



## Vendors' perspectives on trust and control in offshore information systems outsourcing

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### ABSTRACT

Whereas most discussion of outsourcing has concentrated on the clients' perspective, we investigated the formation of offshore IS vendors' trust in their client and the client's control over the vendor; these were assumed to affect the vendor's performance. Focusing on the Japan–China offshoring context, we conducted a survey of 110 project managers in nine Chinese IS outsourcers. Our findings indicated that trust had a significant effect on project quality but little on cost adherence; the relationship between control and the two vendor performance measures were the opposite of this. Furthermore, information sharing, communication quality, and inter-firm adaptation emerged as three significant contributors to the vendor's trust in the client; goal setting and cultural blending turned out to be significant in influencing the client's control over the vendor. One of the key contributions and implications of our research was that certain offshore client behaviors could shape vendor performance by influencing the vendor's trust in the client and client's control over the vendor, beyond formal contracts. These findings may be useful for both offshore vendors and clients in developing successful IS outsourcing.

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### 1. Introduction

Offshore IS outsourcing is an important topic today (e.g., [28]). According to an IDG report, the global IT outsourcing market will soon grow to US \$17 billion [29]. The clients are concentrated in North America, Western Europe, and Japan, with the U.S. accounting for about 40% of the market, followed by Japan with 10%. Whereas India has been the leading destination, China represents a huge potential vendor that has been mainly ignored.

Outsourcing involves the migration of all or part of an organization's IS assets, people, and/or activities to vendors located in a different country from that of the client organization. Outsourcing arrangements range from transferring work to the vendor country with lower labor costs and access to specialized personnel to negotiating partnerships in the form of joint ventures or accessing foreign subsidiaries, etc.

Relationship management is a key factor for successful outsourcing. According to the transaction cost theory, tightening

control through a well-designed contract is assumed to reduce production and transaction costs, but control *via* an outsourcing contract is inherently complicated: offshore outsourcing is much riskier than traditional outsourcing. On the other hand, interactions between offshore partners often go beyond the rules, agreements, and exceptions specified in the contract. There is an element of trust, commitment, and mutual interest that is intangible and not easily captured in a contract. The vendor–client relationship rooted in mutual trust gives rise to a strong bond between the participants.

Whereas trust and control are essential to a successful relationship, it is particularly important for clients to exert control over their offshore vendor and to create trust in the relationship while ensuring quality and delivery. Therefore, we investigated the following research questions from a vendor's viewpoint:

1. What kinds of client behavior contribute to a vendor's trust in the client and a client's control over the vendor? and
2. What are the impacts of a vendor's trust of the client and the client's control over the vendor on project performance?

In other words, our research investigated what kinds of client behavior influenced a vendor's perceptions of trust and control and thus the vendor's performance. To answer the questions, a survey was conducted of outsourcers in China working for Japanese clients.

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Our research addressed three gaps in the extant literature. First, very limited research has considered the vendors' viewpoint mainly due to the difficulty in conducting cross-cultural studies and generating unbiased findings, and yet successful outcome depends on both the client and vendor. Second, although there has been much interest in trust and control in outsourcing, prior studies have reported conflicting results; this deficiency required use of a stronger theoretical basis and good empirical evidence. Third, the literature has generally focused on India-bound offshoring from the U.S. valuable lessons can be learned from looking at the experience of other countries.

## 2. Theoretical framework

Transaction cost and social exchange theories suggest two different sources to maximize the value of outsourcing and increase its success: *tighten control through well-designed contracts* [14] and *developing mutual trust to improve the quality of their relationship* [27]. In our study, we were concerned with vendor trust in the client and client control over the vendor.

The difference between a successful and failed outsourcing project may depend on the level of control *via* well-designed contracts, whose clauses should specify service levels that are sustained during unspecified periods, and limit opportunistic behavior between the client and its vendor. Given possible cultural differences in offshore outsourcing, communication barriers, physical distance, and lack of personal contact, the need for control is strong. In many cases, organizations seek a flexible relationship based on trust after identifying limitations in the legal contract. Trust assumes goodwill and reliability in the working relationship.

### 2.1. Trust building behavior in offshore outsourcing

To investigate factors influencing vendor trust in the client and client control over the vendor, our research drew on work by Das and Teng [8]. Their framework identified various ways of developing trust and control that affected the degree of trust. Prior work on outsourcing has suggested that information sharing is also important. Therefore, three types of vendor behaviors, *information sharing*, *communication quality* and *inter-firm adaptation*, were considered essential in influencing vendors' trust in the client.

#### 2.1.1. Information sharing

This involves the range and depth of information exchanged between partners: a trust-based relationship in which both client and vendor are intimately coupled. Trust results from frequent and relevant information exchange; inter-group exchange generates trust, and eventually facilitates more effective interaction and a better relationship.

In Japan–China offshore outsourcing, the Chinese vendors depend upon the client to provide domain and process management knowledge. However, the Japanese culture is high-context one relying on non-language cues and subtle context hints in communication. It values indirect and holistic communication styles [30], which hinder the free flow of task and process material to vendors. It takes extra goodwill and sincerity on the client side to overcome such cross-cultural barriers. Therefore, the perceived willingness of the client to be open and forthcoming in sharing domain and process information is expected to have a strong impact on the vendor's trust in a true partnership:

**H1.** The client's willingness to share information with the vendor will have a positive impact on the vendor's trust in the client of an offshored project.

#### 2.1.2. Communication quality

This focuses on the process and means of communication. According to social exchange theory, effective communication is essential in achieving intended objectives. Intensive communication keeps partners better informed and this, in turn, makes them more confident in the relationship and more willing to keep it alive [20]. Communication quality is an antecedent of trust and an important trust building mechanism in outsourced IS projects.

Usually, a client sends its experts to introduce a project to the vendor but follow-up communication involves a variety of channels ranging from emails and phone calls to personnel exchange. The client personnel's other project commitments and the level of importance attached to the project influence the vendors' perception of the relationship. The vendor team can receive reliable and prompt response or be left alone for weeks without feedback, reflecting the presence or absence of goodwill and reliability of the client. Thus, higher quality communication should enhance the level of vendor's trust in the client:

**H2.** Communication quality will have a positive impact on a vendor's trust in the client of an offshored project.

#### 2.1.3. Inter-firm adaptation

An effective way to develop trust between partners is to adapt to meet the needs of the relationship [15]. Inter-firm adaptation refers to the extent to which there is an effort on the part of both organizations to make required modifications in the way that partners collaborate, providing a mechanism for negotiating and agreeing upon mutual benefits, and for creating common goals.

In the context of Japan–China offshoring, inter-firm adaptation is particularly pertinent; a successful relationship usually involves extensive inter-firm adaptation in project schedule, processes, and scope. This is partly due to evolving requirements and the vague style of communication of Japanese clients. The effort in adapting to a vendor's constraints sends a signal of goodwill and commitment to the vendor. Therefore, we hypothesized:

**H3.** Inter-firm adaptation will have a positive impact on a vendor's trust in the client of an offshored project.

### 2.2. Control mechanisms in offshore outsourcing

The level of control is a direct outcome of the controlling process, whereas control mechanisms are the organizational arrangements designed to influence what collaborating partners will do. Based on the specific context of our study, we focused on *goal setting* and *cultural blending* in determining client control over the vendor.

#### 2.2.1. Goal setting

Understanding a partner's intention is essential to establishing mutual goals [25]. Through their establishment, partners understand what behaviors and policies are important, appropriate, and correct: clear goals help set the direction of their relationship and help in establishing specific rules and regulations for efficient management and control of their relationship.

In offshore IS outsourcing, the success of IS projects depends heavily on the quality of the requirements; they are difficult to define clearly and completely at the outset, and sometimes must evolve. The clarity of goal setting will exert a strong influence on the vendor. One of the distinct issues in Japan–China offshoring is frequently evolving client requirements, partly due to the service nature of the offshored projects and the Japanese clients'

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