Bridging Barriers by Negotiated Culture – the Case of IT Offshoring in a Bank

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Global information systems (IS) outsourcing continues to grow in importance as information and communication technologies enable international collaboration on a broader scale than ever before (Apte and Mason 1995; Friedman 2005; Mithas and Whitaker 2007).

Developing a working outsourcing relationship and controlling IS projects in this context is difficult and represents an under-researched area (Dibbern et al. 2008; Heiskanen et al. 2008; Kelly and Noonan 2008; Kishore et al. 2003).

In practical terms: How to combine two (or more) “worlds” which seem to be not easily combinable?
Theoretical Gap and Research Question

- The IS outsourcing control literature can be broadly categorized into three groups of studies: ‘formal control’, ‘trust’, and ‘mixed’

- What are the relationships, e.g. between trust and control?

- **Research Question**: How does a global IS outsourcing relationship evolve over time and what role do control dynamics play in that process?
Environmental factor: Both parties have seriously something to lose.

Proposition: **Successful IS offshoring relationships traverse three phases:**

**Antecedents:**
- relationship history
- task complexity
- globalization pressure
- …

**Outcomes:**
- project success
- negotiated culture
- “prepared for more complex tasks”
- …

**Questions:** How can the downturn in phase 2 be attenuated? And how to manage the transitions?
1. Motivation and Research Question
2. Theoretical Background
3. Research Method
4. Case Study Analysis
5. Implications of the Research Results
Domain Literature Review: Evolution of Strategic Outsourcing Relationships

- **Strategic outsourcing relationships** (e.g., Kishore et al. 2003)
  - Extent of substitution through service provider low (selective outsourcing)
  - Challenge of client-vendor knowledge integration
  - Outcomes more uncertain and dynamic than in operational outsourcing relationships

- **Relationship Evolution**
  - Key to the success and evolution of strategic outsourcing relationships is **mutual trust** between client and vendor (Lee et al. 2008; Kishore et al. 2003)
  - **Trust dynamics** in inter-organizational relationships (Faems et al. 2008; Inkpen and Currall 2004; Kim et al. 2009)
  - **Trust and control**: substitutes or complements? (Das and Teng 1998; Heiskanen et al. 2008; Poppo and Zenger 2002; Vlaar et al. 2007)

- Generally: Transaction Cost Theory – extended by “trust”
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Data Collection

- **Case study**
  - Analysis of one strategic IS offshoring project during early stage of German-Indian relationship
  - Longitudinal analysis over a 2 year time period from both client’s and vendor’s perspective

- **Data collection**
  - 46 qualitative interviews from April 2007 to November 2008, 1 to 2.5 hours each, three waves of data collection in Germany and India
  - Secondary material (e.g., project review slides, steering committee meeting minutes, project organization charts, and project planning slides) for triangulation purposes

- **Interviewees**

Table 1: Number of Individuals Interviewed by Company Affiliation and Role in the Project

<table>
<thead>
<tr>
<th>Role of Interviewee</th>
<th># of Interviews with Client Employees</th>
<th># of Interviews with Vendor Employees</th>
<th># of Interviews in Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Manager/Leader</td>
<td>11</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Project team member</td>
<td>6</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Business/Functional Management</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Top IT Management</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total # of people interviewed</td>
<td>22</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Total # of interviews</td>
<td>24</td>
<td>22</td>
<td>46</td>
</tr>
</tbody>
</table>
1. Motivation and Research Question
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Large IT project
(5 years, 169 project members, €25 m)

Lack of experience
(client with offshoring and vendor with reengineering in financial services industry)

Lack of relationship history
(client and vendor had only minor prior joint engagements)

Goal: Reengineering of Current Account System: Integration of 30-year old legacy system with modern IT system

Decision for organizational restructuring and change in late 2003 combined with an IT offshore outsourcing strategy

Involving the German operations of a large international bank

Involving an Indian IT service provider, CMMI level-5 certified
1) Relationship Trust
   - Conceptualized as beliefs of either client or vendor in the trust-relevant qualities of the respective other
   - Trust processes: development, deterioration, and repair
   - Integration of client’s and vendor’s perspectives

2) Control Balancing
   - Conceptualized as series of configuration decisions regarding control types (formal versus social), control amounts (high versus low), and control styles (unilateral versus joint)
   - Balanced control configuration depending on contextual factors in the relationship, including trust and learning

3) Shared Learning
   - Organizational versus inter-organizational learning
   - Conceptualized as inter-organizational learning from shared experiences in the IS outsourcing relationship resulting in new collective understanding
   - Shared learning dimensions: socio-cultural, business-functional, technical
Process Model of IS Outsourcing Relationship Evolution and Control Dynamics

The process model explains the evolution of an IS outsourcing relationship and highlights the role of shared learning for control dynamics and balancing.

Phase 1. Relationship Trust Development/Enlargement
- **Antecedent Conditions**
  - Control Balancing
    - types
    - amounts
    - styles
  - Initial Trust Development

- **Outcome Conditions**
  - Trust Development

- **Antecedent Conditions**
  - level of trust
  - a priori learning

- **Outcome Conditions**
  - level of trust
  - a posteriori learning

P1) The more balanced the control configuration becomes (regarding types, amounts, and styles), the more trust is developed.

P2) A lack of shared learning (regarding socio-cultural, business-functional, and technical issues) triggers the deterioration of trust.

Phase 2. Relationship Trust Deterioration
- **Antecedent Conditions**
  - Control Balancing
    - types
    - amounts
    - styles
  - Vicious control-trust cycle

- **Outcome Conditions**
  - Trust Deterioration

- **Antecedent Conditions**
  - Lack of Shared Learning
  - Fostering Shared Learning

P3) The more trust is deteriorated, the less balanced the control configuration becomes, leading to a vicious control-trust cycle.

P4) Fostering shared learning triggers a balanced control configuration and trust repair.

Phase 3. Relationship Trust Repair
- **Antecedent Conditions**
  - Control Balancing
    - types
    - amounts
    - styles
  - Virtuous trust repair cycle

- **Outcome Conditions**
  - Shared Learning
    - technical
    - socio-cultural
    - business-functional

- **Outcome Conditions**
  - Generating Learning Outcomes

P5) The more shared learning, the more balanced the control configuration becomes, leading to a virtuous trust repair cycle.

P6) Fostering shared learning triggers a balanced control configuration and trust repair.
1. Motivation and Research Question
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“How does it work?”

1) Explaining how a global IS outsourcing relationship between client and vendor develops over time and how trust dynamics influence this process.

2) Illustrating how different types, amounts, and styles of control are combined into a balanced control configuration and highlighting the role of shared client-vendor learning in that process.

3) Evolutionary plural governance perspective that integrates concepts of relationship trust, control balancing, and shared learning for understanding how global IS outsourcing relationships evolve over time and the control dynamics in that process.
Insights from Research Results (2)

Key process:
Where in the “life cycle” of IS outsourcing relationship are we and are the control activities in a balanced state and which changes have to be managed? And which learning processes are imminent – and how to manage these?

Balanced Control Configuration
- types
- amounts
- styles

Relationship Trust
- repair
- development
- deterioration

Shared Learning
- technical
- Socio-cultural
- Business-functional

...
Implications from Research Results (3)

- Future Research (I) – a lot of approaches – a selection:
  - Analyze the detailed process how outsourcing partners evolve from organizational to inter-organizational learning
  - To which extent is the “level equivalence” given that each of the two partners fears a substantial set-back when an outsourcing project fails?
  - Deepen the analysis of the evolutionary plural governance perspective

- Future Research (II)
  - “How to combine two (or even more) distinct “worlds” which seem to be uncombinable .. ?”
  - Examples: IT vs. core bank departments, line vs. project organisation, production vs. distribution departments, language barriers, cultural barriers between science disciplines, ...
Further Questions?

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Credibility (i.e. internal validity)
Confidence in the ‘truth’ and authenticity of the findings (Walsham and Sahay 1999)
- Triangulation of different data sources, researchers, and possible theoretical explanations
- Discussing and presenting results in practitioners and scientific community to check for validity of research results (e.g., conferences, journals, in-house seminars)
- Testing of researcher’s biases and perceptions through 1.5 years of engagement
- Persistent observation from different angles (e.g., German client and Indian vendor)

Applicability (i.e. external validity)
The degree to which the findings may have applicability in other contexts (Guba and Lincoln 1982)
- Theoretical sampling: intended to maximize the range of information collected and to provide most stringent conditions for theory grounding
- Extensive comparisons of data with extant literature and theory to reach high levels of theoretical abstraction with potentially transferable research results

Consistency of meaning (i.e. reliability)
Whether the findings would be consistently repeated if the inquiry were replicated with the same (or similar) respondents in the same (or a similar) context (Guba and Lincoln 1982)
- Reanalysis of data: constant improvement of coding scheme and conceptualization
- Use of Atlas.ti as case study database: coding of all interviews and tracking analysis process
Types of Control (in Alliances Literature)

**Formal control**

Involves the establishment and utilization of codified rules, goals, procedures, etc. to specify, monitor, and reward desirable performance; different types of formal control: contractual, behavioral, outcome, structural.

**Social control**

Involves people-based mechanisms and functions via the development of shared values, norms, and cultures; different types of social control: socialization activities, workshops, training, spontaneous interactions.
• **Contracts are inherently incomplete** and it is not possible to specify everything explicitly (Hart and Moore 1988)

• Hence, **trust is an important success factor** in outsourcing relationships (Goles and Chin 2005)

• **Definition of Trust:** Trust is the psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or “substantiated” behavior of another (Rousseau et al. 1998)

• **Different types of trust:**

  - **Cultural intelligence**
    - A form of organizational intelligence or firm-level capability in functioning effectively in cultural diverse situations (Ang et al. 2008)

  - **Absorptive capacity**
    - A firm’s ability to utilize outside knowledge (e.g., business and functional) (Cohen et al. 1990)
• Successful firms are constantly entering into new outsourcing relationships to cope with competitive pressure

• Due to a lack of prior relationship history, learning plays an important role

• **Two types of learning** important in an offshoring relationship:

  - **Cultural intelligence**
    - a form of organizational intelligence or firm-level capability in functioning effectively in cultural diverse situations (Ang et al. 2008)

  - **Absorptive capacity**
    - a firm’s ability to utilize outside knowledge (e.g., business and functional) (Cohen et al. 1990)