

Relational Governance in Offshore Outsourcing Partnerships

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Abstract

Offshore outsourcing has facilitated exchange of knowledge and services with clients and suppliers situated in diverse economic markets. To better manage knowledge exchange and mitigate risks from international partnerships, client and suppliers use various elements of relational governance practice. This study investigates three cases engaged in supplier-client relationships, to examine how the operational and social aspects of the knowledge exchange are governed. Findings reveal that offshore partnerships are first constituted with service level agreements, which set control measures and layout business expectations from both partners. Boundary gate keepers bring further accountability across firms by designing social networks for capturing and sharing of knowledge, thereby reducing each partner's perception of risk. The study contributes to existing studies on offshore knowledge markets and explains how relational governance practices operate in a global socio-technical setting. In doing so, the study demonstrates how knowledge processes, social networks and market economies influence relational elements for supporting the exchange.

Keywords

Relational governance, boundary gate keepers, social networks, risk sharing, offshore knowledge markets

INTRODUCTION

The outsourcing industry has bridged mature and emerging economies with use of ICT tools to facilitate the flow of knowledge across businesses situated in these locations. The current expansion in knowledge markets has blurred the earlier social, technical, cultural and organisational boundaries, as businesses in rich economies engage in purchase of expertise and skills from emerging economies. To sustain their business growth in the current tough cost cutting financial times, many organisations are engaged in outsourcing partnerships with firms situated in low cost countries. However, business relationships between offshore partners are not devoid of risk and uncertainty. How are mutual expectations laid across outsourcing arrangements amongst members having different organisational allegiance in dissimilar cultural settings? Misunderstanding and miscommunication in relationships can occur due to different social interpretations or due to transaction costs associated with economic exchange (e.g., bargaining costs, enforcement costs, travel costs) (Gefen and Carmel 2008). This raises questions on the subject of viability of offshore practices in maintaining ongoing business relationships. Outsourcing research in terms of governance structures, contracting, outsourcing arrangements and relationship studies are still very much work-in-progress, despite the growth in offshore knowledge and service markets (Willcocks 2011).

The field of business relationship in IT outsourcing has been drawn from a wide range of governance perspectives based on market economics, knowledge competencies and social networks. Recent studies on governance orientation in outsourcing relationships have assessed business associations to contain elements of all three types of governance modes (Goo and Huang 2008; Qi and Chau 2012). Businesses strategize in real world environments based on market cost reasoning, while at the same time they leverage on knowledge-based learning. And, the learning is further enhanced by ongoing social mechanisms during the course of engagement. This intermediary mode, namely relational governance (RG) is established by joint planning and strategizing by both partners at the outset of the relationship (Claro et al. 2003). Business partners, including suppliers and clients, engage in outsourcing collaborations after weighing both risks and benefits in creating and sustaining strategic value, by building institutional trust through contractual agreements and social relationships (Goo and Huang 2008).

Prior literature has stated reluctance of offshore partners to engage in business with firms which are located in culturally distant countries, and prefer to maintain business relations in similar cultural territories (Gefen and Carmel 2008; Rothaermal et al. 2006). Knowledge firms consequently work on relationship governance mechanisms to foster trust, build shared social contexts and remove exclusiveness of cultures (Schroeder et al. 2012). This often involves role of boundary gate keepers or agents in the partner firms who discuss shared

behaviours and expectations with their counterparts, and filter down agreements to members within their own business groups.

While many perspectives in understanding of business relationships exist, we have used a contextualised view of a particular empirical setting comprising three case studies. Of the three cases, two are New Zealand (NZ) owned organisations based in Auckland who had outsourced IT work offshore to the third case, a supplier in Vizag, India. In this paper, we draw upon experiences of the boundary gate keepers from the three cases, to understand how RG mechanisms are implemented across two dissimilar organisational and cultural environments. Using descriptive case studies, we examine the relational governance strategies deployed by clients and suppliers to manage knowledge exchange and reduce perceptions of outsourcing risk. This is an interesting empirical setting because it presents a situation of how a successful relational governance mode led to the eventual termination of the relationship. Both New Zealand clients were so enamoured with the success of their previous outsourcing relationship, that they discontinued the current outsourcing partnership, identified new offshore partners (IT suppliers), and opened separate joint venture businesses with the new supplier firms in India. Both client firms began the conduct of IT business themselves as they decided to backward integrate with offshore suppliers. Backward integration is done by buyer firms (clients) to internalise external effects of independent sellers (suppliers) by entering into ownership partnerships with suppliers to gain more market power, reduce uncertainty of supply, maximise cost benefits, or to create more learning and innovation capabilities (Laussel 2008; Leavy 2002). Evidence from the three cases explains how a successful relational governance strategy resulted in closure of business for one case (Indian supplier) and start of two new joint venture collaborations via backward integration in offshore markets for the other two NZ client firms. This empirical study shares new insights in relational governance practices associated with offshore markets.

The rest of the paper is organised as follows. First, we review literature on relational governance and its relationship to traditional exchange theories. The next section discusses how contractual obligations are laid out in outsourcing arrangements with service level agreements (SLAs) to set clear standards of control measures and business expectations from both parties. The roles of boundary agents (or gate keepers) are explained next. We then present the research design used in the study, followed by descriptions of the three case studies. The case findings are discussed next. Finally, the paper concludes with contributions, limitations and proposed future directions.

RELATIONAL GOVERNANCE

Exchange theories are traditionally driven by transaction models grounded between two polar extremes, namely market trades and social networks (Claro et al. 2003). The market trading view is concerned with the economic interpretations which involve cost of producing a service versus buying the service; while social networks view underlines the behavioural rationale between supplier and client, which is built upon shared notions of trust and social values (Mol 2007). In between this broad spectrum of governance starting from an under socialised view of markets where actors (clients and suppliers) are anonymous in nature (Mol 2007) to the other extreme characterised by social mechanisms of a networked society, lies the overlap of both economic and non-economic governance modes called relational governance.

RG relies on a governance mode that is based upon cooperation, where suppliers and clients define mutual responsibilities and expectations from both parties and consequentially make joint plans to recognise future contingencies in the relationship (Claro et al. 2003). Claro lays out three levels of regulation – transaction, business and dyadic – which influence the success of RG (Claro et al. 2003). Transaction level is based on self-enforcing agreements, where supplier and client are together accountable for transaction-specific investments and tailor processes to particular exchange partners. Business level consists of the business environment, such as information support obtained from the business networks and market volatility. Dyadic level captures confidence and belief in each other leading to inter-organisational and inter-personal trust between both parties during the course of the relationship. This trust allows organisations to confidently transact without the need for a complex safeguard mechanism. Hurley also views trust as a relational concept and says trust is a measure of the quality of a relationship between two parties, as “when people choose to trust, they have gone through a decision-making process – one involving factors that can be identified, analysed, and influenced” (Hurley 2006, p. 56).

Consistent with the transaction and business levels, a precursor to building trust and commitment in the outsourcing deal involves a formal contract between business partners to explicitly spell out costs, deadlines and penalties for any overruns or inconsistencies in the exchange. Specifically, a service level agreement is negotiated between both parties which lays out the ground rules for governance and structure to guide the interaction between both parties (Dibbern et al. 2008; Goo and Huang 2008). The dyadic level focuses on voluntary transactions between individuals involved in the transfer of resources, that are not purely economic, but address the behavioural and social side of the exchange (Qi and Chau 2012). Tactics are adopted to build less formal relationships by strengthening inter-personal and inter-organisational trust based on social interactions. This often

involves social costs, such as employment of agents by both suppliers and clients, who work towards alignment of common goals and expectations. These agents or boundary gate keepers broaden the socio-technical interactions and provide a platform in which communication channels are opened informally across cultural and technological levels to address shared concerns and for mitigating each other's perceptions of risks

SERVICE LEVEL AGREEMENTS

An SLA is a formal written agreement added as an addendum to a formal contract to provide product-specific terms and conditions, which addresses risk and trust issues in relational exchanges (Goo and Huang 2008). Once negotiations have been finalised between the supplier and client to arrive at an outsourcing deal, SLAs are devised by lawyers on obligations and rules for further action in the relationship. SLAs provide a formal control mechanism to ensure products and services are delivered, and to safeguard the time and money invested in the business transaction. Goo and Huang (2008) have identified three contractual characteristics to cultivate trust and relationship commitment, which are key attributes of relational governance. They are: (1) foundation characteristics which set clear standards of conduct by defining what clients and suppliers are obligated to deliver and at what cost, (2) governance characteristics which set clear statement of assessing the services through measurements, communication channels, conflict arbitration, penalty and rewards, and (3) change management characteristics which address how uncertainties will be handled in the changing IT environment.

Further, offshore contracts are typically of two types – fixed price (FP) and time and material (T&M) – with differing risk implications for offshore clients and suppliers. FP contracts include a fixed fee for the software negotiated before the start of the project, where the supplier bears major part of the risk. While in a T&M contract, the supplier contracts out services at a certain rate and the client is responsible for monitoring progress on the project (Gopal and Sivaramkrishnan 2008). However, with the constant re-definition in project design, its growing complexity and the uncertainty in business environments, project tasks often require more time, thereby incurring more costs for the clients, since the client bears the cost of overruns (Abdullah and Verner 2012). Accordingly, SLAs are structured between the parties to better manage service expectations and ensure relationships remain on course. SLAs contain details of services to be provided, metrics to measure performance and adherence to delivery schedules, and can also include penalty and bonus clauses for under- or over-performances (Beaumont 2006; Currie et al. 2008). Having a mutually negotiated agreement helps both sides to identify possible risks and reiterate their obligations to comply with the directives as have been laid down in the document. The risks posed could be related to intellectual property, confidentiality risks, compliance and regulatory, operational, reputation, geopolitical and any combination of these (Abdullah and Verner 2012; Currie et al. 2008). SLAs lay out the contractual and relational governance mechanisms, whereby they complement and substitute each other in different processing contexts of the relationship (Huber et al. 2014). That is, when faced with ambiguity, supplier and clients enforce formal control through the contractual clauses which substitute relational interactions, while in other informal situations both parties use hybrid adaptations of substitution and control. SLAs therefore, safeguard institutional risks to enable both partners gain each other's trust and confidence in the outsourcing process.

BOUNDARY GATE KEEPERS

IT professionals have been seen as lacking credibility, not in expertise but in relationship building (Bashein and Markus 1997). Suppliers are now adding relationship management and customer advocacy to their portfolio of skills as they deliver customer-intimate enterprise solutions for offshore clients (Moore and Martorelli 2004). These initiatives refer to definition of relationship strategies for build-up of trust and goodwill based upon the socio-cultural perceptions developed during ongoing interactions with diverse offshore groups. The interdependence of both parties on each other, with different perceptions of each other's cultural and societal structures further contributes to a feeling of vulnerability in ICT enabled communication. Pauleen and Yoong (2001) note that facilitators' play an important role in ICT enabled communication, such as offshore environments, which are spread across inter-organisational and cross-cultural boundaries. Facilitators identify effective strategies for communication channels to include both computer mediated processes and face-to-face meetings. Further, they translate their business partners' service requests into specific employee strategies by setting out clear roles, responsibilities and levels of authority, governance and management, thereby identifying and resolving risks before they threaten contractual agreements (Abdullah and Verner 2012).

Inter-organisational and inter-personal trust have a "highly situational context", and IT enabled relationships are different to human relationships (Jarvenpaa et al. 2004). While inter-organisational trust reflects the extent to which members of an organisation collectively trust the partner firm, the inter-personal trust reflects the extent to which facilitators (or boundary gate keepers) are committed to each other for joint planning and problem solving (Claro et al. 2003). Hence relational governance deals with both higher level (collective or inter-organisational) and lower level (individual or inter-personal) trust conditions. Claro adds that under inter-organisational trust

conditions, partner firms rely less on elaborate safeguards for monitoring and enforcing agreements than in inter-personal trust conditions; however, in inter-personal conditions, both boundary gate keepers jointly cope with problems faced in the course of the business engagement. The gate keepers understand the coding schemes on both sides of the organisational periphery (Choo 2006), and help develop effective boundary crossing behaviours to reduce misinterpretation of messages caused due to cultural programming of its members (Pauleen and Yoong 2001).

RESEARCH DESIGN

Case studies are common research strategies for exploratory, explanatory and descriptive studies in social science research (Yin 2003). Exploratory case studies are used for theory building, explanatory case studies help in theory testing, while descriptive case studies present a complete description of the case (e.g., individual, organisation) within its study context (Yin 2003). In this study, descriptive case studies have been used to present an offshore business relationship, with narrative storylines of study participants (i.e., boundary gate keepers) to address preferred governance practices during the course of the relationship. Accordingly, three organisations were selected for this study. Selection of cases needs to be specific and deliberate (Eisenhardt 1989) so as to maximise what can be learned in the period of study time available (Dube and Pare 2003). The three organisations were intentionally sought based on their industry type and offshore business characteristics, namely business partnerships. All three organisations have been represented by pseudonyms for anonymity reasons. Two of these are New Zealand client organisations (NZ-A and NZ-B) and the third is an Indian supplier (IND-SUP). Currently, the three firms are not in any business partnership, though previously both NZ-A and NZ-B had outsourced IT business activities to IND-SUP. However, they have each parted professionally and both the client-supplier pairs are amicable with each other.

Semi-structured interviews were conducted with relationship managers (or boundary gate keepers) in all of the three IT firms. Specifically, questions were asked to probe the governance mode with past and current offshore client / supplier. We asked:

- Q1. What challenges are encountered in knowledge exchange with offshore partners? Why?
- Q2. Do SLAs play an important role in defining commitments and mitigating risks? How?
- Q3. What role do boundary gate keepers play in ensuring that business remains on track?
- Q4. What is the preferred governance mode in outsourced business partnerships?

CASE DESCRIPTION

The three participating organisations in this study are well recognised IT firms locally and internationally. A brief description of each case is given next. This is followed by an overview of their previous outsourcing business arrangement

Case 1: IND-SUP

IND-SUP is a medium sized Indian IT service provider with approximately 170 employees. Their main development centre is in Vizag, India, though they have opened smaller offshore development centres in Auckland, Melbourne and Dallas. IND-SUP has earned many export performance awards from the Indian government. They presently have an offshore presence comprising 20 IT developers in Auckland headed by a manager, designated as Vice President (NZ – Operations). The IT developers are brought on a continuous basis on work permits from India to New Zealand, and are replaced by other Indian programmers when their work permits expire. The vice president (VP) facilitates the relationship with all New Zealand clients, and is the point of contact for any concern or issue raised by clients.

Case 2: NZ-A

NZ-A is a leading provider of solutions to primary healthcare professionals in New Zealand since 1980. They have opened another division in Australia, and have offices in Auckland, Melbourne, Sydney and Perth. NZ-A have approximately 16,000 users belonging to various medical health sectors within Australasia. The capabilities of NZ-A include sophisticated connectivity to government and third-party organisations such as laboratories and claims offices, robust networks for information exchange and communications, health assessment and management tools, and geo-coding for demographic information, amongst others. In 2007, NZ-A have started outsourcing IT work to an offshore development centre in Chennai, India, in which they have 10% ownership stake. However, previously they had engaged IND-SUP as their supplier. The general manager (GM) along with project leaders interact with the development teams located in India.

Case 3: NZ-B

NZ-B has been a global leader in telecommunication technology applications since 2000, and they have their main development centre in Auckland. NZ-B has sales and operations offices in New York, Los Angeles, Chicago, Shanghai, Hong Kong and Hyderabad. NZ-B offers world class interactive mobile marketing solutions and provides connectivity between people and brands, and has won several major mobile and marketing awards worldwide. The company creates, executes and analyses long term interactive mobile strategies for brands and agencies, and has a vast international clientele and partnerships with many service providers for deployment of their mobile applications. NZ-B had previously experienced offshore dealings with IND-SUP, which made them better realise the governance aspects in the management of IT outsourcing arrangements. In 2005, they opened an offshore software development centre in Hyderabad, India, to work on client projects jointly with their development centre in Auckland. This joint venture with a new supplier is partially owned by NZ-B, offering more cost benefits. Project leaders (PL) interact with the supplier teams located in India.

Outsourcing Arrangement:

As has been stated, the three firms were earlier involved in an offshore business partnership, which has been terminated. Figure 1 describes their outsourcing arrangement in earlier and current settings. In earlier settings, the three boundary gate keepers of the three firms, namely general manager (GM) of NZ-A, project leader (PL) of NZ-B, and vice president (VP) of IND-SUP had been the first point of contact in the communication channels spanning the offshore client-supplier settings. These individuals played a dominant role in fostering trust by maintaining each other's expectations and ensuring that SLA obligations are met by their organisation members. In new settings, NZ-A and NZ-B have opened joint ventures with new business partners and have ownership stakes.

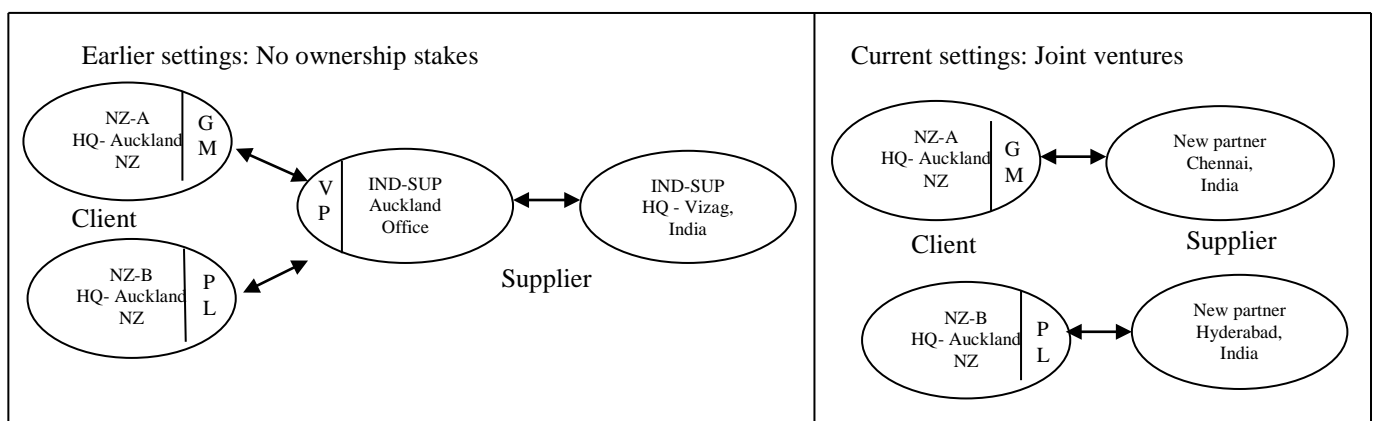


Figure 1: Outsourcing arrangement of earlier and current settings

CASE FINDINGS

This section draws upon case study data to offer insights on the relational governance strategies adopted across client-supplier boundaries. In analysing the cases, we present descriptive data from interviews, so that the reader is led to a better understanding of the experience under study (Janesick 2003). Janesick advises researchers to use abundant sections transcripts, as qualitative work is grounded from data; the words of the participants; field notes, reflective journal entries and other written records. The responses to questions from the three firms are synthesised next.

Q1. What challenges are encountered in knowledge exchanges with offshore partners? Why?

The three organisations emphasised that outsourcing arrangements involving knowledge transfer to offshore firms is not without associated challenges. The challenges are not about social or cultural differences; rather it is the operational aspects related to knowledge specialists and the nature of the outsourced work that matters more. One client (NZ-B) said challenges were mostly at start of the partnership, when requirements were to be conveyed and understood across both sides. *“How well, the offshore side has understood what we want. Though our work is rather routine, our risks were more at the start when the work content was not clear. But once, they [offshore supplier] know what we want, then it is no big deal”* (PL). Another client (NZ-A) said they were cautious of sending too much details of their business application domain to the offshore supplier due to the sensitive nature of their IT work in medical services.

The confidentiality and security concerns of customers' medical records, government agencies and third party groups (laboratories, claim offices) meant that non-core tasks could only be outsourced, without delving too much in the business domain. Further, *"the deal was that they [offshore supplier] would not work for anyone else, so they have dedicated a part of their resource for us alone. These developers cannot work on any other project except ours"*. Hence, a deed of non-disclosure has been signed with offshore partner, to protect the proprietary and commercial information of NZ-A. Furthermore, event logs are monitored to check if any unauthorised access has been made in the knowledge exchange.

The supplier (IND-SUP) considered requirement gathering as the main challenge. *"If requirements are not clear or incomplete, you could go tangentially wrong"*. This could result in missed deadlines. Therefore, freezing of core requirements is essential to mitigate risks. The VP stated that non-core requirements are refined and they regularly change in the course of the project progress, but these changes are jointly discussed *"across the table"* and documented. IND-SUP has 20 IT developers located at Auckland near the client sites, to enable a direct discussion on client requirements. The VP added that IT staff turnover is another risk. When skilled people leave jobs, new team members have to be trained in the specifics of client projects. Hence, documentation is used to reduce the risks from staff turnover, with project tasks explicitly laid over ICT portals. With this arrangement, project tasks are easily transferred to new team members in the event of any person leaving employment. Further, documentation also brings both Vizag and Auckland IT teams on a common knowledge platform to realise the client project specifications.

Q2. Do SLAs play an important role in defining commitments and mitigating risks? How?

All firms agreed that SLAs are essential to providing security in exchange of services in an outsourcing partnership, and each one of them have entered into formal contracts with offshore partners. One client firm (NZ-A) has only fixed contracts with their offshore suppliers, while the other client firm (NZ-B) has entered mostly in time and material contracts, though they have some fixed contracts as well. The supplier (IND-SUP) has entered in both fixed and time and material contracts with offshore clients. The supplier added that many client firms structure SLAs with late delivery penalty clauses for managing overruns in project schedules. Further, IND-SUP was penalised once in a situation where a developer located at the client's site in Auckland made some last minute changes with the client. This change had not been documented in the portal and hence could not be shared with the main development team in Vizag (India), resulting in a major issue. Ever since, explicit documentation of scope changes is emphasised with use of automated tools (e.g., Bynet) to manage the project schedule, which ensures decisions are communicated explicitly between both Vizag and Auckland teams.

IT work is a flexible and incremental activity in which software builds are continually modified at various intermediate development stages by both clients and supplier teams. The three cases stated that SLAs are crucial for offshore partnerships, where commercial obligations of *"buy and sell"* need to be clearly stated. Both parties are bound by the legal clauses of the SLA, and *"handover"* and expectations must be clearly defined. This reduces risks for both parties, since they can plan ahead and negotiate in case they foresee any misalignment in services. *"We should both be allowed to change our minds during the evolving phase between builds, but not after a sign off"*.

Q3. What role do boundary gate keepers play in ensuring that business remains on track?

The supplier (IND-SUP) reiterated the situation when their firm was penalised heavily for project overruns in an offshore project. Since then, IND-SUP has recognised the key role played by the gate keepers. Accordingly, IND-SUP has placed a relationship manager (or boundary gate keeper) at each client location (i.e., Dallas, Melbourne and Auckland) to coordinate project activities. At each of these locations, IND-SUP has a local office in an up-market commercial area, where meetings are held daily in the evenings after 5 pm with developers. The team located in Vizag also joins these meetings using ICT synchronous tools where documents are posted on the Web portals and discussed in detail. The Vizag team is seven hours behind their New Zealand counterparts; therefore working days at Auckland site are extended almost daily to 10 pm.

The client NZ-A commented: *"key is communication with face-to-face contact, as people need to interact to form good relationships"*. Further, having a gate keeper means that cost estimations are made, and *"buffers can be identified to smoothen out differences"*. They currently have a relationship manager, who frequently visits the offshore centre in Chennai, India, and ensures work commitments are met across both sides. However, client NZ-B noted that relationship managers are essential at the start of the relationship, but once the tasks are streamlined, then human intervention is not needed anymore. NZ-B explained that in their recent joint venture partnership with offshore team, the project leaders interact with offshore development team over ICT tools. Earlier, when NZ-B and IND-SUP were partners, the role of boundary gate keepers was used to manage work flows, but in the current arrangement, they no longer feel the need to do so. *"The project team knows best what they want, and they communicate directly"*. However, the PLs added that the staff turnover at the Indian

development centre often created many issues in knowledge transfer. This is because during the course of the project, the developer at the supplier end would be different time and again. So, PLs had to deal with new people every time, and this led to repeated explanations of their requirements “*again and again*”.

Q4. What is the preferred governance mode in outsourced business partnerships?

With regard to their preferred governance mode, all cases cited the importance of building cordial relationships, especially for IT (or knowledge) work. Both client firms (NZ-A and NZ-B) stated that their previous partnership experience with an offshore supplier (IND-SUP) had been quite revealing. They have realised the importance of detail in breakdown of project tasks for outsourcing arrangements. Further, once they had information about how work commitments are managed, they gathered confidence to enter into joint ventures with offshore IT firms, where they are currently in a profit sharing partnership. Hence, joint ventures are considered more commercially viable. It was also suggested that governance mode will build trust and confidence, only if risks and profits are shared. Both partners need to be involved in the exchange of services. With joint ventures, the partners had more control on knowledge flows and work allocations. Client firms can thus extend their span of control to supplier networks. However, these clients still contract out work to suppliers even though these suppliers are joint venture partners, and have drafted SLAs for managing project service and delivery.

The supplier (IND-SUP) has many clients in New Zealand, spanning large tertiary institutions to small businesses. The relationship manager (VP) visits the clients weekly and follows up project activities with development teams at both, Auckland and Vizag on a daily basis. Though, IND-SUP has lost two clients, the company is optimistic in outsourcing business. Further, being recognised internationally with CMM and ISO 9001 quality certifications, they have a good reputation in overseas markets.

CONTRIBUTIONS

The study investigates two client-supplier partnerships to give a detailed perspective of practitioners’ perspectives in mitigating outsourcing risks. Gold states, it is the relationship at the operational level, rather than executive level, which determines how ICT tools will support the knowledge integration mechanisms across inter-organisational settings in offshore environments (Gold 2005). The main contribution of this research is that, compared to earlier studies, it provides a deeper understanding on how the operational and social aspects of knowledge exchange are governed. The insightful empirical findings of three real-life cases engaged in offshore partnerships identify factors that impact relational governance practices at the operational and social levels.

Offshore contracting of IT knowledge is actively pursued by clients and suppliers in different outsourcing arrangements. These outsourcing arrangements are directed by formal contracts and social networks. Though offshore business partners, share a cordial social relationship, the study offers new insights on the use of formal contracts, which are underlined with careful drafting of legal clauses. These clauses are used for safeguarding proprietary strategic assets, such as commercial sensitive information of the business domain. Also, penalty clauses are implemented if services are not conducted satisfactorily. Boundary gate keepers keep track of the contractual obligations as laid out in service level agreements at the operational level. IT work is characterised by high-pressure environments in which knowledge is developed within tight schedules for meeting deadlines. Hence, IT developers often make or break decisions with new task requirements as project knowledge evolves. Organisations can sense uncertainty in meeting their commercial obligations, hence weekly face-to-face meetings and daily interactions over ICT tools (e.g., Web portals) are used to monitor project progress. But if a project is considered low risk with routine IT features, boundary gate keepers are not required for maintaining social networks. Work is then carried out directly by the partner teams. However, with employee turnover, when team members are replaced by new members, this causes some frustration. In such situations, boundary gate keepers play a more crucial role, as they mediate and hide the volatility at offshore partner’s end.

The challenges voiced by study participants include incomplete documentation in portals, project over-runs due to changing requirements, staff turnover at development centres involved in IT work, and maintaining confidentiality of project tasks. Hence, governance structures adopted are based upon open and frequent communication. Boundary gate keepers are employed to streamline tasks for specific projects, but not for routine IT projects.

Both suppliers and clients learn the process of knowledge transfer, which could be applied for identifying new business opportunities. This study describes the formation of two new business partnerships with profit sharing incentives. This finding reflects how IT outsourcing markets are growing despite the perceived risks. Practice knowledge on contracts, boundary gate keepers and usage of ICT tools are shared.

Through an extant literature review on client-supplier relationships in outsourcing arrangements, Lyons and Brenan (2014) identify studies which state that the dependence between the client and supplier deepens as they establish shared values and governance structures, and this may lead to joint investments. However, our study

found that shared values and positive governance structures between a client and supplier influenced the start of a new joint investment. Once clients felt that they had attained maturity in management of the relational aspects in a partnership, they were confident in entering a new joint ownership venture. Our real world example shows that successful implementation of relational governance structures could curtail a long-term business partnership. Put differently, relational strategy is based upon deploying governance mechanisms for mutual knowledge sharing and learning between business partners. However, when knowledge transfer is successful, the firms may gain enough confidence to consider managing knowledge and conduct of business themselves through backward integration. The firms may no longer feel the need for their partner, resulting in the termination of the relationship, as the firms increase their span of control with separate ownership partnerships. As has been demonstrated in this study, a previous supply chain was disrupted, and new profit sharing and ownership deals were executed with new joint venture partnerships. A good relational strategy may not guarantee long term business partnerships, since the elements of transaction economics cannot be ignored in outsourcing arrangements.

Based on the case findings, the study demonstrates how relational governance is influenced by overlap of knowledge processes, social networks and market profits. Boundary gate keepers design social networks for enabling smooth knowledge processes in managing inter-organisational transaction costs. However, this may not suffice in maintaining long term partnerships, since the outsourcing arrangement is influenced by external influences of the economic and social markets. Knowledge markets are growing as partner firms strategize to better implement global operations and increase overall profits. Joint ventures are one way forward to manage relationships during knowledge exchange in terms of reducing costs, managing project tasks, overcoming confidentiality concerns and achieving service delivery.

LIMITATIONS AND FUTURE RESEARCH

The retrospective nature of client-supplier partnership is a limitation of this research study. However, retrospection adds to experience, and to practice perspectives which are made in hindsight, therefore has a positive influence in this study. The hindsight from client perspectives has revealed the relatively less importance of agents (or boundary gate keepers) in later parts of the relationship. The supplier perspectives also revealed that outsourcing partnerships are fragile, which need careful planning and monitoring at the operational level. The empirical investigation shows that relational exchange shares a complex inter-relation with economic exchange. Our study shows that tactics which were applied for supporting and bringing transparency in a relational exchange with external partners eventually curtailed the partnership, and resulted in the formation of a new internal partnership based on economic gain. Once relational governance structures are captured in organisational settings, they can be reused by the organisation in a more profitable manner with other partnering firms through joint ventures.

The study has shown external market influences on relational governance strategies for two client-supplier relationships. Questions have been raised on the impact of transaction, business and dyadic levels on long-term relationships, as these levels complement and contradict various elements in a relational partnership exchange. Knowledge firms are driven by all of the three levels in which “buy or make” decisions are driven by their business capabilities and ongoing social exchanges, which may result in integrating partner’s activities into their firms. Business sensitivity of outsourcing contracts between clients and suppliers restrict studies in providing a detailed practitioner view on the reasons for relational governance strategies adopted by them. However, further research may be conducted in understanding details of governance strategies for other outsourcing relationships.

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