



# Conflict handling, trust and commitment in outsourcing relationship: A Chinese and Indian study

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## ABSTRACT

This paper presents a theoretical and empirical model that identifies conflict handling typologies which affect trust and commitment in B2B outsourcing relationship. Three typologies of conflict handling namely integrating, accommodating and compromising were examined for their effects on trust and commitment of Chinese and Indian human resource (HR) outsourcing service providers. The paper also considered the moderating effect of culture in the relationship. Data was collected from Chinese and Indian firms providing HR outsourcing services and analyzed using factor and hierarchical multiple regression analyses. We found both similarities and dissimilarities in the outcomes of the study. Specifically, conflict handling styles are significantly associated with trust and commitment. Trust mediates in the association of conflict handling styles with commitment. The impact of compromising conflict handling on trust and commitment is moderated by culture – significantly higher for the Chinese service providers compared to the Indians. Culture has also a direct impact on commitment but not on trust. Theoretical, cultural and managerial implications of the findings are presented.

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## 1. Introduction

The term human resource (HR) outsourcing in this paper refers to the action of allowing external vendors to perform an entire HR activity (such as training, payroll, etc) for an organization (Lilly, Gray, & Virick, 2005). An increasing number of organizations are outsourcing their HR operations. According to the Bureau of National Affairs (2004), two-thirds of HR executives surveyed say their HR departments outsource at least one HR activity. Past studies have documented the benefits and downside of outsourcing (Jensen & Meckling, 1976; Linder, 2004; Society for Human Resources Management, 2004). SHRM (2004) found that in some cases HR outsourcing led to a decrease in customer service. Another downside of outsourcing in general is the agency theory-based questions of whether the agent will represent the principal well (Jensen & Meckling, 1976), especially if s/he holds contrasting or conflicting values as the principal. Can the principal trust the agent to represent it well especially when little or no supervision is involved or when the agent has full autonomy? From the agent's perspective are the following questions: Can the agent trust the principal to provide full and accurate information? Will the agent not be held accountable for genuine mistakes? Can the principal willingly seek to resolve conflicts in a fair manner? These concerns and issues can bring problems in the outsourcing relationship, and could lead to the determination of the

contract in extreme circumstances or diminished trust and/or commitment in others. How organizations handle conflict can affect the strength and future of the outsourcing relationship. Yet there is a serious shortage of research on conflict handling in B2B outsourcing relationship and its consequences.

Moreover, research is even more sparse on how (outsourcing) conflict handling styles compare or contrast between Asian cultures (especially between Chinese and Indians – two most important and fastest growing Asian economies), where outsourcing has increased tremendously over the past decade. Prior studies (e.g. Malhotra, Ugaldo, Agarwal & Baalbaki, 1994; Venkatesh, Morris, Davis, & Davis, 2003) have recognized the serious dearth of research on the role of culture in several domains. Malhotra et al. (1994) urge that researchers should consider the implications of culture as it would help to better understand how cultural values shape these phenomena. Venkatesh et al. (2003) believe that an understanding of culture will help in developing appropriate interventions for different markets. In this paper, we model conflict management styles as antecedents to trust and commitment in B2B outsourcing relationship which is moderated by culture. Specifically, we examine the influence of conflict handling styles (namely integrating, accommodating and compromising conflict handling) on trust and commitment, as well as differences in these relationships between Chinese and Indian outsourcing service providers. The next section reviews various theories applied in outsourcing study. This is followed by hypothesis development and review of extant literature. The research methodology, results, limitations and future research, implications, and conclusions are presented in order.

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## 2. Literature review

In many studies on outsourcing, cost benefits appear to be a compelling argument for contracting out services previously performed internally (Greer, Youngblood, & Gray, 1999; Kakabadse & Kakabadse, 2002; Lever, 1997). Other factors include vendor expertise, customer and employee satisfaction (Barthélemy, 2003; Greer et al., 1999), loss of strategic advantage (Lever, 1997), ethical values/norms of vendors (Satkunasingam & Ndubisi, 2006), risk, trust, relative proficiency, strategic capabilities, and flexibility (Adler, 2003). Outsourcing has been viewed from a number of perspectives, namely the institutional theory, network theory, systems theory, resource/knowledge based view of the firm, transaction costs theory, agency theory, strategic choice theory, and critical theory. Table 1 provides a summary of these theories and their key insights for outsourcing.

Some of the theoretical bases summarized in Table 1 may be complementary and others contradictory, so we have carefully selected and discussed later the theories underpinning the study. The resource dependency theory, the agency theory, and the relational view help to explain our model. The *resource dependency theory* argues that the key to the survival of an organization is the acquisition and maintenance of resources (Pfeffer & Salancik, 1978), and firms who lack resources will seek to establish relationships with others to obtain needed resources (Shook, Adams, Ketchen, & Craihead, 2009). The decision to outsource or source internally should be based on the importance of the activity to the firm and the concentration of the resource control. By outsourcing, the firm is purchasing a supplier (Casciaro & Piskorsky, 2005) or appointing an agent to represent it.

From the *agency theory perspective*, a firm outsourcing a function is the principal (outsourcer) and the supplier is the agent (outsourcing service provider) (Eisenhardt, 1989). The principal–agent relationship usually requires monitoring to ensure that there is no opportunistic or unethical behaviours by the parties. Thus, the transaction costs include the actual outsourcing cost, as well as the monitoring and control costs (Shook et al., 2009). Monitoring costs are any costs incurred by the principal to ensure that the agent is not engaging in activities

detrimental to the principal, as well as ensuring the principal is meeting the basic terms and conditions of the outsourcing contract. Deviation from or violation of these terms and conditions can result in conflicts, and may have negative implications for trust and commitment. Even the exploitation of resource dependencies may have long-term negative effects on trust (Shook et al., 2009) and commitment. In the event of any conflict between the outsourcer and the service provider, how the conflict is handled can lead to erosion or enhancement of trust and relationship commitment.

The *relational view* develops and explains how firms gain and sustain competitive advantage within inter-organizational relationships (McIvor, 2005). The relational view has been used to explain how firms choose their future outsourcing partners and preferred type of the relationship (Barthélemy, 2003; Perunović & Pedersen, 2007; Samaddar and Kadiyala, 2006). It has been also utilized in studying the transition, managing relationship and reconsideration phases (Perunovic, Christoffersen, & Williams, 2006). This makes the relational view to be the only theory that has been applied in the research of all the outsourcing process' phases (Perunović & Pedersen, 2007). Some of the important relational constructs examined in this paper are trust (Naude & Buttle, 2000; Samaddar & Kadiyala, 2006) and commitment (Naude & Buttle, 2000). The paper therefore argues for the facilitating role of conflict handling styles namely, integrating, accommodating and compromising conflict handling on trust and relationship commitment.

## 3. Hypothesis development

Studies seem to concentrate on the reasons organizations outsource, how to outsource, the impact of outsourcing on the organization and its employees (Lilly et al., 2005), the impact of outsourcing on organizational performance (Leiblein, Reuer, & Dalsace, 2002), and cost benefits of outsourcing (Kakabadse & Kakabadse, 2002). Limited attention has been paid to conflicts in outsourcing relationship, especially how conflicts are managed, and the effects of different conflict handling styles on outsourcing relationship quality namely trust and commitment. Even more limited is the attention to how outsourcers' conflict

**Table 1**  
Theoretical perspectives applied to outsourcing.

Theoretical perspective	Authors	Key premise	Key insights for outsourcing
Institutional theory	March and Olsen (1984), Scott (1995)	External forces pressure firms to behave in certain ways and not behave in others.	Firms should outsource only if the approach fits the firm's strategy, not just because the approach is in or fashionable.
Resource dependence theory	Boyd (1990), Casciaro and Piskorsky (2005), Pfeffer and Salancik (1978)	Firms seek to acquire and maintain needed resources, minimize dependence on others for resources, but increase others' dependence on them.	Firms that lack resources should seek to establish relationship with others to obtain them.
Network theory	Gulati et al. (2000), Thorelli (1986), Turnbull et al. (1996)	Inter-organizational relationships is central to success and should be well managed.	Outsource to firms that are central to the outsourcer's network
Systems theory	Combs and Crook (2007), von Bertalanffy (1951)	An organization is a system with interconnected parts.	By outsourcing, the firm is externalizing one or more parts of the organization, thus efforts (e.g. through coordination, communication, etc) must be made to keep the externalized part connected to the system.
Resource/knowledge-based views of the firm	Barney (1991), Wernerfelt (1984)	Unique assets and capabilities are the source of enduring competitive advantages	Firms should not outsource capabilities, functions or activities that create competitive advantage
Transaction cost economics	Bajari and Tadelis (2001), Rubin (1990)	Firms should make decisions on "make or buy" to minimize costs	Outsource when transaction costs are less than production costs.
Agency theory	Eisenhardt (1989), Jensen and Meckling (1976), Barthélemy (2003)	When one firm (the principal) delegates responsibility to another (the agent), the principal should monitor to ensure good representation.	Outsource when an agent is deemed more efficient than the firm to handle the activity and the principal will be well represented or trusted. Manage outsourcing relationship through trust and contract.
Strategic choice theory	Child (1972), Doty et al (1993)	The decisions managers make about strategic issues should align with the environment.	Decision to outsource should be driven by a firm's strategy.
Critical theory	Benson (1977), Orlikowski and Baroudi (1991)	Elimination of social domination resulting from economic and other considerations.	Decision to outsource should consider how best it can contribute to improving the society.
Relational view	Barthélemy (2003), Samaddar and Kadiyala (2006), Satkunasingam and Ndubisi (2006)	A paradigm shift from transactional exchanges to relationship-based approaches.	Factors determining success from outsourcer and vendor perspectives include among others, the quality of relationship, trustworthiness commitment, and technical competence

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