ; refocusing on improving the quality of services offered to citizens ; and improving transparency to parliament and citizens. In Morocco, outsourcing in the public sector aims, as in the private sector, to entrust an activity or service to an external service provider specializing in its field. Consequently, many Moroccan public establishments began to free themselves from certain activities by entrusting them to specialized external service providers in order to remain competitive and achieve the expected performance. Public Establishments and Enterprises (PEE) were the first state organizations to adopt new and effective new public management practices (Dridat, 2021). Furthermore, organizational performance is analyzed in terms of the effectiveness, efficiency and relevance of the services provided to citizens (Faye, 2022).

The main objective of our study is to understand the context in which these public bodies manage the relationship with their external service providers. We aim to identify and analyze the factors that influence the management of this relationship. We seek to identify, through a qualitative approach, all the organizational and extra-organizational factors capable of influencing the methods of relationship management in the public sphere. The interest in this rather particular context is justified by the fundamental role attributed to it in the Moroccan economy.

In this work, we first present a theoretical analysis of the outsourcing relationship within public sector establishments (2). Then, in the next point, we identify the determinants of the outsourcing relationship in the Moroccan public context (3). Finally, in the last point, we present all the results of our study (4).

## 2. The outsourcing relationship in the public context

First of all, outsourcing is defined as being the fact of : « entrusting or buying an activity, a good or a service and its management, previously carried out internally and which concern functions that are still essential to the value creation chain, to an external service provider or supplier rather than carrying them out internally, for better performance » (Barthélemy, 1999). On the other hand, the practice of outsourcing can eventually lead to certain organizational changes for the firm that undertakes it (Elomari, 2020).

In reality, the outsourcing of support functions has been commonly practiced for several years, while activities directly integrating the value chain remain a recent phenomenon. It therefore takes on a new trend by bringing out a very important notion, that of the core business. Traditional outsourcing essentially concerns peripheral activities far from the core business, while strategic outsourcing concerns basic activities that are close to the core business and have high potential for value creation. From now on, this practice has extended its scope of influence towards functions with high added value by affecting many sectors of activity and functions (Donada et al., 2005). As a result, outsourcing can be "partial" or "total" since companies do not always wish to entrust the entire activity to an external service provider given the possible risks (Quélin, 2007). The company is always looking to increase its efficiency by trying to reduce or stabilize its management or production costs, this is how a new form of organization

has appeared which is outsourcing (Rovier, 2019). However, that outsourcing can also have hidden costs (Mukherjee, 2018 ; Pereira, 2019).

On the other hand, the management of the relationship with the external service provider promises to be fundamental or even vital to ensure good follow-up and also respond favorably to the expected expectations. The challenge for the company essentially lies in the proper management of the inter-organizational relationship, in order to share common constraints and manage the asymmetry of relationships, throughout the process (Affaghrou, 2022). The logic of public management proposes a new style of management capable of putting the structure at the service of the strategies of public organizations. Moreover, several countries have significantly changed their methods of managing public services by resorting to collaboration and coordination, the outsourcing of which is particularly important (Marhoui et al., 2022). This management consists of going back and forth between resources and achievements. Thus, the management imperatives are identical, the objective of which is to generate products and services while avoiding consuming too many resources to do so. New public management therefore represents a profile compatible with the private management framework, which revolves around decentralization, responsible autonomy, contractual relations, meritocracy, efficiency control and performance management.

## **2.1 Organizational approaches to outsourcing relationship management**

In what follows, we are interested in presenting the transactional approach and the approach of the relational exchange which approach the methods of management of the relation in the public context.

### **2.1.1 The transactional approach**

The transaction cost theory proposes different institutional arrangements to manage transactions efficiently by minimizing transaction costs. It is therefore necessary to find the partner of the exchange, to negotiate then to contract with him and finally to control him via monitoring devices. Three forms of organization are to be distinguished: the market, the hierarchy or the firm and finally the hybrid form (Williamson, 1985). In governance by the market, the information is contained in the price, then the control is carried out via a classic contract which is supposed to be detailed. Control comes from free and perfect competition. In hybrid governance, control comes from the neoclassical contract which involves a third party to monitor the execution of the transaction and arbitrate conflicts. In this sense, the transactional approach proposes a control centered on the optimal contract and oriented towards the reduction of opportunism and uncertainty. In hierarchical governance, control calls in particular on authority and a long-term sanction/reward system.

### **2.1.2 The relational approach**

On the one hand, relational exchange theory assumes that the inter-organizational governance structure represents a continuum between two extremes : market and hierarchy. Control in this approach is described as developing alongside the relationship. Relational norms and trust are then presented as forms of informal control that can reinforce formal control. The study of control relations between a customer and its suppliers could not depend solely on the contract but above all requires the highlighting of a relational process. The relational exchange approach therefore emphasizes the behavioral and processual aspects of the relationship. It uses the relationship as an attribute of the governance structure (Kim and Chung, 2003). Indeed, the mechanisms studied in this approach are more social than economic, more informal than formal. Informal control mechanisms are gradually replacing formal

control mechanisms. In this context, relational norms take over and trust becomes a key element of control.

On the other hand, Agency theory is also interested in the analysis of the links between the company and all of its actors. It studies the contractual relationship between a principal and an agent. In principle, the agency theory sheds light in particular on the contractual management of the outsourcing relationship in order to organize the link between the client company and its external service provider. This management is done through the analysis of contracts including relational clauses and also the monitoring of the service. Agency theory is therefore very useful for analyzing the use of the contractual form in order to formalize coordination mechanisms.

Indeed, in a context marked by an outsourcing relationship, coordination is then based on contracts that mainly relate to the expected results. In this sense, Quélin (2007) specified that : « In the context of outsourcing contracts, the agency theory plays a decisive role in the management of the contractual relationship by establishing the control mechanisms necessary to mitigate the high agency costs resulting from outsourcing contracts. The outsourcing company delegates responsibility for resources and results to service providers ; which creates a potential dependence on those who supply them ; this introduces uncertainty into their decision-making system ».

## **2.2 The organizational approach of new public management**

Below, we endeavor to present in particular the theory of new public management which clearly takes into account the context of public management with its main specificities and constraints.

### **2.2.1 The new public management approach**

New Public Management is interested in how missions are accomplished and strategies are deployed in relation to the determination of objectives and purposes among others (Marhoui et al., 2021). Both public and private organizations aim to generate products and services by optimizing the resources necessary for their achievements, but the specific political and legal considerations of the public sector require, unlike the private sector, both rationality and of legitimacy. Satisfying the needs for effectiveness and efficiency therefore calls for new management practices for public activities inspired by private management and freed from bureaucratic approaches (Hood, 1995). These new practices advocate recourse to the decentralization of responsibilities, the versatility of skills and the relocation of resources, as well as the adoption of a framework for the standardization of public activities to direct them towards purposes rather than procedures. As a result, performance contracts are put in place to clarify roles and commitments, thus promoting responsible autonomy at all levels of the public organization. The establishment of a private sector logic in the public sector is a delicate task, given that the public sector is characterized by several political, institutional and legal determinants (Ngadi, 2022).

## **3. Determinants of the outsourcing relationship in the Moroccan public context**

In what follows, we try to identify all the factors that are capable of influencing relationship management in the Moroccan public sphere.

### **3.1 Influencing factors from the internal environment**

Four main factors resulting from the internal context have been identified and which are capable of influencing the mode of management of outsourcing in a public context :

### **3.1.1 Resource differential**

Two scenarios should generally be distinguished (Barhélemy and Donada, 2008). In the case where the difference in resources and skills appears relatively low with the service provider, the management of the relationship by control proves to be the most appropriate. In this first scenario, if the number of potential service providers is quite sufficient on the market, control by the market is the most recommended and competitive bidding makes it possible to select the best offer. In the opposite case where the number of service providers is limited, bureaucratic control is better placed based on compliance with the standards and procedures in force. In the second scenario where the differential of resources and skills is strong, management by control is no longer appropriate since control by the market does not make it possible to determine the best offer and bureaucratic control is no longer appropriate. neither to this kind of situation. At this level, it is therefore necessary to better express the needs and to be able to objectively evaluate the service providers.

### **3.1.2 Need for flexibility**

Generally, competition between service providers provides the company with a set of elements necessary for decision-making. In the case where the need for flexibility is strong and the outsourcing company does not depend on any particular service provider, the management of the relationship by bureaucratic control promises to be the most appropriate to mobilize. In the opposite case where the outsourcing company still shows a strong need for flexibility but while finding itself in a situation of dependence on a certain extremely small number of service providers on the market, management by relational standards turns out to be the mode of most appropriate control. To this end, when the need for flexibility is low associated with a situation of non-dependence, control by the market is well suited (Barthélemy and Donada, 2007).

### **3.1.3 Proximity to the core business**

Indeed, the proximity of the outsourced activity to the core business has an influence on the mode of control to be put in place by the public organization. For the activities closest to the core business, companies prefer to favor a long-term relationship governed by respect for relational standards and maintained by establishing a relationship of trust (Sebti, 2007). On the other hand, concerning activities relatively distant from the core business, the relationship becomes rather ad hoc and requires control by the market as being the most suitable mode for this type of situation.

### **3.1.4 Cost of control**

The cost of control refers to « the financial, human and time cost necessary to monitor the outsourced activity. This is one of the main hidden costs that can reduce the financial returns of outsourcing » (Barthélémy, 2008). When the cost of this control is higher, it is very preferable that the control be carried out by the clan in order to best govern the relationship between the outsourcing organization and its external service provider.

## **3.2 Influencing factors from the external environment**

Two main extra-organizational factors have been detected capable of influencing the methods of managing outsourcing within public sector establishments :

### 3.2.1 Institutional environment

Public establishments evolve in the environment of public administrations and are often managed by bureaucratic reasoning. Generally, these establishments tend to implement a mechanistic style in the management of their outsourcing. In their quest for legitimacy, « the leaders of the offices respond to the institutional pressures they experience by adopting a partially bureaucratic management, thus conforming to the rules and standards in force in the administrations » (Powell and DiMaggio, 1983). In the Moroccan public context, « institutional isomorphism would therefore be an explanation of the omnipresence of bureaucratic control in the inter-organizational relations maintained by these offices » (Sebti, 2007).

### 3.2.2 Substitutability of service providers

Substitutability refers to « the number of service providers able to take charge of the outsourced activity, reflecting the ability of an organization to change service provider » (Barthélemy and Donada, 2007). The substitutability of service providers results both from the competitive structure of the market but also from the specificity of the assets to be implemented in the outsourcing relationship. In view of this, « the more competitive a market is, the greater the substitutability of providers should be. In addition, the higher the specificity of physical or human assets, the less substitutability there will be on the market » (Sebti, 2007). Moreover, this specificity of assets represents one of the contingency factors of inter-organizational control most mobilized in the managerial literature (Barthélemy and Donada, 2007).

## 4. Methods of managing the outsourcing relationship in the Moroccan public sector

Like most countries in the world, in Morocco the spirit of New Public Management is to challenge new notions such as effectiveness, efficiency and relevance. In other words, developing a culture of performance and evaluation in the public sector (Lahjouji, 2018). A whole series of measures has therefore been attributed to the new public management and put in place in Morocco, such as the introduction of market mechanisms, including outsourcing, and competition between public services and private companies. Recently, the practice of outsourcing has affected both support and primary processes. Thus the development of the airport sector and of air and rail transport offer significant outsourcing opportunities with a view to generating a large volume of activities that can lend themselves to outsourcing in order to carry them out under the best possible economy terms, effectiveness and efficiency (Chagar, 2020).

In order to closely approach the terms of management of this relationship in the public context, a study was carried out among five Moroccan public establishments with commercial and industrial activity. All these establishments are able to respond to the object of our study since they all develop activities that are at the heart of different strategic sectors such as (phosphate sector, rail and air transport sector, water sector, electricity sector and fishing sector). These entities are also subject to state control and monitoring, but to varying degrees, and are also required to meet state requirements and recommendations, especially in terms of performance and profitability. These offices are therefore constantly required to put in place fairly modern and appropriate management practices to enable them to achieve their goals (economy, effectiveness, efficiency).

### 4.1 Search results

By focusing on the works that focus on the study of management methods in the outsourcing relationship at the level of public organizations, we were able to raise the organizational factors that are capable of

influencing the management methods of the outsourcing, namely: resource differential, need for flexibility, proximity to the core business and cost of control and its complexity. The public context in which our study is introduced has led us to take into account institutional and extra-organizational factors that can also influence the methods of managing outsourcing in commercial establishments, including : pressures from the institutional environment and the substitutability of service providers. Our objective, at this level, is to evaluate the influence of each factor on the management phase of the outsourcing relationship within Moroccan offices with market activity. Through the study of this influence, we were able to illustrate the design of the outsourcing management methods in the establishments studied.

According to our two levels of intra-case and inter-case analysis, which we carried out, we were able to reach the following results :

Organizational factors and institutional and extra-organizational factors influence the management phase of the outsourcing relationship in Moroccan offices with market activity. Our study has shown that these establishments manage their outsourcing relationships respectively by taking into account the pressures of the institutional environment they are subject to and their weight. The influence of the bureaucratic spirit of the state is very remarkable in the context of public management. To confirm their quest for legitimacy, the leaders of the offices studied prefer to set up a partially bureaucratic management in order to respond to the institutional pressures they are subject to. Indeed, the greater the institutional pressures on the offices, the more the public leaders opt to behave according to a more assertive bureaucratic spirit, where the management of outsourcing is done through the bureaucratic control of service providers. The offices are thus trying to adopt this mechanistic style in part in order to comply with the regulations in force in the public sector.

The number of service providers, at the level of the establishments studied, on the market depends on the nature of the activity concerned by the outsourcing. For support activities and certain strategic activities (industrial maintenance), the number of service providers is greater. These entities therefore opt, in addition to bureaucratic control, to control by the market. For strategic activities, the number of service providers is smaller. The offices therefore do not depend solely on the simple competition between service providers on the market, but they opt for trends that go beyond management by control or by the market, to set up another mode of management based on relational standards and trust.

#### **4.2 Design of the methods for managing the outsourcing relationship between the public principal and the external service provider**

Our empirical results show that the factors resulting from the organizational framework are very determining in the management of the relation of outsourcing set up in the Moroccan public establishments. When the resource differential is low, the management of outsourcing by control is the most appropriate. This is the case for peripheral activities and certain strategic activities (industrial maintenance). But when this differential is strong, the management of outsourcing by control at office level is not anymore appropriate, given the difficulty of implementing bureaucratic control. This situation concerns certain activities relating to information systems and information technologies where the difference in resources is more remarkable at the level of the offices. As a result, management through relationalism and trust becomes a necessity.

For the need for flexibility, concerning outsourced peripheral activities, the offices opt for control by the market. On the other hand, with regard to outsourced industrial maintenance activities, the need for

flexibility is strong and the offices prefer management through bureaucratic control. With regard to information system and information technology outsourcing practices where the need for flexibility is high, the offices find themselves in a situation of asymmetrical dependence which is characterized by a « small number » of service providers on the market and therefore prefer the management of outsourcing through relationalism and trust.

Concerning proximity to the core business, for support activities far from the core business, control of the relationship by the market is the management method implemented by the offices. But for activities next to the core business (maintenance activities and those relating to information systems and information technologies), the offices opt for management based on relational standards and trust especially during this post-covid period.

In relation to the cost and complexity of control, when these prove to be significant, the institutions studied also prefer to set up management based on relational standards and trust in order to avoid possibly excessive costs to support. This trend is practiced considerably especially after the period of covid-19, where management by trust begins to gain more momentum.

## 5. Conclusion

The general purpose of this study was to make a contribution to a better understanding of the choice of methods for managing the outsourcing relationship between principals and external service providers in a particular public context, particularly in the post-covid19 period, where several mutations have taken place. We have therefore attempted to identify, analyze and explain the organizational and extra-organizational factors that are capable of influencing in some way the management of this relationship with public establishments with commercial and industrial activity.

In the end, the management of the inter-organizational relationship of outsourcing within the cases handled depends on organizational factors, namely : (the resource differential, the need for flexibility, the proximity to the core business and the cost of control) ; and extra-organizational and institutional factors, namely : (institutional environment and substitutability of providers). These factors are able to influence the methods of managing the outsourcing relationship put in place, in other words, the control methods allowing the monitoring of the relationship between these public bodies and their external service providers on the market. To this end, in the light of these factors and to effectively manage the outsourcing relationship, the public establishments studied are called upon to adopt either a mode of management based on control, including : (bureaucratic control, control by the market) ; either a relationship-based management method, including: (management by relational standards, management by trust).

In addition, the management methods based essentially on relational standards and in particular the maintenance of the level of trust established between these different actors, seem to be more appropriate, especially during the post-covid19 period when these trends have taken on much more importance. compared to other methods that focus solely on control and movement, which generate excessive costs. We will later try to dig deeper into the explanation of these new inclinations by taking into consideration other elements not previously studied in order to better understand the reality of these orientations.



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