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Towards Better Understanding of the Relationship between Formal Controls and Trust in IS Outsourcing

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Abstract

It is interesting to discover that there is a reasonably small but growing literature on the issue and role of trust in IS outsourcing in the past few years. Built on the premise that over-reliance on outsourcing contract and/or other form of formal controls do not necessarily deliver a successful outsourcing partnership and/or outcomes, we have explored another dimension of outsourcing relationship – ‘trust’. This paper is written to further explore the role of trust and its relationship with formal controls within the context of IS outsourcing. The paper advocates that ‘trust’ is a powerful factor that is intricately linked to the success of outsourcing activities and that those engaged in an outsourcing relationship needs to find a balance between trust and formal controls.

Keywords

IS outsourcing, trust, outsourcing contract, formal controls.

INTRODUCTION

Information Systems (IS) outsourcing is not a new phenomenon. Going through the outsourcing literature over the past three decades, it was not surprising to have found that research issues on this topic have shifted over time, reflecting the changes in outsourcing practices (Lee et al. 2003) and views. Most of the early literature on IS outsourcing centered on the acquisition (Buchowicz 1991) because organisations considered outsourcing as a ‘product’ and hence, they focused on issues of how to acquire it effectively (Lee et al. 2003). Meantime, the pivotal debates were focussed predominantly around issues such as whether IS activities should be performed by an outside party (i.e. vendor) or should remain in-house. Thus, the *make-or-buy* decision between internally and externally developed technologies was the main research stream dominated in the 1980s. Further, after the ‘Kodak Effect’ announcement (Loh and Venkatraman 1992), interest in IS outsourcing surged and outsourcing was then seen as having a serious impact in the management of Information Systems. As a result, the determinants and potential benefits with risks of outsourcing became a major research stream (e.g. Lacity and Hirschheim 1993; Loh and Venkatraman 1992), with a number of literature emphasising on cost drivers within the context of transaction cost economics and agency theories (Goles and Chin 2005). Over time, outsourcing broadened to include variations in terms of orientations (commodity-oriented or strategic-oriented) and scope (total or selective) of outsourced functions (Dibbern et al. 2004), along with the recognised relevance of contextual factors such as informal (non-contractual) factors as trust and psychological contracts, which might be implemented at different moments during the interorganisational relationship (e.g. Koh et al. 2004; Sabherwal 1999; Willcocks and Kern 1998). In particular, research in the late 1990s started to focus more on relationship management in IS outsourcing, encouraging organisations to recede tactical objectives into the background and concentrate on strategic outcomes, while such research issues as contracts and partnership have been spelled out as two elements of relationship management in IS outsourcing (Willcocks and Kern 1998). As a client-vendor relationship have shifted towards more strategic focus, a variety of contractual agreements has emerged, ranging from tight contracts to partnerships (e.g. Barthélemy and Geyer 2005), while an effective relationship has become a key predictor of outsourcing success (Lee and Kim 1999).

Nonetheless, the recent existing studies on IS outsourcing have mainly examined partnership factors that influence IS outsourcing effectiveness (Goo and Nam 2007), there are two prevailing perspectives in interorganisational relationships which are widely employed for different goals and types of outsourcing arrangements. *Formal controls* are represented by the written legal agreement and management-initiated activities designed to guide behaviour toward the set objectives, whereas *informal controls* are unwritten, social-exchange based activities designed to influence the process and behavior based on trust and societal

enforcements (Goo 2008). Within the IS outsourcing field, the scholars investigate the relationship between relational governance mechanisms and outsourcing success. Although several studies highlighted the importance of formal contract between the outsourcing parties (e.g. Fitzgerald and Willcocks 1994; Kern and Willcocks 2002) in managing successful outsourcing relationship, there are many of those who focus more on the impact of relational governance and the relationship quality on the IS outsourcing success (e.g. Kern 1997; Lee and Kim 1999). Within this tradition, some studies speak for the value of so-called informal elements of the relationship thereby de-emphasizing the role of formal contracts in the relationship (e.g. Koh et al. 2004), while others view formal contracts as a more costly substitute for relational governance (e.g. Gulati 1995), so that the presence of one governance mechanism obviates the need for the other (Poppo and Zenger 2002). However, there are those who argue that both of the two mechanisms should function as complements in interorganisational relationships (e.g. Poppo and Zenger 2002), while Woolthuis et al. (2005) empirically found that trust and contract to be both complements and substitutes.

Recent research in IS outsourcing holds the opinion that trust and/or trust-based relationship and formal controls are both required (e.g. Barthélemy 2003; Sabherwal 1999). In particular, Barthélemy (2003) contends that the interplay between the 'hard side' (i.e. the development and enforcement of the good contract) and the 'soft side' (i.e. the development of the trust-based relationship) of IS outsourcing management can lead to a virtuous circle. However, there is very little empirical research that addresses a balance that might be established between the formal contract and building trust (Sabherwal 1999). In particular, Sabherwal (1999) studies the role of trust in outsourced IS development projects by high ranking such elements as trust, performance and structure, arguing that they are dependent on each other, while suggesting that structure and trust should be placed in order to achieve higher success in the outsourcing activity. However, while research-based and empirically-based reports of organisational actions within the adopted outsourcing strategy accumulate own efforts to build trust between the outsourcing sides (Sabherwal 1999) and set structural mechanisms for proper coordination of the outsourcing project (Goo and Nam 2007; Langfield-Smith and Smith 2003), scholars have not yet gained a thorough understanding of the determinants of these joint actions that might have explained the richness and complexity of that balanced relationship between trust and controls. Hence, our primary research concern is to refine and extend the ideas about the complexity of relationship between trust and formal controls in a number of ways. First, we outline the state of the trust and formal controls literature within the outsourcing field and make a case for examining the conjoint perspective on their interrelation from the transaction cost economics, relation exchange and social exchange theories lenses. Second, we argue for the rationale of establishing a balance between trust and controls within the outsourcing relationship, and provide arguments for the lack of conceptual clarity in the current outsourcing literature with regards to the trust-control balance. Finally, we present a conceptual framework for a managerial action that outlines the general processes by which outsourcing organisations could take trust-initiating efforts and controls activities for enhancing the outsourcing success. The framework enriches the holistic understanding of the relationship between those elements and might serve as a starting point to provide deeper insights into maintaining the outsourcing relationship and enhancing the prospects of success in IS outsourcing.

RESEARCH ON TRUST AND CONTROLS

Although the relationship between trust and control might be key to promoting organisational effectiveness, Das and Teng (1998) argue that the current state of the literature is "unclear an inconclusive about the relationships between trust and control" (p. 495). In the IS outsourcing area, much of this confusion results from the fact that scholars very often conceptualise trust between the exchange partners as the necessary attribute of the quality of the outsourcing relationship (e.g. Kern 1997; Kern and Willcocks 2000; Sabherwal 1999) and enabling factor for the outsourcing success (Lee and Kim 1999). As Kern and Willcocks (2000) point out, while many researchers mention the importance of the client-vendor relationship, few actually make this the main focus of their work. Moreover, those studies that do focus on the relationship examine different aspects of it using a variety of theoretical frameworks that usually hold unilateral perspective in explaining the nature of outsourcing relationship (Goes and Chin 2005). There are several well-established models or frameworks for studying the IS outsourcing relationship (e.g. Fleming and Low 2007; Goes and Chin 2005; Kern and Willcocks 2000) that have been designed to provide an understanding of which factors should the outsourcing parties be aware of in order to achieve the desired success in the outsourcing effort.

Further, according to Langfield-Smith and Smith (2005) there are only a few comprehensive models considering the design of management control systems (MCS) in outsourcing relationships, namely as quoting them "Speklé developed a model of control archetypes, based on transaction cost economics (TCE); Das and Teng modelled the relationships between MCS, trust and risk in various types of interfirm relationships, and van der Meer-Kooistra and Vosselman developed a comprehensive model of management control, which was based on principles of TCE but which integrated the role of trust" (p. 282). Similarly, in the area of organisational studies, Long and Sitkin (2006) propose a theoretical framework outlining key factors (i.e. task controls and organisational trust) that affect the particular types of trust-control balance processes that managers attempt to

obtain. However, recurring to our main research concern, there is a very limited number of studies that address jointly the relationship between trust and controls in a dynamic perspective. More specifically, Sabherwal (1999) commemorates the necessity of balancing trust and structural controls while empirically revealing that unspoken balance between trust and structural controls has been implicitly articulated by his project participants, whereas Barthélemy (2003) finds that the congruence between hard and soft sides of IS outsourcing management might be addressed via the appropriate management technique of joint collaboration of the set of contractual activities and initial trust building and commitment between the partners which all in turn, will have strong impact on both the cost reduction and performance metrics.

In addition, outsourcing arrangements differ in a variety of forms, as detailed by Lacity and Willcocks (1998). However, at the underlying level of outsourcing initiatives, they have one common feature, namely participants involved in some type of exchange and interactions with each other, the behaviour of whose is governed and shaped by the formal contract (Goles and Chin 2005). Thus, a conceptual framework that takes into account both the spirit of social exchange and the implications of the contract might be used as a starting point to provide deeper insights into the outsourcing relationship itself and enhance the prospects of success in IS outsourcing.

DEFINING KEY ELEMENTS ON TRUST AND CONTROLS

In developing our perspective on the balancing relationship between trust and controls we acknowledge that many scholars have articulated the skills and competencies organisations would need to manage the entire process of the outsourcing relationship and what is more, have introduced research frameworks that encompass diverse perspectives in terms of trust and control issues (e.g. Bensaou and Venkatraman 1996). However, we define those issues within the context of outsourcing and describe them via utilising a transaction cost economics approach and a number of theories with socio-relational foci.

The Formal Controls Perspective

Macneil (1978) defines an organisation to be “in significant ways, nothing more than a very complex bundle of contractual relations” (p. 865). According to Macneil (1978), contracts are characterised by the following norms, “...permitting and encouraging participation and exchange, promoting reciprocity, reinforcing role patterns appropriate to the particular kinds of contracts providing limited freedom for exercise of choice effectuating planning” (p. 895).

IS outsourcing is a boundary-spanning interorganisational relationship (Miranda and Kavan 2005), wherein the contract defines the outsourcing arrangement and structures the interactions between the client and the vendor. Outsourcing contract provides a legally bound, institutional framework in which each party's rights, duties, and responsibilities are codified and the goals, policies, and strategies underlying the arrangement are specified (Gottschalk and Solli-Saether 2005). Every outsourcing contract is meant to reduce opportunism and facilitate the business exchange between the partners. However, it is very unlikely that the contract can cover all future contingencies. For example, Brynjolfsson (1994) in his work on the incomplete contract theory argues that “real world contracts are almost always ‘incomplete’, in the sense that there are inevitably some circumstances or contingencies that are left out of the contract, because they were either unforeseen or simply too expensive to enumerate in sufficient detail” (p. 1647). Formal contracts are often proved to be incomplete (Kern and Willcocks 2001); most of them are either too loose (Lacity and Willcocks 2003) or too inflexible (Barthélemy 2001; Sabherwal 1999). Moreover, according to outsourcing practitioners, the incompleteness of outsourcing contracts (IT outsourcing contracts, in particular) also associate with basic assumptions from the both outsourcing sides with regard to disillusionations that business requirements and technologies remain unchanged throughout the length of the signed contract.

According to the transaction cost economics (TCE) logic, as exchange hazards rise, so must contractual safeguards (Williamson 1985), which act to minimise the costs arising from such hazards and help to build the initial relationship between the outsourcing parties (Goo and Nam 2007). Drawing on the TCE theory, the outsourcing decision is often seen as a rational decision made by organisations that have considered transaction related factors such as asset specificity, environmental uncertainty, and the frequency of the transaction (Williamson 1979). Similarly, the TCE is accepted as the common-based framework for viewing the choice of governance structures in interorganisational relationships (Langfield-Smith and Smith 2003).

Many researchers have used a variety of terms across many disciplines (e.g. strategic management, (inter-) organisations studies, IS outsourcing literature) on the *control* paradigm, such as ‘*governance characteristics*’ or ‘*formal systems*’ (e.g. Goo and Nam 2007; mostly of the interorganisational studies literature), ‘*control systems*’ (e.g. Langfield-Smith and Smith 2003), ‘*moments of governance*’ (e.g. Miranda and Kavan 2005), ‘*structural controls*’ (Sabherwal 1999) and the like (Das and Teng 1998). Yet, many scholars have agreed upon a broader concept of addressing controls as a set of mechanisms and/or activities (Long and Sitkin 2006) to be implied in order to manage the ongoing process of development of the outsourcing project (e.g. Sabherwal 1999) or

whereby one party affects the behaviour of the other (e.g. Das and Teng 1998). However, the rationale is that in organisational studies and similar disciplines, the scholars associate the establishment of proper control mechanisms in line with the attainment of high organisational effectiveness (Das and Teng 1998). By contrast, in the IS outsourcing field, a formal contract usually takes a leading role and it specifies roles and responsibilities of the outsourcing parties to be performed, it procedures for monitoring and penalties for non-compliance, rewards for outcomes attained, wherein every single activity usually is applied in compliance with the letter of the contract. And many outsourcing researchers with both conceptual and empirical validations have categorised contractual elements within the context of applied governance activities (e.g. Goo 2008; Kirsch 1997). In particular, those researchers who work closely with service level agreements and contractual issues (e.g. Goo and Nam 2007; Grover et al. 1996; Kirsch 1997), distinguish contractual elements under governance characteristics and divide them into *communication plan* (e.g. documented communication processes), *measurement charter* (e.g. specifications of tactical measures of the performed project), *conflict arbitration plan* (e.g. escalation measures), and *enforcement plan* (e.g. incentives and penalties based on performance) (for a complete review, see Appendix 1). In sum, a formal contract embedded with a number of structural controls will serve as a foundation for the development of the outsourcing relationship and the ongoing management of this relationship towards achieving the desired outcomes.

However, we acknowledge that formal controls is a very crucial dimension of any business relationship that tie business partners with obligations, reduce any chance of opportunism from the either side, specify a 'working context' of the project and what is more, help to regulate and monitor the ongoing process of an organisational activity. Yet, trust as an alternative source of relationships has been widely used to offset a negative and very often narrowed implication of formal controls.

The Trust Perspective

Besides control, the literature suggests trust as a second source of good business interactions. In particular, trust has been widely recognized as a facilitator of successful relationships between buyers and sellers in many domains such as social exchange literature (e.g. Barber 1983), economics (e.g. Williamson 1985), marketing (e.g. Mohr and Spekman 1994), management and organizational studies (e.g. Zaheer et al. 1998), and is one of the most desired qualities in any close relationship (Mayer et al. 1995). As Das and Teng (1998) quote Arrow's work by saying that "virtually every commercial transaction has within itself an element of trust, certainly conducted over a period of time" (p. 494). Despite its complexity and ambiguity that still wander among the trust researchers (e.g. Mayer et al. 1995), many scholars agree upon the fact that trust reflects such common features as positive expectations about another's motives, vulnerability and risk-taking behaviour. For example, Zaheer et al. (1998) have consolidated the knowledge on trust in interorganizational relationships and defined trust as the expectation that a party will act predictably, will fulfil its obligations and will behave fairly even when the possibility of opportunism is present.

Within the IS outsourcing context, researchers mainly focus on trust at an organizational level (e.g. Grover et al. 1996; Kern and Willcocks 2000; Lee and Kim 1999). For example, Kern and Willcocks (2000) define trust as the belief that a promise is reliable and that it will be fulfilled as stated in the agreement. In general, researchers seem to agree that trust refers to a relational aspect in IS outsourcing, in which the parties are willing to accept risk for commitments that will result in a positive desired outcome. Accordingly, in the management of outsourcing relationships, trust has a number of long-term benefits, namely it enables to focus on long-term objectives, with less worry about routine reporting issues; it suppresses opportunism and increases the cooperation between a client and a vendor; it enables risk-taking and reduces conflict (Klepper 1995). However, outsourcing relationships are generally based upon contracts (or contractual agreements) and to achieve a win-win situation, both sides have to create a close relationship that operates within the "spirit of the contract" (Kern 1997, p. 37). Although the contractual agreements outline many issues and their consequences, it is unthinkable to cover all contingencies in the contracts. Moreover, resorting to the contracts every time there is an issue is not only time consuming but also may prove to be costly. Arguably, in order to achieve the expectations and accomplishments for and from both sides, trust should be one of the centerpieces of such a relationship. In response, Macneil as early as the late 1970s argued that traditional contract law did not adequately address the empirical realities of modern business relationships, and that a set of norms had emerged that influenced and to some extent governed exchanges between parties in an ongoing long term relationship (Macneil 1978). Thus, the central argument in his studies is that relational exchange should be based on a social component (Goles and Chin 2005; Goo and Nam 2007). Emerging from these early studies is a growing body of work emphasizing on exchange *relationships* as opposed to exchanged *events* (Goles and Chin 2005), whereas relational exchange and social exchange theories (e.g. Goles and Chin 2005; Gottschalk and Solli-Saether 2005) have been implied to explain the newly born phenomenon as a relational contracting (see Williamson 1985). For example, Kern and Willcocks (2000) give an explicit explanation of the difference between the traditional and relational contracts by deriving so-called *situational characteristics* that encompass elements of long-term interdependence of succeeding contracts, gradual development of enduring exchange relationship, reflecting on ongoing process and

its gradual disintegration. A rich body empirical work has demonstrated that relational contracting largely has been interlinked with *relational governance* (e.g. Poppo and Zenger 2002), which in turn, has been represented by trust, commitment and cooperation, and what is more, it improves the performance of interorganisational exchanges in general (e.g. Zaheer et al. 1998) and IS outsourcing in particular (e.g. Choudhury and Sabherwal 2003; Sabherwal 1999). In addition, such attributes as trust and commitment (Morgan and Hunt 1994) play a major role in IS outsourcing relationships, whereas the successful management of the outsourcing relationship today requires of highly interactive and flexible relationship between two organisations in order to sustain over strategic planning horizon (Goo and Nam 2007; Sabherwal 1999).

Nevertheless, following the logic of TCE which explains that complete contracting is often impossible, while incomplete contracts give rise to subsequent renegotiations when the balance of power is set (Gottschalk and Solli-Saether 2005), relational attributes of exchange may play a role precisely instead of or along with incomplete contracts. By initiating trust, organisations will lower the costs of monitoring and enforcing contract and reduce opportunistic behaviour of the other party. In all, those transactors who have established relational norms based on goodwill that can ease and lubricate the renegotiation process, they can reasonably expect to incur lower *ex post* bargaining costs (Gottschalk and Solli-Saether 2005) and the *de facto* formal controls than those who have not.

THE TRUST-CONTROL RELATIONSHIP

While research suggests that both trust and controls affect the performance and attainment of the set goals in interorganisational relationships, Das and Teng (1998) observe that there exists “little consensus regarding the relationship between trust and control” (p. 495). Concurrently, Long and Sitkin (2006) by quoting Bachmann say that “there are numerous examples in the literature where control chases out trust and situations in which trust seems to remove the necessity for control, there are equally as many examples of trust and control being complementary, or going hand in hand” (p. 91). Some researchers claim that the control mechanisms and trust can be pursued simultaneously, or ought to be complementary (e.g. Das and Teng 1998; Zaheer and Venkatraman 1995), while others argue that control mechanisms are detrimental to trust (e.g. Bradach and Eccles 1989; Lyons and Mehta 1997). Following this way, Woolthuis et al. (2005) derive three different views on the role of contracts and their influence on trust, wherein first perspective is closely related to the logic of TCE and contract theory that favours contract as a basis which is a prerequisite for trust; second perspective is associated with the social scientists ‘*worldview*’ of envisaging contract as a detrimental factor to trust development, and finally, the third interpretation is related to the statement that trust and contracts are negatively related, with trust precedes contracts, and thereby contracts can as a result become unnecessary. However, mixed reports based on the empirical evidence are likely to be found in the current research works with regard to the relationship between trust and formal controls. In particular, studies found the evidence that high trust and formal controls are found together and can be conceptualised as complementary mechanisms in interorganisational studies (e.g. Poppo and Zenger 2002) or alternatively, some studies revealed that trust was reducing the need for contracting and hence, it can be conceptualised as substitute for formal control (e.g. Gulati 1995). Some scholars have concentrated on the place of trust in governance relationships (e.g. Goo and Nam 2007). But the governance of relationships requires implementing structures and building trust (Barthélemy 2003). Moreover, a contract is one of the central elements for the business relationship development and governance mechanism, whereas trust is the key attribute encouraged in the relational governance that facilitate contractual refinements that further support greater relational exchanges. And thus, the key implication when combining these two perspectives is that trust and control are related and that outsourcing parties should consider both of them if they aim to optimise the effectiveness of their outsourcing strategy and enhance the prospect of outsourcing success.

The Trust-Control Balance

In conceptualising the balance between initial trust-building and formal controls that organisations attempt to obtain, we partly follow the definition outlined by Long and Sitkin (2006) in their study on trust-building and task control that organisations achieve a trust-control balance when they obtain “a state where...[their relations]...exhibit a harmonious integration of trust-building and...control activities” (p. 91). Using this concept of balance, we propose that the level of such harmony achieved between a configuration of formal controls and trust-building efforts is partially determined by the context within which that integration occurs (Long and Sitkin 2006). So that while recognizing the value of such legalistic ‘*remedies*’ (Sako 1997) including formalising contracts and applying appropriate structural controls, the outsourcing parties should not forget about trust-initiating activities in order to act timely on changes occurred within the scope of the working outsourcing relationships and outside them. More specifically, such formal activities (e.g. legal procedures, formalised rules) might be used to guard against unfortunate contingencies which would undermine trust relationships, whereas according to Sako (1997), “a greater formalisation of rules and procedures can restore competence trust effectively by fostering coordination when past violations, in the form of underperformance

are specific to a particular context or task” (p.12). Meanwhile, the total reliance on formal controls cannot promote the value congruence between the outsourcing parties and will maintain the distance between the parties, whereby exclusive reliance on trust can be dangerous (Sabherwal 1999). In sum, one could argue that these ‘one-sided’ management activities will only raise unnecessary and unwanted challenges associated with achieving the performance milestones, lack of vision, suspicion in partner’s expertise and ultimate delay of the project.

THE TRUST-CONTROL BALANCE: PRELIMINARY FRAMEWORK

We have so far identified key trust and formal controls concepts and discussed the joint relationship between the two elements within the outsourcing context, and how this relationship is useful when addressing the performance outcomes in the outsourcing project. The necessity of developing this conjoint managerial-based perspective is further emphasized when one considers two additional observations regarding the management of outsourcing relationships. First, while appearing static for periods of time, the particular mix of trust and control in the relationship is constantly flux (Long and Sitkin 2006). And second, to address the dynamic nature of relational and institutional arrangements, organisations should balance the mix of trust and control in their outsourcing initiative if they wish to achieve the desired outcomes and cultivate positive social exchange. Thus, in Figure 1 we depict our effort towards the general process of establishing a balance between trust and controls within the outsourcing relationship context. Our conceptual framework builds on observations of earlier works by Das and Teng (1998) on the relationship between trust and control in strategic alliances, by McEvily and Zaheer (2006) on performance effects of trust and discussions derived from Lee et al.’s (2008) study on integrative model of trust in IS outsourcing.

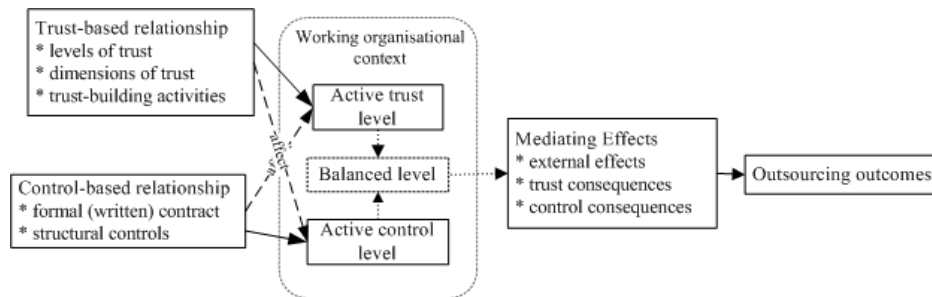


Figure 1: Preliminary framework for trust-control balance in IS outsourcing relationships

The proposed framework captures the multi-faceted aspects of trust and controls and their roles in the outsourcing relationship. It has been constructed based on the understanding that trust and controls should be both equal components which are required to be addressed conjointly in the IS outsourcing relationship in order to improve chances for success. We assume that the collected knowledge at the trust-based and control-based levels accumulated by the outsourcing parties in the working conditions may enhance the outcomes in their outsourcing effort under the impact of mediating effects, which have been quite often marked by other outsourcing researchers as enabling factors in the development of trust (Cong and Chau 2007; Lee et al. 2008) and facilitating the contract-based relationship (Goo and Nam 2007). Also it is essential to articulate that both trust and controls should be taken equally at once as complementary, yet independent dimensions of the outsourcing relationship. In particular, a control-based relationship (i.e. presented at two sub-dimensions, formal contract itself and associated structural controls) that was described with the TCE logic which in turn was heavily criticised by ignoring the social context of business interactions (Gottschalk and Solli-Saether 2005), should be complemented with trust (i.e. levels of trust, dimensions of trust and initial stages of trust building, for further details see Bekmamedova et al. 2008) which serves as the glue for that relationship because quite often partners committed themselves and made contributions to their relationship that would go beyond what had been specified in the contract. However, it cannot be assumed that a trust-based relationship or a control-base relationship solely will always lead to successful results in the outsourcing arrangement (Goo and Nam 2007; Lee et al. 2008).

Further, the IS outsourcing relationship depends very much on the context which encapsulates the specific objectives and expectations (e.g. financial, technical, and political issues) (Kern 1997; Kern and Willcocks 2000), which in turn reflect the organisational conditions of parties involved in the outsourcing relationship. Within this context, both of these elements are filtered into the active trust level and active control level accordingly. In turn, the level of control has a direct influence on the level of trust within the relationship (Das and Teng 1998), whereas initial trust-building does not influence the level of control directly, but rather moderates relationship between the level of control and resulting quality of the relationship (Kern and Willcocks 2000). Herein, the outsourcing parties specify the context of relationship addressing the relevant to their specific circumstances (e.g. the core/non-core outsourced project, short-/or long-term outsourcing contract, history and

length of the outsourcing relationship), as is assumed to be the temporal notion (as dotted level shown in the framework) due to the dynamics of the outsourcing relationship and nature of the outsourced project. Moreover, whereas the current literature argues for a direct effect of trust on outsourcing success (e.g. Lee and Kim 1999), while the outsourcing research of the early 1990s favours for the contract which prescribes the dimension of success (e.g. Fitzgerald and Willcocks 1994; Lacity and Hirschheim 1993), there are those scholars on the contrary, who argue that there exist so-called enabling factors that mediate the process of development of the outsourcing relationship with the achievement of the outsourcing success (e.g. Cong and Chau 2007; Lee et al. 2008). Accordingly, the latter argue for the existence of those effects due to a number of reasons, namely the IS outsourcing is not limited to a '*tangible product*' only but also includes '*intangible assets*' such as knowledge of business processes (Lee et al. 2008) and '*relation-specific consequences*' such as the relational governance and mutual dependency (e.g. Bensaou and Venkatraman 1996; Mohr and Spekman 1994). For example, when the size of the exchange increases and the importance of that exchange is recognised, the level of dependency is high which in turn, may result in a higher quality of the relationship (Lee and Kim 1999). In general, the described mediating effects should be divided according to the framework, into so-called external factors that are determined by the current business condition and specific circumstances of the involved outsourcing organisations (e.g. business environment, cultural commonality); trust-driven consequences including knowledge-sharing, relational governance and mutual dependency (see Lee et al. 2008); and finally, control-driven consequences which are caused by the application of structural mechanisms and other reporting and nearby monitoring management activities that help to maintain the working process of the outsourcing project. Subsequently, the accumulated attempt of the outsourcing sides to find a balanced level between the trust-initiating efforts and the control-based activities within their working outsourcing settings and then, to address adequately the mediating effects that might either facilitate or procrastinate the further performance of the project, will bring to the ultimate outsourcing outcomes. However, the latter is a subject of further research and requires a more rich and thorough in-depth analysis of exploration. Again, we acknowledge that by articulating outsourcing outcomes, there is a plenty of discussions in this area (e.g. Goo and Nam 2007; Goo 2008) which should not be limited only to '*success*' or '*failure*' of the project and thereby, we envisage that this challenge could be achieved by conducting empirical research using this framework.

In sum, based on these premises by finding a proper balance both parties are able to sustain a more effective outsourcing relationship over time, while the presence of both the elements will lead to the shared perceptions and hence, to better outsourcing performance.

CONCLUSION AND FUTURE DIRECTIONS

In a highly complex and risky activity such as IS outsourcing, over-reliance on formal control mechanisms and approaches are not only impractical and expensive, but also counter-productive and may result in unsatisfactory outsourcing outcome. This paper explores the concept of trust in IS outsourcing relationships and argues that there is a need of balance between trust and formal controls in order to reach the expected outcome of IS outsourcing. Exploring the issue of such 'balance' between trust and control is indeed an interesting concept that the authors feel need to be empirically studied further. The framework emerged from the exploration of the key literature in the area of trust, formal controls (i.e. contract and structural mechanisms), and IS outsourcing could be used as a starting point to better understand why some outsourcing activities resulted in unsatisfactory outcomes (including prolonged episodes of litigations and legal battles) and some produced excellent values and Return on Investments for the outsourcing vendor and the client. Thus, as the starting point of our research endeavours, we assume that this is the type of phenomenon that would be served well by interpretive research. In particular, the multiple case study approach will be used as the main research method to investigate the articulated area of research interest, while the method of narrative inquiry will be served as the supplementary research approach further at the stage of data analysis. We firmly believe that the interpretive data collected for this study should be based on the derived individual perceptions of trust and controls judged by the key players from case to case, rather than empirical hypotheses aimed to test and measure different elements of the proposed framework.

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APPENDIX 1: THE GOVERNANCE ELEMENTS FOUND IN SERVICE LEVEL AGREEMENT IN IS OUTSOURCING¹

Governance characteristics	Contractual elements of SLA	Contractual issues of SLA in IS Outsourcing	Clauses in practice	Supporting theories
Mechanisms that mitigate disruptions	Communication plan	Scheduled interaction and communication such as formal meetings and reporting	<ul style="list-style-type: none"> Organisational reporting structure; Identified communication initiatives; Communication schedules and media. 	TCE (Williamson 1979) SLA templates (Grover et al. 1996; Kern and Willcocks 2002; Lee and Kim 1999; Singleton et al. 1988)
Rewards or sanctions for meetings or missing the targets	Measurement charter	Tactical measurements of service performance and success metrics (in line with a vendor's strategic plan)	<ul style="list-style-type: none"> Definition of processes to periodically measure the defined categories; Interfaces with the feedback plan and etc. 	TCE (Klein et al. 1978) Control theory and SLA templates (e.g. Choudhury and Sabherwal 2003; Kirsch 1997; Singleton et al. 1988)
Setting and checking performance targets, interim milestones to ensure that the relationship remains on course	Conflict arbitration	Balance of power that imposes one's will on others	<ul style="list-style-type: none"> Process descriptions of the interaction; Schedule for regular interactions and timetables for resolving issues between the parties; Practices and conduct rules required to preserve the independence of the independent advisor etc. 	Relational exchange theory and SLA templates (e.g. Lewicki and Bunker 1996; Mohr and Spekman 1994)
	Enforcement	Carrot-and-stick; sharing of benefits and burdens	<ul style="list-style-type: none"> Detailed list of all penalty assumptions (e.g. reporting process, knowledge transfer) 	TCE (Klein et al. 1978) SLA templates (Singleton et al. 1988)

¹ Governance characteristics have been partially adapted from Goo (2008, pp. 5-6)

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