

Association for Information Systems AIS Electronic Library (AISeL)

ACIS 2009 Proceedings

Australasian (ACIS)

12-2009

Establishing the Trust-Control Balance in Client-Vendor Outsourcing Relationships: Empirical Evidence from Two IS Outsourcing Projects

Nargiza Bekmamedova

Faculty of Information and Communication Technologies, Swinburne University of Technology, nbekmamedova@swin.edu.au

Artem Vorobiev

Australian Graduate School of Entrepreneurship, Swinburne University of Technology, avorobiev@swin.edu.au

Judy McKay

Faculty of Information and Communication Technologies, Swinburne University of Technology, jmkay@swin.edu.au

Follow this and additional works at: <http://aisel.aisnet.org/acis2009>

Recommended Citation

Bekmamedova, Nargiza; Vorobiev, Artem; and McKay, Judy, "Establishing the Trust-Control Balance in Client-Vendor Outsourcing Relationships: Empirical Evidence from Two IS Outsourcing Projects" (2009). *ACIS 2009 Proceedings*. 78.

<http://aisel.aisnet.org/acis2009/78>

This material is brought to you by the Australasian (ACIS) at AIS Electronic Library (AISeL). It has been accepted for inclusion in ACIS 2009 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.

Establishing the Trust-Control Balance in Client-Vendor Outsourcing Relationships: Empirical Evidence from Two IS Outsourcing Projects

Nargiza Bekmamedova*

Artem Vorobiev†

Judy McKay*

*Faculty of Information and Communication Technologies

†Australian Graduate School of Entrepreneurship

Swinburne University of Technology

Melbourne, Australia

Email: {nbekmamedova, avorobiev, jmckay}@swin.edu.au

Abstract

Nowadays, intense global competition requires companies to reposition themselves in value networks and build more sustainable and long-term relationships with their outsourcing partners. Trust and formal controls are critical issues in contemporary outsourcing arrangements today. This paper contributes to the understanding of the trust-control nexus in dynamic outsourcing relationships and argues that the achieved level of balance leads to a different course of the development of an outsourcing arrangement. These issues are explored in two case studies, where the knowledge on trust and controls is constructed in the form of organisational narratives. The analysis of the cases reveals how the client and vendor's actions oscillate between different balancing levels of trust and controls in the relationship dynamics and how this leads to contrasting outsourcing outcomes.

Keywords

IS outsourcing relationship, trust, formal controls, balance, case study.

INTRODUCTION

Information Systems (IS) outsourcing is not a new phenomenon. The outsourcing literature over the last three decades indicates that research issues on this topic have shifted over time, reflecting the changes that have occurred in outsourcing practices (Hirschheim et al. 2008). Currently, outsourcing as a means of meeting organizational IS needs is a commonly accepted and evolving practice (Dibbern et al. 2004), and a major strategic option in IS management (Lee et al. 2008). The reason for the continued interest in the IS outsourcing phenomenon is closely related to the steady change of that phenomenon itself (Hirschheim et al. 2008). Although complex to execute and sometimes yielding controversial results, IS outsourcing is still perceived by many as the best way for organisations to lower operational costs, increase flexibility, benefit from the suppliers' economies of scale and gain access to specialised resources (ibid). On the other hand, it is still considered to be a risky business arrangement (Aubert et al. 2003). Nowadays, in the time of globalisation, outsourcing has become a powerful solution for companies. While the gradual development of the outsourcing relationship and its effective management has received growing attention in industry as well as in academia, the effective management of IS outsourcing continues to be a challenge for organisations today. One of the major issues that both client and vendor organisations are facing today is increasing pressure to demonstrate the value of outsourcing (Lacity and Hirschheim 2003). Building and sustaining a flexible relationship between a client and a vendor is one way to create a value and achieve business benefits (Willcocks and Kern 1998). Improving the quality of the outsourcing relationship between a client and a vendor has been suggested as an important means to meet the outsourcing challenge (Lee et al. 2003) and it is not surprising that trust is a critical issue in this. In particular, many researchers suggest a cooperative partnership between a client and a vendor (e.g. Fitzgerald and Willcocks 1994) built on an effective trust-based relationship has an indirect impact on the success of the outsourcing deal (e.g. Sabherwal 1999). As a catalyst in many buyer-seller interactions, trust can provide buyers with high expectations of satisfying exchange relationships (Kern and Willcocks 2000).

In the outsourcing arrangement both sides are locked in a contract that specifies roles, responsibilities, payments and other operational details associated with the outsourcing arrangement. Setting up an appropriate set of formal controls through a well-crafted contract and the implied control mechanisms (formal processes) is assumed to reduce operational and production costs, and risks, on the one hand, and also to reduce the outsourcing partner's potential opportunism (Barthélemy 2003). Formal controls are also expected to establish a balance of power between the outsourcing partners (Lacity and Hirschheim 1993) as well as to provide incentives for value creation. However, such a set of management techniques implied by the contract is inherently complicated to apply in a real outsourcing setting (Mao et al. 2008), while overreliance on the outsourcing contract and/or forms

of formal controls will not necessarily deliver successful outcomes (Willcocks and Kern 1998). This may produce an overly complicated, prohibitively expensive arrangement, and ultimately have a detrimental effect on the client-vendor relationship. Hence, we assume that trust should be one of complementary centerpieces of the good outsourcing relationship. With trust and the ensuing establishment of personal bonds, organisations could cooperate and collaborate beyond the system of formal rules and legal norms. Thus, trust together with formal controls are essential to the successful development of relationships. It is particularly important for the client to exert control over his service provider and build trust in that relationship while ensuring quality and delivery of the service. Recent research in the IS outsourcing field supports the opinion that trust and formal controls are both required (e.g. Barthélemy 2003; Sabherwal 1999) and should be served as complements (Woolthuis et al. 2005). However, scholars have not yet gained a thorough understanding of the nature of these conjoint actions nor explained the complexity of such a combination.

The primary aim of this paper is to extend the collected knowledge on the complexity of the relationship between trust and formal controls, by focusing on the importance of achieving an appropriate balance between the two. There is an abundance of empirically comprehensive research and solid theoretical foundation developed in the area of outsourcing contracts and formal controls (e.g. Choudhury and Sabherwal 2003; Kern and Willcocks 2002). However, much less research has been done to investigate the impact of trust in the IS outsourcing environment (e.g. Lee et al. 2008). What is more, there have been no significant empirical studies conducted and theoretical grounds established to date regarding the concept of balance between formal controls and trust in the IS outsourcing context. In this paper, we report on research that has been undertaken considering the role of the balance between trust and formal controls, how this balance is perceived and achieved in a particular outsourcing arrangement and what is the nature of the interplay between trust and formal controls. To complete this, we have developed a conceptual framework that captures this complexity and its applicability is explained via two case studies. The following sections provide a conceptual background on trust and formal controls, develop a conceptual framework on the proposed balancing processes between trust and controls, outline the research methodology and provide case descriptions. Key findings and implications are discussed at the end of the paper.

THEORETICAL BACKGROUND

In developing our theoretical perspective, we acknowledge that previous researchers have introduced various frameworks on trust and control concepts (e.g. Choudhury and Sabherwal 2003). In this section, we first provide theoretical background on each of the concepts, and then develop a conceptual framework on the balance between trust and formal controls.

Formal Controls. IS outsourcing is a boundary-spanning interorganisational relationship, wherein the contract defines the outsourcing arrangement and structures the interactions between the client and the vendor. An outsourcing contract provides a legally binding 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, Brynjolfsson (1994) in his work on 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 often prove to be incomplete (Kern and Willcocks 2000); most of them are either too loose (Lacity and Willcocks 2003) or too inflexible (Sabherwal 1999). 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 1985). This transaction-based vision has been accepted as the common framework for viewing the choice of governance structures in interorganisational relationships (Aubert et al. 2003). Researchers have used a variety of terms to describe these governance structures, such as 'governance characteristics' (Goo and Nam 2007), 'structural controls' (Sabherwal 1999) or 'portfolios of controls' (Choudhury and Sabherwal 2003). Yet, researchers have agreed on a broader concept of defining controls as a set of mechanisms to implement in order to manage the ongoing process of development of the outsourcing project, whereby one party affects the behaviour of another (Das and Teng 1998). Interestingly enough, in organisational studies, the establishment of proper control mechanisms is viewed as supporting the attainment of high organisational effectiveness (Das and Teng 1998), and hence provides procedures for monitoring and coordination. In essence, a formal contract embedded with a number of formal controls serves as a foundation for the development of the outsourcing relationship and the ongoing management of the project with the aim of expected outcomes. We define formal controls in this study as the contract (legal agreement) together with a set of formal mechanisms (e.g. policies and standards or project-related mechanisms such as target milestones) that coordinate and monitor communications and behaviours through performance evaluation and rewards of the outsourced project.

Trust. In addition to control, the literature suggests trust as the second dimension of good business interactions. 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), organizational studies (e.g. Zaheer et al. 1998), and is considered one of the most desired qualities in any close relationship (Mayer et al. 1995). Das and Teng (1998) observed that “virtually every commercial transaction has within itself an element of trust, certainly conducted over a period of time” (p. 494). Despite the complexity and ambiguity of trust as a research concept (Mayer et al. 1995), many scholars agree that trust reflects such common features such as positive expectations about another’s motives, vulnerability and risk-taking behaviours. For example, Zaheer et al. (1998) have defined trust as the expectation that a party will act predictably, 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 the organizational level (e.g. Kern and Willcocks 2000). 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 the relational aspects of IS outsourcing, wherein 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, such as enabling parties to focus on long-term objectives and suppressing the risk of opportunism from the other side (Zaheer et al. 1998). Trust is seen to increase the cooperation between a client and a vendor and it enables risk-taking and reduces conflicts (ibid). While all outsourcing relationships are generally based upon contracts, it is impossible to cover all contingencies in the contracts. Hence there will be reliance to some degree on a trusting relationship evolving between the client and vendor. Moreover, resorting to the contracts every time a dispute occurs is both time-consuming and costly. In order to meet the performance expectations from both parties, trust should be one of the centerpieces of such relationships. Kern and Willcocks (2000) provide a detailed explanation to the difference between traditional and relational contracts where the latter is based on long-term interdependence, gradual development of the relationship, that reflects on trust-building and its gradual integration in the outsourcing process. In this paper, we focus on two levels of trust, organisational and individual, that describe the nature of the outsourcing relationship.

Understanding the Trust-Control Relationship. In IS outsourcing, the relationship between trust and controls is still considered to be underexplored. However, researchers agree that there is a complex relationship between trust and control that needs further investigation. Das and Teng (1998) argue that the current state of the literature is “unclear and inconclusive about the relationships between trust and control” (p. 495). As Kern and Willcocks (2000) point out, while many researchers mention the importance of the client-vendor relationship, few actually make this as the main focus of their work. There are several well-established frameworks for studying the IS outsourcing relationship (Kern and Willcocks 2000) that have been designed to provide an understanding of the factors that the outsourcing sides should be aware of in order to achieve success in the outsourcing arrangement. While research suggests that both trust and controls affect the performance of set goals in interorganisational relationships, Long and Sitkin (2006) said 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). Others claim that the control mechanisms and trust can be pursued simultaneously or argue that controls are detrimental to trust. Some researchers emphasise the role trust in outsourcing governance (e.g. Goo and Nam 2007), so that the governance of relationships requires implementing structures and building trust (Barthélemy 2003). The key implication when combining these perspectives is that trust and controls are interrelated and the sides should consider both of them if they aim to optimise the effectiveness and enhance prospects of the outsourcing performance.

THE TRUST-CONTROL BALANCE: CONCEPTUAL CLEARANCE

In conceptualising the balance between trust and formal controls, we follow Long and Sitkin’s interpretation (2006) that organisations achieve a trust-control balance when they obtain a harmonious integration of trust-based efforts and controls that facilitates the ongoing development of the relationship and enhances the project outcomes. We assume that the level of such integration is determined by the context within which that integration occurs. While recognizing the value of legalistic ‘remedies’ such as formalising contracts and applying appropriate formal controls, the outsourcing parties should not forget about trust-initiating activities. Total reliance on formal controls cannot promote the achievement of objectives between the outsourcing parties and may result in a distance between the parties. By contrast, exclusive reliance on trust can be also dangerous (Sabherwal 1999). In essence, we argue that there should be a balance between trust and formal controls since a ‘one-sided’ activity can raise unnecessary challenges associated with performance milestones, lack of vision or suppressed risk of opportunism. This balance should not be interpreted as a ‘state’ or a ‘point’, but rather, is likely to be perceived internally by the stakeholders and is driven by the contingent nature of the business environment. In other words, the balance is seen as something akin to a “*comfort zone*”, when it is reached, both

sides think that this is the most favourable balance between trusting and relying on governance and the sides feel positive about a working progress of the outsourcing arrangement.

The necessity of developing this perspective is further emphasized when one considers two additional observations regarding the management of relationships. First, while appearing static for periods of time, the particular mix of trust and control in the relationship is constantly in flux (Long and Sitkin 2006). Second, to address the dynamic nature of the environment, organisations should balance a mix of trust and controls in the outsourcing initiative if they wish to achieve the expected outcomes (ibid). In Figure 1, we depict a proposed generic process of achieving a balance between trust and controls in the outsourcing environment. The proposed framework is based on the understanding that trust and controls should be both equal components, yet independent dimensions of the relationship. In the outsourcing arrangement, a current level of controls (i.e. contract and enforced formal controls) should be complemented with a current level of trust between the sides within that arrangement. For example, the prior history of business relationships between the partners will form a positive attitude towards the partner to start building new relationships based on trust (see Bekmamedova et al. 2008). Moreover, researchers have acknowledged the positive role of trust-building in the relationship development (e.g. Kern and Willcocks 2000), whereas the role of formal controls impacts on the project coordination (e.g. Goo and Nam 2007).

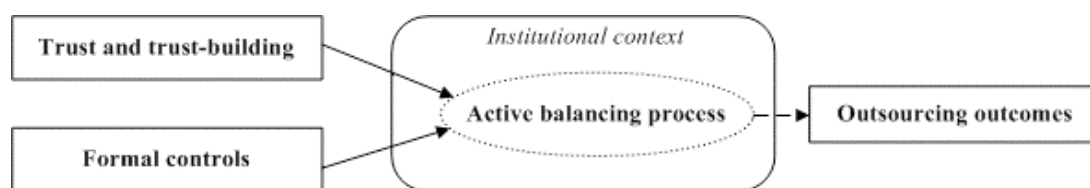


Figure 1. Conceptual framework for the trust-control balance in IS outsourcing relationships

Within the outsourcing arrangement (or project), it is argued that an active level of balance is formed, however situational factors (e.g. project type, timeframe, organisational structure) can play a very significant role that eventually influences on achieving outsourcing outcomes. Within the institutional context, an oscillation between trust and formal controls will lead to different integration of these two elements and therefore, it will result in the different course of outcomes. For such purpose, we take Long and Sitkin’s interpretation (2006) on balancing processes as the further conceptual extension for this work (see Table 1).

Table 1. Three forms of balancing processes for trust-control outsourcing relationships

	Antithetical	Orthogonal	Synergistic
<i>Description of balancing process</i>	Implementation of trust-building or formal control activities.	Implementation a combination of multiple, unrelated trust-building and formal control activities.	Implementation a combination of multiple, mutually reinforcing trust-building and formal control activities.
<i>Desired outcome</i>	Management of the outsourcing arrangement using a singular form of trust or singular form of formal controls.	Management of the outsourcing arrangement using combination of multiple, unrelated trust-building and formal control activities.	Management of the outsourcing arrangement using combinations of multiple, mutually reinforcing trust-building and formal control activities.

We distinguish three types of balancing processes that depend on different levels of trust and controls achieved in the client-vendor relationship dynamics. The *antithetical balancing process* describes negative effects that trust-building efforts can have on efforts to promote controls and vice versa. By promoting positive initiatives (based on trust), it takes time and as a result, the stakeholders will often avoid implementing such initiatives that appear more costly and risky than mechanisms that align with and support their primary organisation philosophy (existing controls). For example, an *antithetical balance* may suggest that trust and controls are viewed as substitutes, so that having a short-term project will not necessarily require a comprehensive relationship development, as the project requires only target deliverables and coordination, however some trust may still exist (e.g. swift team trust), but control would have a superior role in this scenario. The *orthogonal balancing process* describes situations in which stakeholders do not attempt to align their trust-building and formal controls, so that they coexist but act independently. Usually this type of balance is used when there is a little discretion, so that within the outsourcing environment both sides may have high level of trust and trusting relationships, yet they insist on a strict project coordination and adherence to the contract. The *synergistic balancing process* describes situations where stakeholders attempt to implement both trust-building and controls so that these activities are “mutually reinforcing and each process facilitates and contributes to the effectiveness of the other” (ibid, p. 92). For example, when introducing milestone targets, the level of organisational trust may also increase (as the vendor team is proved to deliver on milestone deliveries). In this scenario, both trust and controls may be viewed as complements, where one enhances another. This approach provides a more deliberate view of the nature of

trust-control relationships and contends that when looking at the issue of balancing, it should not be regarded as a static phenomenon as it can change as the relationship dynamics change in the process of achieving outcomes.

RESEARCH METHODOLOGY

In this study, we position the research problem in the interpretivist paradigm as we together with our participants ‘co-construct’ the knowledge about the researched context from the ‘inside’ using an iterative process of negotiation, reevaluation and refinement. We use the case study as the research method to investigate the relationship dynamics between the client and vendor in the IS outsourcing projects via series of interviews with the key stakeholders from both client and vendor organisations. The strengths of the case study approach are in the degree of breadth and depth that can be obtained in complex natural settings (Galliers 1992). We used convenience purposeful sampling, so that the chosen cases represent different stages of the relationship maturity in the outsourcing arrangements and as in part at least, our interest was in establishing whether different balancing processes are achieved in each of the case studies. The process of data collection followed the principles proposed by Klein and Myers (1999), in a way that it adheres to the criteria of i) triangulation, ii) systematic gathering, and iii) reliable recording and transcription of data to ensure the validity of observations. To enable triangulation, we selected interviewees based on sampling of ‘heterogeneity criteria’ (Miles and Huberman 1994), so that key participants include IS/IT managers, relationship and contract managers, team leaders and operational staff. In Table 2, we present the background of the case studies (pseudonyms used).

Table 2. Background on data collected in two case studies

<i>Background on case studies</i>	<i>EduPro*</i>	<i>ITPro</i>	<i>VicChurch*</i>	<i>SmallWeb</i>
Industry/Line of business	Education	ICT	Religious entity	ICT
Type of IS/IT project (outsourced)	First-second help desk support		Web site development and consequent network online directory	
Interview details				
Range of interviewees	C-level, project team	Project manager, project team	IT manager, contractor, project team	C-level
Number of interviews	3+[2]	3+[1]	3+[1]	1+[1]

Note: * The asterisk represents the client organisation in a client-vendor tandem; [] square brackets represent subsequent (in)formal follow-ups, either via telephone, email or physical visits.

Interviews and visits were conducted over a period of six months, with subsequent follow-ups to clarify and check queries and issues. In semi-structured, individual interviews, we developed open-ended questions, meaning that participants not only provided insights into the predefined themes but also were able to suggest other sources of information on the perspectives on the progress of the outsourcing arrangement in terms of the issue of trust versus formal controls. We did not have a predefined number of interviews for each case, rather we conducted interviews until no new substantial information was forthcoming. Each interview lasted from 40 minutes to 75 minutes. We also collected complementary data in the form of company records and media documents that provide with the background information of case projects. Prior to visiting sites, we prepared an interview guide, which we piloted and refined using interviews with non-case participants. The interview questions focused on the following main areas: background of the outsourcing project, contract negotiation and management, current formal controls, relationship development, trust-building. Great care was taken not to reveal the concept of ‘balance’, and therefore limiting the possibility of framing and even leading our participants into thinking in terms of the trust-control balance. All interviews were recorded with a participant’s consent and transcribed. To gain insights and understanding into the perspectives of many different participants at different organisational levels (and hence with different roles and degrees of involvement in the outsourcing arrangements), we interviewed people representing a wide range of managerial and operational groups.

For analysing the collected data, we use a mixture of analytical techniques, so that data analysis consisted of thematic analysis (Miles and Huberman 1994), with some narrative analysis techniques to structure and complement the data representation. In thematic analysis, a hybrid analytical process of deductive and inductive thematic coding has been used to demonstrate more rigour of the project. Among *a priori* themes (categories), we identified five main themes which are: i) contract, ii) formal controls, iii) relationship, iv) trust, and v) outcomes (i.e. all were built around interview questions). We contend that the narrative approach is most clearly beneficial in its full richness and power in case studies, so that it is important to ensure that a case study is presented as an interesting and convincing ‘story’ (Darke et al. 1998). Walsham (1995) argues that convincing the reader of the case validity is ‘as much a matter of rhetorical style and flair as it is of accuracy and care in matters of theory and method’ (p. 79), while Czarniawska (1997) denotes that case studies are essentially

narrative studies, but some cases are 'more narrative' than others. So we build case studies as two stories told in a chronological order around the 'lifetime' of the project.

CASE STUDY FINDINGS

In this section, we present two stories on IS projects, outsourced to local service providers within Australia. Each story represents different levels of trust and controls.

Case Study One: EduPro*-ITPro Outsourcing Relationship

EduPro is an Australian public company generating revenue from the provision of student services. It has three major business branches: international student services, assessment and management of international aid projects. Currently it manages international projects valued at AU\$200 million and has over 600 staff spanning across the world. The company has been gradually evolving from a 'not-for-profit' organisation to a commercial student service provider that now actively promotes the Australian education brand. EduPro's IT support is often perceived as the 'first line of defense' that should react proactively to any IT-related issue that occurs internally. Early in 2006, EduPro experienced a restructure of the IT infrastructure group. Due to a lack of in-house skills, resources, and perceptions of poor quality of support, EduPro decided to outsource the first and second level help desk support to an external service provider. The outsourcing decision was initiated by the regional CIO of EduPro, who was appointed in 2006 and set up a new (restructured) IT team. In doing so, ITPro, a local IT professional service provider, was selected as the preferred vendor for this outsourcing arrangement. The process of recruiting ITPro was rather simple, as there had been a long history of business relationships between senior managers of EduPro and ITPro: this was viewed very favourably in appointing ITPro. Among other selection criteria were ITPro's reputation and ability to bring EduPro quickly within their service provision capabilities. The help desk support was handled primarily by ITPro staff who provide technical support for user desktops, servers and some applications.

Initially the contract was established for a six month period. Subsequently, EduPro renewed it for another two years, as they were very satisfied with the service provided by ITPro, and now on the contract has been replaced by an ongoing agreement. Both sides agreed on having a head contract that stipulated the terms and conditions, main liability clauses and the KPIs (key performance indicators). It took them a month to negotiate and eventually came to the final draft. However, the detailed SLA (service level agreement) was not put in place as both sides agreed on working on a time-and-materials basis. Formal reporting together with structured review points were performed monthly by way of a formal 'round-table' meetings aimed at evaluating the performance of ITPro's services. Sometimes the CIO of EduPro prefers to 'touch base' with internal users (EduPro's employees) and collects informal customer feedback on the support quality. The working relationship between EduPro and ITPro was described as '*cooperation, most informal and successful*'. To date, neither contractual disputes nor penalties were initiated from either side; all bills were paid in a timely manner, and no contractual safeguards were included in the contract. The starting point for EduPro and ITPro was that cooperation should be positively encouraged. EduPro asked for consistent and timely delivery of high quality services (a timely response in closing jobs), ITPro expressed some concerns in pricing negotiations. Interesting enough, interviewees collectively agreed that the relationship that they had at the moment could be labelled as successful with a reasonable degree of trust. The EduPro's CIO provided the following account of this issue:

<There is a very strong relationship with the individuals and the organisation itself (ITPro). There is trust involved in it which means that I only need to meet with them once a month because I know the job is being done and I don't get complains about the service or get laid down by things not being delivered on time.>

At the operational level, this trust was chiefly associated with confidence and an increase in reputation for ITPro's team as a result of a regular service delivery, open communication and honesty in daily exchanges:

<With these guys (ITPro) we've got a significant change and there is an element of what ITPro is doing for us which to a certain degree increased for a short period of time...So now we've gone from countless pages worth of outstanding jobs to a really high-level targeted performance.> (Web and business support officer at EduPro).

<What makes me trust them? Number one – communication. When they ring up and just say: 'I patched this server. I did steps A, B, and C' and you go: 'Well, that's great, I noticed this'. That's communication...and the fact that they communicate with you that gives you more confidence.> (Information security administrator at EduPro).

From the vendor perspective, ITPro is far more explicit about a 'forced' need to trust than EduPro. They suggested that without trust, relationships would be very much 'scripted', while trust-building facilitates the development of a shared understanding between both parties:

<We sit on different sides of the fence. EduPro was trying to buy the right kind of services at the least possible price and I'm trying to sell the right kind of services at the highest possible price. If we talk to each other, they understand my perspective and I understand their perspective, so collectively we will come to an agreement.> (Alliance Director at ITPro).

One recurring element in discussions was that trust was not being established at the start; rather it was something that accrued over time. Despite the personal trust between senior managers, at the organisational level it was suggested that there was a mutual respect and as a sound track record of performance evolved, more confidence in the vendor developed and knowledge sharing between the two organisations started to grow. Honesty and openness was mentioned by parties as being seen to have evolved primarily between individuals handling the support services contract. They were seen as a basis upon which trust was built. When discussing the dynamics of the relationship, mutual dependency and knowledge sharing had emerged as a by-product of the working relationship. Both EduPro and ITPro operate in a business environment that constantly changes, where the market constantly tests their abilities, skills and pricing. Thus, both sides were definite in that although they valued building a relationship based on trust, they both recognised the need to have a form contract in place to clarify expectations and responsibilities. Although they highlighted the importance of trust-building, both parties kept insisting that their mutual obligations required a sound contract and appropriate project coordination.

This outsourcing arrangement is ongoing, and the contract that has been signed by both parties has an open-ended timeframe. EduPro has decided to continue working with ITPro despite some cost considerations.

Case Study Two: VicChurch*-SmallWeb Outsourcing Relationship

VicChurch is a non-for-profit religious organisation established in late 1970s in Australia. The local office that we are currently looking at employs about 100 people and has the Secretariat and the Moderator who serves as the leader for the synod (executive council). VicChurch has a wide network of administrative offices located across Australia, however this research focussed on the IT department at the local office. As a religious institution, the office often employed people with sympathetic religious views rather than for the business skill set, and in 2006 there was a major division amongst VicChurch's business units, and as a result, a number of professionals (with business acumen) were brought onboard. At much the same time, internal conflict developed between the management of VicChurch and their IT department with regard to the organisation's representation on the web: at the heart of the issue was the desire of the new business professionals for VicChurch to have a professional and business-like face to the public and media via its web pages. However, the IT organisation lacked of adequate in-house resources and skills to successfully implement that business vision and thus, a decision to outsource this part of the work to an external service provider was made. There was no official tender bidding; VicChurch relied on an external contractor's word-of-mouth who advised them to let the contract to a small IT start-up company. SmallWeb, a small start-up with expertise in CMS (Content Management System) and web development, was chosen as the right vendor. VicChurch allowed SmallWeb to lead the contract negotiations. As a result, a contract was signed based on draft provided by SmallWeb which undertook the web site development project. After four weeks of development, they launched the web site. The problems started soon after the first deployment. VicChurch was not happy with the usability of the website: *'there were constant irritating bugs'* and every change request required to VicChurch to pay extra. Although the contract was signed at a fixed rate, VicChurch felt *'frustrated and trapped in the contract'*. VicChurch's employees such as a part-time contractor and the web content manager said that at the individual level, SmallWeb was very responsive (*'they are very quick on feedback'*), honest and open in facing technical problems. However, the contract itself was poorly designed and unbalanced. From SmallWeb's side, the account of the situation was different:

<There were no project specifications for us to follow, no monitoring, no coordinating person, because the web content manager is not a very technical person, whereas the technical manager, he is basically a part-time contractor and he is not a result-oriented. I think VicChurch simply relies on us for everything.> (Managing Director at SmallWeb).

The initial website development project was finally handed over and moved to another stage, maintenance. At this stage, both parties faced a problem of the hosting arrangement, as the hosting services provided by SmallWeb appeared to be too expensive for VicChurch's budget. Also an arrangement of this type had never been clearly specified in the contract. However, the issue was peacefully solved without breach of the contract as VicChurch was *'satisfied'* with the quality of the website maintenance and they simply took another hosting provider. The working relationship at this stage mainly focused on ensuing constant communication and information-sharing between VicChurch's vision and SmallWeb's technical capabilities. Having that confidence based on IT expertise and the fact that SmallWeb was the current vendor (based on the VicChurch's account: *'we knew already what to expect and how they behave'*), VicChurch assigned another project to SmallWeb. In the middle of 2007, development of the network online directory (NOD) was added to the existing contract and was implemented by SmallWeb. Initially, the project was planned to be implemented within eight weeks, however, SmallWeb failed to deliver within the agreed timeframe as it was constantly struggling with "bugs" and other issues (*'internal constraints'* according to use SmallWeb's words) such as the lack of proper internal project coordination. Meantime, VicChurch experienced an internal restructure (old staff left the company, new people were brought up). With a new project manager appointed to the project, the contract was reviewed and as a result, new *'milestone payments'* were introduced:

<When I came onboard, there was no documentation, no formal reviews, no governance. In fact, zero governance, and the communication manager blindly signed the invoice without looking at the actual delivery.> (IT Manager at VicChurch).

<They (milestones payments) helped a bit to improve the situation. Thanks to the IT project manager, he knows how to manage the relationship with the vendor.> (Managing Director at SmallWeb).

Milestone payments helped to improve consistency and increase diligence from both sides, however communication at the operational level remained confused without appropriate commitment. SmallWeb struggled internally with the NOD project, fixed 'bugs' and constantly missed deadlines. According to the VicChurch's statement, *'the vendor seriously overestimated the full capacity of their own product'* (part-time contractor), while *'the relationship was based on a 'give' rather than a 'give-and-take' basis'* (web content manager). Despite numerous complaints from both sides, neither of them attempted to review the contract or formalise the relationship. The working relationship continued on an informal basis, with concerns about misunderstandings that occurred. At the NOD stage, there were no formal controls in place to increase control over the vendor as both sides still worked with the user guidelines for daily exchanges and preferred to communicate electronically at the operational level. Despite the slow progress with the NOD project, both sides called their relationship as *'interesting, with its ups and downs'* and sounded optimistic about the further development of the relationship. However, it was observed by interviewees that overall trust diminished because of the project delays. As a result, the NOD project went live six months later than it was originally planned.

By the time when we finished our initial data analysis, the IT manager at VicChurch had left that position. When we contacted the other two staff members at VicChurch and the Managing Director at SmallWeb, both sides sounded really frustrated. At the annual meeting of VicChurch, the contract is now being reviewed, however sides agreed on SmallWeb continuing to maintain the website and the NOD until the mid of 2010.

DISCUSSION AND LIMITATIONS

The case studies reveal that levels of trust at each of the cases were different. In the EduPro-ITPro relationship, the prior trust between senior managers served as the antecedent factor that set a solid foundation for building new outsourcing relationships. However despite the individual trust which existed at upper levels, the operational staff was rather sceptical about placing too much 'blind' trust in the other team. As the support project progressed, the operational staff at EduPro started to gain more confidence with regards to the capabilities and performance records of the vendor team. The dynamics of the relationship between EduPro and ITPro was developed and grew to a level of maturity, which was labelled as the successful partnership. Indeed, the characteristics of the relationship such as knowledge-sharing, give-and-take cooperation and shared understanding, allowed us to suggest that there was trust-building involved in the relationship. Given the project specifics, commitment and skill expertise of the vendor team, ITPro had gained an excellent reputation and confidence amongst EduPro's management and support staff. Also, with a consistency and open communication between the parties, this had added another layer to the process of trust-building. EduPro's decision to continue working with ITPro despite some pricing issues was a significant indicator of a high level of trust between both sides. However, from the formal controls perspective, the sides did not have a detailed contract with the specified service requirements (which is an interesting fact given that with the support project like this, a very detailed SLA would have been a solid contractual safeguard for both sides). Usually, a 'time-and-materials' contract is signed in favour of the vendor as it provides for acquiring services on the basis of direct labour hours at fixed rates, wherein the vendor can easily speculate on the rates and jeopardise the trust granted by the client. In this case, there were no contractual disputes, however the client insisted on regular reports and reviews to be made on a monthly basis, whereas the vendor was happy with the invoices paid and the shared control over the project.

In contrast, the VicChurch-SmallWeb relationship was different. There was neither an existing relationship nor any trust involved. The vendor (SmallWeb) was a small software house and its services were affordable for the non-profit client organisation (VicChurch). The relationship between VicChurch and SmallWeb started very optimistically from the formed positive expectations and benevolence (when VicChurch favoured SmallWeb in contract negotiations). Eventually, the service provider did not deliver what was expected. Although SmallWeb's team tried to deliver the technical capability in the website project, VicChurch's team complained about the inadequate attention to usability issues and 'bugs' in the software. This did not help to improve the working relationship between the sides, yet according to VicChurch's account *'they were always responsive and very open in communication'*. Interestingly enough, both sides spoke well about each other, so that VicChurch highlighted technical abilities and personal characteristics of SmallWeb's team, and commitment, whereas SmallWeb told that VicChurch was able to show integrity and patience as long as it was necessary in terms of the project deliverables (i.e. early trust-building at the personal level). At the next stage (NOD project), the sides continued working informally without adhering to requirements, and thus a six-month delay impacted on the level of trust, and as a result, it started diminishing. Interestingly enough, at this stage there were no penalties put in place to penalise the vendor for late delivery, or enforced measurements to assess the quality of the service.

From the formal controls perspective, the sides had a basic contract that according to the case, was shown to be loosely specified. During the course of the project, there was neither documentation nor project coordination to be implemented in order to manage the progress of the project. While the lack of diligence (e.g. the prolonged absence of a project manager), inadequate governance (e.g. none of the formal reviews were made) from the VicChurch's side and a lack of commitment and internal organisational factors (e.g. understaffed project team) from the SmallWeb's side resulted in rather confused communication.

Further, levels of trust and controls discussed in the first case study, illustrates the relationship described previously as an **orthogonal** balancing process (see p. 4). In the EduPro-ITPro relationship, the level of trust was very high (both individual and organisational), however it did not influence the level of controls that were implemented by the client side in order to coordinate the ongoing outsourcing process. In this case study the relationship was based on trust-building but EduPro did not attempt to align (or rely solely on) trust-building and/or formal controls, thus they existed independently. As described in case findings, the existing trust between EduPro and ITPro had nothing to do with the support arrangement and new outsourcing relationships, which we assume would characterise the impact of the institutional context described in the framework. Under such influence, the balance formed within this outsourcing environment suggests the high level of trust that apparently has led to the ongoing development of the relationship, whereas precise control measures (e.g. monthly reviews, customer feedback) adhered by the sides, has formalised to the project coordination. According to the concept behind the **orthogonal** balance, trust and controls should complement each other but not directly. Despite the confidence, satisfaction and performance (trust-building stages; for further details see Bekmamedova et al. 2008) of ITPro, EduPro insisted on applying controls (such as monthly reviews, or reports) to manage the vendor. The level of balance achieved by sides was a harmonious integration of trust-building and controls that was operational for this relationship.

In the second case study, the discussed levels of trust and illustrate an **antithetical** balancing process (see p. 4). In the VicChurch-SmallWeb relationship, there was a strong influence of the organisational context on levels of trust and controls achieved in this arrangement. For example, the internal organisational restructure at VicChurch and the understaffed project team at SmallWeb led to promoting trust-building and informality in their working relationships rather than relying on formal activities. We assume that both sides often avoided implementing more precise initiatives as it would have costed more and could be risky. Although the **antithetical** balance suggests that trust and controls are seen to be substitutes, however in our case, we contend that the balance constantly shifted and by the end of the NOD project, they still had informal relationships. Yet, some formal controls (milestone payments introduced by the new IT manager) complemented the existing trust-based activity. Despite a singular form of trust between VicChurch and SmallWeb (based on open communication; for further details see Bekmamedova et al. 2008), trust dominated in their relationship, and even after the introduction of the milestone payments (a singular form of formal controls), VicChurch did not introduce any governance mechanisms to manage and evaluate the project outcomes. Thus, this level of balance achieved by the sides was a harmonious integration of trust and controls that was operational for this relationship.

In this study, there are a number of limitations. First, we limited our research investigations within only two levels of trust and a schematic process of trust building, whereas formal controls included a legal contract and formal mechanisms (with monitoring and coordinating functionalities only). However, we acknowledged the complexity and ambiguity of trust as the researched concept, whereas with formal controls we did not have any quantitative metrics to assess the progress of the project. Second, we presented the applicability of the conceptual framework with two case studies only.

CONCLUSION AND IMPLICATIONS

To conclude, the paper advances a new lens on the complexity of the relationship between trust and controls through the investigation of balancing processes within the outsourcing context. According to the findings, trust is proved to be a concept that connotes positive expectations glued to interpersonal and organisational characteristics, whereas consistency and performance records are good indicators of dynamic trust-building involved in client-vendor outsourcing relationships that can facilitate social exchange and long future of the relationship. Another feature of the findings is the dual-pronged approach based on formal controls and trust. The active level of balance achieved within the outsourcing environment dynamically changes and interplays between trust and controls accumulated by sides. Accordingly, different levels of balance determine whether trust and controls should be seen as substitutes, complements or mutually reinforcing complements. However, our findings revealed that trust and controls are complementary activities that need to be considered when crafting relationships; as trust-building is mainly associated with the relationship development, while formal controls is more with the project monitoring and coordination. For practitioners, our findings provide confirmation of the importance of writing contracts from the beginning in such a way that the client-vendor relationship is envisioned for a sufficiently long period of time. The reliance on the previously generated trust is

not enough, as it should be augmented with proper controls. In addition, the case study findings can be further investigated and applied in useful insights and recommendations for the project managers: how they should achieve a proper balance between trust and controls and assess this balance at different stages of outsourcing relationships.

REFERENCES

- Aubert, B.A., Patry, M., and Rivard, S. 2003. "A Tale of Two Outsourcing Contracts: An Agency-Theoretical Perspective," *Wirtschaftsinformatik* (45:2), pp. 181-190.
- Barber, B. 1983. *The Logic and Limits of Trust*. Rutgers University Press: New Brunswick, NJ.
- Barthélemy, J. 2003. "The Hard and Soft Sides of IT Outsourcing Management," *European Management Journal* (21:5), pp. 539-584.
- Bekmamedova, N., Prananto, A., McKay, J., and A. Vorobiev, 2008. "Towards a Conceptualisation of Trust in IS Outsourcing," in *Proceedings of the 29th International Conference on Information Systems*, Paris, France.
- Brynjolfsson, E. 1994. "Information Assets, Technology, and Organisation," *Management Science* (40:2), pp. 1645-1662.
- Choudhury, V. and Sabherwal, R. 2003. "Portfolios of Control in Outsourced Software Development Project," *Information Systems Research* (14:3), pp. 291-341.
- Czarniawska, B. 1997. *Narrating the Organisation: Dramas of Institutional Identity*. University of Chicago Press: Chicago.
- Darke, P., Shanks, G., and Broadbent, M. 1998. "Successfully Completing Case Study Research: Combining Rigour, Relevance and Pragmatism," *Information Systems Journal* (8), pp. 273-289.
- Das, T.K. and Teng, B.S. 1998. "Between Trust and Control: Developing Confidence in Partner Cooperation in Alliances," *Academy of Management Review* (23:3), pp. 491-512.
- Dibbern, J., Goles, T., Hirschheim, R., and Jayatilaka, B. 2004. "Information Systems Outsourcing: A Survey and Analysis of the Literature," *The Data Base for Advances in Information Systems* (35:4), pp. 6-102.
- Fitzgerald, G. and Willcocks, L. 1994. "Contracts and Partnerships in the Outsourcing of IT," in *Proceedings of the 15th International Conference on Information Systems*, ACM, Vancouver, Canada.
- Galliers, R.D. 1992. "Choosing Information Systems Research Approaches," in *Information Systems Research: Issues, Methods and Practical Guidelines*, Galliers, R.D. (Ed.), Blackwell Scientific: Oxford, pp. 144-162.
- Goo, J., and Nam, K. 2007. "Contract as a Source of Trust-Commitment in Successful IT Outsourcing Relationship: An Empirical Study," in *Proceedings of the 4th Hawaii International Conference on System Sciences*, IEEE, Hawaii, pp. 1-10.
- Gottschalk, P. and Solli-Saether, H. 2005. "Critical Success Factors from IT Outsourcing Theories: An Empirical Study," *Industrial Management and Data* (105:6), pp. 685-702.
- Hirschheim, R., Dibbern, J., and Heinzl, A. 2008. "Foreword to the Special Issue on IS Sourcing," *Information Systems Frontiers* (10), pp. 125-127.
- Kern, T. and Willcocks, L. 2000. "Exploring Information Technology Outsourcing Relationships: Theory and Practice," *Journal of Strategic Information Systems* (9), pp. 321-350.
- Kern, T. and Willcocks, W. 2002. "Exploring Relationships in Information Technology Outsourcing: The Interaction Approach," *European Journal of Information Systems* (11), 2002, pp. 3-19.
- Klein, H.K. and Myers, M. D. 1999. "A Set of Principles for Conducting and Evaluating Interpretive Field Studies in Information Systems," *MIS Quarterly* (23:1), pp. 67-94.
- Lacity, M. and Hirschheim, R. 1993. *Information Systems Outsourcing: Myths, Metaphors and Realities*. John Wiley: New York.
- Lacity, M. and Willcocks, L. 2003. "IT Sourcing Reflections: Lessons for Customers and Suppliers," *Wirtschaftsinformatik* (45:2), pp. 115-125.
- Lee, J.N., Huynh, M.Q., Kwok, R.C., and Pi, S. 2003. "IT Outsourcing Evolution: Past, Present, and Future," *Communication of ACM* (46:5), pp. 84-89.

- Lee, J.N., Huynh, M.Q., and Hirschheim, R. 2008. "An Integrative Model of Trust on IT Outsourcing: Examining a Bilateral Perspective," *Information Systems Frontiers* (10), pp. 145-163.
- Long, C.P. and Sitkin, S.B. 2006. "Trust in the Balance: How Managers Integrate Trust-building and Task Control," in *Handbook of Trust Research*, Bachmann, R. and Zaheer, A. (Eds.), Edward Elgar: Cheltenham, UK, pp. 87-106.
- Mao, J.Y., Lee, J.N., and Deng, C.P. 2008. "Vendor's Perspectives on Trust and Control in Offshore Information Systems Outsourcing," *Information and Management* (45), pp. 482-492.
- Mayer, R.C., Davis, J.H., and Schoorman, F.D. 1995. "An Integrative Model of Organisational Trust," *Academy of Management Review* (20), pp. 709-734.
- Miles, M.B. and Huberman, A.M. 1994. *Qualitative Data Analysis: An Expanded Sourcebook*. Sage Publications: Thousand Oaks, California.
- Reissman, C.K. 1993. *Narrative Analysis*. Sage Publications: Newbury Park.
- Sabherwal, R. 1999. "The Role of Trust in Outsourced IS Development Projects," *Communication of ACM* (42:2), pp. 80-86.
- Walsham, G. 1995. "Interpretive Case Studies in IS Research: Nature and Method," *European Journal of Information Systems* (4), pp. 74-81.
- Willcocks, L. and Kern, T. 1998. "IT Outsourcing as Strategic Partnering: The Case of the UK Inland Revenue," *European Journal of Information Systems* (7), pp. 29-45.
- Williamson, O. E. 1985. *The Economic Institutions of Capitalism*. The Free Press: New York.
- Woolthuis, R., Hillebrand, B., and Nooteboom, B. 2005. "Trust, Contract and Relationship Development," *Organization Studies* (26:6), pp. 813-884.
- Zaheer, A., McEvily, B., and Perrone, V. 1998. "Does Trust Matter? Exploring the Effects of Interorganizational and Interpersonal Trust on Performance," *Organization Science* (9:2), pp. 141-159.

COPYRIGHT

[Bekmamedova et al.] © 2009. The authors assign to ACIS and educational and non-profit institutions a non-exclusive licence to use this document for personal use and in courses of instruction provided that the article is used in full and this copyright statement is reproduced. The authors also grant a non-exclusive licence to ACIS to publish this document in full in the Conference Papers and Proceedings. Those documents may be published on the World Wide Web, CD-ROM, in printed form, and on mirror sites on the World Wide Web. Any other usage is prohibited without the express permission of the authors.