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INFLUENCE OF RELATIONSHIP QUALITY ON IS/IT OUTSOURCING SUCCESS: INDIAN VENDORS' PERSPECTIVE

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ABSTRACT

Relationship has become important for the success of IS/IT outsourcing projects. Although some studies have explored the issues of IS/IT outsourcing relationship in the past, these studies are mostly limited to the client's perspective. We explore from the vendors' perspective the nature, role and influence of relationship quality on outsourcing success. Therefore the main purpose of this study is to examine the IS/IT outsourcing relationship from vendors' perspective, by determining relationship quality dimensions. Based on the social exchange and the relational exchange theories a relationship model is proposed and hypotheses are tested. Results from the response of 163 Indian vendors indicate that the outsourcing success is greatly determined by relationship quality. This study will serve as a useful guideline in understanding how to develop a successful IS/IT outsourcing relationships for IS/IT vendors undertaking those outsourced projects.

Keywords: Relationship Quality, IS/IT Outsourcing, Outsourcing Success, Outsourcing Vendors, India

INTRODUCTION & MOTIVATION

Even in an existing turbulent economic environment, the year 2011 recorded steady growth for the technology and related services sector, with worldwide spending exceeding USD 1.7 trillion, a growth of 5.4 per cent over 2010. Software products, IT and BPO services continued to lead, accounting for over USD 1 trillion - 63 per cent of the total spend. IT-hardware spend, at USD 645 billion, accounted for the balance 38 per cent of the worldwide technology spend in 2011 [1]. However, the worldwide IT spending is projected to total \$3.8 trillion in 2013, a 4.1 percent increase from 2012 spending of \$3.6 trillion, according to the latest forecast by Gartner, Inc.[2].

This would give a fillip to IT and BPO services outsourcing.

Among the worldwide locations for IS/IT outsourcing, India enjoys a leading position, initially posting an average annual growth rate of about 40 percent [3]. Outsourcing to India quickly reached \$30 billion [4], and the export revenue (excluding hardware) during FY2012 reached USD 69 billion, accounting for by about a 2.2 million workforce. The aggregate revenue for FY2012 is expected to cross USD 100 billion, of which the aggregate IT software and services revenue (excluding hardware) is estimated at USD 88 billion [1].

However, in spite of about two decades of outsourcing maturity, world over, many IS/IT deals fail to deliver the intended benefits and some deals do not even

complete their scheduled contract duration [5]. A key reason for such failures has been found to be the neglect of the relationship component of an outsourcing arrangement [6]–[9]. Willcocks [10] and Kern [11] argue that properly structured contract is necessary but not sufficient for outsourcing success. In this context, improving the client vendor relationship quality is suggested as an important means to meet the outsourcing challenges [12]. IS/IT outsourcing research is thus gearing towards the management of the client-vendor relationship.

Therefore, the objective of this study is to conduct an empirical investigation on IS/IT outsourcing projects, undertaken by Indian vendors, by examining the determinants and dimensions of relationship quality and its influence on outsourcing success. Two research questions are in this study are: (1) what are the determinants of relationship quality that influence the relationship quality of a IS/IT outsourcing arrangement?; and (2) what is the influence of relationship quality on IS/IT outsourcing success?

To answer these research questions, this study develops a relationship model based on the social perspective theories. This study adopts the basic concept from Lee and Kim's [13] relationship model of IS/IT outsourcing success. To our knowledge, this study is among the few to examine the IS/IT outsourcing relationships from the Indian vendors' perspective. This study will serve as a useful guideline for Indian vendors, in understanding how to develop a successful IS/IT outsourcing arrangements with a focus on the quality of outsourcing relationship.

LITERATURE REVIEW

Evolution of IS/IT Outsourcing Research

Outsourcing research and its perspective has evolved a lot in the last three decades [6]. Lee et al. [14] show that research issues in IS/IT outsourcing evolved from the simple "make-or-buy" decision towards the role of relationship issues, gradually evolving into a partnership-based view in IS outsourcing, wherein both client and vendor have a stake in the success of the outsourcing arrangement. Lee and Kim [13] suggested that an effective partnership between client and vendor is the key predictor for outsourcing success.

A great diversity exists in definitions and understandings of what IS/IT outsourcing comprises. In a common definition IS/IT outsourcing is understood as "the handing over to a third party management of IT/IS assets, resources, and/or activities for required results" [10]. Goles and Chin [15] expand this definition by incorporat-

ing the service dimension of outsourcing, resulting in the understanding of "[client] contracting with one or more third party vendors for the provision of some or all of an organization's IS functions, where 'functions' include one or more IS/IT activities, processes, or services to be provided over time." This definition stresses the interorganisational exchange aspect of IS/IT outsourcing and also considers both the contractual as well as the relational dimension. Outsourcing can thus be termed a contractual-based exchange relation [16].

While IS/IT outsourcing continues to be an important issue on the agenda of corporate clients [17], the IS/IT outsourcing market is changing and different approaches of outsourcing practices have been emerging over the past three decades ([12], [18]). Starting with long-term outsourcing projects in the 1980s, organizations are now facing a turbulent and dynamic business environment and thus tend to seek increasingly selective, short-term and often multi-vendor outsourcing arrangements [19]. Outsourcing has evolved beyond vendors merely taking over a function and performing the work with higher quality or lower cost. Early research into outsourcing tried to examine the drivers, reasons and motives for organizations to resort to outsourcing. Then organisations looked closely at which functions to outsource, evaluation of vendors and structuring of the contracts. Outsourcing arrangements have become more sophisticated not only with regard to the service itself, but also with regard to global delivery model of IS/IT components [20].

The Relationship Perspective in IS/IT Outsourcing

Interorganisational relationships have been researched from several perspectives and in various academic disciplines, among them are general management ([21], [22]), marketing ([23], [24]), psychology [25], and IS ([26], [27], [28]).

Integrating the definitions of IS/IT outsourcing and interorganisational relationships leads to a specific definition of an outsourcing relationship adopted from Goles and Chin ([15], p49): "an ongoing [...] linkage between an outsourcing vendor and client arising from a contractual agreement to provide one or more comprehensive IS/IT activities, processes, or services with the understanding that the benefits attained by each firm are at least in part dependent on the other."

Despite availability of different outsourcing options, many arrangements fail to deliver the intended benefits and have to be interrupted, renegotiated, or even prematurely terminated [29]. Ozanne [30] found that 20-25% of all IS/IT outsourcing relationships fail within 2

years and 50% fail within 5 years. Lacity et al. [31] reported that nearly 70% clients are unhappy about some aspects of their involvement with vendors. Studies point out that problems with the client-vendor relationship are the underlying reason for many failures ([32], [33], [34]). It seems that the variety of outsourcing options has contributed to increased complexity and a confusing array of sourcing practices, rather than to successful outsourcing arrangements with satisfied clients and vendors. An outsourcing arrangement cannot be regarded as a one-time transaction, but rather as an ongoing buyer-seller relationship [24]. It has also become obvious that in such a continuous relationship, a detailed and properly structured contractual agreement is a necessary, but often neither a sufficient governance mechanism for outsourcing success ([15], [35]) nor a substitute for good relationships ([8], [36]). Governing beyond traditional contractual clauses towards a closer relationship-focused management that operates 'within the spirit of the contract' becomes necessary [16]. Moreover, relationship management in IS/IT outsourcing is fundamentally different from other interorganisational relationships due to the business-critical, pervasive, and complex nature of information systems in an organization [37].

Because of such conflicting outsourcing experiences and the distinctive feature of IS outsourcing relationships outlined above, researchers have increasingly turned their attention to managing the client-vendor relationship in IS/IT outsourcing ([38], [15], [39], [12], [40], [16], [41], [42], [43], [13], [44], [45]. Kirkpatrick [46] and Foote [47] argued that understanding the client-vendor relationship is critical for a successful outsourcing project. Krishna et al.'s [7] longitudinal work on cross-cultural issues in offshore software outsourcing concludes that active management of the client-vendor relationship is the key. Brereton's [48] work on the software supply chain also indicates that a relationship between client and vendor in outsourcing is vital for success.

Although several studies emphasize the importance of the client-vendor relationship for the success of an IS/IT outsourcing arrangement ([44], [49]), little research has been directed towards a thorough examination and analysis of outsourcing relationships compared to other IS outsourcing research streams [15]. Most studies that consider the relationship dimension in IS/IT outsourcing ([15], [49]) have focused on elaborating general relationship issues from a client's perspective rather than from vendors' perspective. Currie [50] calls for further research in the management of outsourcing relationships, from vendors' perspective. Khan et al. [51] also reported that the supplier market has received little emphasis in previous research.

Theoretical background

A lot of theories, like resource-dependency theory, transaction-cost theory, agent-cost theory, social exchange theory and power-political theory have been applied to understand, describe, and explain IS/IT outsourcing in general. Expanding the work of Cheon et al. [52] and [12] grouped these theories into three categories: strategic management, economic, and social theories. Theoretical considerations of IS outsourcing research have traditionally focused on economic theories such as transaction cost economics (TCE) [53]. In many ways, TCE seems to be the ideal theoretical foundation for IS outsourcing because it specifically addresses make-or-buy decisions based on the generic attributes of assets and describes appropriate ways to govern customer-supplier relationships from an economic point of view. However, while an outsourcing arrangement highly depends on the governance of the contractual relation part - which is the core proposition of TCE -, an exclusively economic view falls far short of a comprehensive understanding of an outsourcing relationship because it views the actor as not interacting with another actor but rather directly with the market and thus does not include the perspective of exchanges between individual actors [16]. Lee and Kim [49] argued that inter-organisational relationships form from the social learning experiences based on specific sequential interactions.

Despite a shared understanding of interorganizational relationships over various disciplines, managing client-vendor relationship in IS/IT outsourcing is fundamentally different from other outsourcing relationships. This difference arises from innate characteristics of IS/IT. General relationship management approaches as e.g. developed in marketing B2B relationships, strategic management or other contractual literature are not necessarily applicable for IS/IT outsourcing for several reasons: Although not necessarily strategic or a differentiating asset from competitors, IS/IT is business critical and pervasive throughout the organization [37]. It is not a homogenous function, but rather is interrelated with practically all organizational activities [54]. Moreover, IS/IT is complex in nature and also a permanent object to change due to a company's IS/IT needs, technology leaps, and the inherent difficulty to specify IS/IT in every detail upfront for a long-term period of time [37]. Hence, relationship management approaches from other academic disciplines (e.g. TCE) may not be applicable for the context of relationships in IS outsourcing.

As this study focuses on the client-vendor relationship aspect of an outsourcing arrangement, social the-

ories are thus adequate theoretical approaches to understand the phenomenon of IS/IT outsourcing relationships.

Social Exchange Theory(SET) and Relational Exchange Theory(RET)

Interorganisational relationships have been researched from several perspectives. Social or relational exchange theory reflects the exchange aspect and is one of the most appropriate theories to explain interorganizational behavior. Evolving from the junction of economics, sociology, and psychology, social exchange theory was developed and advanced by ([55], [56], [57], [58], [59], [60]) to understand the social behavior of humans in an economic context. It focuses on dyadic exchange relations involving the transfer of resources for mutual benefit of the actors. Over time, it has been enriched by different facets, varying from a technical economic analysis [55] to the psychology of instrumental behavior [58]. In the context of IS/IT outsourcing research, social exchange theory(SET) has served as an underlying theoretical model for explaining outsourcing relationships, e.g. ([16], [49]). Most of the studies on IS/IT outsourcing relationship has employed SET to explain client-vendor relationship ([61], [16], [49], [62]).

This study views relationship quality factors (business understanding, commitment, flexibility and trust) through the lens of SET that affects outsourcing success.

A quite similar approach is followed in Relational Exchange Theory(RET). It is based on the notion that exchanging parties are in mutual agreement that the resulting outcomes of the exchange are greater than those that could be attained through other forms of exchange [63]. For that reason the exchange partners consider the ex-

change relationship valuable to devote resources towards its maintenance and development ([64], [24]).

This study considers RET as one of the appropriate theories to examine relationship aspect in IS/IT outsourcing as it employs the basis for exploring the relational norms constructs that influence the relationship quality factors between client and vendor [65]. This study adopts relational norms like cultural compatibility, mutual dependency, communication, conflict resolution, consensus, coordination, information sharing, reputation and top management support through the lens of RET that influences the quality of relationship between client and vendor involved in IS/IT outsourcing.

RESEARCH MODEL AND HYPOTHESES

The nature of relationship is unraveled by identifying a set of possible components and determinants of the relationship quality. Lee and Kim [49] have developed a client perspective model for the effect of partnership quality on outsourcing success, by integrating the theoretical constructs from power-political and social exchange models.

We have adapted the model [49] to accommodate the vendors' perspective. As shown in Figure 1, broadly, the model attempts to relate three aspects: relationship quality, determinants of relationship quality and outsourcing success. It focuses on the factors that Indian vendors can act upon to improve the client-vendor relationship.

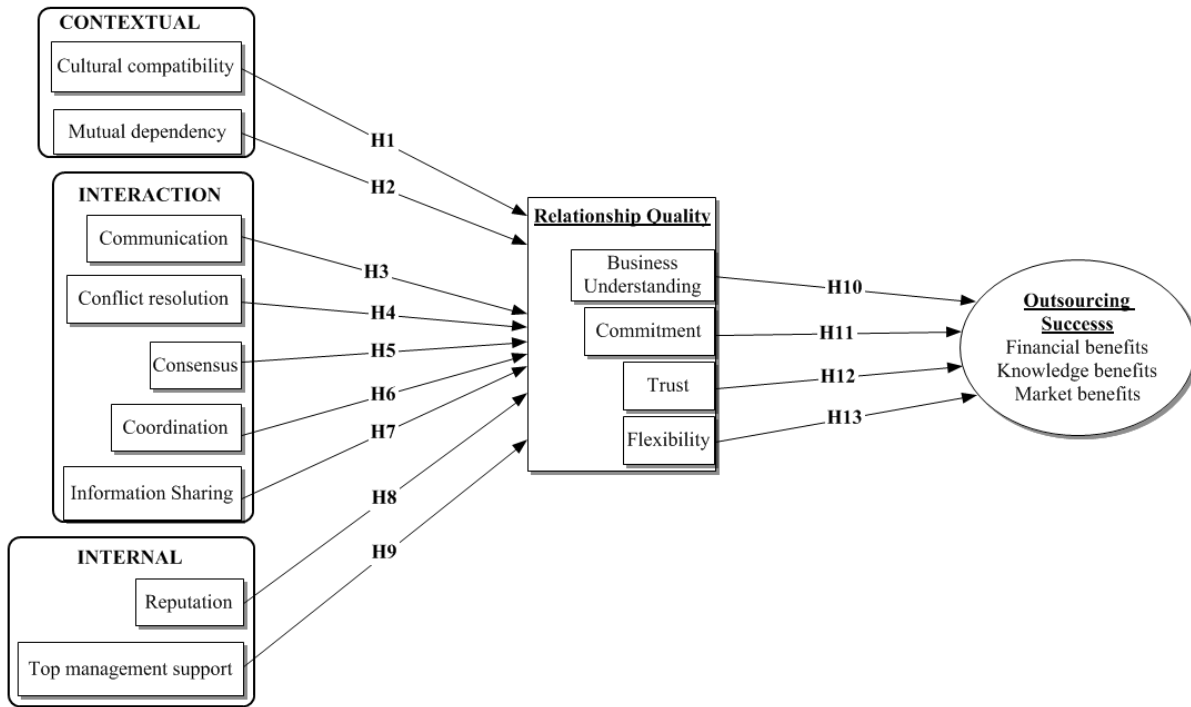


Figure 1: Research Model for Relationship Quality

Relationship Quality and its Dimensions

Relationship quality can be seen as the degree of appropriateness of a relationship to fulfill the needs of the customer associated with that relationship. Relationship quality is a higher-order construct consisting of variety of positive relationship outcomes that reflect the overall strength of a relationship and the extent to which it meets the needs and expectations of the parties [25]. Higher relationship quality creates value and is regarded as success [66]. Relationship quality is termed differently by different researchers like partnership quality [49], relationship closeness, relationship strength [67], and relationship intensity [68]. Existing literature uses variety of constructs to determine the relationship quality. However, there is no consensus on what constructs make up relationship quality [69]. Based on the theoretical background provided, this study recognizes business understanding, commitment, trust and flexibility as the variables that comprise the relationship quality.

Relationship quality may be expressed as how well a vendor delivers the product or services as an outcome of the client-vendor relationship, matching the expectations of both client and vendor [49]. Relationship

quality includes the vendor's trust and its commitment to the client. Drawing on the commitment-trust theory of relationship marketing [70], trust and commitment are incorporated as the two dimensions in the theoretical conceptualization of relationship quality.

Trust is considered as an important characteristic in terms of development and success of inter-organizational relationships [15]. As per Moorman et al., [71] trust is the "willingness to rely on an exchange partner in whom one has confidence". According to Goles and Chin [15], trust is the expectation that a party will act predictably, will fulfill its obligations, and will behave fairly even when the possibility for opportunism is present.

Commitment is defined [72] as both client and vendor's long-term ongoing orientation toward a relationship grounded on both an emotional bond to the relationship and on the conviction that remaining in the relationship will yield higher net benefits than terminating it. A high level of commitment is given when there exists both a rational bond (net benefits) as well as an affective bond (emotional tie) to the relationship. It is the willingness of the parties to exert effort and devote resources in order to obtain an ongoing relationship [15].

Business understanding is defined as degree of understanding of behaviors, goals and policies between client and vendor [49]. To enhance the relationship it is important for a vendor to understand a client's business requirements. The shared domain knowledge and a common "language" between both client and vendor are important facets of alignment and thus relationship quality [73].

Flexibility refers to a bilateral expectation of willingness to make adaptations as circumstances change [74]. Flexibility could be defined as "the degree to which an organization has a variety of managerial capabilities and the speed at which they can be activated, to increase the control capacity of management and improve the controllability of the organization" [75]. Due to the long-term nature of IS/IT outsourcing arrangements, it is nearly impossible to precisely pre-specify everything in detail [39]. Also to cope with the evolving nature of technology, changing business environment and emergence of competitive services flexibility is required [45]. Hence both client and vendor need to deal with the possible changes by being flexible. A relationship must be capable to accommodate changes otherwise it may break up under the pressure necessitating the change [15].

One of the objectives for both client and vendor should be to maximize flexibility [31]. Being flexible will greatly improve the relationship quality between the parties. Further Goles and Chin [15] posit that flexibility is fundamental to the outsourcing relationship and also previous researches show that flexibility is a must element in the success of outsourcing relationships. Flexibility in an outsourcing relationship is crucial to respond to uncertainty or to changing needs or requirements outside the provisions of the original outsourcing agreement [76].

Hence, relationship quality is thus conceptualized as comprising the four dimensions: (a) the vendor's business understanding of the outsourced work, (b) trust, (c) commitment, and (d) flexibility. A high-quality relationship then is expected to be one with high levels in all four dimensions.

Determinants of Relationship Quality

Relationship quality is affected by organizational, human, and environmental factors. Palmer and Bejou [77] identified some factors that function as determinants of relationship quality. However, as the literature did not explicitly distinguish the dimensions of relationship quality from the determinants that affect it, Lee and Kim [49] introduced the factors from the previous literature as potential determinants of relationship quality. We have characterized the determinants into three groups: (1) Interac-

tion factors, comprising communication quality, conflict resolution, consensus, coordination, and information sharing; (2) Internal factors, comprising reputation and top management support; (3) Contextual, comprising cultural compatibility and mutual dependency. As in Lee and Kim [49] model, we expect to find a hypothesized positive relationship between each of the groups of the determinants of relationship quality with relationship quality and its dimensions.

Contextual factors

Cultural compatibility

Organizational culture is defined as "the pattern of shared values and beliefs that help individual understand organizational functioning and provide norms for behavior in the organisations" ([78]). Relationship partners with compatible cultures should be more willing to trust each other ([79], [80], [28]). According to Goles and Chin [15], cultural compatibility is the extent to which the parties can coexist with each other's beliefs about what values, behaviors, goals and policies are important or unimportant, appropriate or inappropriate, and right or wrong. Following set of hypothesis are proposed.

H1: There is a positive relationship between cultural compatibility and relationship quality

H1-1: There is a positive relationship between cultural compatibility and business understanding

H1-2: There is a positive relationship between cultural compatibility and commitment

H1-3: There is a positive relationship between cultural compatibility and trust

H1-4: There is a positive relationship between cultural compatibility and flexibility

Mutual dependency

Dependency between organizations results from a relationship in which client and vendor perceive mutual benefit from interactions ([81], [57], [82]). Mutual dependency between client and vendor increases when the size of the exchange and importance of exchange are high, when participants consider their partner the best alternative, and when there are few alternatives or potential sources of exchange ([83], [84], [85]). Therefore, the higher the degree of mutual dependency, we expect the higher quality of relationship.

H2: There is a positive relationship between mutual dependency and relationship quality

H2-1: There is a positive relationship between mutual dependency and business understanding

H2-2: There is a positive relationship between mutual dependency and commitment

H2-3: There is a positive relationship between mutual dependency and trust

H2-4: There is a positive relationship between mutual dependency and flexibility

Interaction factors

Communication

According to the social exchange literature, effective communication between partners is essential in order to achieve the intended objectives ([64], [79]). Intensive communication should lead to better informed parties, which in turn should make each party more confident in the relationship and more willing to keep it alive [79]. Communication quality is treated as an antecedent of trust in the previous literature ([64] [23], [82], [70]).

H3: There is a positive relationship between communication and relationship quality

H3-1: There is a positive relationship between communication and business understanding

H3-2: There is a positive relationship between communication and commitment

H3-3: There is a positive relationship between communication and trust

H3-4: There is a positive relationship between communication and flexibility

Conflict resolution

Conflict is operationally defined as "the degree of incompatibility of activities, resource share and goals between partners" ([23], [82], [70], [86]). Conflict resolution is "the extent to which disagreements is replaced by agreement and consensus" [87]. The conflict resolution mechanism is taken as an interaction factor that a vendor can have control upon so as to improve the relationship quality.

H4: There is a positive relationship between conflict resolution and relationship quality

H4-1: There is a positive relationship between conflict resolution and business understanding

H4-2: There is a positive relationship between conflict resolution and commitment

H4-3: There is a positive relationship between conflict resolution and trust

H4-4: There is a positive relationship between conflict resolution and flexibility

Consensus

Consensus is defined as the extent of general agreement among the parties [15]

H5: There is a positive relationship between consensus and relationship quality

H5-1: There is a positive relationship between consensus and business understanding

H5-2: There is a positive relationship between consensus and commitment

H5-3: There is a positive relationship between consensus and trust

H5-4: There is a positive relationship between consensus and flexibility

Coordination

Good coordination is nearly invisible; one notices coordination most clearly when it is absent from the inter-organizational relationship [88]. Anderson and Narus [23] suggest that successful working relationships are marked by coordinated actions directed at mutual objectives. Coordination is needed to maintain stability between participants in a dynamic environment ([81], [27], [82]). According to Goles and Chin, coordination is the process of managing interdependencies between entities to accomplish agreed-upon tasks.

H6: There is a positive relationship between coordination and relationship quality

H6-1: There is a positive relationship between coordination and business understanding

H6-2: There is a positive relationship between coordination and commitment

H6-3: There is a positive relationship between coordination and trust

H6-4: There is a positive relationship between coordination and flexibility

Information sharing

Information sharing is the extent to which critical or proprietary information is communicated to one's part-

ner ([82], [70]). Many researchers report that closer relationships result from more frequent and relevant information exchanges between client and vendor ([26], [27]).

H7: There is a positive relationship between information sharing and relationship quality

H7-1: There is a positive relationship between information sharing and business understanding

H7-2: There is a positive relationship between information sharing and commitment

H7-3: There is a positive relationship between information sharing and trust

H7-4: There is a positive relationship between information sharing and flexibility

Internal factors

Reputation

The state of being held in high esteem amongst a set of clients is what we construe as reputation. Among other things, a vendor gains its reputation largely with successfully completing outsourcing projects in time and within budget, and with high quality ([89], [90], [91], [92]).

H8: There is a positive relationship between reputation and relationship quality

H8-1: There is a positive relationship between reputation and business understanding

H8-2: There is a positive relationship between reputation and commitment

H8-3: There is a positive relationship between reputation and trust

H8-4: There is a positive relationship between reputation and flexibility

Top management support

Top management support considered a prerequisite for every successful outsourcing relationship ([79], [26], [27], [86]). If a relationship is to overcome the inevitable divergence of interests between participants, top executives have to share an understanding of the specific benefits of collaboration.

H9: There is a positive relationship between top management support and relationship quality

H9-1: There is a positive relationship between top management support and business understanding

H9-2: There is a positive relationship between top management support and commitment

H9-3: There is a positive relationship between top management support and trust

H9-4: There is a positive relationship between top management support and flexibility

Outsourcing Success

Outsourcing success is defined as the degree to which predefined objectives are realized [93]. Successful relationship enables participants to achieve organizational objectives and to build a competitive advantage that each organization could not easily attain by itself. To gain these advantages of relationship, both clients and vendors should try to enhance their relationship quality to reflect the extent of intimacy between them. Therefore a higher quality of relationship is likely to lead to a successful outsourcing relationship.

Outsourcing objectives are largely motivated by the promise of strategic, economic and technological benefits [93]. The success of outsourcing, then, should be assessed in terms of attainment of these benefits ([94], [45]).

Adapting the measure of outsourcing success [95] for vendors, strategic benefits refer to the ability of a vendor firm to extend its market share by having more and more clients. Economic benefits refer to financial benefits that accrue to vendors from an improved relationship quality. Technological benefits refer to the ability of the vendor firm to gain domain knowledge about the leading-edge IS/IT and to avoid the risk of technological obsolescence that results from dynamic changes in IT. Thus we have the three dimensions of outsourcing success classified under Vendor Benefits: financial, market and knowledge benefits.

The quality of client vendor relationship in IS/IT outsourcing has a significant impact on the success of outsourcing ([96], [5], [49], [97], [98]). This study proposes that relationship quality, comprising of business understanding, commitment, trust and flexibility, influences the success of IS/IT outsourcing arrangements.

H10: There is a positive relationship between business understanding and outsourcing success

H10-1: There is a positive relationship between business understanding and financial benefits

- H10-2: There is a positive relationship between business understanding and knowledge benefits
- H10-3: There is a positive relationship between business understanding and market benefits
- H11: There is a positive relationship between commitment and outsourcing success
 - H11-1: There is a positive relationship between commitment and financial benefits
 - H11-2: There is a positive relationship between commitment and knowledge benefits
 - H11-3: There is a positive relationship between commitment and market benefits
- H12: There is a positive relationship between trust and outsourcing success
 - H12-1: There is a positive relationship between trust and financial benefits
 - H12-2: There is a positive relationship between trust and knowledge benefits
 - H12-3: There is a positive relationship between trust and market benefits
- H13: There is a positive relationship between flexibility and outsourcing success
 - H13-1: There is a positive relationship between flexibility and financial benefits
 - H13-2: There is a positive relationship between flexibility and knowledge benefits
 - H13-3: There is a positive relationship between flexibility and market benefits

RESEARCH METHOD

In this study, the survey method is used to test the proposed research model. The unit of analysis in this study is the outsourcing relationship between a client and an Indian vendor, the focus being on the vendor's perceptions of the client-vendor relationship.

Measure development

From the IS/IT outsourcing literature, we adopted the constructs that have been used and validated by other researchers. In this study, we employed mostly perceptual measures for the variables of relationship quality and its determinants. Most of the survey items are adapted from the existing measures to the vendor research context and few are developed by converting appropriate definitions of the construct into a questionnaire format. Each item is then measured on a five-point Likert scale from 'strongly disagree' to 'strongly agree', based on the operational definitions of factors from the outsourcing literature. The sixty-seven items that the questionnaire contained, included ten items on vendor benefits, twenty-six items covered the four dimensions of relationship quality, seventeen items covered the five interaction factors, seven items on the two contextual factors and seven items on two internal factors.

Sample and Data Collection

The data are collected through survey questionnaires, sent to about 600 IS/IT outsourcing vendors, in India, with clients within India and abroad. The intended respondents were the personnel responsible for managing outsourcing relationship/ projects with the clients. 163 responses were received. Of all the respondents who filled the questionnaires, 29% were from senior management, 33% from middle management, and 38% from junior management levels. Almost 67% of vendors who responded had more than 5 years of outsourcing experience. 88% of the respondents had offshore clients. About 56% of the respondents had outsourcing projects lasting for more than 4 years. About 53% of the respondents got repeat orders from 75% (and more) of their existing outsourcing clients, and more than 50% of the respondents got more than 5 repeat orders from their existing clients. Table 1 shows the respondents' characteristics in terms of number of years of outsourcing operations, offshore clients, longest completed outsourcing project, existing clients who gave repeat orders and number of repeat orders from existing clients.

Table 1: The profile of respondent outsourcing projects

| No. of yrs. of out-sourcing operations | | Offshore clients? | | Longest completed out-sourcing project | | Existing clients who gave repeat orders | | Number of repeat orders from existing clients | |
|--|-----|-------------------|-----|--|-----|---|-----|---|-----|
| 1 year less | 7 | Yes | 132 | 1 year less | 15 | Almost all | 42 | 2 less | 11 |
| 1-3 years | 20 | No | 18 | 1-2 years | 23 | Almost 75% | 37 | 2-5 orders | 64 |
| 3-5 years | 22 | | | 2-3 years | 29 | Almost 50% | 47 | 5-10 orders | 30 |
| 5 years more | 101 | | | 3-4 years | 16 | Almost 25% | 22 | 10 more | 45 |
| | | | | 4 years more | 67 | Almost none | 2 | | |
| | | | | | | | | | |
| Total | 150 | | 150 | | 150 | | 150 | | 150 |

ANALYSIS AND RESULTS

The hypotheses were tested using multiple regression analysis. For each hypothesis, models were run separately for each of the dependent variables: relationship quality and its dimensions with its determinants and outsourcing success with relationship quality and its components (see tables below). We also considered the quality

of relationship as a summated variable and tested the relationship between vendor benefits and relationship quality.

Internal consistency in this study is investigated by using Cronbach's alpha in order to assess the reliability of all the constructs. The constructs in the proposed model are above the 0.6 threshold indicating a high reliability of items used for each construct. Cronbach's alpha ranges from 0.602 (flexibility) to 0.846 (top management support). The summary reliability statistics of the scale is given in Table 2

Table 2: Reliability Statistics of the Scales

| Scale | No. of Items | Cronbach's Alpha |
|------------------------|--------------|------------------|
| Financial Benefits | 2 | 0.657 |
| Knowledge Benefits | 4 | 0.770 |
| Market Benefits | 4 | 0.761 |
| Business Understanding | 5 | 0.773 |
| Commitment | 9 | 0.837 |
| Flexibility | 4 | 0.602 |
| Trust | 8 | 0.816 |
| Communication | 2 | 0.649 |
| Conflict Resolution | 3 | 0.655 |
| Consensus | 3 | 0.700 |
| Coordination | 5 | 0.772 |
| Information Sharing | 4 | 0.679 |
| Mutual Dependence | 4 | 0.614 |
| Culture | 3 | 0.709 |
| Reputation | 4 | 0.749 |
| Top Management Support | 3 | 0.846 |

Relationship Quality and its Determinants

For examining the determinants of relationship quality, nine independent variables (communication, conflict resolution, consensus, coordination, information shar-

ing, cultural compatibility, reputation, top management support and mutual dependency) are used in individual regressions with the four dimensions of the relationship quality (as dependent variable). Table 2 contains the coefficients and t-values resulting from the regression model.

The overall regression model is significant (F=93.457, p<0.001). The value of R2 (0.846) suggests that 84.6 percent of the variance is explained by nine variables.

Out of the nine hypothesized associations, between relationship quality and the nine independent determinants, seven (H2, H4 to H9) are found to be significant as indicated by the adjusted R-square values (average adjusted R-square is about 84 percent) and F-statistic of the regressions.

Among the determinants (Table 3), mutual dependency, information sharing, reputation and top man-

agement significantly explain business understanding. Commitment dimension of relationship quality is explained by mutual dependency, communication, conflict resolution, consensus, information sharing and reputation. Trust dimension is explained by mutual dependency, communication, consensus, coordination, and information sharing. The flexibility dimension is only explained by consensus and coordination. It appears that the level of consensus achieved in the client vendor relationship is an important aspect determining the quality of relationship.

Table 3: Determinants of Relationship Quality

| Variables | Rel. Qlty | Business Understanding | Commitment | Flexibility | Trust |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|
| Cultural Comapatibility (H1) | $\beta = .035$ t = .893 | $\beta = .000$ t = -.006 | $\beta = -.075$ t = -1.852 | $\beta = .109$ t = 1.593 | $\beta = .075$ t = 1.338 |
| Mutual Dependency (H2) | $\beta = .120$ t = 2.425* | $\beta = .177$ t = 2.597** | $\beta = .175$ t = 3.369** | $\beta = -.098$ t = -1.117 | $\beta = .181$ t = 2.511** |
| Communication (H3) | $\beta = -.004$ t = -.093 | $\beta = .019$ t = .302 | $\beta = .102$ t = 2.123* | $\beta = .026$ t = .321 | $\beta = -.159$ t = -2.395* |
| Conflict Resolution (H4) | $\beta = .112$ t = 2.560* | $\beta = .062$ t = 1.024 | $\beta = .145$ t = 3.150** | $\beta = .114$ t = 1.478 | $\beta = .074$ t = 1.167 |
| Consensus (H5) | $\beta = .285$ t = 6.116** | $\beta = .165$ t = 2.578* | $\beta = .243$ t = 4.963** | $\beta = .335$ t = 4.068** | $\beta = .249$ t = 3.662** |
| Coordination (H6) | $\beta = .193$ t = 3.219** | $\beta = -.011$ t = -1.25 | $\beta = .102$ t = 1.625 | $\beta = .246$ t = 2.325* | $\beta = .338$ t = 3.879** |
| Information Sharing (H7) | $\beta = .179$ t = 3.611** | $\beta = .204$ t = 2.982** | $\beta = .149$ t = 2.851** | $\beta = .094$ t = 1.066 | $\beta = .180$ t = 2.484** |
| Reputatn (H8) | $\beta = .150$ t = 3.435** | $\beta = .196$ t = 3.249** | $\beta = .231$ t = 5.023** | $\beta = .069$ t = .894 | $\beta = .035$ t = .542 |
| Top Management (H9) | $\beta = .091$ t = 2.051* | $\beta = .255$ t = 4.168** | $\beta = .063$ t = 1.351 | $\beta = -.009$ t = .109 | $\beta = .000$ t = -.012 |
| R ² = | .846 | .709 | .830 | .520 | .674 |
| Adj. R ² = | .837 | .692 | .820 | .492 | .654 |
| F = | 93.457 | 41.407 | 83.038 | 18.417 | 35.074 |
| df = | 9; 153 | 9; 153 | 9; 153 | 9; 153 | 9; 153 |
| p < | .001 | .001 | .001 | .001 | .001 |

**p < 0.01; *p < 0.05

Outsourcing Success (or benefits accruing to vendor) and Relationship Quality

The three different dimensions of the vendor benefits (treated as dependant variables) are regressed on the dimensions (treated as independent variables) repre-

senting the relationship quality: business understanding, commitment, trust, and flexibility. The results of the stepwise regression are provided in Table 4. The adjusted R-squares and F-statistics of the three regressions point to the significance of the hypothesized model.

Table 4: Independent Regressions Involving Different Dimensions of Vendor Benefits

| Variables | Outsourcing-Success | Financial Benefit | Knowledge Benefit | Market Benefit |
|------------------------------|------------------------------------|--------------------------------------|---------------------------------|------------------------------------|
| Business Understanding (H10) | $\beta = .317$ $t = 3.426^{**}$ | $\beta = .304$ $t = 3.071^{**}$ | $\beta = .222$ $t = 2.230^*$ | $\beta = .304$ $t = 2.934^{**}$ |
| Commitment (H11) | $\beta = .360$ $t = 3.083^{**}$ | $\beta = .403$ $t = 3.222^{**}$ | $\beta = .251$ $t = 2.003^*$ | $\beta = .286$ $t = 2.192^*$ |
| Trust (H12) | $\beta = .165$ $t = 1.674$ | $\beta = .135$ $t = 1.281$ | $\beta = .252$ $t = 2.374^*$ | $\beta = .060$ $t = .539$ |
| Flexibility (H13) | $\beta = -.139$ $t = -1.609$ | $\beta = -.265$ $t = -2.860^{**}$ | $\beta = -.54$ $t = -.579$ | $\beta = -.037$ $t = -.386$ |
| $R^2 =$ | .467 | .390 | .386 | .333 |
| Adj. $R^2 =$ | .454 | .374 | .371 | .317 |
| F = | 34.662 | 25.241 | 24.864 | 19.765 |
| df = | 4,158 | 4,158 | 4,158 | 4,158 |
| p < | .001 | .001 | .001 | .001 |

**p < 0.01; *p < 0.05

Among the explanatory variables, business understanding, commitment, and flexibility are significant in explaining financial benefit whereas business understanding and commitment are significant in explaining market benefits accruing to the vendors. In the case of knowledge benefit, business understanding, commitment and trust appear to be the significant factor.

DISCUSSION

To understand the relationship quality and its determinants in the IS/IT outsourcing arrangements and the influence of relationship quality's on IS/IT outsourcing success, this study has empirically tested the proposed model and hypotheses. The summary of the results is presented in Table 5 . Empirical analysis of the proposed model brought about some findings that are discussed below.

The result indicates that the four relationship quality dimensions explain a significant amount of variance in relationship quality i.e. business understanding (70.9%), commitment (83%) , flexibility (52%) and trust (67.4%). It can be inferred that determinants of relation-

ship quality are important antecedents for the relationship quality in IS/IT outsourcing from vendors' perspective. However, contrary to our expectations, some of the determinants show insignificant results with relationship quality. This can be explained by the fact that this study was conducted only from vendor perspective, whereas most of these determinants get influenced by both clients and vendors.

We found that relationship quality was influenced by several variables, including consensus, coordination, information sharing, vendor-reputation, mutual dependency, conflict resolution, and top management support. We also found that both business understanding and commitment had a significant influence on all three dimensions (financial, knowledge and market) of vendor benefits accruing to the vendors. Whereas trust had a significant influence on knowledge benefit dimension, and flexibility had a significant influence on financial benefit dimension of vendor benefit accruing to the vendors. That is, the concept of relationship quality is a key predictor for managing outsourcing for vendor benefits.

Table 5: Summary of Results

| Paths | Hypothesis | Result |
|---|------------|---------------|
| Cultural compatibility – Relationship quality | H1 | Not supported |
| Cultural compatibility – Business understanding | H1-1 | Not supported |
| Cultural compatibility – Commitment | H1-2 | Not supported |
| Cultural compatibility – Trust | H1-3 | Not supported |
| Cultural compatibility – Flexibility | H1-4 | Not supported |
| Mutual dependency – Relationship quality | H2 | Supported |
| Mutual dependency – Business understanding | H2-1 | Supported |
| Mutual dependency – Commitment | H2-2 | Supported |
| Mutual dependency – Trust | H2-3 | Supported |
| Mutual dependency – Flexibility | H2-4 | Not supported |
| Communication – Relationship quality | H3 | Not supported |
| Communication – Business understanding | H3-1 | Not supported |
| Communication – Commitment | H3-2 | Supported |
| Communication – Trust | H3-3 | Not Supported |
| Communication – Flexibility | H3-4 | Not supported |
| Conflict resolution – Relationship quality | H4 | Supported |
| Conflict resolution – Business understanding | H4-1 | Not supported |
| Conflict resolution – Commitment | H4-2 | Supported |
| Conflict resolution – Trust | H4-3 | Not supported |
| Conflict resolution – Flexibility | H4-4 | Not supported |
| Consensus – Relationship quality | H5 | Supported |
| Consensus – Business understanding | H5-1 | Supported |
| Consensus – Commitment | H5-2 | Supported |
| Consensus – Trust | H5-3 | Supported |
| Consensus – Flexibility | H5-4 | Supported |
| Coordination – Relationship quality | H6 | Supported |
| Coordination – Business understanding | H6-1 | Not supported |
| Coordination – Commitment | H6-2 | Not supported |
| Coordination – Trust | H6-3 | Supported |
| Coordination – Flexibility | H6-4 | Supported |
| Information sharing – Relationship quality | H7 | Supported |
| Information sharing – Business understanding | H7-1 | Supported |
| Information sharing – Commitment | H7-2 | Supported |
| Information sharing – Trust | H7-3 | Supported |
| Information sharing – Flexibility | H7-4 | Not supported |

Table 5: Summary of Results (continued)

| Paths | Hypothesis | Result |
|---|------------|---------------|
| Reputation – Relationship quality | H8 | Supported |
| Reputation – Business understanding | H8-1 | Supported |
| Reputation – Commitment | H8-2 | Supported |
| Reputation – Trust | H8-3 | Not supported |
| Reputation – Flexibility | H8-4 | Not supported |
| Top management support – Relationship quality | H9 | Supported |
| Top management support – Business understanding | H9-1 | Supported |
| Top management support – Commitment | H9-2 | Not supported |
| Top management support – Trust | H9-3 | Not supported |
| Top management support – Flexibility | H9-4 | Not supported |
| Business understanding – Outsourcing success | H10 | Supported |
| Business understanding – Financial benefits | H10-1 | Supported |
| Business understanding – Knowledge benefits | H10-2 | Supported |
| Business understanding – Market benefits | H10-3 | Supported |
| Commitment – Outsourcing success | H11 | Supported |
| Commitment – Financial benefits | H11-1 | Supported |
| Commitment – Knowledge benefits | H11-2 | Supported |
| Commitment – Market benefits | H11-3 | Supported |
| Trust – Outsourcing success | H12 | Not supported |
| Trust – Financial benefits | H12-1 | Not supported |
| Trust – Knowledge benefits | H12-2 | Supported |
| Trust – Market benefits | H12-3 | Not supported |
| Flexibility – Outsourcing success | H13 | Not supported |
| Flexibility – Financial benefits | H13-1 | Supported |
| Flexibility – Knowledge benefits | H13-2 | Not supported |
| Flexibility – Market benefits | H13-3 | Not supported |

Implications of the research

The identification of business understanding, commitment, trust and flexibility is critical to the study and management of outsourcing relationship quality. For the IS/IT manager, the results of this study imply that the understanding the process of client-vendor relationship is important so that vendors can establish a high-quality relationship with their clients.

If the concept of relationship quality is a key indicator of outsourcing success in terms of benefits accruing to vendors, how can such client-vendor relationship be nurtured? We propose that they can be developed when the participants attend to client-vendor relationship by (1) establishing coordination and conflict resolution mechanisms thereby moving towards a consensus-building with their clients. This involves flexibility and enhances the trust, commitment and business understanding, thereby improving the relationship quality, (2) reputation building should be a major concern for an IS/IT vendor, (3) top

management support for enhancing client-vendor relationship is a must for an improved relationship quality as it promotes flexibility and translates into commitment, leading to trust. Such actions may enable the vendors to enjoy sustainable competitive advantage over their rivals.

Limitations and future research

This study has the following limitations: First, it was a kind of snapshot research that did not consider the feedback effect of relationship quality and outsourcing success (in terms of benefits accruing to vendors) over time. Ideally, we need a longitudinal research that tracks client-vendor relationship over time. Second, even though the number of respondents is 163, we may not be in a position to generalize the results indicated to all possible client-vendor IS/IT relationships, as outsourcing of different IS/IT products and services result in various combinations of these dimensions coming into play. Thirdly, we used a convenient, not a random, sample in selecting

firms that offer their services to both domestic and foreign clients.

On the basis of this research, we feel that an analysis of relationship quality from both client and vendor perspectives would provide a truer picture. Also, longitudinal work to investigate the dynamic feature of client-vendor relationship will provide more robust results than those of the snapshot research in the present study.

CONCLUSION

This paper explores the influence of relationship quality upon IS/IT outsourcing success. Literature review reveals that relationship quality is one of the important factors to prevent the possibility of IS/IT outsourcing project failures. Some researchers have examined the insights of IS/IT outsourcing relationships but they are limited to clients' perspective. The purpose of this study was to understand the determinants and dimensions of relationship quality and to investigate the influence of the relationship quality on outsourcing success, as based on an adapted social perspective framework by Lee and Kim [49]. Determinants include various dimensions that were categorized into interaction, internal and contextual factors. We have drawn heavily from Lee and Kim [49]. However, whereas, Lee & Kim had investigated the client's perspective, we have accommodated vendors' perspective.

Relationship quality in the adapted research model consists of four dimensions- business understanding, commitment, flexibility and trust. The result shows that these four dimensions explain a significant amount of variance in IS/IT outsourcing success. The study has contributed to the knowledge of the outsourcing relationship from vendors perspective. The result also provides guidelines for vendors in understanding how to develop a successful IS/IT outsourcing relationship.

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