Exploring the Complexity of Balancing Trust and Formal Controls in IS Outsourcing Relationships

by

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Abstract

Information systems outsourcing is not a new phenomenon. It has evolved over time and has been widely used by organisations to reach their goals mainly through lowering operational costs and mitigating risks. Building a long-term relationship between a client and a vendor in the outsourcing environment is one of the ways in which to sustain amidst fierce global competition, reposition in value networks and achieve business benefits. Trust and formal controls are critical in contemporary IS outsourcing arrangements. Trust has been recognised as the relationship factor that facilitates the development and further maintenance of outsourcing relationships, while formal controls have been treated as the governance mechanism that coordinates the ongoing progress of the outsourcing arrangement according to the signed contract.

The complementary relationship between trust and formal controls in managing IS outsourcing arrangements has received a lot attention in the literature due to the better outcomes it promises. Although existing research on the combination between trust and formal controls does offer interesting insights, it is largely descriptive and, does not establish a sound conceptual base for the nature of such combination. In this thesis, I investigate the trust-control nexus in the dynamic nature of IS outsourcing arrangements and argue that the balance, as a complementary relationship between trust and controls can have different effects on the perceptions of outcomes in the IS outsourcing context. Drawing from theories adapted from IS outsourcing and organisational studies, I conceptualise balance as a ‘comfort zone’ between trust and formal controls and define three types of balance (antithetical, orthogonal, synergistic), in which the outsourcing stakeholders make deliberate changes to adapt to the outsourcing environment in order to achieve high service quality and good outsourcing relationships. In doing so, a conceptual framework has been developed to explain how the balance between trust and formal controls is achieved and further evolved over time in the IS outsourcing arrangements. For this purpose, a qualitative research approach and multiple case study methodology have been selected. In particular, five outsourcing case studies have been employed with a total number of 30 in-depth interviews conducted with more than 20 outsourcing stakeholders across three organisational levels (i.e. executive, management and operational) from both client and vendor organisations. The data collected has been further analysed to reveal that the actions of clients and vendors oscillate between different trust and formal controls activities, which led to the formation of three different types of the balance conditional on the degree of dependence between trust and formal controls. In particular, it has
been found that trust and formal controls can be negatively related (i.e. antithetical balance), they can co-exist but not impact on one another (i.e. orthogonal balance) and they can be mutually reinforcing and, thus, one can impact on another (i.e. synergistic balance). Based on the derived perceptions of the participants, the study also explores different effects of the balance on the perception of the achieved outsourcing outcomes. Consequently, the synergistic and orthogonal types of balance have been found to be appropriate (and effective) in pursuing outsourcing outcomes in relation to project performance and relationship satisfaction, whereas the antithetical balance has been found to be ineffective and too risky to pursue in IS outsourcing arrangements. Also, the case study findings have revealed that the balance is dynamic and emergent concept and therefore, can change throughout the life of the IS outsourcing arrangement. Overall, the study provides a new way to understand the balance between trust and formal controls in IS outsourcing arrangements and explains how balance impacts outsourcing outcomes through uncovering interpretive patterns of different combinations between trust and formal controls. For practitioners, the research offers recommendations on whether there is a 'right' balance to ensure better outcomes for both outsourcing parties involved and how the balance can be changed throughout the course of the outsourcing arrangement.

**Keywords**: balance, trust, formal controls, IS outsourcing, case studies.
Author’s Publications


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I dedicate this thesis to my parents Enver and Natasha and my beloved husband Artem.
Declaration

This thesis contains no material which has been submitted to meet the requirements for an award or any other degree at this or any other higher education institution. To the best of my knowledge, this thesis contains no material previously published or written by another person except where due reference is made.

__________________________________________________
Nargiza Bkmamedova

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Chapter 1: Introduction

1.1 Introduction to the IS Outsourcing Phenomenon

There has now been nearly two decades of Information Systems (IS) outsourcing research that has produced a considerable volume of reflections, theories and propositions around outsourcing (Cullen 2005; Hui and Beath 2001). Outsourcing as a means of meeting organisational IS needs is now a commonly accepted and growing practice, and one that is continually evolving (Dibbern et al. 2004). As a business practice, it consists of an external party providing services to the customer to supplement or replace internal efforts for an agreed fee over an agreed period (Lacity and Willcocks 2009a; Loh and Venkatraman 1992c). At first, outsourcing was used primarily as a cost-reduction practice (Loh and Venkatraman 1992a): subsequently, it has evolved into a vital component of an organisation’s overall sourcing strategy and thus become an essential part of the business strategy (Lee et al. 2008).

The number and value of outsourcing deals have increased steadily over the years. Gartner analysts estimate that global IS outsourcing deals totalled about US $176.8 billion in 2003 and forecast that this would grow to US $235.6 billion in 2007, and to US $253.1 billion in 2008 (Souza et al. 2004). Similarly, Plunkett Research has predicted that outsourcing would be an approximately US $525 billion global industry in 2010, with IS outsourcing regaining its relevance after the global recession (Plunkett Research 2010). However, other analysts forecast that IS outsourcing growth will remain slow for some time to come (Olavsrud 2010; Overby 2009). Overall, according to the Gartner Group, almost 70 percent of companies engage in some form of IS outsourcing (Dibbern et al. 2004) and nowadays with its 20-year history, IS outsourcing is moving towards almost a routine part of management, representing in many corporations and government agencies (Lacity et al. 2010).

IS outsourcing is perceived to offer numerous advantages to a business in terms of how an organisation can access and deliver successfully its required IS services, and how the organisation can manage its entire IS resource. Organisations turn to outsourcing to reduce costs, improve operational flexibility, increase service levels, reduce management overhead or rapidly acquire new capabilities (Dibbern et al. 2004; Landis et al. 2005). As such, organisations need to continually evaluate the potential of outsourcing to help meet their tactical and strategic objectives. However, IS outsourcing does not always prove to be successful in terms of delivering business value and meeting those objectives, with mixed reports on the achieved outcomes found in the literature (e.g. Hirschheim et al. 2008; Webb and Laborde 2005). One of
the reasons for these failures is the breakdown in the outsourcing relationship between client and vendor organisations. It is the intention of this study to examine the client-vendor outsourcing relationship in the outsourcing context.

1.2 A Relationship ‘Disconnect’ between Client and Vendor Organisations

Most of the early literature on IS outsourcing centered on the acquisition of IS function and/or activity by an external vendor (Buchowicz 1991), and focused on issues related to how the vendor could acquire it effectively (Lee et al. 2003). Debates were focused predominantly around issues as to whether IS activities should be performed by an outside party (i.e. vendor) or should remain in-house. So the ‘make-or-buy’ decision, i.e. whether to acquire (or buy) the technology from the external party or to develop (or make) the technology with internal organisational resources, was the main research stream dominating in the 1980s. After the announcement of some early mega-deals (Loh and Venkatraman 1992a), interest in IS outsourcing surged and outsourcing then started to be seen as having a serious impact in the management of IS. As a result, the determinants, potential benefits and risks of outsourcing became a major research stream (e.g. Lacity and Hirschheim 1993a; Loh and Venkatraman 1992b), with a lot of the literature emphasising 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 the perspective adopted (commodity-oriented or strategic-oriented) and the scope (total or selective) of outsourced functions (Dibbern et al. 2004). The relevance of contextual factors, such as trust and psychological contracts, increased (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 place more emphasis on long-term strategic relationships and partnerships rather than short-term tactical benefits. Issues such as contracts and partnerships emerged as two key elements of relationship management in IS outsourcing (Willcocks and Kern 1998). As the client-vendor arrangement shifted towards more of a strategic focus, a variety of contractual arrangements emerged, ranging from tight contracts to partnerships (Barthélemy and Geyer 2005). An effective relationship was argued to be a key predictor of outsourcing success (Lee and Kim 1999).

Usually clients perceive IS outsourcing as a means of obtaining services or products more effectively and efficiently (Lacity and Hirschheim 2009). While providing the necessary services and value to the client, vendor organisations hope to benefit from the relationship
financially as well in the form of additional business opportunities such as additional projects with the same client or referrals to other clients (Corbett 2001). However, the reality is that many well-intentioned outsourcing relationships end in failure (Nam et al. 1996; Rouse and Corbitt 2006). Failure in the outsourcing context may imply that the contract for the outsourcing project is cancelled prior to completion or, alternatively, that projects do not meet expectations (i.e. projects that are not delivered on time or do not deliver the expected business benefits). Clients and vendors initially sign a contract, which establishes the product and processes required for the completion of the outsourcing project. However, both parties may have potentially divergent expectations about the product and the processes. Thus, problems develop due to a ‘disconnect’ (Hirschheim et al. 2001 in George 2006) between the client and the vendor, resulting in unmet expectations and poor performance. The ensuing dissatisfaction can lead to a lack of commitment and unwillingness to make an effort to maintain the relationship (Commeiras and Fournier 2001 in George 2006). The stability of the relationship is thus compromised, resulting in non-completion of the project as originally planned.

1.2.1 Formal controls versus trust perspectives

Though relationship management is a relatively underexplored area in IS outsourcing research, its importance in the overall success of the outsourced project has been widely acknowledged (Kern and Willcocks 2001; 2009). Earlier, Klepper (1994; 1995) identified various elements of relationships such as dependence, trust, cooperation, conflict and communication as being important in the outsourcing context. McFarlan and Nolan (1995) recommended that organisations focus on the relationship rather than on the contract to achieve success in outsourcing. Grover et al. (1996) noted that, as the outsourcing marketplace becomes increasingly competitive, the nature of the client-vendor relationship and its management are of fundamental importance. Recognising the risky nature of outsourcing (Aubert et al. 1999), researchers have stressed the need for relationship-building mechanisms that can deliver on the promises of outsourcing for both client and vendor organisations (Kern 1997). Studies have also looked at the effect of specific relationship elements on the success of the outsourcing relationship (Kern and Blois 2002; Lee and Kim 1999; Sabherwal 1999). In his research, Goles (2002) found that the client-vendor relationship mediated the link between the capabilities of both organisations and outsourcing success. Apart from the legal role of contracts, the relational attributes of contracts (Macneil 1980) have gained more importance since the contract encourages participation and exchange by promoting reciprocity and trust-building between the parties involved in the outsourcing. In the risky and uncertain outsourcing environment, those parties who engaged in the cooperation (or even partnership) are argued to be likely to achieve
far better outcomes in the long run (Fitzgerald and Willecocks 1994). This study builds on this view and considers client and vendor organisations building cooperation-based relationships in outsourcing arrangements.

The existing studies on IS outsourcing relationships have mainly examined the partnership factors that influence IS outsourcing effectiveness (Goo and Nam 2007). There are two prevailing perspectives in inter-organisational relationships which are widely employed to achieve different goals of outsourcing arrangements, each based either on promoting trust-building and/or relying on formal controls (Poppo and Zenger 2002). Formal controls are represented by the written legal agreement and management-initiated activities designed to guide behaviour toward the set objectives (Choudhury and Sabherwal 2003; Goo 2008; Gopal and Gosain 2009). They usually include a set of mechanisms, aimed at either regulating the behavior of individuals (and groups) involved in the project (e.g. development methodology) or assessing outcomes of the project (e.g. target milestones). The value of formal controls becomes even more crucial in the global arrangements, where various project management and control techniques are studied to overcome the problems resulting from cultural differences in IT offshore outsourcing projects (e.g. Priefling et al. 2008; Winkler et al. 2008). In this research, formal controls have both an assessment role (assessing project outcomes) and a behaviour role (e.g. coordinating the project team) (Choudhury and Sabherwal 2003). When successfully implemented, these controls result in the regulation of behaviour and may change throughout the outsourcing arrangement, depending on the necessity of implementing controls with different roles.

Trust, on the other hand, facilitates the development of outsourcing relationships and encourages both outsourcing organisations to cooperate. Trust is a critical issue, given the nature of business initiatives in the business environment today. The ever-growing complexity of the business (including the relationship between partners, vendors, clients, end-customers) and business activities emphasise the importance of building and maintaining sound personal and business relationships. Many researchers recommend a cooperative partnership between the client and the vendor (e.g. Fitzgerald and Willecocks 1994) based on an effective and flexible relationship, in which trust has an indirect impact on the success of the outsourcing deal (e.g. Cong and Chau 1997; Mao et al. 2008; Sabherwal 1999). It has a number of long-term benefits, including enabling parties to focus on long-term objectives, suppressing the risk of opportunism (Zaheer et al. 1998) and increasing the level of cooperation between the parties. Trust has been defined as positive expectations (or beliefs) about each other’s actions according to the outsourcing agreement (Kern and Willecocks 2000b). In this research, trust has been defined at
two levels, organisational (between client and vendor organisations) and interpersonal (between individuals of client and vendor organisations) and comprises trust-building (and relationship) characteristics (Babar et al. 2007; Oza et al. 2006; Zaheer et al. 1998).

Based on the premise that overreliance on an outsourcing contract and/or other form of formal controls does not necessarily deliver a successful outsourcing partnership and/or outcomes, trust should be one of the centerpieces of the good outsourcing relationship. Arguably, overreliance on the contract is not only (potentially) prohibitively expensive and overly complicated (Goo et al. 2009), but it may have a detrimental effect on the relationships between the parties involved. With trust, outsourcing organisations could cooperate and collaborate in addition to a system of formal rules and legal norms. On the other hand, a strained relationship can detract significant value from the expected outcomes of the outsourcing activity, and the value in terms of cost reduction, increased innovation and improved flexibility is degraded by the greater need for excessive monitoring, auditing and reporting. Trust and formal if taken at once (complementary), will complement the strengths and counterweight the weaknesses of each other in managing the outsourcing arrangement. Therefore, a need to investigate both trust and formal controls as research concepts in the outsourcing arrangements is indicated.

1.2.2 Research focus

Although the relationship between trust and formal controls might be key to promoting outsourcing effectiveness, 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). In the IS outsourcing area, much of this confusion results from the fact that scholars very often conceptualise trust between the exchange partners as a necessary attribute of a quality outsourcing relationship (e.g. Kern 1997; Kern and Willcocks 2000a; Sabherwal 1999) and an enabling factor for outsourcing success (Lee and Kim 1999). As Kern and Willcocks (2009) 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 adopt a unilateral perspective (i.e. client’s view) in explaining the nature of outsourcing relationship (Goles and Chin 2005). In an attempt to fill this gap, one of the potential dimensions of the research investigation in this study will involve the investigation of trust in the outsourcing arrangement from both perspectives, i.e. those of the client and the vendor.

Recent research in IS outsourcing suggests that trust and formal controls are both required (e.g. Barthélémy 2003; Goo et al. 2009; Mao et al. 2008; Sabherwal 1999). For example,
Sabherwal’s (1999) empirical findings point strongly towards the need for achieving the balance between trust and structural controls. Barthélemy (2003) argues that the alignment between the hard and soft sides of IS outsourcing management (i.e. contract and trust-building respectively) may be addressed via the collaboration in contractual activities and trust-building between the outsourcing partners, which is argued to be likely to have a strong impact on outsourcing performance. Similarly, other studies have argued for importance of complementing trust and controls to achieve project efficiency and relationship quality in outsourcing arrangements (Balaji and Brown 2010; Beimborn et al. 2009; Goo et al. 2009). However, there are a very limited number of studies that consider the appropriate balance between formal controls and trust and there is none of the conceptual nature in the IS outsourcing field. In organisational studies, Long and Sitkin (2006) provided a conceptual cohesion on how the balance between task controls and organisational trust might affect the manager-employee relationship at the work place. In particular, they argued that trust and controls could interplay differently by forming one of three types of balance, antithetical, orthogonal or synergistic. However in the IS outsourcing, if outsourcing parties need to complement formal controls and trust-building activities in the outsourcing arrangement, what is the appropriate balance (or ‘comfort zone’) to achieve better outcomes for both of the parties involved? Does this balance change throughout the course of the outsourcing arrangement? This dissertation focuses on investigating the balance between trust and formal controls in the outsourcing arrangement, and its effects on the outcomes of the outsourcing arrangement from client and vendor perspectives.

1.3 Research Project: Aim and Scope

The main objective of the study involves the investigation of the balance between trust and formal controls in IS outsourcing arrangements from client and vendor perspectives. The significance of this research involves gaining an understanding on the balance between trust and formal controls which eventually may contribute to the overall effectiveness of IS outsourcing arrangements (both project- and relationship-related). However, this research problem cannot be solved without answering a set of sub-questions (constituents of the grand research problem). These specific research questions are as follows:

*RQ1: How does trust develop throughout the IS outsourcing relationship?*

Recognising the role that trust plays as a facilitator of the outsourcing relationship, this question examines changes in the development of trust throughout the course of the outsourcing arrangement.
RQ2: How do participants from both the client and the vendor organisations conceptualise the balance between formal controls and trust in the IS outsourcing relationship?

This research question aims at gaining an understanding of the concept of balance by eliciting the key stakeholders’ perceptions of this concept as evident in outsourcing arrangements.

RQ2.1: Do the perceptions of balance differ from the client’s perspective and the vendor’s perspective?

RQ2.2: Do the perceptions of balance differ at different organisational levels?

These subsidiary research questions look at differences in opinion with regard to the balance between trust and formal controls, from client and vendor perspectives. The differences between client and vendor representatives are gathered at three organisational levels, executive, management and operational.

RQ3: In what ways does the balance between trust and formal controls impact on the perceptions of the outsourcing arrangement?

Based on the perceptions derived from the stakeholders, the research further explores the various effects of the balance on the perception of achieved outsourcing outcomes. Overall, the question explores the impact of balance on the outcomes in the outsourcing arrangement.

Using multiple interpretive case studies, a qualitative empirical investigation (using individual interviews) was conducted to answer the above questions. The qualitative methodology rather than quantitative methodology was chosen largely because this study examined perceptions, understandings and values of the participants which the quantitative methodology would not allow to reveal. The findings of the case studies are interpreted and analysed in terms of the existing literature but also in terms of further theoretical and practical implications.

1.4 Significance of the Research Project

This study extends the current state of IS outsourcing research with a detailed empirical investigation into the appropriate balance between trust and formal controls in client-vendor outsourcing arrangements. The research is being undertaken in order to build an understanding of the effects of the balance on the outcomes achieved in IS outsourcing arrangements. Moreover, the significance of the research will stem from findings that reveal an in-depth understanding of the conceptual nature of balance between trust and formal controls in the IS
outsourcing context. Overall, the study proposes the concept of balance in outsourcing relationships and defines three types of balance (antithetical, orthogonal and synergistic). Building an understanding of the balance in outsourcing relationships and how it evolves over time is significant in achieving success with IS outsourcing. For researchers, balance provides a useful new way of explaining outsourcing relationships and outcomes.

Another significant contribution from this study to the IS outsourcing body of knowledge is the investigation of trust and its interaction with formal controls in outsourcing arrangements. According to the existing literature, the effects of trust in outsourcing and its changes over time have been largely understudied. The literature on trust has largely concerned itself only with the direct effects of trust in various settings and on various concepts (Dirks and Ferrin 2001). Traditionally, the literature considers only the effects of higher levels of trust leading to more positive outcomes. However, outcomes vary depending upon levels of trust (Mishra et al. 1998) and types of trust (Sabherwal 1999), and this research investigates the development of trust in IS outsourcing arrangements.

The practical contribution of the research lies in providing suggestions for practitioners as to how they may achieve better outcomes in outsourcing arrangements. The findings derived from the case studies will provide practitioners with managerial insights in terms of the knowledge gained in governance and relational aspects of IS outsourcing arrangements. So this research heightens awareness of the balance in IS outsourcing arrangements by emphasising the effectiveness of the appropriate between a legal agreement and formal mechanisms that ensure project governance and trust that fosters building the sustainable partnership with the outsourcing party. In other words, the study provides a useful lens with which to understand and diagnose outsourcing relationships and should prove useful in decision-making by the key outsourcing stakeholders.

1.5 Structure of the Thesis

The thesis consists of eight chapters, one of which is this introduction. A summary of the following seven chapters is presented below.

Chapter 2: This chapter presents the literature that establishes the basis for the empirical investigation. The literature review focuses on three major areas: overall IS outsourcing research, a review of research on trust and formal controls, and the interaction between trust and formal controls. After reviewing the existing literature on the research problem, gaps are identified and the research questions are formulated. Given the paucity of research on the
concept of balance in the IS outsourcing area, this chapter sets the stage for the conceptual
development and operationalisation of the research questions that are then followed. The
conceptual background developed for this research, and research objectives and questions, are
further discussed. The conceptual framework is developed based on Sabherwal’s seminal work
on achieving an appropriate balance between trust and structural controls (Sabherwal 1999).
Based on his call for further research, and Long and Sitkin’s (2006) conceptual work on the
balance, the research framework extends the view on the concept of balance in outsourcing
settings. The chapter concludes with the operationalisation of the research questions.

Chapter 3: This chapter presents the research methodology adopted for this study. The choice of
the interpretive paradigm as the research paradigm is justified. This is then followed by the
justification of the case study approach as the selected research methodology. Further, the
discussion continues with details of the research design developed for this study. It contains a
justification of the sampling strategy, case selection and semi-structured individual interviews
chosen as the primary method for data collection. Thematic analysis is used to analyse the
collected data. The chapter finishes with a discussion on the importance of meeting research
quality criteria for assessment of qualitative research studies.

Chapters 4-6: For ease of reading, the case study descriptions are broken down into separate
chapters. The embedded case study (one client and three vendors) is presented in Chapter 4. In
each of Chapters 5 and 6, a single case study (IS outsourcing arrangement) is presented. The
case study discussions are based on research questions. The insights on the similarities of, and
differences between, the client’s and vendor’s perspectives are also considered.

Chapter 7: This chapter presents a cross-case analysis on the findings across the five case
studies in order to answer the research questions. The empirical findings are discussed with the
existing literature in mind to derive new implications in the area of IS outsourcing.

Chapter 8: This chapter presents the conclusions and implications of the research. Conclusions
are presented in terms of the summary of findings and significant implications for theory and
practice. The chapter also discusses the assessment of the quality of the research, the limitations
of the research, suggestions for future research and reflections on the research process.
Chapter 2: Literature Review and Conceptual Development

2.1 Introduction

Since the emergence of outsourcing in the late 1980s, literature on IS outsourcing has been subject to a number of excellent scholarly reviews, most notably Dibbern et al. (2004), Gonzalez et al. (2006) and Lacity et al. (2010). Rather than attempting to present the entire body of knowledge on the IS outsourcing field in this chapter, it is my intention to limit the scope of this literature review to the main sub-domains (i.e. trust, formal controls, IS outsourcing relationships) of the IS outsourcing literature which are relevant to the research problem: How does the balance between trust and formal controls impact on the outcomes achieved in IS outsourcing arrangements?

This chapter is structured as follows: section 2.2 provides a brief overview of the development of research themes in the IS outsourcing literature, then more specifically focuses on the development of the relationship in IS outsourcing (section 2.3). The specific research concepts such as formal controls and trust in IS outsourcing relationships, and the interaction between trust and formal controls are explored further in sections 2.4, 2.5 and 2.6 accordingly. The chapter then examines some of the gaps and contradictions found in the literature that led to the formulation of the key research objectives and research questions (section 2.7). Further in section 2.8, the discussion is focused on developing the conceptual framework on the balance between trust and formal controls in IS outsourcing arrangements.

2.2 An Overview of Research Themes in IS Outsourcing Literature

For a number of decades, IS outsourcing has remained a commonly used concept to investigate. The growth and increased complexity of IS/IT outsourcing has been partly driven by the diversity of functions being outsourced and/or the control exercised over the outsourced project, and its distinctive features associated with the outsourcing process (Seddon et al. 2009; Willcocks et al. 1996). Many scholars and practitioners use a great variety of terms to describe this phenomenon (Bartell 1998) such as out-tasking (Beaumont and Sohal 2004; Kaplan 1995; Krishnamurthy et al. 2009), rightsourcing (Widger 1996), rightsizing (Hoplin 1993), alliances and partnerships (Ender and Kathleen 1994; Krishnamurthy et al. 2009; Martinsons 1993; Willecocks et al. 1995) and even smartsourcing (Kakabadse and Kakabadse 2002). These terms have been used differently and sometimes interchangeably (Domberger 1998) by denoting certain features of the formed outsourcing arrangements. For example, the term ‘out-tasking’
connotes work being done outside the organisation, but with the organisation retaining full control over the operation, precisely defining the task and how it is to be done, while the vendor side has no discretion and performs a given task (Beaumont and Sohal 2004). Nowadays out-tasking connotes in-house facilities management (Usher 2003) rather than being used interchangeably with outsourcing that transfers the management of any business activity to the external party for a fee. The term ‘partnership’ implies that the client passes discretion for how the task is done to the vendor, who is expected to exercise judgment and skill (Willcocks et al. 1995). In a true partnership, both parties strive to improve and adapt the outsourced business process to changing business conditions and share cost savings and improved profits (Beaumont and Sohal 2004). As the new terms ‘multisourcing’ and ‘smartsourcing’ (Kakabadse and Kakabadse 2002) imply, business organisations now consider all of their options such as onshore, offshore or nearshore, when looking for the best, most efficient location and a number of service providers for a service to be outsourced. It now seems that outsourcing is considered in a strategic context and may incorporate various classifications under a single term such as partnerships that comprised a single outsourcing solution (Krishnamurthy et al. 2009).

However, an important distinction should be made between outsourcing (and its forms) and IS outsourcing. Outsourcing is the process of contracting services to a third-party (Overby 2011). With regards to information technology, outsourcing can include anything from outsourcing all management of IT to the third party (e.g. IBM), to outsourcing different services such as IT infrastructure, application development or support, or anything in between. IS outsourcing is usually referred as a subset of business process outsourcing (Rouse and Corbitt 2004), where the latter refers to the outsourcing of front and back-office functions (or business processes) (e.g. payroll, contact center services) (Willcocks et al. 2004). While most business process outsourcing involves executing standardised processes for a company, knowledge process outsourcing involves processes that demand advanced (deep knowledge) research and analytical, technical and decision-making skills (e.g. pharmaceutical R&D process).

Below in Table 2.1, an attempt has been made to compile and classify various definitions of and terminology for IS outsourcing from the relevant literature.
Terminology | Definition as quoted in the source
---|---
**Outsourcing** | “The commissioning of a third party (or a number of third parties) to manage a client organisation’s IT assets, people and/or activities (or part thereof) to required results” (Fitzgerald and Willcocks 1994; p. 92).
| “The purchase of a good or service that was previously provided internally” (Lacity and Hirschheim 1993b, p. 74).
| “A process whereby an organisation decides to contract-out or sell the firm’s IT assets, people and/or activities to a third party supplier, who in exchange provides and manages these assets and services for an agreed fee over an agreed time period” (Kern and Willcocks 2009, p. 146).
| “Contracting with one or more third party vendors for the provision of some or all of an organisation’s IS functions, where ‘functions’ include one or more IT activities, processes, or services to be provided over time” (Goles and Chin 2005, p. 49).

**Offshore outsourcing** | “An outsourcing arrangement when the responsibility for management and delivery of IT services is delegated to a vendor who is located in a different country from that of the client” (Hirschheim et al. 2004, p. 7).
| “An activity where client firms outsource IT activities to external service providers in other countries” (Currie et al. 2003, p. 996).
| “The transference of an Information Technology (IT) function, from a client company to a supplier organisation located outside the borders of the client company’s country” (Adelakun and Jennex 2003, p. 12).

**Nearshoring** | “Sourcing of service activities to a foreign, lower-wage country that is relatively close in some dimension of distance. The customer expects to benefit from one or more of the following dimensions of proximity: geographic, temporal (time zone), cultural, linguistic, economic, political, or historical linkages” (Carmel and Abbott 2007, p. 44).

**Co-sourcing** | “One of forms of ‘emerging sourcing arrangement’ where the outsourcing vendors’ revenue is tied to performance of the company that the services are provided to” (Wilcock and Lacity 1998, p. 11).
| “The vendor and client collaborate so closely that the vendor can replace or augment the client’s IT competencies by melding their human resources” (Kaiser and Hawk 2004, p. 70).

Table 2.1 Categorisation of IS outsourcing terminology

The compilation of various categories of IS outsourcing was made in order to show how diverse IS outsourcing has been as a business option, while the introduced terminologies denote specific trends that dominated at the time. This adds the degree of complexity to the research investigation of any kind that involves outsourcing engagements. Although the diversity of IS outsourcing as a research concept speaks for itself, for the purposes of this study I used one of the definitions provided in Table 2.1 above: “a process whereby an organisation decides to contract-out or sell the firm’s IT assets, people and/or activities to a third party supplier, who in exchange provides and manages these assets and services for an agreed fee over an agreed time period” (Kern and Willcocks 2009, p. 146). The choice of using this definition in the study was driven by the appropriateness and details that characterise situations when organisations outsource their IT assets to the external party.
IS outsourcing is an ‘umbrella term’ that covers the entire gamut of IT functions, from the development of a simple software application to the leasing of an entire IT department (Apte 1990). The latter involves situations in which the entire IT department of the vendor organisation can be used by the client organisation to perform a certain task (or service), as opposed to hiring a number of external contractors. The common functions of IT/IS that are often outsourced (Grover et al. 1994a; Murphy 2004) can be grouped as follows:

- **IT infrastructure**, which includes systems operations, network and telecommunications management, help desk and end user support, systems planning and management, data centre and core IT services (e.g. email, Internet, database administration), disaster recovery services and IT security;
- **Maintenance or support**, which includes the maintenance of legacy applications;
- **Applications development**, which includes software development of applications with business-required functionalities, customisation services, website or e-commerce systems development.

Each of these groups involves a high degree of interaction between and involvement of a client and a vendor in the course of service provision, and constituted the research context for this research investigation.

Also, in recent years the opensource phenomenon (Agerfalk et al. 2008) has been observed as the growing area for sourcing products and services, where the issue of trust is critical. However, for the purpose of this study, the traditional IS outsourcing (see definition above) has been selected as the research context since it allows to investigate dyadic (client–vendor) inter-organisational outsourcing relationships through the collection of key stakeholders’ perceptions.

Dibbern et al. (2004) has developed a conceptual framework in order to categorise the significant body of work related to IS outsourcing. There are four stages in the decision-making process when organisations evaluate and implement the outsourcing process:

- **why** outsource, when the organisation weighs up the advantages and disadvantages of the IS outsourcing decision;
- **what** functions to outsource, when the organisation addresses what alternative outsourcing arrangements are to be considered and which might be most appropriate;
- **how** to outsource, when the organisation chooses a partner, negotiates a contract and implement tools to manage the IS outsourcing relationship;
• *what outcomes* are expected to be achieved and how they are measured, measuring the consequences (success or failure) of the implemented outsourcing choices and what lessons learned.

First, the choice of outsourcing is partly driven by situational factors and the trade-off between the advantages and disadvantages (or rewards and risks) of such an initiative. Organisations are influenced by determinants or antecedents (conditions of situations) that give rise to a decision to outsource with regard to some aspects of the IT function. A review of IS outsourcing research shows that various researchers have identified specific factors that determine the outsourcing decision. Among exemplary works, there can be named a few that view the outsourcing decision is driven by the administrative innovation, arguing that it amounts to adopting new arrangements for governing the IS infrastructure (Loh and Venkatraman 1992c), the interaction of external factors, as well as organisational needs and IS capabilities (Cheon et al. 1995). Similarly, Clark et al. (1995) identify four categories of outsourcing determinants: technology forces, technology management forces, industry forces and organisational forces. Hirschheim et al. (2004) discuss the role of technology in the outsourcing process by enabling communication channels and ‘flattening’ the distribution of work.

The reason why organisations outsource is partly determined by two major reasons, i.e. costs and the ability to focus on core competencies. The primary motivation for organisations to outsource is obtaining *cost savings* (Arnett and Jones 1994; Beaumont and Sohal 2004; Clark et al. 1995; Clemons et al. 1993; Harland et al. 2005; Lacity et al. 1994; Loh 1994). Early on, cost savings remain priority reason for outsourcing, and other issues have emerged that are recognised as strategic benefits gained through outsourcing (Cheon et al. 1995; Clark et al. 1995; DiRomualdo and Gurbaxani 1998; Grover et al. 1994b). For example, McFarlan and Nolan (1995) argue that financial factors, quality issues (i.e. poor quality and/or low productivity) and management issues (i.e. ability to focus on core competences and/or long development of lifecycle) are important drivers for IS outsourcing. The *core competence drivers* (i.e. improved business focus, shared risks and extended technical capabilities) have been receiving heightened attention as organisations now pursue a strategic focus, thus emphasising their core competencies (Quinn 1999). Although Loh and Venkatraman (1992c) do not find a relationship between business performance and outsourcing, some evidence linking outsourcing and favourable organisational performance has been found (e.g. Fowler and Jeffs 1998; Loh and Venkatraman 1995). Thus, three primary classes of benefits have been identified: economic, when clients focus on reducing costs; technological, when a vendor’s IT capabilities attract the client’s attention; and business-oriented or strategic, when outsourcing solutions enable clients
to acquire strategically important capabilities (Grover et al. 1996; Lee and Kim 1999; Saunders et al. 1997). In contrast, organisations want to attain certain benefits that are commensurate with the risks resulting from outsourcing. In one of the earliest studies on IS outsourcing, Lacity and Hirschheim (1993b) strike a cautionary note about outsourcing by exposing several myths about outsourcing prevalent in the media at the time, suggesting that outsourcing could provide benefits which organisations could not otherwise achieve. Almost two decades later, Lacity and Hirschheim (2009) have revisited some of their myths in the time of the global recession and contend that some of the myths are still critical. Moreover, the recent review of the empirical literature has also revealed that cost savings and core competence capabilities are remained as the key drivers for outsourcing decisions (Lacity et al. 2010).

Second, the question about what to outsource seems closely related to why to outsource. In fact, answering the question, “why should an organisation outsource?” could be a necessary antecedent to answering “what processes or functions within a firm should be moved outside of the organisation?” Nevertheless, there is a plethora of exemplary papers which were motivated by a desire to develop a deeper understanding of what organisations should choose to outsource (e.g. Aubert et al. 2004; Grover et al. 1994; McFarlan and Nolan 1995; Lacity et al. 1995; 1996). For such purposes, various frameworks have been developed that help client organisations determine what activities to outsource, based on the value and importance of the considered functions (McFarlan and Nolan 1995), or whether predetermined organisational factors affect the degree of outsourcing within different IS functions (Grover et al. 1994). Overall, the portfolio of outsourcing functions includes a number of core and non-core functions, with a less strategic importance will be outsourced by the client in the first place.

Third, once the client organisation has determined what functions (or activities) should be outsourced, it is then faced with a host of implementation decisions of how to outsource the functions. When examining this question, three main issues emerge: selecting a vendor, developing the relationship between the client and the vendor (including contract negotiations and relationship building), and subsequent management of the outsourcing arrangement (Dibbern et al. 2004; Goles 2001). In general, ‘how’ relates to the implementation of so-called best practices, used to effect the outsourcing decision that result in a higher degree of outsourcing success. In this area of research, many researchers touched on more than one aspect of the research stream (e.g. Currie 1998; Currie and Willcocks 1998; Lee and Kim 1999; McFarlan and Nolan 1995; Quinn and Hilmer 1994; Quinn 1999; Saunders et al. 1997). For example, in Currie and Willcocks’ work (1998), four distinct approaches to outsourcing have been identified, i.e. total outsourcing to a single vendor, strategic alliance, use of multiple
vendors and insourcing. When entering into agreements with vendors, five types of contract-based relationships are acknowledged, i.e. tightly defined contract, short and flexible service contracts, partnerships-based contracts, flexible partnership based on trust and strategic alliance (Fitzgerald and Willcocks 1994). Ten years later, another significant piece of research has been done in the area of managing outsourcing arrangements, in which four types of outsourcing relationships were identified, i.e. support, alignment, alliance and reliance (Kishore et al. 2003).

In retrospect, the different client-vendor relationships in IS outsourcing have been viewed as a continuum ranging from discrete transactions governed by tight contracts to alliances in which both client and vendor work together collaboratively towards a win-win situation. However, little work has been done under a so-called implementation umbrella that focuses specifically on how vendors deliver services to many clients, how they address dual objectives simultaneously and how they achieve a scalable growth. This gap represents an important consideration that proved critical in the overall investigation of this research stream in the field of IS outsourcing.

Fourth, organisations must also look at the results of their outsourcing choice (Dibbern et al. 2004). That is, they must evaluate the actual ‘outcomes’ of the outsourcing arrangement. Questions that need to be answered include what are the experiences of organisations that have outsourced, what can be learned from this experience, how can these lessons lead to outsourcing success and what are the practical implications? Thus, these outcomes deal with the wider implications of different types of outsourcing decisions and can be measured in terms of the extent to which an organisation attains its desired goals and expectations in terms of service quality (Lee and Kim 1999). Other researchers have also considered additional aspects of outsourcing outcomes, such as employee behaviour (Ang and Slaughter 1998), the effects of the contract (Fitzgerald and Willcocks 1994) on client satisfaction (e.g. Grover el. 1996, Lee and Kim 1999; Saunders et al. 1997), vendor satisfaction (Heckman and King 1994), financial outcomes (Lacity et al. 1996) and stakeholder perceptions of outsourcing (Hirschheim and Lacity 1998). Among other outsourcing benefits, researchers have also acknowledged technology benefits associated with increased service levels (Dibbern et al. 2008; Domberger et al. 2000) or access to the vendor’s skills and expertise (e.g. McLellan et al. 1995). Overall, outsourcing success is usually viewed as the attainment of economic, technological and business-related benefits, where satisfaction with the outcomes achieved is often used as an indicator of outsourcing success.

In all, we learned why organisations outsource (mostly to reduce costs, access resources, focus internal resources on more strategic foresight), what organisations outsource (mostly a portion of their overall IT portfolio), how organisations outsource (by building collaborative
2.3 Relationships in IS Outsourcing Literature

In this study, the terms ‘IS outsourcing relationships’ and ‘IS outsourcing arrangements’ are used interchangeably. According to the dictionary definition, the relationship is defined as “the state of being connected or related; the mutual dealings, connections, or feelings that exist between two parties, countries, people, etc.” (Collins Dictionary of English Language 1986, p. 1289). Other definitions include:

“...the relatively enduring transactions, flows, and linkages that occur among or between an organisation and one or more organisations in its environment” (Oliver 1990, p. 241).

“...the extent to which there is mutual recognition and understanding that the success of each firm depends in part in the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer marketplace” (Anderson and Narus, 1990, p. 42).

“...a long-term commitment, a sense of mutual cooperation, shared risk and benefits, and other qualities consistent with concepts and theories of participatory decision making” (Henderson 1990, p. 8).

According to the definitions provided above, the common basis of all relationships is exchange, in which two people or two organisations at least, make a transaction involving resources of any kind. However, not all transactions lead to relationships. According to Oliver (1991), relationships require the continuity of interactions. Similarly, Holmlund and Törnroos (1997) define relationships as “an interdependent process of continuous interaction and exchange between at least two actors in a business context” (p. 305). Along the continuity of interactions, the interdependence between two partners arises from the realisation that one’s success depends on the partner’s success. Thus, the IS outsourcing relationship is defined as the ongoing interaction between the client and the vendor organisations that may have a long-term orientation and a mutual recognition and understanding that the goals and interests of each party are partially dependent on the behaviour (and action) of the other. For those organisations in which the outsourcing decision was eventually made and contract negotiations led to a formed agreement, the ensuing concern for management is how to handle the venture and manage the relationship effectively in order to achieve the expected outcomes. Many published reports suggest that managing the relationship in outsourcing is important (e.g. Oza 2006), while understanding of the relationship is critical in IS outsourcing (Kirkpatrick 1991; Lacity and
Willcocks 2009b). The period of IS outsourcing relationship research from 1990 to 2007 is presented in Table 2.2 below. The rationale of compiling these works into one table is to outline the key research streams dominated in the field of outsourcing relationships.

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Key findings in the literature</th>
</tr>
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| Klepper (1994)          | - Integrated concepts of organisational adaptation with Anderson and Narus’s (1990) model.  
- Suggested relationship dimensions: outcomes and relative dependence, trust, influence, conflict functionality, cooperation, conflict and satisfaction. |
- Stages of development (awareness, exploration, expansion and commitment) were proposed.  
- New dimensions added: attraction, communication, bargaining, development and exercise of power, norms and expectation development. |
| McFarlan and Nolan (1995)| - Proposed structuring the alliance: areas to outsource, vendor selection, contracting and transition problems.  
- Alliance management added: senior management, performance measurement, development of a management infrastructure. |
- Relationship dimensions added: ‘context’ – predisposition, commitment, mutual benefits; ‘action factors’ – shared knowledge, mutual dependence on distinctive competencies and resources and organisational linkages. |
| Davis (1996)            | - Focused on control mechanisms (price, trust and authority).  
- The developed framework described: outsourcing context (endogenous/exogenous factors) and organisational design (operating processes, structures, management systems and HRM policies). |
| Grover et al. (1996)    | - Focused on the effect of service quality and partnership on the success of outsourcing relationships.  
- Identified four qualities (trust, communication, satisfaction and cooperation) that were significant indicators of partnerships and contributed to the perceived achievement of outsourcing benefits. |
| Kern (1997); Kern and Willcocks (2001) | - Developed and further tested the Relationship advantage conceptual framework based on utilisation of three theories (i.e. interorganisational relationship theory, relational contract theory and transaction cost theory).  
- The developed framework described: outsourcing intent, contract, structure dimension, interactions, behaviour, efficiency, outcome dimensions. |
| Lacity and Willcocks (1998) | - Identified three types of IT contracts to describe the type of customer-vendor relationships: fee-for-service, strategic alliance/partnership, buy-in contract. |
| Lee and Kim (1999)      | - Focused on identifying the relationship between the quality of the outsourcing partnership and the outsourcing success.  
- Developed research framework for partnership quality based on political and social exchange models.  
- The developed framework described: trust, business understanding, benefit and risk sharing, conflict, and commitment were influenced by certain processes and attributes (e.g. participation, communication, quality, information sharing, age of relationship, mutual dependency, top management support). |
| Goles (2001)            | - Focused on impact of the client-vendor relationship on outsourcing success.  
- Developed a framework that measured four abstractions (i.e. participant capabilities relationship, quality and success) under two categories (i.e. attributes and processes). |
• Identified four primary qualities (or attributes): commitment, consensus, and trust, interdependence (for clients) and flexibility (for vendors).

Kishore et al. (2003)
- Focused on the evolution of IT outsourcing relationships.
- Developed FORT framework based on two dimensions: extent of substitution and strategic impact of outsourced IT portfolio.
- The developed framework described four different types of outsourcing relationships: support, reliance, alliance, alignment.

Gottschalk and Solli-Sæther (2006)
- Focused on building maturity framework for developing outsourcing relationships.
- Developed three-stage maturity framework: cost stage, resource stage and partnership stage.

Goo et al. (2007)
- Focused on factors that impact on duration of outsourcing relationships.
- Identified three factors having a positive influence on the relationship duration: knowledge acquisition, relationship-specific investment, extent of substitution by the vendor.

Table 2.2 Key findings from IS outsourcing relationship research 1990-2007

According to Table 2.2, early research on IS outsourcing relationship incorporated ideas from marketing studies (e.g. Davis 1996; Klepper 1994; 1995) with regard to the organisational context and the development stages of the buyer-supplier relationship. In this research stream, various relationship dimensions were conceptually identified and empirically found as the characteristics of relationship building. For example, among the potential research themes, various researchers had been investigating issues of building and managing alliances (McFarlan and Nolan 1995), strategic partnership and outsourcing organisational control frameworks (Davis 1996; Willcocks and Choi 1995). Since then, the tendency to develop research frameworks that could assist in building (and structuring) client-vendor outsourcing relationships was continued, with added relationship dimensions (Kern 1997; Kern and Willcocks 2001; Goles 2001) and different types of outsourcing relationships and contracts (Kishore et al. 2003; Lacity and Willcocks 1998). Although this was true largely to the US research community, in the Australian research community, researchers also studied outsourcing relationships and continued building outsourcing relationship frameworks applicable to Australian organisations (e.g. Alborz et al. 2003; Cullen et al. 2005; Perrin and Pervan 2005). In the meantime, researchers have been studying other themes of interest such as various attributes of partnership and links to outsourcing success (Grover et al. 1996; Lee and Kim 1999), relationship factors that influence the duration of IS outsourcing relationships (Goo et al. 2007) and maturity stages in the evolution of outsourcing relationships (Gottschalk and Solli-Sæther 2006). In retrospect, researchers have recognised the role of relationships (and relationship management) and building partnerships in outsourcing arrangements. However, these studies have been mainly driven from the client’s perspective and thus, the client’s interests were highlighted in outsourcing agreements.
Overall, the IS outsourcing literature underlines the importance of the client-vendor relationship as an indicator of successful outcomes, but also suggests that the contract needs to be a basis for any outsourcing relationship (Lacity and Willcocks 1998). The contract and the relationship are separate activities (Sargent 2006), but should be developed and managed along the strategic objectives of the organisations involved in the outsourcing agreement (DiRomualdo and Gurbaxani 1998). Although I tend to agree that in a new outsourcing arrangement, a contract is given a role to structure a new relationship between both organisations, the contract and the relationship itself are not separate. In particular, outsourcing organisations start building their working relationship at the stage of vendor selection, whereas the contract could be legally binding later at the contract negotiation stage. Also, several characteristics that have been identified in the literature such as processes (e.g. communication) and/or attributes of a sound outsourcing relationship (e.g. trust, commitment) can be also implicitly outlined in the contract in forms of communications and meetings. However, ultimately the outsourcing relationship is developed and nurtured by the individuals executing the task activities described as according to the contract.

In many outsourcing studies, it has been suggested directly or indirectly that relationships are critical to the success of the outsourcing project. For example, some researchers suggest that communication, exchange of information and cultural fit are critical in managing the relationship (Kern and Willcocks 2000a). Others claim that mutual understanding, information sharing between clients and vendors, the ability to commit to what was agreed, to fairly adapt to change, and to identify value-added services are critical to success of outsourcing relationships (Kishore et al. 2003; Lacity 2002). Thus, it can be concluded that the attributes and dimensions such as commitment, trust, flexibility, shared understanding, dependence and information sharing that have been described above are the relational characteristics of successful outsourcing relationships. Among those characteristics trust is considered central to a relationship, since it can promote other attributes, such as commitment (Geyskens et al. 1996), or facilitate cooperation (Selnes 1998). Trust is also considered as the facilitator of the development of outsourcing relationships (Kern 1997; Siakas et al. 2006) and plays an important role because in any business relationship, there are trust-related elements which cannot be easily captured in the contract (Lee et al. 2008; Sabherwal 1999) such as business changes, for example. Thus, with trust, outsourcing organisations can cooperate beyond a system of formal and legal norms.
In this study, trust has been taken as the most important of the relationship attributes and, together with formal controls, will constitute the main conceptual background for this research study.

2.4 Formal Controls in IS Outsourcing Relationships

The IS outsourcing literature suggests that, in addition to trust and relationship management, formal controls are required, if outsourcing organisations want to achieve their objectives and feel satisfied with the outsourcing agreement. In this section, the role of formal controls in the outsourcing settings is discussed. In this study, the term ‘formal controls’ is interpreted in a broader context and include both a contract as the formal (legal) agreement and control-based activities aimed at regulating the behaviour of the outsourcing partner.

2.4.1 The Formal Contract as the Legal Agreement

In business law, a ‘contract’ is defined as ‘a legally binding agreement between two or more parties which, if it contains the elements of a valid legal agreement, is enforceable by law’ (O’Sullivan and Sheffrin 2003, p. 523). The contract is the main instrument used to establish rules and legal engagements upfront between the involved parties. Pragmatically, a contract is a mechanism that regulates the relationship between two or more parties with the purpose of binding the contracting parties to perform as agreed. So, the contract defines the formed arrangement and structures the interactions between the parties, by including mechanisms that allow a determination of whether or not these provisions are met. The standard contract involves terms and conditions, scope and service targets, evaluation metrics, financial matters and governance procedures (Richmond and Seidmann 1993).

There has been extensive research on contractual issues in IS outsourcing. The importance of contracts as subject of research interest started to be acknowledged in the early 1990s (Lee et al. 2003). Contracts are regarded as the most important element in a successful outsourcing relationship because they ‘establish the balance of power’ between the two organisations (Lacity and Hirschheim 1993a; 2009). Clearly, the contract plays a key role in defining the outsourcing relationship and, as a result, most research on contractual issues in one way or another is related to the building and structuring of outsourcing relationships. In particular, research in the early 1990s was focused on the design and structural details of contracts (e.g. Ang and Beath 1993; Richmond and Seidmann 1993), encouraging organisations to look beyond tactical objectives and to concentrate on strategic outcomes. Subsequently, contracts and partnerships have been considered as two elements of relationship management in IS
outsourcing (Saunders et al. 1997; Willcocks and Kern 1998). The attention of researchers shifted towards contract negotiation strategies and lessons of how to transform the outsourcing option to a fully functioning alliance or partnership (Currie and Willcocks 1998; Fitzgerald and Willcocks 1994; McFarlan and Nolan 1995; Lacity and Willcocks 1998; Willcocks and Choi 1995). Given the fact that the outsourcing contract is what is used to determine the IS outsourcing relationship, it is very important for both the client and the vendor to be very clear concerning what type of agreement is being entered into and the specific expectations have been of that agreement. As client-vendor relationships have ‘moved to the middle’, i.e. when client organisations moved toward long-term relationships with a smaller set of vendors (Clemons et al. 1993), a variety of contractual agreements have emerged, ranging from tight contracts to partnerships (Barthélemy and Geyer 2005). For example, DiRomualdo and Gurbaxani (1998) argue that the outsourcing contract can be designed to anticipate and manage change. The specific type of contract created for an outsourcing arrangement depends on the nature of the product or service that is outsourced. For example, the ‘time-and-materials’ contract (or the contract with a flexible framework) is suited to the service type of work where it is nearly impossible to define service targets, whereas the tight contract is more suited to the type of development work (e.g. software application development), in which all tasks can be specified and service targets easily defined.

Furthermore, Lacity and Willcocks (1998) argue for a three type-based categorisation of IT/IS contracts that can be used to describe the type of client-vendor relationship: fee-for-service, in which the client pays the vendor a fee for the delivery and management of specific IT service; the strategic alliance/partnership, in which the client and the vendor share in the financial and physical investment for a joint enterprise; and the buy-in contract, in which the client buys vendor resources to supplement in-house IT activities, but maintains responsibility for IT activities and vendor resources that have been purchased. Although there has been a tendency to think that, because the client and the vendor do not share the same profit motive in most fee-for-service agreements, it is unrealistic to view their relationship as a true partnership (Lacity and Willcocks 2001), this is not always true. Detailed fee-for-service contracts are found to provide expected cost savings more frequently than any other outsourcing agreements, especially for arrangements that require specific detailing of task activities. However, both the client and the vendor may form a partnership-based relationship, and it really will depend on the task in hand and the contract should be complemented with effective interactions in order to succeed.

Given the complexity of outsourcing arrangements, it may be difficult to operate on a single form of a contract or a relationship. Moreover, the dynamics of client-vendor relationships may
vary with the task, ranging from the tentative type of relationship in which there is no goal alignment to the collaboration in which the goal is shared and, thus a true partnership can be established (Lacity and Willcocks 2009b). Further hybrid contracts as the form of operating contracts that emerged as the result of changes in the business environment and the outsourcing project itself (Gopal and Koka 2009). This suggests that although the parties may have agreed to operate on the fixed-cost, due to the complexity of outsourcing arrangements, the scope of work would also be changed that would eventually be reflected on the agreed price. Overall, the outsourcing contracts differ from very tight contracts to loose contracts that would determine ideal combinations of client-vendor relationships.

There is a view that the contract may be an occasion for opportunistic behaviour by the vendor, if the vendor has more knowledge of the technology (Lacity and Hirschheim 1995a), or conversely the vendor can be the victim of their own promises (Kern et al. 2002), while the client may be beguiled into thinking of the relationship as a partnership (Lacity and Hirschheim 1993a; Lacity and Willcocks 1998). For example, Kern et al. (2002) offer an interesting explanation of the possible opportunistic behaviour on the part of the vendor. The vendor may suffer from a ‘winner’s curse’, where the vendor has bid for the contract at such a low rate that the vendor cannot provide the services the client requires within the offered price. Thus, to minimise the effect of any opportunism, both organisations should clearly specify the scope, expectations, measurements and reporting procedures in outsourcing arrangements.

In the light of the last argument, the role of service level agreements (SLAs) has been recognised as key in managing outsourcing relationships (Goo 2008). An SLA is defined as a formal written agreement developed jointly between the client and the vendor that described a service (or a product) to be provided at a certain level so as to meet business objectives (Sturm et al. 2000). As a part of any outsourcing contract, SLAs are drafted in such a way to efficiently manage outsourcing relationships since they usually form the initial contract (or master agreement), where both organisations define their goals, responsibilities and levels of performance. As being part of the contract, SLAs nowadays is a necessary attribute of any outsourcing arrangement due to their role for outsourcing vendors to guide them in terms of meeting the client’s business expectations. In other words, the role of SLAs is to set required service level specifications and regularly monitor the vendor’s performance to determine whether it has achieved the expected levels. However, later research has started recognising the relationship aspect of SLAs in the development of favourable relationships between the client and the vendor (Goo et al. 2009) and has emphasised the importance of the relational governance attributes such as commitment, norms and trust-building (Goo and Nam 2007).
Overall, the contract is considered to be the most important tool used to manage outsourcing projects. Lacity and Hirschheim (1993b) argue that, if an organisation decides to outsource, the contract is the only mechanism which will ensure that expectations are realised. However, it is unlikely that the contract can cover all possible future contingencies. Brynjolfsson (1994), in his work on incomplete contract theory, notes 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 3). Moreover, Beulen and Ribbers (2002) point out that in software outsourcing contracts the opportunity to include all details in the contract is very limited, noting time pressures or constraints and the costs associated with the preparation of the outsourcing contract. Formal contracts prove to be incomplete (Kern and Willcocks 2001), since most contracts are either too loose (Lacity and Willcocks 2003) or too inflexible (Barthélemy 2001). Although the contract may include specific clauses that are related to the escalation response plan, it is almost impossible to include all unexpected changes in the contract. Many executives acknowledge that there is a wide gap between the expectations of clients and the actual performance of the outsourcing contracts (Lacity et al. 1994; Lacity and Hirschheim 2009). Contracts cannot provide a solution to all problems in the relationship and undue dependence on the contract may only create additional problems in the relationship and thus formal controls based on mutual awareness and understanding are preferred (Clark et al. 1995; Gellings 2007) to complement the regulating role of contracts. Therefore formal controls based on joint understanding are preferred to complement the regulating role of contracts.

2.4.2 Other Non-Contractual Formal Controls

Generally, IS outsourcing arrangements are the boundary-spanning inter-organisational relationships between the client and the vendor (Miranda and Kavan 2005), in which a contract defines the outsourcing arrangement and structures the interactions between the client and the vendor. As we learned in the previous section, the 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-Sæther 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 due to the scripted approach specified in the contract, whereas trust implied flexibility that allows to allocate any of the future contingencies.

Many researchers have used a variety of terms across many disciplines on the taxonomy of control, such as ‘governance characteristics’ or ‘formal systems’ (Goo and Nam 2007), ‘control
systems’ (Langfield-Smith and Smith 2003), ‘moments of governance’ (Miranda and Kavan 2005), and ‘structural controls’ (Sabherwal 1999). Although the researchers use different interpretations of controls, depending on the angle of their research interests, they have agreed on a broader concept of addressing controls as a set of mechanisms or activities to be implemented in order to manage the ongoing process of the outsourcing project where one party can affect the behaviour of the other (Das and Teng 1998). However, the rationale is that in organisational studies and similar disciplines, the establishment of proper control mechanisms is seen as related to the attainment of high organisational effectiveness (Das and Teng 1998), whereas in the IS outsourcing field, the decision to implement controls is closely tied to the performance of the outsourcing project through regulating the behaviour of the outsourcing partner (Sabherwal 1999).

As mentioned above, in outsourcing arrangements, a formal contract takes a leading role as it specifies roles and responsibilities associated with the outsourcing activities to be performed, procedures for monitoring, penalties for non-compliance, rewards for outcomes attained, where every single activity is usually specified in compliance with the letter of the contract. Contractual elements are categorised within the context of the applied control mechanisms (Ang and Beath 1993; Goo 2008; Kirsch 1997) that are formal by the nature (Choudhury and Sabherwal 2003). Formal controls are the mechanisms relied on to influence the controlee’s behaviour through performance evaluation and rewards. In this study, formal controls are viewed in a behavioural sense (Jaworski 1988; Kirsch 1996; 1997) and comprise all attempts to ensure individuals in organisations act in a manner that is consistent with achieving organisational goals and objectives (Choudhury and Sabherwal 2003; Kirsch 1997). Such a view of control draws on agency and organisation theories in a way consistent with prior studies in organisation design (Eisenhardt 1985), the IS discipline (Henderson and Lee 1992; Kirsch 1996, 1997; Kirsch et al. 2002) and marketing (Jaworski 1988; Jaworski and MacInnis 1989). Each of the parties enforces formal controls to moderate the behaviour of the other within the scope of the current outsourcing arrangement. The definition of a ‘control’ has been adopted from the early work of Kirsch (1997) who defined controls as the attempts to ensure individuals in organisations acted in a manner that was consistent with meeting organisational goals and objectives. While in this study, this view has been further extended and adapted for outsourcing settings, according to which control is exercised via activities performed by a client (or a vendor) to ensure the other’s appropriate behaviour. When successfully implemented, these controls result in the regulation of behaviour and may change throughout the outsourcing arrangement, depending on the necessity of implementing controls with different purposes.
Thus, formal controls are defined as the set of activities applied to manage the ongoing process of the outsourced project when one party can affect the behaviour of another.

There are two types of formal controls that have been commonly acknowledged in the literature (Eisenhardt 1985; Ouchi 1979), which are behaviour controls and outcome controls. In outcome controls, the controller focuses on the outputs (both final and interim) of the project, without regard to the process by which these outputs are achieved, so that the controller explicitly states desired outcomes or goals and the rewards that the controlee will receive for meeting those goals (Kirsch 1997). This is achieved through the use of mechanisms that specify desired outcomes (e.g. functional specifications and target implementation date) and mechanisms that help measure the controlee’s performance with respect to the specified outcomes. In the case of behaviour controls, the controller seeks to influence the process, or the means by which the goal is to be achieved, by explicitly prescribing specific rules and procedures, observing the controlee’s behaviours, and rewarding the controlee based on the extent to which it follows stated procedures (Jaworski and MacInnis 1989; Kirsch 1996). This type of control is implemented through mechanisms that specify appropriate behaviours (e.g. development methodology), or those that allow the controller to evaluate behaviour (Kirsch 1997), which includes diverse information-gathering mechanisms (e.g. direct observation by placing client personnel on vendor premises). Therefore in the outsourcing arrangements, in the case of outcome controls, the client focuses on the outputs (both final and interim) of the project, without regard to the process by which outputs are achieved (Choudhury and Sabherwal 2003; Kirsch 1997). Usually, this type of control is enforced by the client since the outcomes in the outsourcing arrangement are commonly associated with the vendor’s delivery capabilities. In behaviour controls, the client seeks to influence the process, or the means by which the goal is to be achieved, by explicitly prescribing specific rules and procedures, observing the vendor’s behaviour, and rewarding the vendor based on the extent to which they follow the stated procedures (Jaworski and MacInnis 1989; Kirsch 1996). In the current literature, the choice of controls is viewed only from the client’s perspective. However, this is not always true, especially with regard to behaviour controls. In the outsourcing arrangement, the vendor may also initiate this type of control through the addition of a contractual penalty clause, in case the client does not fulfil their obligations and does not pay on time. The effect of this additional clause is meant to assist in moderating the client’s behaviour. In this study, the choice of formal controls will be associated with the decisions made by both client and vendor organisations.

In IS outsourcing arrangements, a set of pre-existing control mechanisms such as codes of conduct, policies, rules and procedures that exist in the organisation should be taken into an
account as well as (outsourcing) project-related control mechanisms (e.g. target implementation milestones) for regulating behaviours through performance evaluation and rewards (see Table 2.3 below). These controls focus on the efficient performance of team activities and may change throughout the course of the outsourcing arrangement. Table 2.3 below provides various examples of the types of formal controls adopted in this study.

<table>
<thead>
<tr>
<th>Pre-existing (organisational) controls</th>
<th>Project-related controls (with outcome- and behaviour-based roles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies, codes of conduct.</td>
<td>Outcome-based controls: performance measures, delivery reports.</td>
</tr>
<tr>
<td></td>
<td>Behaviour-based controls: periodic meetings, development methodology, weekly (daily) progress reports</td>
</tr>
<tr>
<td></td>
<td>Behaviour/outcome-based controls (with blurred boundaries): informal follow-up system reviews.</td>
</tr>
</tbody>
</table>

Table 2.3 Examples used to define formal controls

Table 2.3 should not be interpreted as a complete list of existing hard boundaries, but it is provided for illustrative purposes only. The distinction between different types of formal controls is more blurred than Table 2.3 may imply. The definitive categorisation of all controls is difficult because eventually all control is exercised in order to change behaviours (Ouchi 1979) and, therefore, different conceptual definitions may not necessarily be totally distinct. For example, informal customer feedback (see Table 2.3) can perfectly illustrate this point. It may represent a client’s wish to evaluate the output of the vendor (outcome-based control), but the client may wish to do that in an informal way in order to ‘moderate’ vendor behaviour (behaviour-based control). Hence, the described categories of formal controls are adopted in this research study and have both an assessment role (assessing project outcomes) and a behaviour role (e.g. coordinating the project team).

### 2.5 Trust in IS Outsourcing Relationships

There is a lot of research on trust in other disciplines. However, in the IS outsourcing field, trust does not have a cumulative theoretical basis and it remains one of the relationship attributes that have a positive impact on outsourcing success (Lee et al. 2008; Sabherwal 1999). Trust is viewed as a significant factor associated with structuring contracts, laying a basis for building a relationship and managing the ongoing relationship. However, all these findings have been discovered in works about trust across many disciplines. Thus, this section aims to take an interdisciplinary perspective on defining trust and addressing the existing stance of trust research in the IS outsourcing field.
2.5.1 Nature of Trust and Trust-Building

Trust as the research topic has generated ample discussions across many disciplines. The increased interest in trust at the interpersonal, inter-organisational and institutional levels, has resulted in the appearance of special issues on trust research in the *Academy of Management Review* (Zaheer et al. 1998), *Organization Studies* (Bachmann et al. 2001), *Organization Science* (McEvily et al. 2003), and consolidated book volumes (Bachmann and Zaheer 2006; Lane and Bachmann 2000). Thus, it is acknowledged that the boundaries between different approaches toward trust are at times blurred. While an exploration of the role and impact of trust in any field is based on a unilateral perspective, it should be approached within multiple contexts. In particular, in the field of IS, a number of scholars were among those who have recognised the role of trust in forming alliances and partnerships (e.g. Sako 1992) and IS outsourcing (e.g. Fitzgerald and Willcocks 1994; Grover et al. 1996). Empirical research in this area has extended our understanding of the role of trust in formed partnerships and outsourcing arrangements (Babar et al. 2007; Cong and Chau 2007; Lacity and Willcocks 1998; Willcocks and Kern 1998). This represents the stage of research focused on relational mechanisms (including trust) that may drive the outsourcing arrangement to success (Kern 1997; Kern and Willcocks 2000a; Willcocks and Lacity 1998). Of particular interest was the work of Sabherwal (1999), who has studied the role of trust in outsourced IS development projects by highlighting the importance of such elements as trust, performance and structure, arguing that they are dependent on each other, and suggesting that formal mechanisms are not the only key component that contributes to the success of an outsourcing activity. A number of studies have been conducted to investigate the nature of the relationship between trust and controls in the outsourcing relationships (Barthélemy 2003; Heiskanen et al. 2008; Mao et al. 2008; Poppo and Zenger 2002; Woolthuis et al. 2005), however this will be closely addressed in section 2.6.

The complexity of trust as the research concept

Trust has been defined from divergent perspectives across many disciplines and studies. Trust is one of those research concepts that has escaped a clear and widely accepted definition due to its complexity. Various research approaches provide alternative and complimentary ways of defining trust via interpersonal and organisational characteristics (e.g. personal beliefs, organisational settings), or by stressing its technical, psychological and economic aspects.

The lack of a general consensus on the meaning of trust is well-documented and has been summarised by Mayer et al. (1995). For example, one of the reasons of the confusion caused was related to the lack of clarity in the relationship between trust and risk, or confusion between
trust, its antecedents and outcomes. Diverse interpretive contexts of trust have been proposed across disciplines, without much headway being made in coming to a common agreement (Costa et al. 2001). Some researchers merely take the concept of trust for granted and focus on the functional consequences of trust (e.g. trust reduces perceptions of risk or acts as a deterrent to opportunistic behaviour), which is, according to Möllering (2001), “unfortunately a far too general approach” (p. 404). Similarly, McKnight and Chervany (2001) suggest that “the problem involves both the proliferation of narrow intra-disciplinary research definitions of trust and the multiple meanings the word trust possesses in everyday use” (p. 27). There are, however, some common features prevailing across ample definitions of trust. Widely accepted definitions of trust can be found in sociology (Gambetta 2000), social psychology (Deutsch 1962), organisation studies and management (Mayer et al. 1995; Rousseau et al. 1998), whereas “the willingness to be vulnerable” (Mayer et al. 1995, p. 712) is one of the most cited definitions of trust and has appeared in many conceptualisations (e.g. Bromiley and Cummings 1995; Mishra 1996).

Many definitions share the concept of trust with a reliance on the vulnerability of the other (Deutsch 1962; Doney et al. 1998; Rousseau et al. 1998; Zand 1972). However, some researchers argue that favourable expectations regarding other people’s actions and intentions underlie the trust concept (e.g. Lewicki and Bunker 1996). Despite subtle differences in emphases, we typically hold a general conception of trust. Trust is considered the basis for individual risk-taking behaviour (Coleman 1990; Cummings and Bromiley 1996), co-operation (Gambetta 2000), reduced social complexity (Luhmann 1979), order (Misztal 1996), and social capital (Coleman 1988; Putnam 1995).

Most definitions of trust acknowledge that the concept relates to the values held by an individual regarding other people’s intentions and the motives that underlie their behaviours (Smith and Barclay 1997). These attitudes influence and are influenced by common beliefs and expectations by individuals about the treatment they receive from others (Mayer et al. 1995). In turn, these attitudes are closely interrelated to the engagement in behaviours of trust when interacting with others (Deutsch 1962; Kramer et al. 1996). In much of the same way, the non-business and organisational theory literature closely ties trust to the elements of shared values and moral (ethical) perspectives (O’Neill 2002). So such view on trust is reflected in the values that individuals hold in personal (and business) relationships with regard to the expectations to ‘do what is right’ (Hollis 1998).

Trust is closely associated with a number of different terms, depending on the research perspective, and this makes the concept difficult to interpret due to its multiple connotations.
For example, Bigley and Pearce (1998) chronicled the different meanings of trust by showing both how various definitions were similar and how they diverge. Barber (1983) argues that trust is nothing more than a set of social expectations, while Luhmann (1988) contends that trust should embrace mental attitudes of the individuals. However, in this study, I adopt the assertion made by McEvily et al. (2003) that trust should be seen through the three-edged prism of expectations, vulnerability and risk-taking behaviour (p. 93), which is more applicable to such a ‘knowledge rich’ and ‘risk prone’ phenomenon such as IS outsourcing. Further, Zaheer et al. (1998) consolidate the knowledge on trust in inter-organisational relationships and define trust as the expectation that a party will act predictably, fulfill its obligations and behave fairly even when the possibility of opportunism is present. With trust, both partners can achieve a number of long-term benefits, i.e. ability to focus on long-term objectives, reduce opportunism and increase cooperation between client and vendor; and it enables risk-taking and reduces conflict (Klepper 1995). Overall, in business environments which involve complex relationships (with different stakeholder groups) and sophisticated processes, trust is key in helping to deal with uncertainties or risks through the cooperation with a business partner. This connotation of trust is reflected in outsourcing studies that is discussed further.

2.5.2 Trust in IS Outsourcing Research

Despite some disagreements about the conceptualisation of trust, there are a number of elements common to its characterisation, such as positive expectations and the element of risk (or possibility of opportunism) that underlie the behaviour of each party (Kern 1997; Kern and Willcocks 2000a). So that conceptualisation of trust refers to the relational aspect of IS outsourcing, in which the outsourcing parties are willing to accept risk for commitments that will result in a desired positive outcome. As we learned in the previous section, trust has been defined as the belief that a promise is reliable and that it will be fulfilled as stated in the agreement (Kern and Willcocks 2000b). Although I agree with the statement that trust is grounded in the positive expectation that another will not act opportunistically, the subliminal difference is that trust also implies familiarity and risk, so that for both parties it involves making oneself vulnerable. When both organisations in the outsourcing process voluntarily engage in building trust, it is associated with a certain degree of risk since each party becomes dependent on the other’s commitments. Consequently, a trade-off between the degree of trust and the level to which one would make oneself vulnerable would depend on the cooperation between both organisations and, as a result, the final outcomes that they would be able to achieve in the outsourcing arrangement. For example, when involved in the outsourcing arrangement, the client becomes dependent on the vendor in terms of the services provided by
the latter, whereas the vendor becomes dependent on the client’s payments and, thus, vulnerable to his requests. Overall, trust takes time to develop and, in most cases, it evolves with the appearance of a good track record of accomplishing stipulated terms in the outsourcing contracts (Kern and Willcocks 2002; Lacity and Willcocks 2001).

A concern of organisations involved in IS outsourcing is the development and management of the outsourcing partnership (Kern 1997), or what Kern and Willcocks (2000a) define as ‘sharing knowledge with other organisations’. 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), where trust takes its role as a facilitator in the outsourcing relationship. The search through the IS outsourcing literature and domains such as marketing, business management and organisation studies has revealed a plethora of works undertaken in the area of investigating trust with a focus on relationship, wherein trust has been given the role of facilitator of or at least the catalyst that determines the quality of relationships (see Table 2.4 below).

<table>
<thead>
<tr>
<th>Period</th>
<th>Trust as a minor focus of the study</th>
<th>Trust as one of the principal foci of study</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2005</td>
<td>Feeny et al. (2005); Kern and Willcocks (2002); Kishore et al. (2003); Koh et al. (2004).</td>
<td>Barthélemy (2003); Goles and Chin (2005); Lander et al. (2004); Langfield-Smith and Smith (2003); Miranda and Kavan (2005); Pyysiäinen (2003); Woolthuis et al. (2005); Zviran et al. (2001).</td>
</tr>
<tr>
<td>2006-present</td>
<td>Fleming and Low (2007); Goo et al. (2007); Goo and Nam (2007).</td>
<td>Babar et al. (2007); Cong and Chau (2007); Lee et al. (2008); Mao et al. (2008); Matherani et al. (2007); Oza et al. (2006); Siakas et al. (2006).</td>
</tr>
</tbody>
</table>

Table 2.4 Research on trust related to IS outsourcing and adjacent fields of research

Trust as a research theme has been developed over time across many disciplines, including the field of IS outsourcing. Until the 1990s, the mainstream of research on trust was found in works from marketing and management (e.g. Dwyer 1987; Sullivan and Peterson 1982), where the
relationship between buyer and seller were arguably not that dissimilar to those formed between the client and the vendor in IS outsourcing. The following five years of IS outsourcing research were mostly influenced by the dominating role of contractual agreements as the main focus of investigation. Trust was included in this interest on contracts, but was described through the prism of power and control mechanisms (e.g. Fitzgerald and Willcocks 1994; Willcocks and Choi 1995). However, from the mid-1990s onwards, there seems to have been a slight shift of focus as an increasing amount of research focused on performance issues and the role of informal elements in outsourcing arrangements (e.g. Aubert et al. 1996; Grover et al. 1996). For example, Grover et al. (1996) investigated the relationship between trust as an element of the outsourcing partnership and the perceived achievement of benefits in the outsourcing relationship. The importance of trust in a client-vendor working relationship was emphasised by Kern (1997). Trust was found to be a characteristic of successful outsourced IS development projects (Oza et al. 2006; Sabherwal 1999), while Lee and Kim (1999) found trust to have had a significant effect on outsourcing success.

Different researchers identify trust as one of the relationship factors in the successful IS outsourcing relationship (Goles and Chin 2005), and describe trust-building mechanisms in place during the course of the outsourced IS development project (Lander et al. 2004). Since 2001, the number of studies on trust issues has increased. These have mainly focused on exploring trust issues in an inter-organisational context (i.e. trust between organisations). For example, Barthélemy (2003) studied the impact of contractual hazards and trust on IS outsourcing outcomes, while Woolthuis et al. (2005) contributed to the debate on the relationship between trust and formal contracts in the management of inter-organisational relationships. Similarly, Langfield-Smith and Smith (2003) argued that the relationship between management control systems and trust might be actively used to achieve greater control in inter-firm relationships. A number of studies on IS outsourcing relationships have emphasised the role of trust in achieving outsourcing success or performance, and tried to capture the nature of trust through empirical studies (e.g. Babar et al. 2007; Cong and Chau 2007; Oza et al. 2006). Lee et al. (2008) studied the theoretical implications and took a bilateral perspective (including both client and vendor perspectives) in investigating mutual trust, its role and impact on the outsourcing relationship. Other researchers investigated trust from a unilateral perspective (either client or vendor), by breaking down into various types of trust (e.g. Babar et al. 2007; Oza et al. 2006). However, it appears to me that the multidimensional nature and complexity of trust has somewhat limited the researchers from investigating this concept from both perspectives.
Among other benefits of trust is its ability to suppress opportunism and counterweight the contract. A natural consequence of the relationship is an issue of dependency (Cheon et al. 1995; Kern and Willcocks 1996; McFarlan and Nolan 1995) and the potential for opportunistic behaviour by each party (Lacity and Hirschheim 1993b). Trust acts as an obstacle to opportunistic behaviour (Babar et al. 2007) that arguably helps to ease the development process with a smoother requirements process (Humphrey 1990). Although the contractual agreements detail many issues and their consequences, it is not feasible to cover all contingencies in the contracts. Resorting to the contracts every time an issue arises is an issue in itself, and is not only time consuming but may also prove to be costly. Arguably, in order to meet the expectations of both of the parties involved in the outsourcing arrangement, trust should be one of the centrepieces of such a relationship. Therefore, the connotation of trust within the outsourcing context will involve both client and vendor parties (their expectations), where the behaviour of each (e.g. a possible opportunistic action) denotes the degree of trust of one party towards another. This is especially true for the outsourcing environment, in which the parties are dependent on one another and expect to reach the set goals of maximising profits and minimising costs within the context of the uncertain business environment.

Overall, the provided research works on the theme of the development of trust confirmed the idea that since the 1990s outsourcing researchers started exploring trust and linked it with building the effective relationship in outsourcing projects. However, the provided studies on trust are largely positivist in nature and proceed by breaking down the concept of trust into different variables (e.g. Lee et al. 2008) without looking carefully into individual (stakeholder) views on trust and its dynamic changes in IS outsourcing arrangements. Thus, further in-depth research is required to learn more about individual perceptions (from both client and vendor perspectives) and development of trust within the IS outsourcing arrangement.

2.5.3 Levels of Trust

Given the fact that trust is studied across many disciplines, diverse levels of analysis have been applied to its investigation. For example, several studies in marketing have examined interpersonal trust between individuals (e.g. Ganesan and Hess 1997), while others have investigated organisational trust between an individual and the partner organisation (e.g. Anderson and Weitz 1989). Trust may be viewed at the interpersonal level that can bridge the micro and macro levels (Lewis and Weigert 1985). Inter-organisational trust is viewed at the organisational level, where trust is placed in the partner organisation by the members of the focal organisation (Zaheer et al. 1998), while interpersonal trust is placed by the individual in his/her individual opposite member (Rotter 1967).
In the area of buyer-seller relationships, there are typically four distinct elements to address: 1) the buying organisation; 2) the buyer, the individual who represents the buying organisations; 3) the vendor organisation; and 4) the supplier, the individual who represents the supplier organisation (Ganesan and Hess 1997). Accordingly, in the IS outsourcing field, there are at least two organisations that represent the parties involved in the outsourcing arrangement, the client and the vendor. Within this context, interpersonal (or individual) trust can be observed between a client and a vendor as individuals. The client and the vendor as individuals may have different levels of trust in the client and vendor organisations respectively, which is usually referred to as (internal) organisational trust (Ganesan and Hess 1997). Furthermore, trust can be observed between organisations. Since organisations are multiple clusters (or groups) of people working within different internal environments, inter-organisational trust reflects an agglomeration of the trust that exists at the level of the individual between multiple individuals and at multiple hierarchical levels across the two organisations (Larson 1992). This classification is very important for understanding trust in the outsourcing context, where in the specifics of the outsourcing arrangement may include different stakeholders across many levels and across two (different) organisations. Another valuable benefit of this classification involves the ability to draw boundaries (between personal trust and organisational trust) when exploring trust-building within the client-vendor outsourcing relationship.

2.5.4 Classifications of Trust

There are numerous classifications of trust proposed in the organisation studies literature that have been further adopted by the outsourcing researchers. For example, Sabherwal (1999) classified trust in his work in IS outsourcing. He proposed four types of trust (contractual-, knowledge-, identification- and performance-based) which are built upon another classification of trust proposed earlier by Lewicki and Bunker (1996). Sabherwal (1999) also included performance-based trust as crucially important for outsourcing success. Other researchers recognised different levels or classifications of trust (e.g. cognition-, deterrence-based) and applied this categorisation to the governance of outsourcing projects and relationships (e.g. Lander et al. 2004; Lee et al. 2008; Miranda and Kavan 2005). The provided examples of different classifications of trust make an explicit reference to the idea that trust is not just a static concept, but a dynamic process that changes over time. The following paragraphs provide a quick glimpse on each of the mentioned types of trust.

Contractual-based trust is widely recognised in the management and sociology literature (e.g. Zucker 1986) and has attracted considerable attention in the outsourcing field (e.g. Babar et al. 2007). The formation of the outsourcing relationship depends largely on the initial contractual
stage (when the contract negotiations take place), since this initial stage greatly influences the quality of the relationship (Fitzgerald and Willcocks 1994; Lacity and Hirschheim 1993a). The formal contract may specify in detail the exchange of services, financial matters, service enforcement, monitoring methods, communication and information exchange, which together form the general working context of the outsourcing relationship (Kern 1997). Thus, contractual-based trust is primarily rooted in the rewards and penalties associated with a particular project (Babar et al. 2007; Sabherwal 1999). Although, in the legal sense, the essence of the contractual-based trust is rooted in a belief that a certain legal framework will prevail, in the outsourcing arrangement, the presence of contractual-based trust is closely associated with the trade-off that both parties will negotiate to ensure that the interests of each party are well-protected.

Knowledge-based trust is based upon a history of transactions between two parties, so that the two parties know each other well (Lewicki and Bunker 1996; Sabherwal 1999). Knowledge-based trust relies on information rather than deterrence and it develops over time, largely as a function of the parties having a history of interaction that allows each of them to develop a generalised expectation that the other’s behaviour is predictable and that the other will act honourably (Lewicki and Bunker 1996). In the outsourcing context, usually the most common source of knowledge-based trust is shared experience between client and vendor on other projects (Sabherwal 1999). As the relationship between the parties develops, information based on regular communication between the parties (Rousseau et al. 1998; Shapiro et al. 1992) and their experiences of collaboration allows each of them to predict the likely actions of the other (Deutsch 1958). The latter is called courtship (Shapiro et al. 1992). The growth of courtship is closely associated with an increased predictability that members of the (project) group have learned about each other’s skills and behaviour. In outsourcing arrangements, the importance of courtship is more evident since both teams work closely on task activities in the project environment.

Identification-based trust is based on recognition by each party of certain attributes possessed by the other, and follows from the two parties identifying with each other’s goals (Sabherwal 1999). Strong identification-based trust implies that “the parties effectively understand and appreciate what the other wants” (Lewicki and Bunker 1996, p. 122), while mutual understanding is developed to the point that each can effectively act for the other. Moreover, identification-based trust is usually grounded in the expectation that parties with similar commonalities (e.g. geographical location, cultural background) are more likely to act in an anticipated fashion (Miranda and Kavan 2005; Paul and McDaniel 2004) and, therefore, mutual
understanding is likely to be reached more quickly. In outsourcing arrangements, identification-based trust is developed through shared goals (e.g. system success) and early team-building efforts made for the sake of undertaking a particular project (Oza et al. 2006; Sabherwal 1999).

**Performance-based trust** is particularly relevant to the outsourcing context. Performance-based trust is built upon early successes in an outsourcing arrangement (Sabherwal 1999) and is characterised by the provision of key interim deliverables and successful, timely service delivery between two organisations. Although the previously discussed types of trust encompass the two-way building of trust from both client and vendor sides, this type of trust seems likely to be formed towards the vendor (Oza et al. 2006; Sabherwal 1999). Thus, the vendor’s ability to perform and a positive track record will positively influence the client’s confidence. However, this may not be always a case. According to the definition of this trust, performance-based trust may be formed towards the client organisation as well. Although one may think that trust is closely associated with the progress of the outsourcing project and thus, is based on the vendor’s performance obligations, however it takes the two to form the outsourcing arrangement. This suggests that the client can be also judged by the promptness of payments, project requests and level of support given to the vendor team. Overall, this has opened a new dimension for interpretation of this type of trust in outsourcing settings.

There is also a stream of research that distinguishes the initial forms of trust within the interpersonal characteristics of the parties (or individuals) involved (McKnight et al. 1998).

**Reputation-based trust** is the trustor’s willingness to trust an unknown person, based on a reference of trustworthiness from a known and trusted third party (Milliman and Fugate 1988). Such trust is perceived at a higher level than information-based trust (Doney et al. 1998) that involves only a simple information-sharing between the parties. In outsourcing arrangements, such trust can be gained from ‘referrals’ from other organisations (Oza et al. 2006) and has been transferred from the individual level to the organisational level. Also, this trust seems to be particularly important at the vendor’s selection stage, when the client collects the background information about the industry experience and skills of the potential vendor.

Overall, these classifications of trust are particularly relevant to the IS outsourcing field, due to their wide use by many outsourcing researchers (e.g. Babar et al. 2007; Oza et al. 2006; Sabherwal 1999). However, further investigation on classification of trust is required since the current studies usually examine matters from a unilateral perspective on the development of trust over time. Neither have they investigated the types of trust together within an outsourcing
continuum. Thus, further research on the development of trust and stakeholder perceptions of trust in the outsourcing arrangement is called for.

In this study, I adopt Sabherwal’s four stages of trust development such as contractual-based trust, knowledge-based trust, identification-based, and performance-based trust (Sabherwal 1999), along with reputation-based trust (Milliman and Fugate 1988). The rationale for selecting reputation-based trust is linked to its importance in the early stages of outsourcing arrangements when the solid background check of the vendor’s expertise would create a positive tone for further trust-building between both organisations (Oza et al. 2006), or cause the cessation of further dealings. Overall, these types of trust are based on the analysis of the literature review and cover the whole range and dynamics of trust and trust-building in the IS outsourcing field (see section 2.8.2 for further details).

2.5.5 Defining the Working Definition of Trust

Given the interdisciplinary literature review presented in the prior section on the definition and development of trust as a research concept, the working understanding of trust in this study should include individual and organisational contexts since the outsourcing parties consist of both individuals (client and vendor) and groups of people working in either of the two organisations. The majority of outsourcing research still focuses on trust at the organisational level (Cong and Chau 2007), however in this study I focus on trust between two organisations, client and vendor, but which are represented by different stakeholder groups, at executive, managerial and operational levels. However, I elicit individual perceptions, which could be further aggregated to be indicative of a group view.

To summarise, the concept of trust can be characterised as the sentiment that prevails in those situations in which outsourcing parties have positive expectations of each other’s behavioural actions and that each party will fulfil its obligations as stipulated in the formal agreement and the rationale behind this agreement is to maintain the relationship under the umbrella of self-interests in the awareness of the risk in those expectations. Although the articulated conceptualisation of trust is somewhat opaque and cannot embrace the entire complexity and multifaceted nature of trust, I accept this conceptualisation as the working definition of trust, while outsourcing stakeholders may give their own views on the nature of trust in the outsourcing arrangement.

As it has been previously argued in this section, trust is important in any outsourcing arrangement. The outsourcing context is often referred to as a high risk and uncertain business
environment (Goo and Nam 2007), in which complete contracting is often impossible, while incomplete contracts give rise to subsequent renegotiations during which the balance of power is set (Gottschalk and Solli-Sæther 2005). In this case, relational attributes of exchange may play a role precisely in instead of, or along with incomplete contracts. By initiating trust, organisations will lower the costs of monitoring and enforcing contracts, and reduce any risk of opportunistic behaviour by the other party. Also, trust often leads to success in IS outsourcing (Lee and Kim 1999). However, due to the complexity of IS outsourcing as a business practice and the risk of accompanying opportunistic behaviour, trust alone is not sufficient to guarantee returns and expected outcomes. Thus, a combination of trust and formal controls seems to be important to consider.

2.6 Nature of the Relationship between Trust and Formal Controls in IS Outsourcing

As highlighted in the earlier sections, formal controls and trust are important considerations for understanding the nature of the IS outsourcing relationship. We can see clearly that each of those elements have introduced the dimension of the outsourcing arrangement. Formal controls ensure the governance of the project, while trust facilitates cooperation and relationship development between two organisations. Considering the above, this section discusses the nature of the relationship between trust and formal controls in IS outsourcing relationships, and how this relationship is useful when addressing the outcomes of outsourcing arrangements.

2.6.1 Existing Research on the Relationship between Trust and Formal Controls

Although the relationship between trust and controls is critical to promoting organisational effectiveness, Das and Teng (1998) argue that it is “unclear and inconclusive about the relationships between trust and control” (p. 495). In IS outsourcing, much of this confusion results from the fact that researchers very often conceptualise trust between the exchange partners as a necessary attribute in creating a quality outsourcing relationship (e.g. Kern 1997; Kern and Willcocks 2000a; Sabherwal 1999), and as an enabling factor for outsourcing success (Lee and Kim 1999). Thus, trust has very often been acknowledged as the attribute of relational governance (Goo et al. 2009; Poppo and Zenger 2002) and not as an independent element in a combination with controls. As Kern and Willcocks (2000a) 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 adopt a unilateral perspective.
in explaining the nature of the outsourcing relationship (Goles and Chin 2005). There are several well-established models or frameworks for studying the IS outsourcing relationship (e.g. Alborz et al. 2003; Goles and Chin 2005; Kern 1997; Kern and Willcocks 2000a) that have been designed to provide an understanding of what factors the outsourcing parties should be aware of in order to achieve the desired success in the outsourcing effort (see section 2.3).

In the outsourcing field, there are a number of research works that investigate the relationship between trust and controls. For example, Langfield-Smith and Smith (2005) investigate the impact of control mechanisms from a transaction cost economics perspective by conducting a single case study. Barthélémy (2003) finds that the congruence between the hard and soft sides of IS outsourcing management may be addressed via the appropriate management technique of joint collaboration in constructing the set of contractual activities and the initial building of trust and commitment between the partners which will all, in turn, have a strong impact on both the cost reduction and performance metrics. Other researchers use slightly different language but also examine the same question of how to control outsourced IS projects (Choudhury and Sabherwal 2003). Goo et al. (2009) suggest the positive effects of well-developed SLAs on the relationship management, while Gopal and Gosain (2008) discuss the role of organisational control and boundary spanning on software project outcomes. Similarly, Mao et al. (2008) investigate the formation of an offshore IS vendor’s trust in their clients and the client’s control over the vendor. A slightly different approach has been taken by Heiskanen et al. (2008) when they use a contextual social process model in order to depict a longitudinal relationship between the University of Helsinki (as the client) and vendors contracted to develop software systems. The study was located in the context of the interplay between trust and control in three areas: performance, price level, and observed behaviour.

The most recent works preserve the focus on exploring the impact of the relationship between relational governance and formal contracts on vendor profitability (Gopal and Koka 2009) and exploring the notion of governance in outsourcing arrangements (Lioliou and Willcocks 2009). However, most of these works are conducted from the client perspective, thus, ignoring the vendor’s contribution to the topic. Although there are some exclusions that adopted the vendor perspective (Gopal and Koka 2009; Mao et al. 2008), there is currently a lack of research being undertaken that examines the complementarity of trust and formal controls, not only from the client and vendor perspectives, but could also incorporate the stakeholders’ views at different (organisational) levels.
Existing perspectives

While research suggests that both trust and controls affect performance and the attainment of the set goals in inter-organisational relationships, there is still little consensus found on the relationship between trust and controls. For example, Bachmann (as cited by Long and Sitkin 2006) states that while “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, and hence are complementary (e.g. Anderson and Narus 1990; Zaheer and Venkatraman 1995). Others argue that control mechanisms are detrimental to trust (e.g. Bradach and Eccles 1989; Gulati 1995; Lyons and Mehta 1997), since the reliance on (or referral to) controls would diminish trust-building. Overall, the complementary perspective suggests that trust and controls can be mutually reinforcing and can both contribute to the level of cooperation in the relationship, while the substitution perspective suggests that trust and formal controls are inversely related, so that more formal controls require less trust, and vice versa. Thus, the higher the degree of trust in relationships, the lower the monitoring costs and other control mechanisms. A lower level of trust leads to more formal operational procedures, such as more detailed contract documentation or frequent reporting.

There has emerged another perspective which argues that trust and formal controls can be both complements and substitutes (Poppo and Zenger 2002; Woolthuis et al. 2005). Poppo and Zenger’s study (2002) has empirically explored a complementary relationship between relational governance and formal contracts by using data from a sample of information service exchanges. In the paper, the authors argued that managers appeared to combine their increasingly customised contracts with high levels of relational governance and vice versa. Another example is Woolthuis et al.’s paper (2005) that derived three different views on the role of contracts and their influence on trust. According to the revealed findings, the first perspective was closely related to the logic of transaction economics theory (TCE) and contract theory that argued for a contract as a prerequisite for trust; the second perspective was associated with the social scientists’ ‘worldview’ of envisaging the contract as a detrimental factor to trust development (and its theoretical base); and the third perspective was related to the view that trust and contracts were negatively related, with trust preceding the contract, and thus the contract could become unnecessary as a result. In other words, the conceptualisation of trust and controls was that of ‘polar alternatives’ with controls leading to less trust, and trust leading to decreased contract completeness, whereas there were those who vote for both alternatives to exist in one situation (Woolthuis et al. 2005).
An interest towards the nature of the relationship between trust and controls in the outsourcing environment has been renewed several years ago. The research studies, mainly of the quantitative nature, have investigated how specific clauses in SLAs impact on the various aspects of relational governance (trust and commitment) in IT outsourcing relationships (Goo et al. 2009), the relationship between different dimensions of controls (provider-driven controls and bank-driven controls) and trust through the lens of service quality (Beimborn et al. 2009), and the relationship between four dimensions of governance (contractual, structural, extra-contractual and relational) and two characteristics of the relational exchange (joint commitment, relationship trust) through the lens of IS outsourcing effectiveness (Balaji and Brown 2010). An exploratory and interpretive view on the problem has been taken by Prifling et al. (2009) who have applied a psychological contract perspective to analyse changing control modes in IT offshore outsourcing projects in a single case study. In particular, they have focused on the changing nature of psychological contracts from either of the outsourcing parties, arguing that they are dynamic and changing in nature, and will influence the use of formal and informal controls and management over time. It seems that these studies have provided a snippet view on the relationship between trust and controls through their different dimensions without much concern to the role of the contract in it and the absence of both (client and vendor) views on the interplay between trust and controls. The contract is one of the central elements of any outsourcing relationship that designates its beginning in terms of the established norms and engagements, while trust is the key attribute in the relationship that facilitates contractual refinements and further support greater relational exchanges (Kern and Willcocks 2000a). Thus, the key implication when combining these two perspectives is that trust and controls (together with a contract) are related and that outsourcing parties should consider both of them if they aim to enhance the effectiveness of their outsourcing strategy and prospects of outsourcing success.

The theoretical approach offered by Möllering (2005) in his work on the trust/controls duality is best suited to the challenge that I am engaged in when addressing the relationship between trust and formal controls in the outsourcing relationship. In fact, he hypothetically turned against a conceptualisation of trust and controls as unrelated concepts that can vary independently. He proposed a conceptualisation of trust and controls as a duality, in which trust and controls as elements each assume the existence of the other, can refer to each other and can sometimes be influenced by each other through initiatives taken by stakeholders. Such perspective suits the purpose of this research study for a number of reasons:

- both research concepts (trust and formal controls) are defined from both client and vendor perspectives, while the relationship between them is not just a simple trade-off;
both concepts are addressed at the same time and treated as independent of, and complementary to, on another (not as opposites, when the existence of one element eliminates the presence of another);

the complementary nature of the relationship, and the changing environment of outsourcing settings, suggests that both trust and formal controls may co-exist, refer to one another and impact one another, but all in a reflexive way when forming the basis for the outsourcing relationship;

the duality perspective on trust and controls is closely aligned with the idea of balancing these two elements.

In the field 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, there are few studies that address jointly the relationship between trust and controls from a dynamic perspective. In the field of IS outsourcing, Sabherwal (1999) acknowledges the necessity of balancing trust and structural controls in IS outsourcing projects. These two works are the only studies in which the nature of the balance between trust and controls has been explored. Although the first study is conceptual by nature and was initially developed for organisational settings, and Sabherwal’s findings revealed the presence of balance between trust and formal controls in outsourcing projects, these two works will be the starting point for this research project.

2.6.2 Concept of Balance between Trust and Formal Controls

Although the nature of the relationship between trust and controls remains a subject of constant debate and continuous research effort, there are no compelling theoretical or empirical evidence that explores the concept of balance in the outsourcing relationship (except Sabherwal’s study). In the area of organisational behavioural studies, the role of balance and balancing processes between task controls and organisational trust that managers attempt to obtain in order to increase organisational efficiency has been acknowledged (Long and Sitkin 2006). According to Long and Sitkin (2006), the level of harmonious integration that has been achieved between a configuration of formal controls and trust-building efforts is partially determined by the context within which that integration occurs. While recognising the value of legal actions including formalising contracts and applying rules and appropriate structural controls, the outsourcing parties should not forget about trust–building activities in order to ensure that timely action is
taken on any changes that occur in the outsourcing arrangement. In particular, formal activities (e.g. formalised rules) may be used to guard against unfortunate contingencies which would undermine trust relationships. 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).

On the other hand, a total reliance on formal controls cannot promote shared or mutual understanding between the outsourcing parties and will maintain the distance between the parties, though an exclusive reliance on trust can be dangerous (Sabherwal 1999). In the area of IS outsourcing, Sabherwal’s work (1999) on the role of trust in outsourced IS development projects explored the concept of the balance between trust and controls. In his work, empirical findings revealed that there needs to be a balance to set up between trust and structural controls in order to achieve expected outcomes. Indeed, the importance of the balance between trust and formal controls in the outsourcing arrangement is evident in the joint collaboration of formal controls and trust to form a virtuous cycle of trust-building and performance in the outsourcing project, while an excessive reliance on either of the activities will lead to vicious cycle of the decrease in trust and poor performance. Thus, the importance of the balance is pertinent since it implies the ‘right way’ (however, subjective to the outsourcing stakeholders involved) of running the outsourcing project based on which more effective outcomes can be obtained.

As we learn from the literature review, there is currently a lack of conceptual studies that would enable an understanding of the concept of balance between trust and formal controls in the IS outsourcing context. Sabherwal (1999) addressed issues that were close to the nature of this study. While recognising the value of a formal, well-prepared contract and appropriate structural controls, the partners in the outsourcing organisations have to trust each other. Therefore, a balance between trust and structures may enhance performance in IS outsourcing projects. Sabherwal’s view on the balance between a written contract and a psychological contract is provided in Figure 2.1 below.
Most inter-organisational relationships, including IS outsourcing arrangements, involve a psychological contract, as well as a formal, written contract. The written contract is generally understood, unlike the psychological contract, which consists of unwritten and unspoken sets of congruent expectations held by the parties about each other’s prerogatives and obligations (Sabherwal 1999). These expectations of what each party gives and receives from the relationship vary in their explicitness; the parties are often only barely aware of the nature of these expectations (Ring and Van de Ven 1994). Therefore, managing outsourcing projects requires an acknowledgement of issues concerning both types of contracts. Adherence to the written contract is generally addressed through structural controls, whereas trust supports the psychological contract. Both structural controls and trust help to address unexpected changes in outsourcing projects. Figure 2.1 captures the complementary nature of structural controls and trust within the outsourcing relationship. It suggests that trust and controls are related, and that the outsourcing partners should consider both trust and controls if they wish to perform better in the outsourcing arrangement. Trust limits the need for structure by reducing the perceived need to guard against opportunistic behaviour (Sabherwal 1999), but exclusive reliance on trust is dangerous. Even though the parties may be confident of each other’s trustworthiness, they also may be uncertain about whether or not to rely on it exclusively (Ring and Van de Ven 1994).

When investigating the role of trust, Sabherwal revealed four types of trust described in Table 2.5 as characteristics of trust development in outsourcing arrangements. Thus, most projects require a mixture of trust and structural controls.
According to Table 2.5, Sabherwal’s findings reveal that outsourcing projects could proceed through virtuous and/or vicious cycles involving trust, structure (or structural controls), and performance. The virtuous cycle involves positive trust, appropriate structuring and good performance; it results from complementary trust and structural controls. According to Sabherwal (1999), a balance of trust and structure is essential for project success, which in turn improves trust, especially the performance-based type. In contrast, the vicious cycle involves distrust, inappropriate structuring and poor performance. A lack of balance between trust and structure adversely affected performance, further damaging trust. He also observed occasional shifts between virtuous and vicious cycles. Some projects start well but get into trouble later, while others experience a shift from the vicious to the virtuous cycle. Overall, he concluded that, in order to ensure the high quality and timely progress of the outsourcing project, managers should take into account both trust and structural controls and called for further research to be undertaken in this area. My involvement with IS issues led me to respond to this call of research and took Sabherwal’s framework as a starting point for this research.

My ongoing interest in conceptualisation was inspired by Sabherwal (1999) in further investigation on the nature of the balance in outsourcing settings. I used his four types of trust as an input for my research regarding the different development dimensions of trust throughout the course of the client-vendor outsourcing arrangement. However, Sabherwal’s view that written and psychological contracts are supported respectively by structural controls and trust is somewhat different from my perspective. Although I accept his proposition that structural controls are linked to the written contract, I argue that this is not always the case. There are instances when the client organisation might have pre-existing controls such as codes of conduct and policies that the vendor organisation is required to follow and, thus, these controls
do not directly follow from the written contract. Moreover, Sabherwal’s definition of structural controls was somewhat misleading and confusing, as he never properly defined and operationalised those terms but revealed the meanings from the empirical investigation. For example, when discussing the established structures or structural controls in the outsourcing projects, he listed reporting mechanisms and frequencies, change management procedures and client involvement plans. In this study, I defined controls from a behavioural sense by stressing out their regulating role on the behaviour of each of the outsourcing parties. While trust belongs to informal relational attributes in IS outsourcing arrangements. On the other hand, a psychological contract refers to an individual’s beliefs about his or her mutual obligations in a contractual relationship between the employee and employer (Rousseau 1995), in which trust represents the relational aspect of the arrangement (Macneil 1985; Morrison and Robinson 1997). Although the psychological contract theory was further adopted in the IS outsourcing field to study successful IS outsourcing management (Koh et al. 2004), this study focuses only on trust.

The paucity of conceptual works in the area of IS outsourcing regarding the concept of balance led me towards the field of organisational studies. Long and Sitkin’s (2006) work investigated the intricacies of the nature of relationships between organisational trust and task controls in the context of managerial decisions. In their work, the authors employed the concepts of balance and balancing processes to assist them in achieving an understanding of how managers integrate their trust-based and control-based actions in the manager-subordinate relationship in order to maintain high levels of subordinate task performance and quality of superior-subordinate relationships. In conceptualising the balance between task controls and trust-building efforts that managers attempt to obtain, they drew from the definition proposed by Sutcliffe et al. (2000) in their examination of organisational exploration and exploitation activities. In particular, Sutcliffe et al. (2000) examine the logic underlying the relationship between control-oriented and exploration-oriented processes in quality management programs. In turn, Long and Sitkin (2006) use their definition of balance to argue that managers achieve a trust-control balance when they obtain “a state where their superior-subordinate relations exhibit a harmonious integration of trust-building and task control activities” (p. 91). Using this conceptualisation of balance, they proposed that the level of the harmonious integration achieved between a configuration of task control and trust-building activities could be partially determined by the context within which that integration occurred.

In my study, I adopted Long and Sitkin’s (2006) conceptual work on the balance between trust and controls. Although the working context of their study was focused on the manager-
subordinate relationship within an organisation, I argue that the idea is also applicable to the outsourcing environment. In outsourcing arrangements, the relationship between a client and a vendor has its commonalities with the superior-subordinate relationship, in that the client side represents the manager who delegates a set of tasks to his (or her) project team employees, who in the outsourcing context are representatives from the vendor’s side. In turn, the vendor’s project team is responsible for performing the delegated task and responsible for giving reports on the performed task. Similarly as in the ‘superior-subordinate’ hierarchy, in the ‘client-vendor’ tandem there are also instances when the vendor has more bargaining power in the outsourcing relationship than the client. For example, in outsourcing arrangements that have Tier 1 vendors such as IBM or HP, the sheer size of global status allows them to occupy a very powerful position. Moreover, the main concepts such as organisational trust and task controls, that Long and Sitkin (2006) defined and employed in their work, correspond to the research concepts operationalised in this study. Organisational trust-building activities that Long and Sitkin (2006) defined as mechanisms that individuals use to assure others of their capabilities, their interest in accommodating others’ needs and their willingness to fulfil promises made to others, reflect the view of trust in the outsourcing arrangement. However, in IS outsourcing this refers to both organisations. Stakeholders in both client and vendor organisations build trust that is based on a willingness to assure the other’s capability and ability to fulfil promises.

Long and Sitkin’s definition of task controls also corresponds to the view I adopted in conceptualising formal controls. In Long and Sitkin’s work (2006), task controls, broadly defined as organisational controls, comprised the range of formal (e.g. written contracts, monetary incentives and surveillance) and informal mechanisms (values, norms and beliefs) that managers use to direct subordinates toward the efficient and effective completion of organisational tasks. In the current study, formal controls comprised the function that Long and Sitkin (2006) gave to their task controls in terms of formalising the relationship with subordinates through written contracts (employee contracts), incentives (bonuses) and surveillance (monitoring) to ensure the completion of the task. Similarly, in the outsourcing arrangement, the client uses a number of formal controls ranging from signed contracts to reporting and performance measures to coordinate the ongoing progress of the outsourcing project and moderate the behaviour of the vendor. However, the subtle difference between Long and Sitkin’s interpretation and the operationalised definition of formal controls in this study is that the vendor in an outsourcing arrangement can also initiate formal controls to moderate the behaviour of the client. For example, the vendor may request an additional clause be added to the contract defining the penalty to be imposed for a late invoice paid by the client.
The initial assertion of this study is that the nature of relationships between trust and formal controls in outsourcing can form a balance-like combination, whereas the occasional/or recurring shifts between vicious and virtuous cycles observed by Sabherwal in outsourcing projects (see Table 2.5), led me to think about the dynamic (or active) nature of such a balance, and thus, about different combinations of trust and formal controls within the outsourcing arrangement. The value in finding a balance between trust and formal controls is evident, since the prior outsourcing works proved the positive roles of trust and formal controls in the outsourcing success (e.g. Goo and Nam 2007; Lee et al. 2008). Unlike the quoted works that use pre-existing categories and *a priori* assumptions, my focus is on the individual stakeholder’s perceptions of the outsourcing arrangement that can be accomplished with the interpretive paradigm in mind (for further details, see Chapter 3). Both Long and Sitkin (2006) and Sabherwal (1999) acknowledge performance, coordination and the quality of the relationship as being important in contractual arrangements when discussing the impact of balance. In most outsourcing arrangements, both parties are concerned about the performance of the outsourced product (or service) and the quality of working relationships that could provide more long-term benefits (Lee and Kim 1999). Thus, in this study, I am interested in the stakeholder’s perceptions of the outsourcing arrangement. Outcomes are broadly classified in terms of the relationship quality (and satisfaction) and performance (and service quality). Rather than attempt to define more formal measures regarding the performance of the vendor and the quality of the working relationship, I intend to focus on participant perceptions of these matters.

Overall, the study has drawn from IS outsourcing and organisational studies to investigate the nature of balance between trust and formal controls and theoretically explain how it can be achieved and impacts the outcomes in IS outsourcing arrangements.

**Defining balance**

In a conceptual sense, ‘balance’ means a point between two opposite forces that is more desirable than one predominating over the other. For illustrative purposes, an example employing *Order* and *Chaos* is helpful. Complete Order may be the result of over control, whereas Chaos is unmanageable, and balance is the point at which equilibrium exists between excessive control and too little control. In purely static conditions, the word ‘optimum’ is perhaps more appropriate, as it is assigned for the most favourable conditions under specific circumstances (e.g. maximum and minimum thresholds in mathematics). In this study, the environment is dynamic and constantly changing. Thus, it is not feasible to apply constraints and draw limits as the business environment (i.e. the outsourcing context) is very complex, in that it involves human beings, organisations and interactions at both organisational and personal
levels. So I view the concept of balance as something of a ‘comfort zone’, so that when it is reached both parties think that it is the favourable condition between trust and formal controls within the outsourcing arrangement and they express satisfaction with the working progress of their working relationship and the project itself. However, balance should not be regarded as a static phenomenon as it can change as the outsourcing relationship changes throughout the progress of the outsourcing arrangement.

The complexity of formal controls and trust emphasises the importance of understanding the role of balance in outsourcing with regard to formal controls and trust. I argue that, based on the particular situation stakeholders face, they will attempt to balance their formal controls and trust activities in various ways. By using this conceptualisation of balance, I assert that the level of a harmonious integration achieved between a configuration of formal controls and trust activities is achieved within the context in which that integration occurs. However, I do not limit this conceptualisation to the pre-conceived notion of the balance and leave this to the open interpretation of the stakeholders, suggesting that finding an appropriate balance can be a deliberate strategy by the client and the vendor or intuitive reaction to the situation(s) occurred within the outsourcing arrangement.

Given that organisations in general appear to alternate between controls and trust, one could conclude that the assumption that organisations should search for an ideal type of balance is perhaps overly simplistic and potentially misleading (Cummings 1995). In the outsourcing context, it is certainly questionable. For example, Fayol (1949) suggests that the balance for each organisation or part thereof is a function of “the personal character of the manager, on his moral worth, on the reliability of his subordinates, and also on the condition of the business” (p. 33), so that balance is specific to the condition of the business and people involved in it. I do not intend to view balance as a ‘state’ or a ‘point’ since it is dynamic, driven by the contingent nature of business environmental forces, while the ‘state of affairs’ that is reached, between trust and formal controls, may change during the course of the outsourcing arrangement. In this vein, I tend agree with Cummings (1995) on the fact that balance exists for each organisation. However, in our case, instead of a single organisation, the context of the client-vendor outsourcing relationship would be taken into account. Any balance perceived will depend on the ‘working organisational context’ (of the outsourced project and the nature of the organisations) and is a conclusion to be drawn by the stakeholders involved.
Types of balance

The achieved combination between trust and formal controls can be divided into three different types of balance. This study employs Long and Sitkin’s work on balance (2006), and argues that the combination between trust and formal controls can take different forms depending on the degree of interdependence. These are antithetical balance, when the manager’s activities in terms of balancing trust-building and task control activities can be negatively related, orthogonal balance, when the manager’s activities can be completely independent, and synergistic balance, when the manager’s activities can be positively related and mutually reinforcing. The authors contended that Sutcliffe et al.’s (2000) conceptualisation of types of balance was particularly applicable in the context of superior-subordinate relationships, since it could provide a far greater range of potential configurations between trust and controls than past work in this area. In Table 2.6, these three types of balance are presented.

<table>
<thead>
<tr>
<th>Description of balance</th>
<th>Antithetical</th>
<th>Orthogonal</th>
<th>Synergistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>A manager implements a type of trust-building or task control activity and reduces their focus on alternate activities.</td>
<td>A manager implements a combination of multiple, unrelated trust-building and formal control activities.</td>
<td>A manager implements combinations of multiple, mutually reinforcing trust-building and task control activities.</td>
<td></td>
</tr>
<tr>
<td>Management of subordinates using a singular form of trust or singular form of task control.</td>
<td>Management of subordinates using combinations of multiple, unrelated trust-building and task control activities.</td>
<td>Management of subordinates using combinations of multiple, mutually reinforcing trust-building and task control activities.</td>
<td></td>
</tr>
<tr>
<td>Effective implementation of the single most appropriate managerial trust-building and/or task control activity.</td>
<td>Ongoing maintenance of multiple, sometimes contradictory, trust-building and task control activities.</td>
<td>Identification and maintenance of synergies between multiple trust-building and task control activities.</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.6 Forms of balancing processes organisations (Long and Sitkin 2006)

Each type of the balance can be distinguished by the general balancing mechanisms it employs, the desired outcomes it is intended to produce and the managerial challenge it presents to managers. Long and Sitkin (2006) contended that through ongoing attempts to balance their trust-building and task control activities, managers worked to smoothly (re-)align combinations of activities in order to achieve correspondence with the task and relational demands they encounter. Overall, they argued that managers attempted to promote an appropriate balance between task control and trust-building activities in order to both achieve high levels of subordinate task performance and maintain appropriate superior-subordinate relationships.
Antithetical balance describes the negative effects that efforts to build trust can have on formal controls, and the negative effects that efforts to exert formal control over the outsourcing project can have on efforts to build trust. In this situation, trust-building and formal control activities are applied in a ‘zero-sum world’, in which an emphasis on formal controls compromises the emphasis stakeholders place on building trust or vice versa. Effectively promoting positive perceptions of trust and controls takes time and, as a result, the stakeholders will often avoid implementing initiatives that appear more costly and risky than mechanisms that align with and support the primary philosophy of their organisation. For example, the one who utilises antithetical balance may view trust and controls as substitutes for one another, so that having a short-term project will not necessarily require a comprehensive relationship development, as the project requires only target deliverables and coordination, though some trust might still exist (e.g. competence-based trust in teams). Control clearly has a role superior to the bare minimum of trust. Several researchers suggest that an antithetical relationship exists between formal controls and relational trust (e.g. Das and Teng 1998). In particular, they suggest that, when a strategic alliance partner chooses to use formal control mechanisms in the execution of a strategic alliance agreement, that choice will compromise the development of relational trust between the alliance partners.

Orthogonal balance describes situations in which stakeholders do not attempt to align their trust-building and formal controls, so that they (co-)exist but act independently. Usually this type of balance is used when there is little discretion, so that within the outsourcing environment both sides might have a high level of trust and trusting relationships, yet they also insist on strict formal efforts and adherence to the contract. The presence of orthogonal balance is also evident in the case in which, despite the presence of trust between two project teams, the client may still implement new formal controls (e.g. the collection of customer feedback in order to assess the quality of the vendor’s deliverables). As a result, such formal controls as have been implemented throughout the progress of the outsourcing arrangement have little regard for the maintenance, dissolution or augmentation of the levels of trust that may exist between the parties.

Synergistic balance describes situations in which stakeholders attempt to implement both trust-building and control mechanisms so that these activities are “mutually reinforcing and each process facilitates and contributes to the effectiveness of the other” (Long and Sitkin 2006, p. 92). Basically, this balance is used to reinforce the strengths of particular types of controls or particular forms of trust. For example, when increasing performance by introducing milestone targets, the level of organisational trust might also be increased (as the vendor team is proved to
be consistent). To use another example, the use of legalistic control mechanisms during contract negotiations, such as financial rewards for the vendor and contractual safeguards for the client, can increase the contractual-based trust between two organisations because, by placing those mechanisms in the contract, both parties can be safeguarded against any opportunistic action by the other and, therefore, it may help them to protect their interests. In this scenario, both trust and controls may be viewed as complementary with one enhancing the other.

Given the paucity of conceptual studies on the balance between trust and formal controls in the IS outsourcing field, the conceptual cohesion provided by Long and Sitkin (2006) seems appropriate to consider. Further discussion on the theoretical underpinnings of such rationale is continued in section 2.7.

2.7 Development of the Conceptual Framework

In this study, a conceptual framework has been developed which enables a closer depiction of the intricate character of the complementary nature of trust and formal controls in IS outsourcing arrangements. However, to explain the rationale of taking formal controls and trust as independent conditions of the interaction rather than comparing formal controls and relationship governance (e.g. Goo et al. 2009), I draw to the principles of the relational contract theory (Macneil 1985) that posits that apart from the legal role of contracts (and associated control mechanisms), the relational attributes of contracts have gained more importance since the contract encourages participation and exchange by promoting reciprocity and trust-building. It promotes trust as a relationship attribute and view the inter-organisational relationship as a deliberate cooperation of both parties to achieve their goals through this. This has been accepted as a meta-theoretical lens to look at the rationale of complementing formal controls and trust-building activities.

Sabherwal’s model (see Figure 2.1) was the initial motivation for this framework. Inspired by his work, a research objective was formulated to investigate the balance between trust and formal controls and the impact of this balance on perceptions of the outsourcing arrangement. In Figure 2.2 below, the developed research framework has been provided to show all the salient features adopted from the previous studies and then modified for the purpose of this study. It is based on the preceding discussion and an additional observation. While appearing static for periods of time, the balance of trust and controls in the relationship is constantly in flux (Long and Sitkin, 2006). In order to address the dynamic nature of the outsourcing environment (e.g. restructure of the project team, change in project requirements), outsourcing parties should constantly seek to balance a mix of trust and formal controls initiatives if they wish to adjust the
outcomes related to quality of service work or progress of the working relationship. In the framework, we depict a generic process for achieving a balance between trust and formal controls in the outsourcing arrangement.

![Figure 2.2 Developed conceptual framework](image)

In outsourcing arrangements, both formal controls and trust form the active balance. Trust and formal controls are both dynamic concepts (dotted boxes in Figure 2.2) that may change depending on the progress of the outsourcing arrangement. Although the balance is formed, (one of three types: antithetical, orthogonal, synergistic, depending on the degree of impact of one element on another), various situational factors (e.g. organisational structure, project complexity) may also play a significant role in framing the relationship between trust and formal controls. In this study, we define the (inter)-organisational context of the outsourcing arrangement as ‘the set of properties of the outsourcing project environment, perceived directly or indirectly by the both outsourcing parties, that is assumed to be an enabler in influencing a party’s behaviour’. Any outsourcing arrangement depends on the context which encapsulates specific objectives and expectations of the outsourcing arrangement (Kern 1997; Kern and Willcocks 2000b). For example, the size and complexity of the outsourcing project may require the development and introduction of more formal controls (e.g. documentation, frequent system reviews). As a result, the combination of trust and formal controls would rely on formal controls with multiple purposes. Although trust would not be entirely removed from the picture, outsourcing parties may forget building good working relationships and initiate trust-building among the project teams by simply focusing on deliverables and measures that may ensure efficient progress of the project but not always the efficient development of working relationships. Another example is when both parties have a mature outsourcing agreement, and thus they have formal controls and processes set up and focus on strengthening their working relationships.
Further, the formed balance may influence perceptions of the outcomes in the IS outsourcing arrangement. Among the outsourcing outcomes, trust-building is linked to outsourcing success and has been recognized as the facilitator in developing satisfying working relationships (e.g., Goles and Chin 2005; Kern and Willcocks 2000a; 2009), whereas formal controls are usually tied to the service quality (and performance) of the project (e.g., Goo and Nam 2007; Goo et al. 2009; Langfield-Smith and Smith 2003). Therefore, the outcomes of the outsourcing arrangement comprise service quality of project (Park and Kim 2005) in terms of costs, performance, and timely delivery (Agarwal et al. 2006; Gopal et al. 2002) and the quality of working relationships in terms of the overall satisfaction with the relationship (measured in terms of critical success factors in relationship development) (Whitten and Leidner 2006). However these outcomes should be seen as intermediate outcomes rather than as a ‘success’ or a ‘failure’ of IS outsourcing arrangements. Thus, the achieved outcomes of the outsourcing arrangement generally consist of perceptions related to the progress of the project and the status of working relationships.

Overall, the developed ‘trust-formal controls balance’ framework can be viewed as a sense-making device when collecting and analysing the data to explore how the balance between trust and formal controls can be achieved (and changed) throughout the IS outsourcing arrangement.

2.8 Summary of the Literature and Formulation of Research

This section summarises the key literature and proceeds with the formulation of the research objectives.

2.8.1 Summary of the Literature

Despite the apparently wide use of outsourcing, outsourcing theory is still in its infancy (Bartell 1998; Lacity and Willcocks 2009a). This is partly related to the fact that IT capabilities evolve at a ‘dizzying pace’ (Seddon et al. 2009) making IS outsourcing suffused with uncertainty. There is no simple basis for gauging the economics of IT/IS activity and, therefore, of IS outsourcing (Seddon et al. 2009; Lacity et al. 2010; Willcocks et al. 1996). This may be because the research findings and reports in the literature are mixed and inconsistent, thereby limiting

1 According to Mintzberg (1978), it is useful to distinguish between intended, deliberate and realised strategies. In decision making theory, it is accepted that the quality of decisions can only be judged against what was known to decision makers at the time they committed to a course of action, rather than berating them for things that they did not know and could not have known. In a dynamic view of management, discrepancies between expected and realised outcomes should be acknowledged, however they are not always a sign of bad performance. Although this view prevails in the strategic management literature, I admit that the view on discrepancies between expected and realised outcomes aligns with the notion of balance and its evolution (changes) in the IS outsourcing context. Also, the dynamic view on the balance helps to explain the differences in the outcomes achieved through the evolution of the balance between trust and formal controls in IS outsourcing arrangements.
the transferability of those findings from one setting to another. Nowadays IS outsourcing is an essential part of business strategy and is very common used to reduce operational costs and access high calibre IT capabilities. However, there is still observed a discrepancy between the realised outcomes and the expected outcomes (Chen et al. 2006). Outsourcing activities in a range of different organisations are hard to compare with one another due to organisational idiosyncrasies, business environment complexity and uncertainty. The contract that defines the arrangements between the outsourcing sides has been under scrutiny by researchers for a number of decades. Existing studies on IS outsourcing relationships contain some contradictions (and gaps) that were found during the literature review:

- studies on the IS outsourcing relationship take the perspective of either the client or the vendor, but rarely both.
- initial intent of outsourcing decisions are likely to change or evolve over the course of the outsourced project, as both the business environment and technology innovations may change quite dramatically. Prior attempts to investigate relationship issues seemed limited in capturing the dynamic nature of outsourcing needs and capabilities.
- the extant literature in the area of IS outsourcing emphasises the critical role of controls in outsourcing arrangements and highlights the positive role of trust in the outsourcing relationship management. However, trust and controls have been studied independently; very few studies have actually attempted to study the relationship between the two within the outsourcing arrangement for a conjoint effect on outsourcing outcomes.
- after the careful examination of the outsourcing literature, the paucity of conceptual frameworks on the balance between trust and formal controls seems evident.
- trust has been mentioned as the primary factor in the outsourcing relationship between the client and the vendor in many studies (e.g. Goles and Chin 2005; Grover et al. 1996; Kern 1997). However, comparatively few works are dedicated to focusing specifically on the nature of trust within the outsourcing field (Babar et al. 2007; Lee et al. 2008; Oza et al. 2006; Sabherwal 1999) by taking a bilateral perspective and investigating changes in trust throughout the outsourcing arrangement.

Given the outlined summary above, and following Sabherwal’s (1999) call to continue research on the nature of balance between trust and formal controls, the key research problem is formulated as follows:

*How does the balance between trust and formal controls impact on the outcomes achieved in IS outsourcing arrangements?*
The main research topic involves exploring the complementary nature of trust and formal controls that need to be balanced in the client-vendor outsourcing arrangement to address perceptions of the outcomes. In Figure 2.3 below, a formulation of the research problem is presented as the result of the conducted literature review.

![Figure 2.3 Formulation of the research problem](image)

Thus, the current study is geared towards helping to fill the gaps and eliminate certain contradictions in the research stream through the research questions outlined further in this chapter and extended theoretical underpinnings on the developed research framework.

### 2.8.2 Formulation and Operationalisation of Research Questions

Given the research problem articulated above, several issues have emerged from the ongoing literature review. Outsourcing researchers are struggling to define the nature of the complementarity between trust and formal controls, yet neither of these elements has been recognised as the significant contributor to the development and facilitation of the outsourcing relationship. So, the main objective of this study involves an investigation of the concept of balance between trust and formal controls from multiple perspectives (i.e. from the client and vendor sides). In particular, the study aims to achieve the following objectives, which are, to a significant extent, derived from the literature:

- to investigate the nature of the relationship between trust and formal controls;
to elicit subjective assessments of the concept of balance as judged by stakeholders from both parties and elaborate the concept of balance between trust and formal controls in the outsourcing arrangement;

- to explore changes in the development of trust over time within the context of client-vendor outsourcing relationships;

- to explore perceptions of the impact of the balance between trust and formal controls on outsourcing outcomes.

The specific research questions to be investigated are as follows:

1. *How does trust develop throughout the IS outsourcing relationship?*

Given the literature review on trust, trust emerges within a particular context, when:

- outsourcing sides have positive expectations of each other’s behavioural actions,
- each side fulfils self-obligations as stipulated in the formal agreement,
- the intention is to maintain a cooperative relationship,
- preserving self-interests while maintaining an awareness of the risk inherent in those expectations.

Trust plays a critical role in the development and facilitation of long-term exchange relationships. This type of committed long-term relationship evolves over time as a result of a dynamic process as the outsourcing parties demonstrate their trustworthiness through specific interactions. Trust should be considered as a dynamic concept rather than outcome-oriented state, which can be reached. So this research question aims to explore the nature of trust and its development throughout the outsourcing arrangement.

Although many types of trust have been identified in the literature, of which five (as listed below) are utilised deliberately in this study. There is no intent to limit this study only to previously identified categories. Therefore, I do not limit this question to the pre-existing categories and want participants to ‘speak for themselves’. In this study, I associate trust-building with different types of trust, four of which were adopted from Sabherwal’s study (1999) and complemented with reputation-based trust, which are all dynamic. Table 2.7 below provides a detailed operationalisation of the selected types of trust.

---

2 For purposes of this research, the long-term outsourcing arrangement would take five years or more of the working relationship.
<table>
<thead>
<tr>
<th>Type of trust</th>
<th>Defined</th>
<th>Key themes</th>
<th>Referenced literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation-based trust (RBT)</td>
<td>...is the client’s willingness to trust an unknown person, based on a reference of trustworthiness from a known third party (‘referrals’) in whom the client has developed strong trust based on experience.</td>
<td>reputation, background checks, referrals, references, experience, reliance on experiences of others, word-of-mouth..</td>
<td>• Oza et al. (2006).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Uzzi (1996).</td>
</tr>
<tr>
<td>Contractual-based trust (CBT)</td>
<td>...is primarily tied to rewards and punishments associated with a project. The outsourcing parties will make trust choices based on rationally derived costs and benefits.</td>
<td>Costs, benefits, penalties, rewards, contract negotiations, safeguards, trade-offs.</td>
<td>• Sabherwal (1999).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Babar et al. (2007).</td>
</tr>
<tr>
<td>Knowledge-based trust (KBT)</td>
<td>...is based upon a history of transactions between two parties, so that the two parties know each other well. In the outsourcing context, usually the most common source is shared experience between client and vendor on other projects, known as courtship.</td>
<td>Prior history, shared experience, knowing the person, predictability, long-term history of relationships, courtship.</td>
<td>• Lewicki and Bunker (1996).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Shapiro et al. (1992).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Sabherwal (1999).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Oza et al. (2006).</td>
</tr>
<tr>
<td>Performance-based trust (PBT)</td>
<td>...is referred to as the trust developed on the basis of a project’s early successes and is characterised by a celebration of key interim deliverables and periodic demos and pilots.</td>
<td>Consistent delivery, good performance, interim deliverables, fulfilled obligations, periodic demos, pilots, project’s early success.</td>
<td>• Sabherwal (1999).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Oza et al. (2006).</td>
</tr>
<tr>
<td>Identification-based trust (IBT)</td>
<td>...is based on certain attributes of the other party and follows from the two parties identifying with each other’s goals, while the mutual understanding is developed to the point that each can effectively act for the other. Usually it is developed through the shared goal (e.g. system success) and team-building efforts.</td>
<td>Shared understanding, goal congruence, shared goal, mutual understanding, team-building, cultural fit, compatibility.</td>
<td>• Lewicki and Bunker (1996).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Sabherwal (1999).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Miranda and Kavan (2005).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Oza et al. (2006).</td>
</tr>
</tbody>
</table>

Table 2.7 Operationalisation for research question one

Each type of trust is based on a number of key themes derived from the literature that provided insights into what should be looked at throughout the interview scripts during the analysis stage. Furthermore, participants are given the opportunity to express their opinions on the nature of trust and reasons for trust-building. Based on the collected and further analysed participants’ views, the changes in trust development, and thus, distinct characteristics (i.e. unique
characteristics which are not limited to pre-existing themes identified in Table 2.7) in the outsourcing arrangement are further identified.

2. How do participants from both the client and the vendor organisations conceptualise the balance between formal controls and trust in IS outsourcing relationship?

This research question aims to explore and elaborate the concept of balance and getting the key stakeholders’ subjective perceptions of this concept in outsourcing arrangements. It addresses issues such as eliciting project players’ personal opinions concerning the balance, and the methods that are used to promote (and manage) the balance. The concept of balance is a function of the relationship between the parties (e.g. both parties express the conviction that a ‘comfortable’ working relationship has been established), yet it is for the participants to express their views on how they consider that such balance should be found and what the current working combination for them is in their outsourcing relationship.

As previously noted, I associate the concept of balance with the combination of trust and formal controls. The combinations between trust and formal controls may change throughout the outsourcing relationship. Different approaches used by the outsourcing stakeholders to rely on trust and/or formal controls in outsourcing relationships are examined to see if any of three balancing combinations (antithetical, orthogonal, synergistic) are evident. Table 2.8 below provides a detailed operationalisation of the discussed three types of balance.

<table>
<thead>
<tr>
<th>Types</th>
<th>Description of balance</th>
<th>Explanatory note</th>
<th>Provided example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synergistic</td>
<td>A stakeholder implements combinations of multiple, mutually reinforcing trust-building and formal controls.</td>
<td>Trust and formal controls are seen as interdependent complements in order to reinforce the strengths of particular types of controls or particular types of trust.</td>
<td>The increased confidence between the two project teams (performance-based trust) would suppress the frequency of implementing formal controls that are intended to monitor the work of the project teams (e.g. progress reports).</td>
</tr>
<tr>
<td>Orthogonal</td>
<td>A stakeholder implements a combination of multiple, unrelated (independent) trust-building and formal controls.</td>
<td>Trust and controls are seen as complements, but there is a distinction, so that trust and formal controls are both co-exist in the outsourcing relationship.</td>
<td>The high level of trust can be present between two individuals from both outsourcing sides (e.g. knowledge-based trust). Despite this, formal controls will still be implemented (e.g. performance metrics, reports) to manage the project.</td>
</tr>
</tbody>
</table>
A stakeholder implements either trust-building initiatives or formal controls. Trust and formal controls are seen as substitutes. Either trust or formal controls are relied upon in the outsourcing relationship. Both parties may choose to work informally based solely on trust and thus, they may neglect to implement any type of formal controls.

Table 2.8 Operationalisation of three types of balance

Based on this table, and the information provided in the ‘Provided example’, the evidence of any of the three types of balance is based on the combinations of trust and formal controls found in case studies. In the case of synergistic balance, these two initiatives are mutually influential. When participants implement one of these initiatives, i.e. one of the trust-building types (e.g. performance-based trust), formal controls (e.g. progress reports) may be changed as well since both project teams are engaged in the team-building process, and thus, they each trust the other regarding skills. In the case of orthogonal balance, both formal controls and trust are evident in the outsourcing relationship, yet participants do not attempt to align those two initiatives and both parties can have both high levels of trust and high levels of formal controls in the arrangement. In the case of antithetical balance, both trust and formal controls are seen as substitutes so that participants may decline to implement either of those elements and choose to rely on either formal controls or trust to manage the ongoing outsourcing relationship.

2.1 Do the perceptions of balance differ from the client’s perspective and the vendor’s perspective?

2.2 Do the perceptions of balance differ at different organisational levels?

These two research questions aim to explore different perceptions of the balance that are aggregated from multiple perspectives of the key stakeholders from both organisations. Initially, I explore the client and vendor views of the perceived combination between trust and formal controls within the current outsourcing arrangement. The perceptions of balance are further considered across three organisational groups, i.e. executives, managers and operational staff in both the client and vendor organisations. In the area of IS outsourcing, the variances in opinions across different organisational levels have been acknowledged in a number of works (Hirschheim and Lacity 1998; Goles 2001). Hirschheim and Lacity (1998) found that multiple stakeholders often create conflicting expectations of information systems (IS). For example, senior level executives favour low-cost solutions, whereas users typically tend to demand quick and effective service. In examining the factors affecting the client-vendor relationship, Goles (2001) noted that the perceptions of managers at the strategic and operational levels in the organisation of the same issues were different. This phenomenon may also translate into my research as outsourcing stakeholders involved in different levels of organisations may have
different perceptions of the outsourcing arrangement due to the specific nature of the responsibilities. In each case, I seek the perceptions of each member of the organisational group that eventually contribute to the understanding of the concept of balance.

3. **In what ways does the balance between trust and formal controls impact on the perceptions of the outsourcing arrangement?**

Based on the perceptions of the participants, the research further explores different effects of the balance on the outcomes in IS outsourcing arrangements. In the literature review, an assertion was made that the key stakeholders involved in the IS outsourcing arrangement integrate formal controls and promote trust in order to achieve higher performance and service quality in the outsourcing project (Sabherwal 1999) and satisfaction with the outsourcing relationship (Whitten and Leidner 2006). Personal judgments of stakeholders with regard to finding a balance are considered to serve as the criteria for effects of the balance on the project- and relationship-related outcomes.

**2.9 Chapter Summary**

In this chapter, I provided the initial literature background through the introduction and definition of a few terms and essentials relevant to the IS outsourcing field. Then, a close look was taken at the IS outsourcing relationship literature, as it served as one of the major theoretical groundings for this study. Further, a core literature review on two research concepts (trust and formal controls) was presented with a number of works then specifically focusing on explaining the nature of the relationship between trust and formal controls. The chapter further continued with the conceptualisation of the key research concepts (trust, formal controls, balance). The conceptual research framework on the balance between trust and formal controls was then developed and discussed. At the end of the chapter, the discussion and operationalisation of the research questions was presented.
Chapter 3: Research Methodology

3.1 Introduction

In Chapters 2, I dealt with the relevance side of the research (Benbasat and Zmud 1999), providing arguments that demonstrate that the outlined research questions grew directly out of the identified gaps and limitations in the IS outsourcing field, a vital area of interest for researchers and practitioners alike. Addressing these concerns adds to the relevance of the study (Rosemann and Vessey 2008). This chapter shifts the focus more to the rigor side of the debate and demonstrates that sufficient attention was paid to the design and conduct of the research. According to Trauth (2001), the chosen research method needs to be aligned with the aim of the study, the nature of the research problem and the collected and analysed data. The qualitative research has been chosen as the most appropriate since the current study aims to investigate perceptions, understandings and values of the participants because this is critical to advancing knowledge and understanding of the balance between trust and formal controls in IS outsourcing arrangements. Under the modularity of qualitative research, I am going to justify the selection of an interpretive paradigm and case study research as appropriate to address the posed research questions. Arguments are presented to suggest that a sound research design, one that conforms to certain criteria, can do much to alleviate the weaknesses of the case study as the research approach. Further the chapter discusses the elements of the case study design, with an emphasis on the case selection and sampling strategy, the chosen approaches for data collection and analysis. Finally, the chapter discusses issues associated with research quality and ethics.

3.2 Selection of the Interpretive Paradigm

The selection of a paradigm as a philosophical stance is important as it underpins the fundamental values and beliefs of the research ranging from the perception of the phenomena under study to the selection of a research approach (Kumar 1996b; Myers 2009).

There are a number of researchers who have indicated that the application of the universal laws and objective measures to research on social phenomena is problematic, especially the assertions proclaimed by the positivist approach (e.g. Crabtree and Miller 1999; Weick 1984), and thus, the quest for universal laws leads to assuming the stable and measurable state of affairs (Baroudi et al. 1986) and disregards historical and contextual conditions as possible triggers of events or influences on human action (Orlikowski and Baroudi 1991). While the
interpretivist approach investigates the research phenomenon as a process or experience of the actors involved in the social interaction with the researcher. In contrast to positivism that claims that there is a single objective reality and provides a limited understanding about the phenomenon, the interpretivist approach enables to generate multiple meanings and realities within the investigated phenomenon, and places an emphasis on meaning and co-construction (Carr and Kemmis 1986 in Goodrick 2008).

In the IS context, the design and use of IT in organisations is intrinsically embedded in social contexts, marked by time, locale, politics and culture (Orlikowski and Baroudi 1991). The human individuality and the ability to think and make choices must be extremely limited if they are viewed as being governed by a series of laws (Burns 1994), and thus, ignoring these influences may result in an incomplete picture of information systems phenomena. Interpretivist research rejects the notion of value-free research and is not concerned with repeatability of an explanation. In response to this, the interpretivist paradigm offers a very different view of the nature of research enquiry in the social sciences. It is defined as follows:

“The systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social world” (Newman 1991, as cited by Shanks et al. 1993, p. 35).

At the core of interpretivism is the statement that social reality is highly subjective, and is developed and renegotiated through interpersonal interactions between actors within a particular context (Hughes 1990). The research focus is usually an individual, and through the power of language, shared meanings, tools and documents, an understanding can be gained of the way certain phenomena in the social world are perceived and interpreted (Walsham 1995). The notion of universal laws that govern human behaviour is rejected, as is the notion of an objective researcher as the translator of ‘facts’. Given that knowledge is derived from the perceptions, assertions and judgements of individuals interacting within a social context, research becomes a highly subjective activity (Burns 1994; Cohen and Manion 1994), with the researcher actively engaged in the field of study, by co-constructing ‘values’ with participants and admitting that his/her values and biases are inextricably embedded in understanding of the research context (Creswell 1994; Orlikowski and Baroudi 1991). Overall, interpretivist research aims to explain the meanings attributed to certain behaviours by actors through the use of their language to describe social events in the situation, allow others an insight into the reality experienced by those actors, and highlight subtleties of responses and behaviours given a particular context (Shanks et al. 1993).
Given the nature of the research objectives and research questions stated in Chapter 2 (see section 2.8.2), it is reasonable to assert that the interpretive paradigm is an appropriate philosophical assumption to conduct this study. The study recognises the importance of human actions and interactions for IS practice and research as suggested by Walsham (1995). The adoption of an interpretive paradigm indicates an acceptance of the fact that the researcher is not independent from what being researched (Creswell 1994). The current study does not seek to criticise, intervene, or to change the existing conditions. Neither does it attempt to limit the social or organisational context to ‘numbers’ by quantifying the social acts observed during the study. In contrast, it searches for a richer understanding of the social and organisational context within which the research is based by relying on personal perceptions and evaluations of the natural settings (Walsham 1995). In line with the underlying aim of the research, which is to study the balance between trust and formal controls in the IS outsourcing arrangement, it is argued that an interpretive approach will provide the research with a greater scope to address issues of influence and impact, and to ask questions such as ‘why’ and ‘how’ particular values and accounts of the relationship are formed. The nature of the research interest dictates that the research is conducted in real-life organisational settings, meaning that organisational politics, culture and location will to a certain degree impact on the research process. Moreover, I do not seek to impose some external objective scheme to measure the effectiveness of any outcomes. Instead, the research study relies on the subjective perceptions and evaluations of those directly affected by the organisational intervention (outsourcing arrangement), though in such a way that the assumptions and values are deeply embedded in the phenomenon itself. All these issues indicate that an interpretivist approach is a better choice for this study.

3.3 Selection of the Case Study Research Method

Within a qualitative research tradition, there are various research methods, the selection of which is determined by a number of factors. A number of researchers claim that qualitative researcher is confronted with a plethora of qualitative methods (e.g. Dey 1993; Miles and Huberman 1994; Tesch 1990), each of which has its own advantages and disadvantages (Benbasat et al. 1987). For example, Klein and Myers (1999) identified the following interpretive research methods that could be applied in the IS context: in-depth case study, ethnography, phenomenology, action research and grounded theory. In the IS field, there have always been debates around the most appropriate approaches that should be chosen for exploring research issues (Mingers 2001). Some researchers (Creswell 2007; Neuman 2006; Yin 2008) argue that any research by its nature (or purpose) can be described as exploratory, descriptive and explanatory, depending on the purpose of the research.
Exploratory (formulative) research examines a little-understood phenomenon to develop preliminary ideas and move toward refined research questions by revealing the ‘what’ nature of the research phenomenon (Neuman 2006), and it frequently uses qualitative research methods. Descriptive research aims to “paint a picture” (Neuman 2006, p. 35) by using words or numbers to present a profile (or a classification of types) and/or provide step-by-step guidelines to answer questions such as who, when, where and how. Among the common techniques are surveys, field research and historical-comparative research. Explanatory research aims to explain why particular events occur and to build, elaborate, extend or test theory (Neuman 2006). In this research, a mixture of research methods is usually used.

Further, Galliers (1991) proposed three aspects that need to be considered when selecting appropriate research methods:

- whether the research focuses on information technology with the impact on society, an organisation or the groups, or the individual;
- whether the research focuses primarily on the technology itself or methodology considerations;
- whether the research is concerned with building, testing or extension of the theory.

The criteria above, used to find the appropriate match between a research study and research methods by Galliers (1991) and Shanks et al. (1993), can be combined to form the basis for choosing the most appropriate research method for this research study. Before discussing which method is possible for this research study, it is important to assess the criteria set by Galliers (1991) and Shanks et al (1993). Combining the criteria presented in Table 3.1, with the research objectives and questions outlined in Chapter 2 (see section 2.8.2), this research study can be assessed in the following manner:

1) This research study is focused on exploring the balance between trust and formal controls in IS outsourcing relationships within the organisational context. Groups of stakeholders with two (client and vendor) organisations are involved in this study.

2) The research study defines the context for the research investigation within the client-vendor outsourcing arrangement, rather than within a particular technology or a certain technology process (e.g. use, adoption).

3) Based on the conceptual background developed for this research, it is evident that there is an aspect of theory-building that needs to be considered. In a sense, this study is a conceptual study that has adapted Long and Sitkin’s work (2006) on the balance
between organisational trust and task controls and synthesized the key ideas in the new environment, IS outsourcing. Evidently, this study has drawn on Sabherwal’s (1999) work about the need of finding the appropriate balance between trust and controls in IS outsourcing projects, and result in explaining the nature of the balance and what the appropriate balance between trust and formal controls means in the IS outsourcing setting and thereby, ‘building’ new knowledge on the concept of balance in the IS outsourcing field.

4) Given the main purpose of this research, this study is exploratory by nature. Being so, the research study aims to explore the balance between trust and formal controls in IS outsourcing arrangements by uncovering new insights and ideas on the complementary relationship between trust and formal controls. The research investigation is carried out in the field of IS outsourcing on the balance by further understanding of how the balance is perceived and achieved in the IS outsourcing arrangement.

Based on the assessment criteria set out by Galliers (1991) and Shanks et al. (1993), a number of possible approaches for this research have been identified (see highlighted columns in Table 3.1 below). However, case study was seen as the method best suited to the delivery of comprehensive outcomes for this study in line with the formulated research objectives.

Overall, Table 3.1 below illustrates the combined criteria adopted from Galliers (1991) and Shanks et al. (1993). These criteria should not be served as the ultimate criteria but should be seen as the illustration of a variety of options. The rationale for the relevant research focus is also provided.
### Modes for empirical approaches (observations and interpretations)

<table>
<thead>
<tr>
<th>Focus of research</th>
<th>Theorem proof</th>
<th>Laboratory experiment</th>
<th>Field experiment</th>
<th>Case study</th>
<th>Survey</th>
<th>Futures research</th>
<th>Simulation</th>
<th>Conceptual study (subjective/argumentative)</th>
<th>Phenomenological (descriptive/interpretative)</th>
<th>Action research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Society</td>
<td>No</td>
<td>No</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
</tr>
<tr>
<td>Organisation/Group</td>
<td>No</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Individual</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
</tr>
<tr>
<td>Technology</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
<td>Possibly</td>
<td>No</td>
</tr>
<tr>
<td>Methodology</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Theory building</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Theory testing</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Possibly</td>
<td>Possibly</td>
<td>No</td>
<td>Possibly</td>
<td>No</td>
<td>Possibly</td>
<td>Possibly</td>
</tr>
<tr>
<td>Theory extension</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Possibly</td>
<td>Possibly</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Possibly</td>
<td>Possibly</td>
</tr>
<tr>
<td>Exploratory</td>
<td>No</td>
<td>Yes</td>
<td>Possibly</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Descriptive</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Explanatory</td>
<td>Yes</td>
<td>Possibly</td>
<td>Possibly</td>
<td>No</td>
<td>No</td>
<td>Possibly</td>
<td>No</td>
<td>No</td>
<td>Possibly</td>
<td>No</td>
</tr>
</tbody>
</table>

**Justified rationale for choosing case study approach (based on research objectives)**

- Stakeholder groups (across three organisational levels: executive, management, operational) with two (client and vendor) organisations.
- The research problem is explored through the dyadic outsourcing relationships (i.e. process of achieving balance).
- The study is guided by theory building on the concept of balance, drawn from existing works that will result in providing a deeper understanding of the balance in the IS outsourcing context.
- The study aims to explore the nature of the balance by revealing new insights and ideas and building further understanding of this phenomenon in IS outsourcing.

**Table 3.1 Combined taxonomy of IS research methods (Galliers 1991; Shanks et al. 1993)**
In the IS field, the case study is a widely accepted research approach. This claim is supported in the study based on the survey of 636 IS related papers conducted by Farhoomand (1992) which indicated that the case study was one of the most commonly adopted research approaches. In more recent studies (Mingers 2003), a review of all the papers published during the period from 1993 to 1998 in two leading IS journals in the United States (MIS Quarterly and Information Systems Research); and four European publications (European Journal of IS, Information Systems Journal, Accounting, Management and IT, and Journal of Information Technology), was conducted, and this revealed that the case study was still one of the dominant approaches in the IS discipline. There is a strong case study tradition (e.g. Benbasat et al. 1987; Chen and Hirschheim 2004; Dubé and Paré 2003), with an increased interest in conducting interpretive case studies (e.g. Barrett and Walsham 2004; Benbasat and Weber 1996). This approach is well suited to providing an understanding of the interactions between IT-related innovations and organisational contexts (Darke et al. 1998), when the information systems interact with the people using the systems and processing the business information (Benbasat et al. 1987) and the focus is on organisational rather than technical issues. As a research approach, the case study can be mainly positivist (Yin 2003), interpretive (e.g. Avison 1993; Stake 1995), or a mixture of the positivist and interpretive approaches (e.g. Bryman 1989; Kaplan and Duchon 1988; Tashakkori and Teddlie 2003); each depends on the underlying philosophical assumptions of the researcher (Cavaye 1996; Doolin 1996) and therefore, producing different outcomes (Cavaye, 1996).

According to a number of researchers (Cavaye 1996; Merriam 1998; Stake 1995), the following characteristics describe the situations in which the qualitative case study method may be particularly appropriate:

- it is useful for investigating in-depth a contemporary phenomenon within its real-life context;
- the boundaries between phenomenon and context are not always clear;
- the research phenomenon can be studied at one or a number of sites;
- there is no need for explicit control or manipulation with the collected evidence;
- multiple qualitative sources of evidence may be used.

Thus, the case study approach is especially useful in contemporary situations in which the contextual conditions of events being studied are critical and in which the researcher has no control over the events by means of manipulation with the collected evidence. As Punch (1998) stated, “the basic idea is that one case (or perhaps a small number of cases) will be studied in
detail, using whatever methods seem appropriate. While there may be a variety of specific purposes and research questions, the general objective is to develop as full an understanding of that case as possible” (p. 150). A case study can be both a process of inquiry about the case (objective of research) and the product (outcome) of that inquiry (Stake 2000), as well as the research method (Galliers 1991). Arguably, the case study approach is particularly useful for practice-oriented problems where the experience of the participant is important and the context of the studied phenomenon is critical (Galliers 1991). Thus, the purpose of the qualitative case study is to gain an in-depth understanding of the research phenomenon and factors that have meaning to those involved in it and the researcher is interested more in process, context and discovery than outcomes, hypotheses, confirmation or description of the events.

Despite a number of attractive features, such as the in-depth investigation (i.e. ‘thick description’) of the phenomenon and the developed systematic focus, there are many who point out some weaknesses of the case study method. One of the challenges is the concern about generalisation, since case study research tends to focus on the analysis of one or a few cases (Myers 2009). The aim of conducting case study research in an interpretive context is not to look for ‘statistical generalisibility’, but rather to look for a rich, meaningful and in-depth understanding of the investigated phenomenon (Myers 2009; Walsham 1995). However, this inherent incapacity to enable wider generalisations to be drawn can be remedied by utilising a multiple case study approach when more than one case study is investigated (Stake 2006). Myers (2009) argues against so-called replication (or sampling logic) argument though, meaning that multiple case study approach would not be considered as the criteria for increasing ‘validity’ of the findings. Instead, he claims that one case may be enough if it the evidence is compelling and presents a significant contribution. Although having agreed on the importance of a single case study, I think that the replication logic (Eisenhardt 1989) should not be confused with the sampling logic, where a selection is made out of a population, for inclusion in the study (Crabtree and Miller 1999). The level of thinking of applying a type of sample selection is improper in the case study approach since each case study consists of a ‘whole’ study, in which facts are gathered from various sources and conclusions drawn on those facts (Tellis 1997). Having noted this, the multiple case study approach is deemed appropriate for the purpose of this study since each case serves as an analytical unit (Eisenhardt and Graebner 2007) and together they provide robust and persuasive evidence.

Overall, the following considerations justify the choice of the case study as the research approach for this study:
1. Given the interpretive stance adopted in this research, together with the nature of the research questions, it is believed that the case study approach is the appropriate means by which to gain an in-depth view of the topic. In particular, the characteristics of the case study approach enable me to observe and explain a highly complex phenomenon in which various issues and settings may contribute to the formation of the balance between trust and formal controls in IS outsourcing arrangements. A positive decision to conduct a case study approach is driven by the nature of the outlined research questions, the ability to conduct an in-depth, multifaceted investigation and the identification of a bounded system as the focus of investigation. Since case study research is valuable for discovering new behaviours, processes, or anything of which we have little knowledge (Meyer 2001), this approach is particularly useful for responding to how and what questions (Yin, 1994) about a contemporary set of events. This research study aims to uncover what should constitute the concept of balance between trust and formal controls and how participants perceive this concept in the IS outsourcing arrangement. Further, because these questions require exploration, this approach allows the researcher to “recognise the unexpected” (Gerring 2007, p. 39), thus enabling to explore the individual perceptions of the research interest.

2. The case study approach is considered to be appropriate for conducting in-depth, multifaceted investigation through the collection of multiple perceptions from different outsourcing stakeholders (i.e. three organisational levels) of the balance in different situational contexts (i.e. different IS outsourcing arrangements). To derive more in-depth insights, and for the sake of transferability, a multiple case study approach is more suited to the purposes of this study.

3. The most essential element of the case study is the identification of the case itself, as this allows a “bounded system” to be identified with certain features occurring within the boundary of the case, and other features outside it (Stake 2000, p. 436). In this study, the case study approach allows the researcher to identify the case organisations first and then identify the boundaries of the researched context which are the outsourcing arrangements with the historical background, the physical setting and timeline in which the case is bounded; and the key stakeholders through whom the case is known.

Overall, the case study has been chosen as the research method because it is suitable for exploring IS outsourcing arrangements (as an example of socio-technical arrangements), as it allows participants to describe their ideas, issues, opinions and aspirations (Myers 2009).
3.4 Case Study Design

Research design is the overall plan of the research investigation that includes the formulation of research question(s), specification of the decision to study either single case or multiple cases with the defined unit of analysis, methods and techniques of data collection and data analysis (Punch 2005).

The generic view of the research design process is provided below in Figure 3.1. The figure illustrates the research process and explains each of the phases of the research design in detail.

As indicated in Figure 3.1, the overall research design process is broken down into sequential stages; each is presented in a separate chapter or in a separate chapter section. The ovals with soft boundaries (dotted lines) represent the core elements that underline the main discussion topic in the relevant section (of the chapter).

The multiple case study approach has been selected for this research study (see section 3.3). This section discusses the elements of the multiple case study design (Creswell 2007; Punch...
such as case selection and sampling strategy, methods and techniques of data collection and data analysis and reporting of case study findings.

Given the nature of the research problem that focuses on exploring the balance between trust and formal controls in IS dyadic outsourcing arrangements, “the IS outsourcing arrangement between a client organisation and a vendor organisation” is to be considered as a case study. To better illustrate this point, Figure 3.2 below presents a clear view on this matter:

![Illustration of a defined case study](image)

In this study, the term ‘case study’ has been used interchangeably with the IS outsourcing arrangement that both client and vendor organisations had signed on the provision of IS/IT services.

### 3.4.1 Selection of Cases and Sampling Strategy

An important decision in case study research is to select a case. The cases may be chosen to replicate previous cases, extend an emergent theory, or it can be used to build the theory and provide examples of extreme types to provide alternative perspectives (Eisenhardt 1991). It has been acknowledged by many IS researchers that it can be a challenge to obtain access to sites (organisations) and participants (Buchanan et al. 1988; Saunders et al. 2009).

1. In this study, a mix of opportunistic (Patton 2002) and theoretical replication (Yin 1994) sampling strategies has been used. Initially, case studies were selected opportunistically based on information richness and interest for exploring the balance between trust and formal controls in IS outsourcing arrangements. Since this study involves aspects of the IS outsourcing arrangement between two organisations, data needed to be collected across both the client and vendor organisations involved in the same IS outsourcing arrangement. Initially, seven case studies were selected to fit this purpose. Further, five case studies (out of seven) have been selected to fit the theoretical conditions of the study (three types of balance: antithetical, orthogonal, synergistic) (i.e. theoretical replication).
2. Three organisational levels, i.e. executive, management and operational stakeholders involved in the daily management and operation of the outsourcing project needed to have access to and/or a sound working knowledge of the IS outsourcing arrangement. Each of these levels is involved in different aspects of the IS outsourcing arrangement.

In the literature, a definite number of cases required for a multiple case design is not prescribed. The appropriate number of cases may depend on how much is known about the phenomenon after studying a single case and how much new information is likely to emerge from studying further cases (Eisenhardt 1991). Initially, seven separate IS outsourcing arrangements were selected, with five being selected and subsequently presented to provide rich insights. Although the cases were opportunistically selected based predominantly on the organisation’s IS outsourcing interest, regardless the industry type, size and form, there are a number of considerations that should be taken into account. Table 3.2 provides the case selection considerations that have been identified in this study.

<table>
<thead>
<tr>
<th>Considerations</th>
<th>Definition</th>
<th>Research context</th>
<th>Supporting literature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisational levels</strong></td>
<td>Three levels are defined: executive, management and operational levels.</td>
<td>Different perspectives from these three levels were taken into account when investigating roles of trust and formal controls in the IS outsourcing relationship.</td>
<td>Hirschheim and Lacity (2000); Goles (2001); Lacity and Willcocks (1995)</td>
</tr>
<tr>
<td><strong>Organisational size</strong></td>
<td>Three types of organisations are distinguished: small-sized organisations (up to 50 employees), medium-sized organisations (between 50 and 150 employees), and large-sized organisations (over 250 employees).</td>
<td>The study investigates all three types of organisations. The case organisations were identified for the purpose of ensuring diversity when looking at the problem of trust and controls development in the IS dyadic outsourcing relationships.</td>
<td>Ang and Straub (1998); Sobol and Apte (1995)</td>
</tr>
<tr>
<td><strong>Types of organisations</strong></td>
<td>Two general types of business are identified: not-for-profit organisations (e.g. a church) and for-profit organisations.</td>
<td>The study includes both forms of organisation. Having thought of diversity (and partly of accessibility to the case site), different organisational structures (e.g. corporate structure, non-hierarchical structure) might have different impacts on the way in which the relationship between trust and formal controls was developed.</td>
<td>Hancox and Hackney (1999); Slaughter and Ang (1996)</td>
</tr>
</tbody>
</table>

**Table 3.2 Case selection considerations**

Each of the selection categories (organisational level, size or type) was based on a supporting literature that revealed the impact of each of them on the IS outsourcing context. In the
following sections, each of these considerations is discussed and its relevance to the case selection process is argued, especially in relation to the IS outsourcing literature.

According to the theoretical replication sampling strategy, I completed two case studies for each of synergistic and orthogonal balance and one for antithetical balance. The current types of balance in the case studies were identified from initial interviews with key stakeholders. Case study characteristics and categorisations into type of balance are provided in Table 3.3 below.

<table>
<thead>
<tr>
<th>Type of balance</th>
<th>Number of cases</th>
<th>Case study characteristics</th>
</tr>
</thead>
</table>
| Antithetical Balance | 1               | • strong reliance on initial trust-building.  
|                    |                 | • lack of project governance and performance mechanisms (including benchmarking targets). |
| Orthogonal Balance | 2               | • no alignment between trust and formal controls.  
|                    |                 | • strong presence of trust at senior executive level  
|                    |                 | • formal controls rigorously defined.                                                            |
| Synergistic Balance | 2               | • close alignment between trust and formal controls.  
|                    |                 | • several initiatives concerning trust and/or formal controls that changed the working relationship or project performance. |

Table 3.3 Categorisation of the types of balance used in case study selection

However, it should be noted that some case studies may have had different types of balance previously, and this is discussed further in the case study analysis (see Chapters 4-6).

**Organisation levels**

In IS outsourcing, the differences in opinion across different organisational levels have been acknowledged in a number of works (e.g. Goles 2001). When looking at the client-vendor relationship, Goles (2001) noted that the perceptions of managers at strategic and operational levels in the organisation about the same issues were different. In this research, I have differentiated between three within an organisation: executive, middle management and operational levels. The key participants across three different levels may provide different perceptions of the development of trust and formal controls in the IS outsourcing arrangement, depending on the role they play and the level of responsibility they have within an organisation.

**Different types and sizes of organisations**

Hancox and Hackney (1999) discussed the differences and similarities between public and private organisations in terms of IS outsourcing. According to them, both public (including government) and private organisations express doubts about the notion of vendors as partners,
i.e. public organisations seem to be a lot more concerned about potential conflict with the vendor than do private organisations. This is a very important consideration to note, given the nature of the research problem.

In the outsourcing literature, there are a number of researchers who discuss how organisations that are different by size make their outsourcing decisions (e.g. Ang and Straub 1998; Sobol and Apte 1995). For example, Sobol and Apte (1995) found that smaller companies tend to outsource less than larger companies. Similarly, Ang and Straub (1998) empirically found that the choice of outsourcing would depend on the size of the organisation and the criticality of the assets.

The selected cases could be regarded as typical since they involve typical IS functions that are outsourced, such as website development, applications development and support, desktop support, or managing IT infrastructure. Moreover, these case studies are interesting and typical of the sort of arrangement the organisations engaged in and, hence, the findings derived from these case studies could be transferable and applicable to other contexts and stakeholders involved. In Table 3.4 below, I provide details of the case studies selected for this study.

<table>
<thead>
<tr>
<th>Client organisation</th>
<th>Case study (IS outsourcing arrangement)</th>
<th>Vendor organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinCorp</td>
<td>IS outsourcing arrangement for midrange application support</td>
<td>IT Consultant A</td>
</tr>
<tr>
<td></td>
<td>IS outsourcing arrangement for infrastructure support</td>
<td>IT Consultant B</td>
</tr>
<tr>
<td></td>
<td>IS outsourcing arrangement for mainframe application support</td>
<td>IT Consultant C</td>
</tr>
<tr>
<td>EduPro</td>
<td>IS outsourcing arrangement for first- and second-level help desk support</td>
<td>ITPro</td>
</tr>
<tr>
<td>VicChurch</td>
<td>IS outsourcing arrangement for website development and support</td>
<td>SmallWeb</td>
</tr>
<tr>
<td>Council</td>
<td>IS outsourcing arrangement for greenlight content management system for planning permit</td>
<td>GreenIT</td>
</tr>
<tr>
<td>University</td>
<td>IS outsourcing arrangement for student inquiry management system</td>
<td>GoodEdu</td>
</tr>
</tbody>
</table>

Table 3.4 Summary of case study organisations

In multiple case study design, there is no predetermined number of cases and yet, the researcher should stop adding cases, when a theoretical saturation is reached (Eisenhardt 1989), which is the point at which there is no more new information is derived and incremental learning is minimal. Although most researchers are vague when it comes to suggesting the ideal number of cases to be used in the study, Eisenhardt (1989) suggests that multiple case design requires the
study of at least four, but no more than ten cases. In this study, seven case studies were initially chosen and data collection was conducted. However, when the data from additional two case studies (see grey rows in Table 3.4 above) had been collected and analysed, they did not exhibit anything additionally significant to what was already exemplified through the remaining five cases in terms of the dynamic of trust-controls relationships. Thereby, the theoretical saturation was reached with five case studies.

Overall, I had five different case studies, or five different IS dyadic outsourcing arrangements. In total, eight client and vendor organisations, consisting of three client and five vendor organisations (there was one client organisation that had outsourcing contracts with three different vendors) were selected for this research study. The organisations were identified and subsequently approached through personal contacts of the researcher and the researcher’s two supervisors. Three groups of organisations were included in the study: client organisations, local (domestic) vendor organisations, and an offshore vendor organisation. Complete information about the participant organisations can be found in Appendix A.

3.5 Data Collection Approach

The interpretive approach deemed to be appropriate for this study and thus, the following have been taken into account:

- the focus of the study is primarily on participant’s perceptions and experiences;
- idiographic interpretations within a particular context are made (rather than generalisations) as a illustrative representative of typical cases of the study;
- the researcher is an integral part of the research process and, together with participants, aims to ‘co-construct’ the knowledge about the research phenomenon and, thus, is an instrument of data collection (Guba and Lincoln 1989).

Given the nature of the research study, it is evident that qualitative data (dealing with words, concepts and meanings), rather than quantitative data (dealing with numbers and measurements), should be collected. Such qualitative data can be gathered for example, through observations, interviews, documentation and archival records (Miles and Huberman 1994). The qualitative approach to data collection and analysis is consonant with the interpretive paradigm. Hence, the outcomes of this research would rely on the interpretations based on the perceptions of those involved in the IS outsourcing process. In this study, I rely mainly on interviews as the primary data collection method as well as additional documents for framing and contextualising the interview data.
3.5.1 Interviews as the Primary Data Collection Method

The interview is one of the main data collection tools in qualitative research (Kvale 1997). It is a very good way of accessing people’s perceptions, meanings, definitions of situations and constructions of reality (Punch 2005). Further, it is one of the most powerful ways to obtain understandings of others (Kvale 1997). Generally, qualitative interviewing is necessary whenever depth of understanding is required and the purpose of research is to examine complicated relationships and events over time (Rubin and Rubin 2005).

In general, there are three types of interviews unstructured, structured and semi-structured (Silverman 2005). Rather than unstructured qualitative interviews, in which the researcher offers a general topic for discussion and allows the participant to speak relatively free on the topic without being constrained by particular questions, structured interviews contain a series of specific questions (Hopf 2004; Rubin and Rubin 2005). The semi-structured format of interviews is often used when the researcher enters the field with more direct questions in mind, meaning that such interviews are not highly structured, as is the case of the structured format that consists of closed-ended questions, nor is it unstructured, where the interviewee is given a chance to talk freely about the topic. Overall, the key difference between interview types is the degree of ‘control’ of the interview, the depth of the interview and the degree to which the interview is standardised across participants (Goodrick 2008).

In addition, the relative flexibility and breadth of semi-structured interviews is reflected in their ability to provide more possibilities of further exploring a particular point of interest that may arise during the interview (Robson 2002; Saunders et al. 2003). Although it is prepared to ensure that basically the same kind of information is obtained from each individual, there are no predefined responses, and the interviewer is free to probe and explore within these predefined areas of inquiry (Schmidt 2004).

In this study, I chose semi-structured interviews as the main method of collecting data, since they can provide more breadth and flexibility. To explain the reasons behind my choice of semi-structured interviews, I used Saunders et al.’s (2003) description of three situations in which semi-structured interviews are considered beneficial:

1. when the explanations for the opinions and attitudes of participants need to be understood. Since the relationship between trust and formal controls in the IS outsourcing arrangement is perceived differently by a variety of individuals, the rationale for their views and judged perceptions needs to be explored.
2. When participants make comments on a topic, ask for clarifications, and use their own examples to illustrate a case, without having to write anything down or being constrained by limited and/or ‘scripted’ answers within the boundaries defined by the researcher. The notion of the balance between trust and formal controls in the IS outsourcing arrangement can be illustrated with an example of what specific mechanisms have been used to achieve a particular type of balance.

3. When questions are complicated, non-standardised and involve seeking a variety of opinions. In relation to this study, the answers required from the participants are not straightforward since they depend on factors such as individual views and gained (working) experience on the roles of trust and formal controls, and perceptions of the balance in the outsourcing arrangement.

There are different aspects in IS outsourcing, regarding the roles of trust and formal controls that were identified in the literature review (see Chapter 2). Thus, a list of interview questions that addressed these aspects was created for the interview. These questions and other information that needed to be obtained were used to create an interview guide (Creswell 2003). The guides for the client and vendor organisations were similar, except for the initial set of questions which were aimed at capturing background information about the organisations, stakeholders and roles involved, and the outsourcing project itself. Further, an unstructured component was included in the last section of the interview questions in order to enable the respondents to talk freely on any matters that were not discussed earlier.

**Interview Guide Procedures**

In order to minimise some of the interview’s limitations and weaknesses, such as poorly constructed or confusing questions (Creswell 2003), a carefully designed interview guide is essential.

An interview guide (or ‘script’) is a list of questions or general topics that the interviewer wants to explore during each interview (Hoepfl 1997). The practical value of interview guides is that it ensures the good use of limited interview time, asking more systematic and comprehensive interview questions and keeping interactions focused. Interview guides can be modified over time to focus attention on areas of particular importance, or to exclude questions the researcher has found to be unproductive in terms of achieving the goals of the research (Lofland and Lofland 1984). Other reasons for developing a guide are to ensure adherence to ethical requirements and allow for reasonable consistency in data collection (Hoepfl 1997). The interview guide was trialled prior to the data collection stage.
A standard procedure was adopted for each interview. Firstly, I talked about the objective of the research study and the interview in particular, and explained how the data collected from the interview would be used. I also talked about the practical benefits for the case organisation. Secondly, a set of introductory questions was asked about the background and details of the outsourcing project. After the introduction, the main interview questions asked centred around the theoretical concepts and research questions (they formed the largest part of the interview). Interviews were conducted in an open and semi-structured manner, while the interviewees were free to interject their comments or expand on issues they thought were important. Thus, the guide was only indicative of the questions that were discussed during the interview.

The interview questions were structured in accordance with one of the interview techniques known as a “funnel model” (Seaman 1999, as quoted in Runeson and Höst 2009, p.147). The funnel model begins with open questions and moves towards more specific ones. The design of the interview questions was developed with the theory and literature review in mind. For example, interview questions regarding contracts and formal controls were developed in line with a number of works written on contracts (Interview Questions/IQs 2, 4-6 are based on e.g. Fitzgerald and Willcocks 1994; Lacity and Hirschheim 1993a; Lacity et al. 1995) and formal controls (IQs 6-10 are based on e.g. Choudhury and Sabherwal 2003; Kirsch 1997; McFarlan and Nolan 1995), while the interview questions regarding the development of outsourcing relationships and trust were based on a number of works (IQs 11-20 are based on e.g. Goles and Chin 2005; Kern 1997; Oza et al. 2006). The individual perceptions of the IS outsourcing arrangement were asked for as well (IQs 21-25). All participants’ answers would afterwards be linked to the research questions at the data analysis stage. All interview questions can be found in Appendix B.

In total, 43 semi-structure interviews were conducted across the seven case studies. Of these 43 interviews, 30 interviews which were conducted in the five case studies were included into the data analysis. The interviews were conducted in the form of a face-to-face (or group) conversation that lasted from thirty minutes to almost two hours. Each interview lasted on average about an hour, and all interviews were recorded, transcribed and returned back to the case participants for verification. Sometimes participants might share documents related to the discussion threads (e.g. organisational charts, project specification, user guidelines).

**Interview Participants**

The data collection stage was undertaken from October 2008 to June 2009. During this time, all seven case studies were identified and interviews were conducted with the selected participants.
The initial contact was made with the stakeholder from the client organisation. The initial interviews with the first contact were scheduled through either an email or a telephone call. Further interviews with other participants from both organisations were arranged with the help of the initial interviewees from both sides, who made the referrals.

All case organisations were renamed to maintain confidentiality. Similarly, the case participants were de-identified, but labelled to identify whether they were a client or a vendor representative, and also the organisational level they belonged to. In Table 3.5 below, I provide details of interviews conducted per each organisational level.

<table>
<thead>
<tr>
<th>Organisational level</th>
<th>Labels applied to participants</th>
<th>Number of interviews across all case studies</th>
<th>Number of interviews included in the scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>CE: client executive VE: vendor executive</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Management</td>
<td>CM: client manager VM: vendor manager</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Operational</td>
<td>CO: client operational staff member VO: vendor operational staff member</td>
<td>19</td>
<td>15</td>
</tr>
</tbody>
</table>

Table 3.5 Total number of interviews across organisational levels

In total, thirty interviews were conducted with representatives from client and vendor organisations, of which eight were conducted with the participants from the executive level, seven with those from the management level, and fifteen interviews with the participants from the operational level. Overall, there were 30 interviews conducted with 23 individuals.

Further, Table 3.6 provides a summary of the people being interviewed (across three organisational levels) for each case study. Sometimes it was not possible to attract participants from each organisational level in some of the cases (see grey areas in Table 3.6). However, despite the unavailability of some of the participants, there was still a sufficiently broad range of responses to provide comprehensive and useful data.
<table>
<thead>
<tr>
<th>Case study pair</th>
<th>Organisational level</th>
<th>Role of interviewee at the client organisation</th>
<th>Role of interviewee at the vendor organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FinCorp-IT Consultant A</strong></td>
<td>Executive</td>
<td>IT Support Leader</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>IT Midrange Support Manager</td>
<td>Project Manager</td>
</tr>
<tr>
<td></td>
<td>Operational</td>
<td>IT Midrange Business Analyst</td>
<td></td>
</tr>
<tr>
<td><strong>FinCorp-IT Consultant B</strong></td>
<td>Executive</td>
<td>IT Support Leader</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>IT Infrastructure Support Manager</td>
<td>Project Manager</td>
</tr>
<tr>
<td></td>
<td>Operational</td>
<td>IT Infrastructure Team Leader</td>
<td></td>
</tr>
<tr>
<td><strong>FinCorp-IT Consultant C</strong></td>
<td>Executive</td>
<td>IT Support Leader</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>IT Mainframe Support Manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operational</td>
<td>IT Documentation Officer</td>
<td>On-Site System Specialist (Offshore Team Member)</td>
</tr>
<tr>
<td><strong>EduPro-ITPro</strong></td>
<td>Executive</td>
<td>Chief Information Officer</td>
<td>Director of Professional Services</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td></td>
<td>Technical Project Manager</td>
</tr>
<tr>
<td></td>
<td>Operational</td>
<td>1. Security Administrator;</td>
<td>Senior Support Specialist</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Web and Business Support Officer</td>
<td></td>
</tr>
<tr>
<td><strong>VicChurch-SmallWeb</strong></td>
<td>Executive</td>
<td></td>
<td>Managing Director/Project manager</td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td>IT Manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operational</td>
<td>1. Web Communications Officer;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. IT contractor/Web Administrator</td>
<td></td>
</tr>
</tbody>
</table>

**Table 3.6 Summary of the people interviewed in five case studies**

The organisational levels of the participants were crucial factors that guided the sampling strategy because of the importance of the organisational role, view and experience of the participants.

Lacity and Willcocks (2000) recommended that, when studying the *dyadic client-vendor* relationship perspective, the research focus should guide the researchers in identifying specific stakeholders in both client and vendor organisations who have the greatest impact and knowledge in the research context. I interviewed not only top-level executives who could provide an overall picture of the organisation’s outsourcing strategy and expectations, but project managers and operational staff who could provide the necessary level of detail and
insight into the outsourcing arrangement (see Table 3.6). As Sanders (1982) noted, “in-depth probing of a limited number of individuals...who can give reliable information on the phenomena being researched is more important than having a large number of interviews” (p. 356). I concur with such statement as it was reflected in how the empirical investigation was conducted.

Overall, Table 3.7 gives a quick overview of the number of interviews collected per case, people interviewed (i.e. organisational level) and the number of hours produced from transcribed interviews.

<table>
<thead>
<tr>
<th>Case No.</th>
<th>CLIENT</th>
<th>VENDOR</th>
<th>Total number of interview hours (in hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Organisati on name</td>
<td>Number of interviews</td>
<td>People interviewed (i.e. organisational levels involved)</td>
</tr>
<tr>
<td>1</td>
<td>FinCorp</td>
<td>3</td>
<td>1. CE 2. CM 3. CO</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>2</td>
<td>1. CE 2. CM</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>3</td>
<td>1. CE 2. CM 3. CO</td>
</tr>
<tr>
<td>4</td>
<td>EduPro</td>
<td>5</td>
<td>1. CE 2. CO 3. CO</td>
</tr>
<tr>
<td>5</td>
<td>VicChurch</td>
<td>3</td>
<td>1. CM 2. CO 3. CO</td>
</tr>
<tr>
<td>6</td>
<td>Council</td>
<td>3</td>
<td>1. CM 2. CO 3. CO</td>
</tr>
<tr>
<td>7</td>
<td>University</td>
<td>4</td>
<td>1. CE 2. CM 3. CM 4. CO</td>
</tr>
</tbody>
</table>

Table 3.7 Client-vendor case study pairs

Given the total number of the interviews and the people being interviewed, there were instances in which I conducted follow-up interviews. Since on average the interview took about one hour, the data I collected was very insightful and rich in details. All interviews were collected at the premises of either the client or the vendor. The offshore vendor representative (from IT Consultant C) in case study three was also interviewed at the client’s premises (i.e. FinCorp).

³ Two case studies that are greyed in Table 3.7 have been discarded from this research study.
The order in which the case studies are presented in Chapters 4-6, together with labelling of the participants, will correspond to the order of the case studies presented in Table 3.7 above.

3.5.2 Additional Data Collection

Additional data refers to documents and artifacts such as meeting minutes, documents from different development phases (e.g. staged implementation of the project), organisation charts, financial records and previously collected measurements in an organisation (Burns 1994; Yin 2003). For the case studies, the most important use of documents is to utilise them to corroborate and augment evidence from other sources (Yin 2003).

In this study, besides the interview data, I collected various media documents such as news reports and published case studies on the IS outsourcing projects from various sources, including newspaper clippings, organisation web sites, and IT-related forums (e.g. whirlpool.com.au). These documents were used to collect the necessary background information on the case studies (e.g. key financial indicators, current trends). In some cases, I was able to collect organisational charts, internal media reports and bulletins, project specifications and technical artefacts that provided very significant insights into the technical operations of the IS outsourcing project. This data provided useful background for the details of case studies but did not have a significant impact on the case studies as such and did not form a major part of the analysis.

3.6 Data Analysis Process

The main objective of the qualitative data analysis is to derive conclusions from the data, while maintaining a clear chain of evidence (Runeson and Höst 2009). The data analysis process ensures the plausibility of the conclusions derived from the collected data. This means that a reader should be provided with sufficient information on each step of the conducted data analysis and the reflections taken by the researcher throughout the entire process.

In this study, in order to investigate the research phenomenon as a whole (i.e. the balance between trust and formal controls), the constituent parts should be also explored (trust, formal controls), without losing the sense of wholeness (Kronick and Silver 1992) within the IS outsourcing context. As Darke et al. (1998) comment, “the strength of analysis in case studies derives from the strength of the exploration of the phenomenon based in interpretation of the data” (p. 285). The main approach adopted for data analysis in this study was thematic analysis. Thematic analysis is a method of identifying, analysing and reporting patterns (themes) within
data. It organises and describes the data set in rich detail (Boyatzis 1998), meaning that it enables the researcher not just to identify the major themes but to follow them through the various manifestations and iterations throughout the analysis process. These themes were recurrent topics that were present in the data and were related to trust, formal controls and balance (combination between trust and formal controls).

### 3.6.1 Unit of Analysis

The unit of analysis is the major element that is being analysed in the study, i.e. “it is the 'what' or 'whom' being studied” (Babbie 2009, p. 98). In social science research, the most typical units of analysis are individuals, whereas in the IS discipline, these are organisations or groups of people.

Since the goal of this research is to investigate the concept of balance between trust and formal controls in the dyadic outsourcing arrangement, the “relationship between the client and the vendor organisations” is perceived as the unit of analysis. I will gather different people’s perceptions from different organisational levels from both client and vendor organisations on the subject of achieved balance between trust and formal controls, from which I will draw conclusions about the IS outsourcing arrangement.

### 3.6.2 Data Analysis Strategy

Miles and Huberman (1994) recommend that codes should be related to the conceptual framework, rather than being a random collection of categories. Coding is one of the mechanisms by which the data is analysed. In this study, the initial set of themes (or codes) was based on the interview protocol (see Appendix B). These initial themes were used to organise the data collected on the first reading; rereading and additional interpretation led to additional of other codes. The coding template is provided in Appendix C. The more detailed explanation of the used analytical techniques is as follows:

1. The story of the outsourcing arrangement, as detailed in the case study background, was based on participants’ experiences using their recollections of the investigated phenomenon, as recorded in the interview transcripts. These stories served the important purpose of introducing the reader to the facts of the phenomenon.

2. As informed by the literature, I first look at the data and then compare the data to the conceptual framework. For this study a hybrid analytical approach to thematic data analysis was utilised, in which I incorporated deductive and inductive coding (Chiasson et al. 2009; Fereday and Cochrane 2006).
a. The general coding template (i.e. deductive approach) provided in Appendix C was used at this stage for aggregating and classifying data into seven main ‘ground categories’ (Marshall and Rossman 1995) or themes organised around interview questions; these themes were “project background”, “contract”, “formal controls”, “working relationship”, “trust”, “balance” and “outcomes”. Those categories facilitated the organisation of the voluminous data into the more meaningful and systematic structure.

b. Further, I conducted a bottom-up or inductive analysis by identifying themes within the case study. Those themes were identified based on their significance to the phenomenon. Stepping through the data, I looked at every sentence and asked “What does this sentence or sentence cluster reveal about the phenomenon or experience being described?” (Van Manen 1990, p. 93), suggesting a meaning or direct interpretation of the text (Kvale 1997). Such in-depth examination of the field text was accomplished by coding, through which each line of the text was read and assigned a code label with a specific meaning (Miles and Huberman 1994). The standard for what represented a theme was its salience as an explanatory factor rather than its frequency (Blatt et al. 2006). The coding process helped segment the field text into meaningful pieces (Tesch 1990); the segments of text from each case that were coded similarly were then put together to assemble all the comments in a case about a particular aspect of interest (e.g. formal controls implemented in the outsourcing arrangement).

3. Reflecting on themes emerged from the data, I was able to recreate how the participants perceived the phenomenon under study and identified meaningful commonalities across the cases. The cross-case analysis provided a means of looking across the case studies in order to draw wider conclusions (see Chapter 7). In particular, I employed a matrix technique (Miles and Huberman 1994) with the selected dimensions (trust development, types of balance), based on research questions. First, the findings of the five case studies were compared based on the discussion of the trust development (across the five types of trust) for within-group similarities coupled with intergroup differences (new types of trust identified in the case studies). Second, the case study findings were compared based on the type of balance achieved in the IS outsourcing arrangement (i.e. antithetical, orthogonal, synergistic), along with the discussion of the effects of the balance on the outcomes achieved.

Overall, the adopted thematic data analysis included the mixture of deductive (coding template-based initial analysis) and inductive analysis (direct interpretation of themes, recurrent and
salient) techniques. In Appendix D, an example of the analysed extract of the interview is provided.

3.7 Triangulation of Data

In social research, triangulation refers to strategies used to overcome the potential bias that can arise from the use of a single method, single data source, single researcher and/or single theoretical foundation (Denzin 1978 as quoted in Chenail 1997). In other words, it is a research approach that uses a combination of more than one research strategy in a single investigation to ensure completeness and verify confirmability of interpretations (Flick 1998; Patton 2002).

According to Denzin (1970), the researcher may strengthen claims by adopting a range of methods (interviews, participant observations and field notes, document analysis), collecting information from different sources (employers, employees, business partners), and working with other researchers or peers to analyse the data (instead of relying on a single interpretation). Table 3.8 shows how procedures have been built into the research design to enhance the quality and credibility (Patton 1999) of this research study.

<table>
<thead>
<tr>
<th>Types of triangulation (based on Denzin 1970)</th>
<th>Strategies to build into research design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data triangulation (focuses on data from different settings upon a single problem)</td>
<td>• Various data collected from different sources (i.e. interview data, media documents, internal documentation, physical artefacts in the form of brief notes).</td>
</tr>
<tr>
<td></td>
<td>• Interview data collected from three levels of an organisational hierarchy (i.e. senior executives, management and operations).</td>
</tr>
<tr>
<td></td>
<td>• Interview data collected and analysed comparatively from the client and vendor perspectives.</td>
</tr>
<tr>
<td></td>
<td>• Multiple case studies enabled the collection of data and comparison of research findings across all selected cases.</td>
</tr>
</tbody>
</table>

Table 3.8 Triangulation strategies used to enhance the study’s rigour

In this study, the data triangulation was ensured through a number of research strategies. First, the data was collected from different sources to ensure its accuracy and completeness. Second, the interview data was collected from both client and vendor organisations and three organisational levels to provide multiple (and alternative) perspectives on the research phenomenon and verify confirmability of the conclusions. Third, the use of multiple case studies enabled the collection of data and comparison of research findings across all selected cases to draw implications that are possible to apply (transfer) to other contexts.
### 3.8 Research Quality

One of the biggest challenges confronting qualitative researchers is how to assure the robustness and trustworthiness of the research (Guba and Lincoln 1989; King and Horrocks 2010). Researchers usually judge the quality of research based on the established guidelines of how to conduct good research. Validity and reliability are often viewed as the main concerns in determining the quality of the research (Morse et al. 2002). However, these established canons were developed with reference to quantitative (positivist) research approaches and, arguably, cannot be directly applied to qualitative (interpretive) research (King and Horrocks 2010).

With reference to the adopted case study approach, Janesick (1994) strongly argues that the value of a case study is its uniqueness and, thus, reliability in the traditional sense of replicability becomes senseless. This indicates that in interpretive case studies, a different approach needs to be employed when addressing the question of research quality. Klein and Myers (1999) developed seven principles that aimed at evaluating interpretive case studies in IS domain. In Table 3.9, each of the principles is defined and its application to the current research study is provided.

<table>
<thead>
<tr>
<th>Seven principles for interpretive research (Klein and Myers 1999)</th>
<th>My interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fundamental principle of hermeneutic cycle: all human understanding is based on sense-making of the parts and the whole.</td>
<td>This principle was applied to the data analysis stage of the research. In the case description and discussion, I explained how each part (stakeholders) fitted into the global scope (IS outsourcing arrangement) to provide an explanation for the situation under study. Also, while interviewing client and vendor organisations, I moved among three organisational levels (executive, management, operational) within the studied context. The whole can be understood by understandings its parts and the parts can be understood by understanding the whole. For example, the nature of the balance between trust and formal controls has been discussed at the dyad level (client or vendor), exploring how a particular type of balance was achieved (one of the three types), whereas at the organisational level, stakeholders gave their accounts on this process (see Chapters 4-6). Another example involved discussions of trust, formal controls, and outcomes as constituents of the conceptual framework. Subsequently, all elements of the conceptual framework were discussed together to constitute the knowledge about the balance in IS outsourcing.</td>
</tr>
<tr>
<td>Contextualisation: requires the critical reflection of the social and historic background of research settings.</td>
<td>In the case description, the thick description was provided to demonstrate how the studied phenomenon (balance) had been formed within the IS outsourcing arrangement and organisational contextual settings (see Chapters 4-6). In particular, close attention was paid to the historical context of each of the case studies. This included the detailed background of the IS outsourcing project (across five case studies) and details of the participants. For example, the discussion of the social and historical context in the third case study (FinCorp-IT Consultant C) revealed a number of factors essential to the discussion of the balance such as a decade-long outsourcing relationship between two organisations and the previous outsourcing project experience shared with the vendor.</td>
</tr>
<tr>
<td>Researcher-subject interaction: requires reciprocal interaction between the researcher and the participants, where participants co-construct ideas ('research data') with the researcher.</td>
<td>The interaction between researchers and subject was evident. All participants were open and honest while being interviewed and gave substantially unbiased accounts. From my (researcher's) side, all collected data was continuously checked and fed back to all participants during the investigation process and thereby ensuring a two-way interaction process.</td>
</tr>
<tr>
<td>Abstraction and generalisation: theories or concepts used based on which research is abstracted and generalised.</td>
<td>The studied phenomenon (balance) was examined through relational contract theory (Macneil 1985) as a meta theory about the complementary nature of trust and formal controls. Further, the conceptual nature of the trust-controls nexus was supported with Möllering’s work (2005), whereas the rationale of finding the appropriate balance was supported with Sabherwal’s work (1999). Also, the conceptual study about three types of the balance had been adapted from the work of Long and Sitkin (2006). This was sufficient in providing the theoretical apparatus to abstract from the empirical data.</td>
</tr>
<tr>
<td>Dialogical reasoning: requires sensitivity to the contradictions that emerge between the theoretical preconceptions guiding the research design and the empirical findings with further cycles of iteration.</td>
<td>Dialogical reasoning was evident through the continuous debate in the thesis about the nature of the balance. In fact, the study started with a general discussion about achieving the balance within the outsourcing context and further moved to a discussion about achieving a particular type of balance. The empirical part revealed the evolution of balance in time and prevailing trends (synergistic balance) in the IS outsourcing arrangement.</td>
</tr>
<tr>
<td>Multiple interpretations: different views and alternative perspectives should be taken into consideration and supported by the actual quotes from the participants.</td>
<td>In the study, different views and alternative (sometimes conflicting) perspectives were present which were able to be resolved with the conceptual framework. For example, in the fifth case study, client and vendor stakeholders gave opposing accounts about the quality of the outsourcing relationship, where the client highlighted the low quality of the delivered service and the vendor stressed the high quality of the provided service. This was ruled out with a discussion of existing formal controls that were found to be lacking in the project (e.g. explicitly formulated service level agreement) and as a result, both sides were faced with the poorly defined scope and mismatch of project expectations. Also, multiple interpretations were evident through perceptions collected at multiple levels.</td>
</tr>
</tbody>
</table>
Suspicion: requires sensitivity to possible biases and ‘systematic distortions’ observed in the stories of the participants.

A number of biases or systematic distortions were observed in the stories of the participants due to political agendas, roles they played (and thus, different levels of access), time factors, or even personal judgements. Although this had been noted at the data collection and analysis stages, it cannot be fully avoided. However, they are helpful in explaining different responses of the participants. For example, in the third case study, there was found to be a high level of trust at the executive level due to the long history of interactions between two executives, whereas at the operational level, the trust was not that high between the two project teams. The discussion about such distortion resulted in the important revelation about the relationship between the level of trust and the type of the balance (e.g. individual trust is key in the orthogonal balance).

Table 3.9 Evaluation for the study based on Klein and Myers’ seven principles

Although the authors recommended that researchers must decide ‘how’ and ‘what’ principles should be applied into the context of their research without “violating the emergent nature of interpretive research” (Klein and Myers 1999, p. 68), these principles should not be also used mechanically since the importance and relevance of each of the principles is partly derived from the way in which the others are applied in the research conduct. Thus, some of the principles were more evident than others in this research study.

3.9 Ethical Considerations

This study adheres to the guidelines and requirements stated in the Swinburne University’s policy for the conduct of ethical research involving human subjects. The full ethics clearance was granted by the Swinburne University’s Ethics Sub-Committee under the project title SUHREC Project 0708/267 for the data collection for the period from 1 August 2008 to 20 December 2009 (see ethics clearance statement in Appendix E).

In order to preserve confidentiality, the participants were given coded names instead of their real names. I obtained a written, informed consent from the participants involved in the research. The informed consent, together with the accompanying consent statement (based on the Swinburne University template, see Appendices F and G), informed the participants about the nature of the study, its main purpose and objectives, and of the associated risks and benefits of participation.

3.10 Chapter Summary

This chapter provided an outline of the discussion underlying the decision behind the adoption of the interpretive epistemology along with the case study research approach. The chapter
justified the decision to conduct the multiple case study design to investigate the balance between trust and formal controls in IS outsourcing arrangements. Further, various aspects of the case study design were discussed, from the case selection and sampling strategies (mix of opportunistic and theoretical replication) and development of the interview guide (semi-structured interviews with participants were used to constitute the empirical data) to the adopted data analysis strategy. As the part of the data analysis process, the relationship between client and vendor organisations within the particular IS outsourcing arrangement was selected as the unit of analysis on the main subject of the research investigation which was the balance between trust and formal controls. Thematic analysis together with the number of analysis techniques (deductive and inductive) deemed to be the appropriate choice for the purpose of this study. Ethical considerations were also discussed. This sets the stage for the discussion of the empirical work in the following three chapters.
Chapter 4: Case Studies One to Three

4.1 Introduction

This chapter presents three different case studies of IS outsourcing arrangements, exploring the nature of the balance between trust and formal controls in the dyadic outsourcing relationship. It is important to note that the three case studies presented in this chapter consist of one client organisation (i.e. FinCorp) and three different vendor organisations (i.e. IT Consultant A, IT Consultant B and IT Consultant C). Such decision to include them into a single chapter deemed appropriate in order to preserve wholeness of the research context of the IS outsourcing arrangements between one single client and three different vendors (sub-units of analysis).

4.2 Background of Case Study One

4.2.1 An Overview of FinCorp and IT Consultant A

The client organisation

The client organisation, FinCorp, is a subsidiary of a global company that is operating in more than 100 countries, employs more than 300,000 people and is headquartered in US, with interests in four main business divisions: credit and financing, technology infrastructure, energy infrastructure and entertainment media. In this case study, I focused on the finance business division in Australia. FinCorp is a leading consumer finance company which provides a wide range of financial solutions in the commercial and personal lending sectors. The solutions may include personal loans and mortgages, credit cards, insurance, promotional retail finance and other loans. In FinCorp and other subsidiaries of the global conglomerate, there is a corporate strategy in which IS outsourcing is viewed as imperative in obtaining required services at reduced cost from service providers whose services are comparatively cheaper than in-house resources. This policy is called the “70% rule”, meaning that 70% of the entire IT infrastructure should be outsourced to the external service providers. As the part of this strategy, FinCorp outsourced the midrange application support, infrastructure and mainframe support to three different vendors, the arrangements with who have constituted three case studies and are
discussed below. FinCorp has an annual turnover over AU$ 67 million dollars and employs 4,600 people serving more than 3.1 million customers through 120 local branches.

The vendor organisation

The vendor organisation, IT Consultant A, is an Australian public company that provides a broad range of information technology services. It employs over 1100 people and has offices in Brisbane, Melbourne, Sydney, Canberra and Hyderabad (India). IT Consultant A has grown rapidly, driven in part by an aggressive strategy of mergers and acquisitions with complementary organisations. For more than 20 years, IT Consultant A has provided end-to-end IT services, covering the full cycle of planning, delivering and running IT solutions. Being a Tier 2 service provider, IT Consultant A provides Microsoft and other Tier 1 vendor’s solutions to Australian companies. Among the services provided are IT strategy and architecture, application development, information and customer management, project management and mobility services. IT Consultant A has an annual turnover over AU$ 20 million dollars, and it continues to strengthen strategic vendor relationships with Microsoft, SAP, Oracle and IBM.

The scope of the arrangement

The case study and the discussion focuses on the client-vendor IS outsourcing arrangement in the context of the midrange application support project (subsequently referred to as the midrange project). The midrange applications are medium-sized computer systems that support FinCorp’s business processes. In the context of this case study, the midrange applications comprise FinCorp’s three types of IT infrastructure, i.e. data warehouse, middleware and web applications. Initially, the midrange applications were developed and implemented by FinCorp’s development team. For ongoing maintenance and support, they were handed over to a third-party service provider (i.e. IT Consultant A), and the relationship with this service provider is the focus of this case study.

4.2.2 Details of the Outsourced Midrange Support Arrangement

To cater for customer needs and operate a range of financial transactions, FinCorp was faced with managing hundreds of existing IT midrange systems that needed to be supported. Thus, in 2004, FinCorp announced a tender for the midrange support work and five different service
providers placed bids for the midrange project. After appraising and evaluating the proposals and presentations, in the course of which FinCorp looked at the performances and the offered price of proposals, it was decided to award the contract to IT Consultant A. The selection criteria were based primarily on the quoted price and IT expertise as demonstrated by the vendor in service quality. Subsequently, both organisations signed a support agreement, based on providing fixed cost support for midrange applications. The total value of the midrange project was about AU $2.5 million dollars per year.

Shortly after the initial contract sign-off, as the part of the transition process, IT Consultant A placed its own staff (initially two project teams) on FinCorp’s premises to work closely with the client team. According to the contract, the outsourced midrange support project involved the provision of 24/7 support for all applications in the portfolio which had over 100 applications that were maintained by the vendor. In particular, the project involved support for three different types of systems: web applications, middleware and a data warehouse (DwH). Those systems were initially supported by two teams, DwH and Web applications. The DwH team of FinCorp had been in operation for seven or eight years and comprised eight people working on the midrange project. The team supported data warehouse applications containing data on financial transactions. The Web applications team had been in operation for five or six years and comprised 12 people working on the project. The team supported web applications used for processing financial operations and communicated with the business department in FinCorp. Besides, the onshore teams that IT Consultant A put into the arrangement, there were also offshore teams that occasionally were involved on this matter.

The signed contract and the service level agreement (SLA) comprised standard reporting, team’s key performance indicators (KPIs), and other performance measures such as VOC (Voice-of-Customer), and set service targets outlined in the functional specifications that teams regularly used in their daily tasks. Given the issues that IT Consultant A had with regard to defining the scope of the supported applications, the project manager of IT Consultant A initiated the development of service guidelines detailing every item in FinCorp’s supported infrastructure.

Subsequently, the contract was firstly renewed in 2006 with a subsequent changes made in the pricing structure. Both parties adopted the pricing model, called a “per device$^5$ model”, according to which each application had a fixed cost of support service. The mentioned changes involved the added clause, called a “three-month variation cost”, according to which a newly

$^5$ In this case study, the ‘device’ is referred to any application in the midrange support arrangement.
developed application was under a three-month examination by the support team to clarify the requirements (and functionalities) of the application that had been handed over to the vendor team for further support.

Due to the increased number of applications that were subject for support, both organisations faced with series of issues related to the lack of formal processes at the handover process stage (when the new application is handed over from the development team to the support team) and the defined scope which eventually resulted in initiating changes in those formal processes. In particular, the formation of the change management team was one of the changes that the organisations developed. The team was formed to manage the handover process and coordinate changes within the scope of the support applications framework.

Despite occasional issues that both organisations might encounter during the course of the midrange support arrangement, they established a good working rhythm of working relationships through regular meetings and interactions, both formal and informal.

In early 2007, one of the existing teams (i.e. Web applications) split and formed a new Middleware team of four people. The team was formed as a result of the crucial need voiced by the vendor to allocate human resources for the management of middleware components independently and the evident disruptions in performance of the two existing teams to cope with the increased volume of the supported applications. By that moment, there were 40 people (including offshore teams) across three teams. All teams worked closely with each other, since they supported every component of the entire midrange system which was running on the same platform.

The good performance and management of the outsourcing relationship between two organisations resulted in the second renewal of the contract early in 2009. The entire contract was reviewed, including the terms and conditions. The scope and the cost were also renegotiated by FinCorp, given the impact of the recession. During the period when the contract was being reviewed for the second time, I interviewed the key participants in the midrange arrangement.

Figure 4.1 below provides an overview of the discussed events in the midrange support arrangement.
During the course of the midrange support arrangement, there were no disputes and enforcements to be acknowledged in the signed contract and its subsequent renewals. The following sections provide detail of the participants in this study and discuss trust and formal controls activities involved in the current outsourcing arrangement.

4.2.3 Details of the Participants

Three participants from the client organisation and four from the vendor organisation were interviewed to obtain details of the outsourcing arrangement (for details, see Table 4.1). These seven participants were drawn from three different organisational levels (i.e. executive, management, and operational), as described in detail in section 3.4.1. Table 4.1 below provides background details of the interviewed key participants. The table comprises details of the role, involvement in the midrange arrangement, length of time spent on the project and in the organisation overall.
<table>
<thead>
<tr>
<th>Interviewees(^6)</th>
<th>Role</th>
<th>Involvement in the midrange arrangement</th>
<th>Length of time worked on this project (yrs)</th>
<th>Overall length of time in the organisation (yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CE(_1)</td>
<td>Support Services Leader</td>
<td>From Day 1</td>
<td>7</td>
<td>18+</td>
</tr>
<tr>
<td>CM(_1)</td>
<td>Midrange Support Leader</td>
<td>After 1(^{st}) contract renewal</td>
<td>1.5</td>
<td>5+</td>
</tr>
<tr>
<td>CO(_1)</td>
<td>Midrange Support Analyst</td>
<td>From Day 1</td>
<td>7</td>
<td>7+</td>
</tr>
<tr>
<td>VM(_1)</td>
<td>Service Delivery Manager (SDM)</td>
<td>From Day 1</td>
<td>7</td>
<td>15+</td>
</tr>
<tr>
<td>VO(_1)</td>
<td>Data warehouse support team leader</td>
<td>From Day 1</td>
<td>2</td>
<td>13+</td>
</tr>
<tr>
<td>VO(_2)</td>
<td>Middleware support team leader</td>
<td>After 1(^{st}) contract renewal</td>
<td>3.5</td>
<td>5</td>
</tr>
<tr>
<td>VO(_3)</td>
<td>Web applications support team leader</td>
<td>From Day 1</td>
<td>4</td>
<td>4+</td>
</tr>
</tbody>
</table>

Table 4.1 Key participants in the midrange application arrangement

All interviewees were selected on the basis of their ability to offer important perspectives on the studied phenomenon. Most of the participants were involved in the IS outsourcing arrangement from the very beginning. The importance of such early involvement in the arrangement was associated with the fact that the interviewees were able to give diverse views on the development of the arrangement. For example, CE\(_1\) and VM\(_1\) were actively involved in the original contract negotiations of the midrange support arrangement, while CO\(_1\) was involved at the operational level and provided the account on the development of formal controls and working relationship with the vendor team. The long engagement of both CE\(_1\) and VM\(_1\) in the organisations, and their extensive work experience in the IT industry, produced interesting and compelling insights for the case study in terms of the development of the IS outsourcing relationship regarding the contract performance.

At the management and operational levels, CM\(_1\)’s and CO\(_1\)’s involvement in the midrange arrangement revealed key insights into the provision of the vendor’s deliverables, quality of the provided service and team-building efforts. From the vendor’s point of view, the involvement of the service delivery manager (i.e. VM\(_1\)) brought a different perspective (as opposed to that of the client) on the progress of the outsourcing arrangement with FinCorp with regards to the development of the working relationship. The vendor team (VO\(_1\), VO\(_2\), VO\(_3\)) gave in-depth

\(^6\) The naming conventions for case participants correspond to a two-letter acronym. The first letter refers to either a client (C) or a vendor (V) staff member, whereas the second letter stands for one of three adopted organisational levels, i.e. ‘E’ for ‘executive’, ‘M’ for ‘management’ and ‘O’ for operational. This system of abbreviation will be used throughout the entire thesis.
accounts of the project deliverables, operational difficulties in the working relationship, formal controls that were implemented and changes in trust development throughout the course of the arrangement.

Levels of responsibility

The participants played different roles in the midrange arrangement, depending on the position they occupied. In Figure 4.2 below, a generic overview of the participants’ levels of responsibility in the midrange project is provided. Although the figure is fairly generic and does not explain the complexity and intricacy of all the stakeholders involved, it does offer insights into some of the major structural arrangements and responsibilities. The diagram provides a description of the duties of each of the participants involved and outlines the flows of communication associated with this network of responsibilities.

![Figure 4.2 Levels of responsibility of participants](image)

Every participant was assigned certain responsibilities depending on the position and the organisational level involved. At the executive level, CE\(_1\) coordinated the outsourcing arrangement through monthly reviews of the contract performance. At the management level, both CM\(_1\) and VM\(_1\) involved themselves in the regular coordination of the project by monitoring the operational deliverables and team performance. At the operational level, FinCorp’s business unit (e.g. CO\(_1\)) collected data on performance by analysing reports regarding the quality of the service provided, while the vendor team was accountable to the client’s business unit with regard to providing those reports. Further, reflecting the diversity of the systems that the vendor team was supporting, the DwH team (i.e. VO\(_2\)) provided reports on the number of closed...
requests, whereas the Web applications team (i.e. VO3) provided reports on business quality assessment (QA) of the quality of support delivered to end-users. Communication between the project teams, and between the teams and the project managers, occurred on a daily basis.

4.2.4 Current Formal Controls

Formal controls were defined as a set of mechanisms that comprised pre-existing organisational mechanisms (e.g. code of conduct, policies), contractual mechanisms (usually a contract and SLA) and project-specific mechanisms designed to moderate the outsourcing partner’s behaviour and work (see section 2.4). They are intended to ensure the efficient performance of activities and may change throughout the course of the IS outsourcing arrangement.

There were a number of formal controls found in the midrange arrangement. These included the midrange support contract, the service level agreement detailing project requirements and service targets (including service guidelines), standard delivery reports and VOC-based reports which acted as the performance metrics.

The contract implementation

Both organisations signed the support agreement for two years with subsequent renewals in 2006 and 2009. Both CE1 and VM1 were heavily involved in the negotiations during all contract reviews. The challenge that both parties experienced when negotiating the details of the contract was the scope of the work which, according to the vendor manager, they tried to determine:

VM1: “When we first took over the account for FinCorp they said ‘We’ve got 50 applications,’ and we went through and interviewed people and we found one or two more applications. Then we started work, another 20 applications that they hadn’t mentioned needed to be supported.”

For IT Consultant A, the scope of work was one of the key criteria that needed to be discussed with the client to make sure that expectations were met. As the quote suggested, the vendor acted proactively by arranging additional reviews to finalise the number of supported applications. As a result, both parties amended the contract following the review by adding the newly found applications to the scope of the support work. The importance of the clearly defined scope is that it prevents misunderstandings and helps mitigate any potential conflict between both organisations.

In the midrange arrangement, both parties agreed to work on a fixed cost basis for the existing applications but, with new applications, the pricing structure included a so-called ‘three month
cost variation’ clause which operated until they agreed on support requirements. Such a pricing model was initiated by the client, whose executive expressed the opinion on the pricing structure:

CE₁: “The service has been pretty much set from day one and what we’ve learned with IT Consultant A is the pricing model, how you run an application support set up. So how you bring in new applications, how you look at driving down the price of old applications. So there’s a bit of a new pricing structure, I pay X dollars for every type of device they look after and the good thing about that model is, I’m wearing the risk.”

The described pricing structure was based on a “per device” basis, so that each application had an agreed price. In this arrangement the client agreed to wear the risk with regard to the project costs. In outsourcing arrangements, the client organisation usually tends to transfer the risk to the vendor in terms of the transaction costs. However, according to CE₁’s view, the benefit of the pricing model was the assurance that the payment was paid only for the device (or application) being supported. Similarly, when asked about the benefits of the pricing structure, VM₁ responded positively by emphasising its ability “to give [him] a rough estimate on resources required” to support a certain device. So that both parties acknowledged the value of the contract by emphasising the control of risks incurred (i.e. CE₁), the appropriate resource allocation and minimisation of opportunistic actions by the client (i.e. VM₁). It appears to me that the type of the signed contract provided both organisations with a degree of flexibility in terms of adjusting the scope and subsequently the price. As a result, they sounded positive about operating under this contract and never questioned its soundness.

The SLA and project-specific controls

The service level agreement (SLA) specified the required levels of support for the existing and new applications. It was a requirement that every midrange item⁷ that had been developed by the development team be handed over to the support team. The organisations negotiated a so-called handover process with duration of three months, throughout which the support team worked closely with the development team on the subject of clarifying the support requirements for a certain application. This process was accompanied by a comprehensive document detailing the application and its main components.

Although both organisations seemed to work very well with each other, there were issues on the operational level with regard to some of the formal processes. For example, VO₂ voiced a concern about existing controls at the handover stage:

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⁷ For simplicity, I use the word ‘item’ as a generic term that covers anything related to applications. For example, it can be a new functionality (e.g. review of a full credit/loan line history online) to the existing application, requested by a customer.
VO3: “When we’re taking over new applications, when working with the team that’s developing and building it, spending time working with them earlier so that the transition into support is smoother. I think that’s probably something that we’ve seen get better over time but is still being worked on as something to improve...It would be good to have more strict controls around some of the processes that we do.”

Although VO3 acknowledged the presence of certain processes that were designed to monitor the transition (handover) process of the application, the rigidity of the processes was expected to be in place. VO3 was concerned with a process of knowledge transfer that was not as smooth as desired between the development team and the support team and, as a result of which, the support team was faced sometimes with difficulties in defining the scope of the new application from a support perspective. Also, in response to some of the issues at the transition stage that VO3 acknowledged above, the new change management team was formed in order to manage all the changes made with regard to the application. Such decision was partly driven to overcome the difficulties that the vendor team had in terms of defining the scope of the new application. Thus, such initiative of the formation of the new team could be referred to the type of behaviour-based controls since it had a moderating effect on the actions of the vendor team.

**Reporting and measurement mechanisms**

According to the written SLA, teams were following the functional specifications aligned with their tasks to meet the service targets. Subsequently, the client team collected delivery reports that revealed the performance records of the vendor teams. In addition to these reports, FinCorp also implemented the performance measures called a VOC score that was based on the collected feedback from the customer who received the support. Based on such a score (ranging from one to five, with one being very poor and five being excellent), FinCorp assessed the quality of the provided support service. This VOC measurement system was implemented by FinCorp in all its outsourcing dealings, in which emphasised the close attention the client paid to ensuring the delivery of a high quality service. Moreover, both parties set up monthly reviews of teams’ KPIs that acted as performance indicators of the teams’ progress. Overall, these formal controls can be referred to the outcome-based controls due to their role of assessing the vendor’s performance, and which were initiated by the client. Apart from the described above, the contract included standard delivery reports that vendor had to deliver once in a month. The reflections on the importance of reporting were given by both parties:

CE1: “The monthly report is good because they then use that and that’s how they measure their performance to their teams. The monthly reports that we get in have a lot of input from the team. I want them knowing that I’m reading that report because that’s important to those guys that we see what they’re doing.”
VM:\ “It’s important to have reports that can tell you something’s wrong and then you can do something about it. You need something measurable, otherwise you’re in the dark a bit.”

Views of the role of reporting were different at FinCorp from those at IT Consultant A. For FinCorp, a report was a control tool for tracking the vendor team’s deliverables and quality of work, whereas for IT Consultant A, it was seen more as the ‘tangible’ measure on the basis of which the vendor could compare track records. The interesting implication lied in different roles given by both participants on the reports. The client implicitly argued about the moderating role of reports for the vendor team to rely on in their work and the behavioural effect of reports to show the vendor that the client did his part of the job as well (based on CE:\ “that’s important to those guys that we see what they’re doing”) (i.e. behaviour-based control). By contrast, the vendor argued for the assessing role of reports and suggested that “you need something measurable” by implying that there were required standards of measures to be set (i.e. outcome-based control). Usually in outsourcing arrangements, it is the client who views reports from the prism of tracking down the vendor’s deliverables, while the vendor follows the established norms and accepts the targets by acting upon them. In this case, the mixture of behaviour- and outcome-based controls was viewed differently and this can be partly explained by the fact that the vendor behaved very proactively in the arrangement and showed commitment in project performance by initiating service guidelines to assess not only the team’s outputs but also timely moderate its actions with regard to the project performance (i.e. behaviour/outcome controls). This suggests that the vendors may also initiate the set of formal controls for the efficiency of the IS outsourcing project.

Working communication

Both parties described the working relationship as open and positive, and referred the existence of “an informal operating rhythm” around project-related communications. They had regular meetings. Every month they met and discussed reports and the feedback received. Teams might also have unscheduled catch-ups to discuss issues. When talking about the working relationship, both parties emphasised the presence of open communication:

VM:\ “We’re quite frank with each other…it gets rid of all the rubbish. If there’s a problem we’ll talk about it and whether it’s painful or not we’ll talk about it.”

CM:\ “There’s open and honest communication and there’s a lot of it in project implementations when things go wrong…”

Both participants highlighted the importance of being honest and open during project discussions as an approach that resulted in the fact that there were no disputes between them or
misinterpretations on either side with regard to the understanding of the project requirements. The acknowledged informal communication can be an example of informal social controls between two project teams. As we know, both parties acknowledged openness and honesty in communications such as occurred with the “informal operating rhythm” around those project interactions. Thus, such characteristics of the working relationship may be related to what Aulakh et al. (1996) described as a social control mechanism for monitoring the vendor’s behaviour by informally interacting with the vendor’s team. However, any bilateral (client-vendor) norms can only develop over time since they require socially-embedded relationships based on past interactions and future expectations between the two organisations (Heide 1994; Ring and Van de Ven 1992). The role of the informal social control is intrinsically associated with the teams and interactions involved in the particular IS outsourcing project. As a result, each of the parties (and teams) regulates the other’s behaviour through informally embedded (into the working relationship) activities such as communications and meetings, which are socially constructed in their daily activities.

Overall, the developed formal controls in the midrange arrangement were classified into different types and were discussed above. Both the contract and the SLA were classified as the contractual types of formal controls. Other non-contractual formal controls were classified as either outcome- and/or behaviour-based controls. The mixture of behaviour- and outcome-based controls was also discussed. An interesting example of the mentioned mixture can be found with the formation of the Middleware team. Given the details of the case study, the formation of the new team was closely associated with the disruptions in performance (role of outcome-based controls) and thus, the voiced concern of the vendor to allocate sufficient resources for the support of middleware applications to ensure better results in performance progress (role of behaviour-based controls).

In addition, the theoretical basis of formal controls also included the presence of pre-existing formal controls which encompassed any types of organisational control mechanisms that could be further transferred into the outsourcing environment. In the midrange arrangement, some of these pre-existing mechanisms were also evident. For example, the fact that every two years FinCorp reviewed all the outsourcing contracts (including the midrange contract) indicates the presence of a pre-existing formal mechanism in the form of which is a regular review of contracts embedded in FinCorp’s outsourcing practices.

The overview of the formal controls can be found in Figure 4.3 below. It provides details of key documents (and processes) and changes made throughout the course of the midrange arrangement (i.e. the project timeline with marked dates). Similarly, the development of formal
controls is depicted along the course of the midrange arrangement, yet with an added type of formal controls. To remind the reader, the added types of formal controls represent the analytical (theoretical) categories such as behaviour- and outcome-based controls, as proposed in the literature review section (see section 2.4).

Overall, the discussion with regard to formal controls has revealed some interesting insights into the choice and development of formal controls throughout the course of the midrange arrangement. In particular, a mixture of outcome and behaviour controls was found to have been initiated by one or both of the parties. Outcome-based controls are usually initiated by the client organisation and are closely linked to the contract itself (e.g. performance measures), whereas behaviour-based controls come later with the experience and history of interactions between the organisations involved in the project.

### 4.2.5 Development of Trust

The following discussion on trust between two outsourcing organisations is divided between two sections. The first section is based on the discussion centered around views and perceptions of the participants on trust. The second discussion traces down the development of trust according to the five types of trust adopted in this study (see section 2.8.2).
Views of trust and perceived reasons for trust-building

The working relationship was described as open and honest, while the “informal operating rhythm” captures indeed the quality of good trust-based working relationships between two organisations. In particular, openness and honesty, proactive attitude and workforce commitment were listed among the characteristics of the working relationship. Table 4.2 below illustrates some of the aspects of how participants approached trust in the outsourcing arrangement.

<table>
<thead>
<tr>
<th>Openness, honesty</th>
<th>Responses from two sides</th>
</tr>
</thead>
<tbody>
<tr>
<td>CE1: “I want to go once a quarter, once every six months and say to IT Consultant A, “It’s going well, happy with where we’re at, but here’s three or four things that could be worked on,” and I’m happy for them to come back and say ‘Talk to the guys. This is why we do it this way.’ As long as we’ve got that healthy repartee going on, it’s all good.”</td>
<td>VM1: “If we see something going wrong, even if it’s detrimental to us, we’ll raise our hand and say ‘There’s better ways of doing this. This is going off the rails, this is going to hurt you in the long run.’ Whereas we could just sit down and quietly just let it happen around us and deliver a service.”</td>
</tr>
</tbody>
</table>

| Proactive attitude | VO2: “So the biggest issue we have is the new applications coming into our environment and that’s partly why we’re changing FinCorp a little bit on how they do things. If we don’t get what we require out of the project before it finishes, we don’t get the service required to support the software.” |

| Workforce commitment and cultural fit | CE1: “As a working function they are open and willing to learn. I think IT Consultant A have a commitment to their people…In terms of our relationship…as long as that’s an open and honest dialogue at my level, then I can be relatively comfortable that at an operational level they’re getting the same cultural fit if you like.” |

Table 4.2 View on trust in the midrange support arrangement

Both parties commonly emphasised the importance of openness and honesty in the working relationship, which could indicate the presence of trust in the IS outsourcing arrangement. There is also a suggestion in the outsourcing literature that trust is usually associated with openness and honesty in interactions (e.g. Oza et al. 2006). The proactive attitude of the vendor was demonstrated in VO2’s comment about changing some of the client’s processes around the outsourcing project. This also indicates the existence of a trusting relationship with the client, since the vendor team did not just perform the bare minimum of that was required under the terms of the contract. While FinCorp’s executive used a slightly different word, when commenting on the commitment of the vendor’s team and acknowledged the cultural fit they had with the vendor. The acknowledged cultural fit does not imply a commonly used connotation of the national culture and the cultural match with the outsourcing partner as it has been argued in many outsourcing studies (e.g. Beck et al. 2008; Carmel and Tjia 2005; Kaiser and Hawk 2004; Oza et al. 2006), but rather commitment and ability of the vendor to train his
own people to deliver per client’s expectations. This suggests an importance of so-called working ‘ethos’ and the fit between the client’s organisational climate and the vendor’s climate for further success of the outsourcing project. Eventually, this seems to have a significant impact on the increase of the client’s trust in the vendor’s performance (performance-based trust) and building the mutual understanding (identification-based trust).

During the course of the arrangement, FinCorp did not experience any issues related to poor delivery and inconsistency in the vendor’s performance. In fact, the quality and expectations of the project work that had been established at the beginning of the arrangement significantly minimised any possibility of misunderstanding with regard to project requirements. For example, FinCorp’s executive acknowledged the vendor’s delivery as the source of trust:

\[ CE_1: \text{“I trust IT Consultant A around their ability to skill their people and deliver a good service. We very rarely have a conversation around whether they should be delivering a service or not.”} \]

It seems that the client was confident about the capability of the vendor to deliver the services promised and train their own people in such a manner that the client did not dispute over the quality of the delivered work. This trust was based mostly on the performance of the vendor’s team. Similarly, the vendor manager also emphasised trust based on the delivery of quality service:

\[ VM_1: \text{“We’ve got to have a trust relationship between us and a client in that they know that what we’re delivering is good value. They need to trust that we can deliver what they’re expecting and the quality is there.”} \]

VM\(_1\) emphasised the need for the client’s trust in the vendor in terms of delivering the service. This view corresponds with the traditional view on trust in IS outsourcing arrangements, where the growth of trust is based on the vendor’s ability to deliver according to the client’s expectations.

At the operational level, the teams associated the growth of trust with the growth of mutual respect and awareness of the technical knowledge at the beginning of the arrangement. For example, CM\(_1\) acknowledged the role of “technological trust” based on knowledge of and expertise in the technology among the team members, suggesting that this trust was based on confidence in the teams’ skills and expertise regarding the performance of the project tasks. In the literature, this type of trust is commonly associated with competence-based trust (Paul and McDaniel 2004), which is built up or erode when one party’s ability (usually that of the vendor) to fulfil obligations has an impact on the level of trust of the other party (the client).
implication found in the midrange arrangement reinforces this claim by revealing the presence of this trust between the project teams in IS outsourcing arrangements.

**Types of trust**

Given the literature review provided in Chapter 2, five types of trust were adopted (see section 2.8.2), i.e. reputation-, contractual-, knowledge-, performance- and identification-based trust. The following discussion is designed to reveal the characteristics of the development of trust in the midrange arrangement.

At the start of the midrange arrangement, the presence of reputation-based trust (RBT) was observed. In particular, when the initial contract was signed, FinCorp was already familiar with the reputation and the technical expertise of IT Consultant A’s team, given the working experience they had on other development projects. Thus, the presence RBT towards the vendor was evident at the stage of vendor selection, when FinCorp chose the existing vendor on the basis of the history of interactions and familiarity with its domain expertise.

Since FinCorp never questioned IT Consultant A’s delivery capabilities, while the consistency of delivery was acknowledged to be one of the significant factors that established and further maintained the degree of trust in the vendor. This indicated the presence of performance-based trust (PBT), since the client was happy with the performance by the vendor. From the start, IT Consultant A proved to be consistent in deliverables, and subsequently, the results of two contract renewals were partly based on the stable and continuous performance of the vendor team. In the outsourcing literature, PBT is argued to be one of the most important indicators of how loyal and honest the vendor can be in terms of the performance of the work (e.g. Oza et al. 2006; Sabherwal 1999). Indeed, FinCorp’s stakeholders (CE₁ and CM₁) acknowledged on numerous occasions the consistency and exceptional delivery of the vendor:

CM₁: “I do have trust in what they do. They do deliver”.

CE₁: “With IT Consultant A we’ve always had a good service delivery model. We’ve had a good definition of what they do”.

Thus, these findings confirmed those in the literature concerning the performance effect of trust in inter-organisational relationships (McEvily and Zaheer 2006). Trust can have a positive effect on the performance of IS outsourcing projects. However, PBT is usually associated with the extent to which client trusts the vendor (Oza et al. 2006; Sabherwal 1999). The findings on the midrange arrangement also confirmed the presence of the client’s trust in the vendor, based on the performance of the vendor.
Contractual-based trust (CBT) was present throughout the entire course of the arrangement, including all contract renewals. It seems that the initial trust (between FinCorp and IT Consultant A) was largely driven by the rational decisions of each party to preserve self interests. For FinCorp, the decision was based on cost reduction and the need to meet project expectations, while for IT Consultant A, it was the profit margin and clarity of the scope:

CE1: “There’s two parts of the conversation around a contract, one is “What do we need to change with the service?” and then there’s the price”.

VM1: “We want a high price, they want a low price...They’ve squeezed us on the price and we negotiated that but we didn’t just say “Here’s a whole bunch of money,” we said “In order to achieve that price we need to adjust the services we’re providing”.

Trust which is based on rationally derived costs and benefits also has been acknowledged in the IS outsourcing literature (Lee et al. 2008). In the IS outsourcing arrangement is regarded as a highly uncertain and risky business environment, trust is closely intertwined with calculating risks and rewards for both outsourcing parties. The findings on the midrange arrangement have shown that, over time, the parties continued negotiating over the price and scope of the arrangement, despite the growing confidence of each party in the other’s actions. The continuous presence of CBT was characterised by the willingness of the client to renew the contract with the current vendor given the satisfying outcomes.

The prior history of interactions gained through the adjunct projects had created firm expectations and a sense of predictability within each of the organisations about the other’s behaviour. This had formed the roots of knowledge-based trust (KBT) between the two organisations. In this study, KBT develops at the stage at which the parties know each other sufficiently well for mutual confidence to have been established, based on the history of transactions or experience shared between them on other projects. When the initial contract was signed and both parties started to develop the working relationship, the early team-building activities of the two project teams were observed through regular communications and informal catch-ups. The team courtship that was revealed in the midrange arrangement when the third project team was formed (i.e. Middleware team), is distinct from the nature of courtship that is currently discussed in the literature (e.g. Ring 1996; Shapiro et al. 1992). The traditional definition of courtship relates to the effort made by one party to get to know the other thoroughly by interviewing and experiencing that other in a variety of situations and emotional states (Weibel and Osterloh 2001). In the midrange arrangement, the courtship that formed among those three teams (DwH, Web applications and Middleware) was based mainly on the knowledge-sharing, the constant pool of people and the sense of being ‘a part of the team’. For
example, CM₁ and VO₁ commonly acknowledged that the project teams were treated as FinCorp’s internal team. Also, the discussed courtship can be also observed in CO₁’s comment:

CO₁: “What I’ve found with IT Consultant A, it’s pretty consistent because they all report up to VM₁. I’ve dealt with him before directly and he’s got a method and that’s sort of pretty consistent across all the teams...all three of them are pretty consistent in the way they work as if it is one team”.

The development of KBT is a process of connecting and knowing each other based on personalised exchanges and direct interactions within the IS outsourcing project. In relation to the quote above, CO₁ mentioned the method (or approach) that VM₁ constantly used that gave a sense of knowing the person and knowing how he might behave. Overall, this type of trust is based on the experience and knowledge gained by each party about the other’s actions, not on the skills and expertise per se, but on the knowledge of the behaviour and actions of the outsourcing partner.

According to the literature, identification-based trust is based on certain attributes associated with the value systems of the involved parties and their mutual, though not necessarily aligned, goals (Sabherwal 1999). In the midrange arrangement, both parties gained a mutual understanding through effective reporting practices, and CE₁ asserted that the commitment of the vendor team and the “cultural fit” they achieved with the vendor contributed to the achievement of the desired level of trust. This suggests the client had confidence in the vendor’s ability to transfer the project requirements to the own people and subsequently to deliver successfully. However, the initial development of IBT was evident at the stage at which the third project team was formed (i.e. Middleware), when the teams built the common understanding of the project. Further, the level of trust matured with construction of a sense of striving to achieve a common goal. The findings reinforce those in the literature which suggest that the commonalities between the project teams may contribute to the establishment of IBT (Miranda and Kavan 2005). This type of trust requires some time to develop among the outsourcing stakeholders, due to the amount of knowledge of, and experience with, the other that each is required to accumulate. Therefore, in the midrange arrangement, this trust was developed after at least two years of operating together.

Given the discussion above on the development of trust, Figure 4.4 below provides a generic overview of changes in trust in the midrange arrangement. The overview is depicted as the two-dimensional ‘XY’ diagram, in which the ‘X’ axis is an outsourcing process timeline with the key events indicated (see marked dates with a brief description in Figure 4.4), and the ‘Y’ axis which is the degree of trust, ranked from the starting point to the increasing level. All five types
of trust have been depicted in the picture with the key characteristics placed underneath, in the form of a Legend. However, I would like to note that the stages in each change in the development of trust has been made for the purpose of illustration (dotted grey lines between trust stages) and should not be regarded as concrete representations of the precise and exponential growth of the development process. One could surmise that trust can be developed over time moving gradually where outsourcing partners are willing to take greater risks because of a high level of trust is present. So that despite the difficulties pertaining to the initiation of the trust-building, many arrangements are initiated, so it must be presumed that expectations can be formed on the basis that a minimal level of trust is present at the moment when both outsourcing organisations start to work with each other. It further grows over time given each positive outcome that both organisations obtain. Also, the idea about the general evolution of trust over time was adapted from the conceptual study, drawn from the organisational behaviour area (Vangen and Huxham 2003), that proposed the trust-building loop. It was suggested that trust-building was a cyclical process and that with each positive outcome, trust built on itself incrementally in a virtuous circle. Thus, in Figure 4.4 below, an overview of changes in trust is presented from both client and vendor perspectives. In case of the differences in opinion on the development of a particular type of trust, it is depicted otherwise.
Figure 4.4 Approximate timeline of changes in trust in the midrange arrangement

Overall, five different types of trust were observed in the midrange support arrangement. However, among the most recurring aspects, there was the client’s firm confidence in the vendor’s performance and the strong common understanding and knowledge that grew between two project teams given the consistency of staff and the prior project experience.

4.2.6 Perceptions of the Relationship between Trust and Formal Controls

Both organisations agreed that certain mechanisms of formal controls, such as reporting and statements of work, should be implemented in the first place as a reference point and safeguard against any opportunistic actions by the other party:

CM1: “I want to have this bit of paper, the statement of work to refer back to. This is the monthly report that we get. It tracks their progress [...] plus you find out about problems...I trust that someone is going to do what they say. But you need both. It’s all very well to have a prescriptive approach where you detail exactly everything that we want from, but there’s always going to be things that are just outside that square.”

VM1: “You need that [contract and formal controls] as a reference point “This is our goal” and without that you’ll struggle because they’ll ask you to do something that we’re not meant to be doing that. I think not having that would undermine the trust because trust helps steering the boat in the right direction.”

The managers’ views on the roles of trust and formal controls in the arrangement were different. From the client’s perspective, the manager acknowledged the importance of both trust and formal controls. Formal controls were seen as the measurement mechanism for tracking the team’s progress, while trust was an important safeguard against any uncertainties and changes (e.g. business changes) that might occur during the progress of the project. Such view of trust is common to the IS outsourcing literature (e.g. Kern and Willcocks 2000a), wherein it is shown that outsourcing arrangements are not free from uncertainties and risks and that, by nurturing trust, the parties can eliminate (or at least minimise) the effects of that uncertainty. From the vendor’s point of view, the complementarity of formal controls and trust was justified by the role of controls as the safeguard, almost like a safety net against client’s unreasonable requests, while trust was likely to be given a relationship connotation.

CM1 commented that a “good medium between trust and controls” had been achieved, meaning that the combination between trust and formal controls was acknowledged to be working for FinCorp. Similarly, FinCorp’s executive used the phrase ‘right balance’ when explaining the working combination between trust and formal controls in this arrangement:
CE1: “IT Consultant A has the right balance [between trust and formal controls]. We talk about the formal controls every two years when we do the contract. We change them, we mix them, then we do the monthly reviews...[and] trust is really around the working processes and relationship.”

The acknowledged ‘balance’ from the quote above confirms the statement previously made by CM1 on the favourable combination between trust and formal controls. So that the ‘rightness’ of the balance implied comfortability that by that moment the combination of formal controls and trust activities that they promoted in the relationship made them work with each other. However, the most interesting aspect that CE1’s account revealed was the changing nature of the combination. In particular, he argued that they mixed and changed the combination depending on the conditions of the arrangement with reference to formal controls. The combination between trust and formal controls will not remain constant and can be altered, depending on deliberate changes to the combination between trust and formal controls made by the participants in order to find a more comfortable mix and work more effectively.

Given the theoretical basis developed for this study in terms of the balance, there are three types of balance that can be achieved (antithetical, orthogonal, synergistic) depending on the degree of interdependence between trust and formal controls (see section 2.6.2). The midrange arrangement revealed that the achieved combination between trust and formal controls can be described as synergistic balance. This term describes situations in which stakeholders implement combinations of multiple, mutually reinforcing trust-building and formal controls, and each of the trust-building and formal controls can facilitate and contribute to the effectiveness of the other. In the current arrangement, the synergistic balance was evident when the growth of performance-based trust in the vendor led to the decrease of formal controls in terms of the performance monitoring, or given the fact that the client was well aware about the vendor’s expertise and performance abilities through the outsourcing project experience shared in the past that eventually helped in building strong performance- and knowledge-based trust in the vendor team. Based on such premise, the client team had formed the firm confidence about the vendor’s track record that resulted in lesser effects of formal controls further in the arrangement (synergistic effect). Overall, this type of the balance seems to be effectively working as it is the illustrative that both organisations find the synergistic interplay between trust and formal controls as appropriate. Thus, the strong trust-based relationship that grow between two organisations may suppress the implementation (or effects) of formal controls (either behaviour- or outcome-based) in coordinating the ongoing progress of the outsourcing arrangement.
Perceptions of the balance across organisational levels

Both organisations had distinct perceptions of how trust and formal controls should play in the combination. In Table 4.3 below, the differences on the combination are provided across three organisational levels.

<table>
<thead>
<tr>
<th>Organisational level</th>
<th>Responses from two sides</th>
</tr>
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<tbody>
<tr>
<td>Executive</td>
<td>CE₁: “I trust IT Consultant A around their ability to skill their people and deliver a good service. At the end of the day they end up at 40/60 [trust versus controls]. I don’t think I would run the IT Consultant A agreement without a contract. That’s the nature of our relationship.”</td>
</tr>
<tr>
<td></td>
<td>VM₁: “I think you need half and half. You need to have certain terms and conditions otherwise you don’t know what you’re doing. You’ve got to have that down on paper, what you’re meant to do, how complex that... You need some reporting over the top that shows you delivering to those service levels. Then it’s a matter of trust and interaction to keep steering the boat in the right direction.”</td>
</tr>
<tr>
<td>Management</td>
<td>CM₁: “It is 51/49 for trust – you need to have the documentation that says “We’re paying you X amount of money to do all this work.” You need to have that. But equally important is the personal trust that I have with these people.”</td>
</tr>
<tr>
<td></td>
<td>VM₁: “I think you need half and half. You need to have certain terms and conditions otherwise you don’t know what you’re doing. You’ve got to have that down on paper, what you’re meant to do, how complex that... You need some reporting over the top that shows you delivering to those service levels. Then it’s a matter of trust and interaction to keep steering the boat in the right direction.”</td>
</tr>
<tr>
<td>Operational</td>
<td>CO₁: “The way it’s happened is they have set the formal processes first just because they were there for every other team. So there’s no reason why they won’t be there for IT Consultant A. After a couple of years, trust gets built.”</td>
</tr>
<tr>
<td></td>
<td>VO₁: “If we’re just talking about the contract and the SLAs versus the trust, I’d say the trust is more important - 70/30. But if we’re talking about process, it’s closer to 50/50. If we didn’t have that we wouldn’t have trust basically.”</td>
</tr>
</tbody>
</table>

Table 4.3 Perceptions across three organisational levels of the combination

At the executive level, CE₁ expressed confidence in the vendor’s performance capabilities. He commented on the nature of their relationship by pointing out that the current arrangement was largely driven by the contract rather than trust. This executive view on the importance of the contract corresponds with the view held by a number of researchers (e.g. Aubert et al. 2003; Goles 2001; Lander et al. 2004) who claim that executives or upper-level managers express their concern about contract negotiations by crafting and negotiating a better contract. Thus, the client’s executive view on the combination is also driven by the position CE₁ occupied in the midrange arrangement.

The views of managers from both organisations were quite close. For example, FinCorp’s manager (CM₁) emphasised a greater role for trust and valued the personal trust-building among the people involved in the project, while formal controls were seen primarily as a measurement mechanism to regulate the vendor’s behaviour. While IT Consultant A’s manager (VM₁) argued for the ‘50/50’ proportion, arguing for the equal importance of the contract as a certain
guarantee against the effects of any unforeseen circumstances, while trust and interactions are crucial in facilitating the progress of the working relationship. Overall, both managers emphasised the role of formal controls in providing written safeguards for both parties in terms of project specifications and reporting, while in terms of trust they repeatedly emphasised the benefits of interactions and personal growth with the project people at multiple points within the arrangement. I suggest that the management view of formal controls, with reference to the measurements and reporting, corresponds with the level of responsibility the managers hold, with regard to monitoring and reporting on the progress of the outsourcing project.

At the operational level, there were both similarities and distinct differences between the perceptions of the two project teams of the balance between trust and formal controls. For example, communication was acknowledged as the most important trust-building mechanism. Moreover, both parties acknowledged the time factor in building trust. In this vein, the case findings support the existing research works on the role of communication in trust-building (e.g. Lander et al. 2004; Oza et al. 2006). The differences in perceptions were related to the importance of pre-existing formal controls to be implement prior to any outsourcing arrangements (see CO’s quote in Table 4.3) and the importance of formal processes and documentation in the project work (see VO’s quote in Table 4.3). It is interesting that the vendor team member highlighted the difference between the contract (and SLA) and other non-contractual formal controls, and argued for different combinations between formal controls and trust. In particular, he pointed out that contractual formal controls were less important than trust, whereas the importance of non-contractual formal controls would be equal to trust in the project work. It seems that the latter statement on the equality of trust and formal controls in the arrangement is closely related to the type of work that VO performs as the leader of the Web applications team, since the project work and his responsibilities are largely driven by maintaining interactions and performing task activities.

Overall, perceptions of the combination between trust and formal controls are mainly driven by the scope of participants’ responsibilities which have eventually shaped their views on the balance in the midrange arrangement.

4.2.7 Perceptions of Outsourcing Outcomes

Given the main theoretical proposition outlined in section 2.7, it has been argued that the participants’ perceptions of the outsourcing outcomes could be regarded as broadly related to the performance of the project (or service quality) and the working relationship (or relationship quality). Among the outcomes that both organisations achieved in the midrange arrangement
were a high quality of service, stability of technology (i.e. supply platforms supported by IT Consultant A), cost savings acknowledged by FinCorp, ongoing sustainability of processes and procedures, and the good reputation IT Consultant A gained among FinCorp’s customers.

The acknowledged perceptions of outsourcing outcomes can be referred to as views regarding the project outcomes. For example, FinCorp’s participants acknowledged good quality of service (e.g. “technology stability of supply platforms”) along with their comments on the consistency of the vendor team. The service quality provided by IT Consultant A was high neither of the parties ever mentioned concerns or conflicts about unmet expectations. On the contrary, performance-based trust was built between the parties in the arrangement that eventually led to high quality service. Similarly, the delivery capabilities of the vendor were also acknowledged as one of the primary factors which encouraged the trust-building.

Also, there were comments from the participants on the importance of the coordination and reporting of the project for the development of the outsourcing arrangement. Although the literature acknowledged performance and service quality as project outcomes that are produced by trust-building initiatives and development of the relationship (e.g. Lee and Kim 1999; Miranda and Kavan 2005; Sabherwal 1999), it though contains nothing on the coordination outcomes that the case participants acknowledged. In particular, the development of formal controls in combination with trust-building initiatives might have a certain effect on the perception of the project performance and quality since the lack of coordination and/or monitoring would retard the progress of the project.

Further, the case participants had very similar perceptions of the development of the relationship in the midrange arrangement. For example, the continuity of the relationship (and the outsourcing arrangement) was mentioned many times by both organisations. In particular, the continuous renewals of the contract were acknowledged by both organisations to be the consequence of satisfaction with the quality of service (i.e. VM₁’s and CE₁’s accounts) and the cost benefits achieved (i.e. CE₁’s account). Overall, the participants linked the continuity of the relationship with the renewals of the contracts as the result of good quality and cost benefits. Another interesting implication was the vendor’s reputation that FinCorp’s participants named as a gained outcome that positively influenced the development of the working relationship.

Overall, the outsourcing relationship between FinCorp and IT Consultant A could be called successful since both parties agreed on performance and relationship outcomes in the arrangement and continued renewing the contract. In terms of the balance that both organisations achieved, it seems that the synergistic effect of the complementarity of trust and
formal controls resulted in the strong perceptions of positive outcomes, suggesting that people were satisfied with what they accomplished on both sides.

4.3 Background of Case Study Two

4.3.1 Overview of FinCorp and IT Consultant B

The client organisation

In this case study, the client organisation remains FinCorp, the details of which can be found in the description of the first case study.

The vendor organisation

The vendor organisation, IT Consultant B, is one of the largest New Zealand-owned IT service providers. It was established in 1965 and ever since it has been providing a wide range of IT solutions such as IT management, systems development and integration, outsourced services and technical support through its core business divisions located mainly in Sydney and Melbourne. Although the headquarters of the organisation is located in Auckland, it now mainly operates in Australia. It employs over 3000 people across Australia, New Zealand and South Asia and generates annual revenues of over $AU 500 million dollars.

The scope of the outsourcing arrangement

The case study and the subsequent discussion focus on the client-vendor IS outsourcing arrangement in the context of the infrastructure support project (subsequently referred to as the infrastructure arrangement). In the context of the IT infrastructure, it comprises FinCorp’s large storage networks and servers. The support stage of the infrastructure project and the outsourcing relationship between FinCorp and IT Consultant B is the focus of the case study.

4.3.2 Details of the Outsourced Infrastructure Support Arrangement

Prior to IT Consultant B being involved as the outsourcing service provider, FinCorp provided in-house infrastructure support and used a number of different contractors (for periods of 12 to 18 months) with specific skills or knowledge to supplement the internal team, which was quickly expanded due to FinCorp’s business strategy of acquiring new businesses. This business strategy of diversification rendered FinCorp’s internal resources and capabilities insufficient to

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8 In this study, the word ‘infrastructure’ includes equipment used to support FinCorp’s business operations and/or functions including storage, hardware, servers and networking components.
maintain the existing infrastructure. Thus, a decision was made to attract an external service provider to look after FinCorp’s infrastructure. This was done partly because the ad-hoc support provided by the internal team resulted in confusion over levels of accountability and the skill set of the hired contractors. In addition, FinCorp’s corporate strategy resulted in the IS outsourcing decision to seek an external provider’s help in maintaining IS/IT services.

In 2005, FinCorp announced a tender for the infrastructure support work. Different service providers (e.g. Dimensions Data and CSC) placed bids for the infrastructure project. After appraising and evaluating the proposals and presentations, FinCorp decided to award the contract to IT Consultant B. The contract was signed only one year later, with both organisations agreeing “verbally” on the project scope, service targets and pricing. The issue that both organisations encountered was the difficulty in clearly wording the scope of the project given the diverse range in technology of the infrastructure components.

The infrastructure supported included 350 to 400 servers of FinCorp which were running platforms such as Windows, Unix, Linux, Sun and Intel, including some Citrix servers and storage networks. Basically, IT Consultant B’s team was contracted to manage and monitor the network environment and ensure its availability and reliability. Mostly they performed the second and the third level support, meaning that they managed the maintenance of the infrastructure services. The provision of the infrastructure support was maintained by IT Consultant B’s team which was located on FinCorp’s premises and included 22 people on site.

One year after (i.e. 2006), both organisations signed a contract, with the total value about $AU 5 million dollars a year. Subsequently, the service level agreement (SLA) was specified, while the day-to-day operation was improved by the added rigour provided by the support documentation. Occasionally, both organisations might experience minor issues around some of the contract clauses. Apart from occasional issues raised in terms of the project scope, both organisations established a good network of working relationships through regular team interactions. As in the first case study, FinCorp initiated status delivery reports and VOC score-based reports but it also occasionally conducted informal reviews on quality assessment.

Early in 2007, FinCorp appointed a new manager for the infrastructure project who, prior to his employment in FinCorp, had worked for IT Consultant B as the network and security manager. This eventually brought certain benefits to the interactions between the two project teams given his existing knowledge of IT Consultant B’s internal environment and his new status as the project manager at FinCorp. Due to his active involvement, the project teams started to work closely and communicated very often informally through telephone calls, help desk meetings
and lunch gatherings. Later on, a new service delivery manager was appointed (in September 2008) to the infrastructure project by IT Consultant B.

In Figure 4.5 below, the overview of the discussed events within the infrastructure arrangement is provided.

![Figure 4.5 Approximate timeline of events in the infrastructure arrangement](image)

The contract was subsequently renewed at the beginning of 2009. In keeping with corporate policy, FinCorp limited any contracts for IS outsourcing to a period of two to three years. During the contract negotiations, the pricing and the SLA were reviewed. Given the issues that both organisations experienced in the past in terms of defining the scope and the monitoring functions discussed above, the renewed version of the SLA included the service catalogue detailing every infrastructure component with the service targets. At around the time when the contract was reviewed, I interviewed the key participants in the infrastructure arrangement.

### 4.3.3 Details of the Participants

Two participants from the client organisation and two from the vendor organisation were interviewed to obtain details of the IS outsourcing arrangement (see Table 4.4). Similarly, these participants were drawn from three different organisational levels. Table 4.4 below provides background details of the key participants being interviewed in this case study.
Table 4.4 Key participants in the infrastructure arrangement

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Role</th>
<th>Involvement in the infrastructure arrangement</th>
<th>Length of time worked on this project (yrs)</th>
<th>Overall length of time in the organisation (yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CE₁</td>
<td>Support Services Leader</td>
<td>From Day 1</td>
<td>5+</td>
<td>18+</td>
</tr>
<tr>
<td>CM₂</td>
<td>Infrastructure Support Leader</td>
<td>One year after the contract was signed (2007)</td>
<td>3+</td>
<td>4+</td>
</tr>
<tr>
<td>VM₂</td>
<td>Service Delivery Manager (SDM)</td>
<td>Shortly before the contract renewal (Sept. 2008)</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>VO₄</td>
<td>Infrastructure Support team leader</td>
<td>From the time the contract was signed (2006)</td>
<td>4</td>
<td>5+</td>
</tr>
</tbody>
</table>

The early involvement of CE₁ as FinCorp’s executive in the infrastructure arrangement shed light on the initial development of the IS outsourcing relationship with IT Consultant B and the subsequent negotiation of the contract. Although it was impossible to obtain the vendor’s view on the subject, CE₁’s input was valuable because it provided details of contract performance and project development.

At the management level, both managers revealed thorough knowledge of operational deliverables, quality of service and team-building efforts, and different perspectives on the progress of the arrangement. However, the length of time that each of the managers was involved in the arrangement was significantly different. From the client’s side, CM₂ was appointed soon after the contract was signed (early in 2007). As already mentioned, prior to his appointment as the new PM (i.e. project manager) at FinCorp, CM₂ was employed at IT Consultant B. In this regard, the work experience with IT Consultant B and the organisational knowledge he gained while working at FinCorp, provided him with benefits when tailoring and managing the working relationship with the project teams. As a result, I obtained details from him of the development of formal controls and trust throughout the course of the infrastructure arrangement from the perspectives of being a client manager and also a former employee of the vendor. From the vendor’s side, VM₂ was appointed by IT Consultant B a year after CM₂’s appointment (September 2008). However, despite his short engagement his information was still valuable in terms of providing a detailed account of recent contract negotiations, the vendor’s view on the progress of the project and the development of the outsourcing relationship.

At the operational level, VO₄ was involved as the leader of the infrastructure support team, and served mainly as the escalation point for the project team. Unlike that of VM₂, VO₄’s
involvement in the project was of sufficient duration to enable the manager’s story to be completed with other events that occurred earlier in project. His contribution to the research project enabled me to collect his account of daily task activities between the project teams in terms of communications and operational deliverables in the relationship and the development of formal controls and trust throughout the infrastructure arrangement.

Levels of responsibility

A generic overview of the participants’ level of responsibility is provided in Figure 4.6 below.

The client executive was involved in the monthly coordination and the contract performance of the project. At the management level, both managers were involved in the regular coordination of the project by monitoring the operational deliverables and team performance results. Also, they maintained regular communications between the teams. In particular, CM2 managed the service level targets and monitored the quality of deliverables produced by the vendor’s team, while VM2 coordinated the daily operational service delivery of his team. At the operational level, FinCorp’s internal support team (shown as COxyz in Figure 4.6) maintained daily communications with IT Consultant B’s team. From the vendor organisation, IT Consultant B’s team leader, VO4, was responsible for the daily support of the infrastructure components such as servers and operations support (e.g. service requests, problem solving).

4.3.4 Current Formal Controls

There were a number of formal controls found in the infrastructure arrangement. These included the infrastructure support contract, the service level agreement with an added service catalogue.
detailing infrastructure requirements and support targets, delivery status reports and VOC score-based reports which acted as the performance metrics.

The contract implementation

The organisations started operating without a contract. The reason the parties could not sign the contract at once was related to difficulties they had with wording the scope of the project:

CE₃: “We were working on the wording. It was down at the level of – we agreed payment terms and the services, we agreed what was happening, but it got down to the level of the wording of what does “making sure servers are backed up” really mean...For a year we were trying to work out how to write all that up. That’s a sign of trust I assume.”

Although the contract was properly formulated and signed later on, in the IS outsourcing literature the formal contracts are often proved to be incomplete or too loosely articulated (Kern and Willcocks 2001; Lacity and Willcocks 2003) due to the complexity of some outsourcing arrangements. Therefore, it usually takes a great deal more time and a lot of effort for the organisations to negotiate a proper deal. However, in this arrangement both organisations operated without a contract for some time, which happens very rarely in the outsourcing environment. This suggests that both organisations started operating based on ‘good faith’ and with good intentions. Another interesting insight was the acknowledgment of trust in the relationship with IT Consultant B, which leads us to good faith and the agreed (verbal) understanding of the project requirements described above, suggesting the initial growth of trust. However, such trust was largely created and maintained by the gained experience (based on a year of operation) of the vendor’s capability regarding the project performance. However, the mentioned trust was based on the client’s confidence in the vendor’s capabilities which were ‘tested’ at the stage of the verbal agreement (without a contract).

The contract with this vendor was signed based on a fixed rate. FinCorp initiated the pricing structure (i.e. “per device model”), meaning that FinCorp paid for the support of each infrastructure component. The pricing structure developed over years. For example, VM₂ acknowledged the benefits of this model to preserve their interests in terms of the gained profit:

VM₂: “It is a fixed platform rate. So if they start to increase [the number of devices], the monthly bill increases. But if they decrease in the environment because of virtualisation or decommission, our bill also decreases.”

The vendor acknowledged the fixed rate of the pricing model and its ability to adjust resources required to support the device. This brings us to the discussion about risks where such risk is
minimised since the vendor is fully aware about the number of supported components. However, despite the fact that the pricing structure was constituted by the client, the vendor’s rights did not seem to be infringed and highlighted the profit value in it.

When the contract was renewed, both parties renegotiated the cost of the project and provided their views on this matter:

CE₁: “There’s different layers of infrastructure support. There’s IBM at the top. You pay a premium but you know you get a real level for data centre. Then there’s middle tier which is like the IT Consultant Bs where it’s a lot more personal service, but it’s less robust... [But] we like them because their price reflects. [So] we’ve just renewed their deal. We’ve just agreed pricing with them. We’re obviously pretty comfortable with people at the moment because we’re not even tendering things.”

VM₂: “When we were going through the negotiation phase of two months ago [January-February 2009], FinCorp did not go outside and get competitive quotes. He [CE₁] just said “IT Consultant B, provide the quote and let’s discuss it.”

Both parties agreed that they had good working relationship with each other and only reviewed the price in the contract. CE₁ mentioned the vendor’s flexibility in terms of pricing and services offered. In the outsourcing environment, it is common for the client organisation to have more bargaining power in setting the price range and requirements. It seems that the pricing in the infrastructure arrangement was renegotiated with the client’s active involvement, whereas the vendor’s flexibility in pricing mentioned by CE₁ could be interpreted in the light of the importance of the contract to IT Consultant B. Another potential implication that emerged during the contract negotiations was the fact that both organisations relied on the good nature of their relationships and reviewed only the price in the contract.

Following the discussion on the excellence of the working relationship, CE₁ commented on the vendor:

CE₁: “With IT Consultant B we’ve always liked the pricing model but we’re getting more and more mature on the service delivery piece, making sure it’s clear who’s doing what.”

In the statement, CE₁ acknowledged the pricing model by which he presumably meant in the light of the vendor’s flexibility in terms of the price negotiations. The comment on vendor’s service delivery maturity was likely to be associated with the challenges they experienced in wording the scope in the contract which had caused misinterpretations in the project expectations throughout the outsourcing arrangement.
The SLA and project-specific controls

Apart from the signed contract, the service level agreement (SLA) and the associated service catalogue played an important role in the infrastructure support operations. However, the service catalogue could be referred to the statement of work since the project teams referred it in their daily tasks. Given the details of the arrangement, the implementation of the service catalogue was the change that the organisations put through to avoid further issues with the wording of the scope or misinterpreting of the requirements as it mentioned above by CE1. This reflection was further supported by the client manager:

CM2: “There’s a degree of grey areas within the contract, not necessarily within the contract, but with the services. We replaced that by creating a service catalogue.”

The above quote provides an important consideration since it advises that the negative effects of a loose contract can be overcome with the proper implementation of formal controls through the SLA and the service catalogue aligned with the project activities to minimise any misinterpretations of the contract.

Overall, formal controls were developed and matured throughout the duration of the infrastructure arrangement. At the beginning, there was very little documentation with regard to the infrastructure environment, teams involved and confused levels of responsibility. The working climate, which participants referred to as an “operating rhythm” around the project, was described to be a “little chaotic”, though more rigour and formalisation was added later around the documentation, communication modes and some of the operational processes:

CM2: “So they [IT Consultant B] actually started to go through this process of sharing knowledge, putting it out on paper. From the other side, we were forcing in the change processes and rigour around everything else that we were doing. So to start with chaotic, but over time it has improved quite a lot.”

Formal controls were initiated by both parties. It seems that IT Consultant B documented the knowledge gained from the project in the form of guidelines, project documentation and the recently implemented service catalogue, which was mainly prepared by the vendor’s team. Simultaneously, the “rigour” and “change processes” mentioned by CM2 were implemented by FinCorp in order to monitor and coordinate the progress of the project.

Reporting, measurement and communication mechanisms

Performance and measurement of IT Consultant B’s team were similar to what was implemented in the first case study. Standard delivery reports were specified in the contract.
Every month the parties met to review delivery reports and VOC scores, and to discuss the quality of the service performed. They had regular meetings with the management and operational levels respectively. Teams had unscheduled catch-ups to discuss issues. When talking about the working relationship, one of the parties emphasised the improved formal controls under which they operated:

CM2: “The communication’s been improving over time. The reporting has been improving over time, the actual operating rhythm and getting things down into status reports”

Since CM2 was responsible for ensuring the reliability and integrity of the information passed between the project teams, and also had to manage the deliverables of the project, the criticality of preserving regular interactions and rigorous reporting seemed to be of utmost importance to FinCorp at his level of responsibility.

Both outcome- and behaviour-based controls were found in the arrangement. Among the outcome-based controls, service support (delivery) targets designed to assess the output of the vendor’s team were found. In particular, those support targets were classified as a type of outcome-based controls since they were meant to assess the input of the vendor’s team in to the project. Among the behaviour-based controls, the team’s relocation and the key management appointments were found. For example, the team’s relocation to the client’s premises was classified as a type of behaviour-based control, due to its regulating role through the client being able to have a closer look at the vendor’s behaviour on its own premises.

The findings on the infrastructure arrangement revealed also the mixture of outcome- and behaviour-based controls which were implemented by both parties to influence the behaviour in and the output of the project. In the IS outsourcing literature, monthly reviews, reports, formal communications and documentation were referred to as behaviour-based controls since they were intended to coordinate the vendor’s behaviour actions (Choudhury and Sabherwal 2003). However, in this case these types of controls, as well as being a type of behaviour controls, were also classified as outcome-based controls given their assessing role to measure the output. In the theoretical part of this thesis, formal controls were conceptualised in such a way that there could not be always clear boundaries between the regulating (i.e. behaviour-based control) and assessing (i.e. outcome-based controls) roles of formal controls, given that organisations might combine these two roles in order to improve output or efficiency in the relationship (see section 2.4). Similarly, in the infrastructure arrangement, periodic informal surveys on customer feedback for example, played two types of roles, i.e. the primary regulating role aimed at monitoring the working behaviour of the vendor’s team in terms of the task activities and the
supplementary assessing role which linked the results of the survey on vendor’s support to the service targets specified in the SLA.

An overview of the formal controls developed in the infrastructure arrangement can be found in Figure 4.7 below.

![Figure 4.7 Formal controls developed in the infrastructure arrangement](image)

Overall, the discussion around formal controls revealed that the number of formal controls included a range of outcome-based controls that were linked to the contract and/or SLA, while behaviour-based controls were related to the changes made in staff in both organisations. Also, a mixture of outcome and behaviour controls was found to have been initiated by the client.

4.3.5 Development of Trust

Views of trust and perceived reasons for trust-building

The views of trust were closely related to the open and honest interactions as well as the vendor’s flexibility in dealings. The working relationship between FinCorp and IT Consultant B was described as open and honest. As in his dealings with IT Consultant A, CE₁ emphasised openness and “healthy repartee” in his approach towards building the working relationship with IT Consultant B. When comparing their working relationships with two vendors, CE₁ particularly emphasised flexibility in their relationship with IT Consultant B:
CE₁: “I like our relationship with IT Consultant B, it’s very open, we talk through issues... Though IT Consultant A are probably better service. IT Consultant B are probably a bit more flexible. I think we’re probably more important to IT Consultant B than we are to IT Consultant A, and you see that in how they deal with us and how flexible they are.”

CE₁ emphasised flexibility and openness in interactions with the vendor. The comment that CE₁ made regarding the vendor’s flexibility and being an important client to IT Consultant B, seems to be related to the pricing negotiations which FinCorp dominated and the vendor showed the aforementioned flexibility in accepting the price offer from the client. Another possible explanation for the flexibility can also be related to the fact that CE₁ mentioned the importance of the infrastructure support contract to the vendor, who was likely interested in showing greater diligence by exhibiting a flexible attitude in dealings with the client.

In this vein, the noted flexibility was acknowledged by IT Consultant B’s people:

VM₂: “It’s a constant relationship. We need to change or adapt smoothly and not put up brick walls and not be seen as show stoppers... If we go with the flow, that also shows that we’re adaptable and can work with change and builds the trust.”

VO₄: “We do more work because we’re the support people. They’re [FinCorp] the customer. I don’t think it’s ever going to be even. There’s always going to be more work pushed towards our side. It’s the duty of care from IT Consultant B.”

VM₂ acknowledged that their attitude was to adapt to the client’s internal environment as the sign of trust and willingness to cooperate. Although in the outsourcing arrangements, vendors usually tend to adapt to the client’s intentions and expectations, the true sense of collaboration and cooperation between the outsourcing partners comes with each gaining an appreciation of the other’s interests (Lacity and Willcocks 2009b). The operational view on flexibility is associated with the giving of ‘extras’ as a small favour (without charging the client as a compulsory responsibility of the vendor’s team). It is quite a common practice in outsourcing arrangements for the vendor to provide little extras as a favour to the client in order to secure long-term benefits, particularly the eventual building of trust with the client (Lee et al. 2008).

Types of trust

On the subject of trust-building, FinCorp expressed his opinion on trusting the vendor:

CE₁: “With IT Consultant B we still have those conversations “Should you be doing that?”, “Is that in your contract?”, “Should we be doing that?” and that’s a measure of trust. So we still have some of those conversations which drives down that trust level a bit more.”
It seems that the difficulty that CE\(_1\) acknowledged is related to the issue of the scope with the vendor and thus, contract performance. While the mentioned “conversations”, referred to the issues they had in terms of building a shared understanding on the project requirements. In the literature, this attribute (shared understanding) is usually associated with building identification-based trust (IBT) by identifying with the other’s goals as they each effectively understand and appreciate what the other wants (Sabherwal 1999). Despite the good intentions of the vendor to adapt to the wishes of the client (see VM\(_2\) and VO\(_4\)’s quotes above), FinCorp remarked on the difficulties they had in communicating with the vendor on the project deliverables. For the growth of IBT, mutual understanding is essential since it demarcates the level of maturity both organisations have reached in terms of the common understanding of the project. However, the presence of IBT was not found in this arrangement.

Another important aspect that was acknowledged by CE\(_1\) was the vendor’s performance. According to his quote above, the occasional conversations that they had with the vendor on the question of the scope and responsibilities had a certain impact on the degree of client’s trust in the vendor. In the literature, the degree of client’s trust in the vendor’s performance has been acknowledged as performance-based trust (PBT) and usually this trust grows with time (Sabherwal 1999). In the arrangement, PBT was initially observed at the stage at which the contract was already signed and FinCorp gained a sense of the vendor’s performance. Also, the new appointments of the project managers from both organisations facilitated the process of building FinCorp’s confidence of the vendor’s delivery capabilities. For example, CM\(_2\) acknowledged the positive changes in the vendor’s behaviour: “they have the right intention of doing the right thing”. Although I argue that the presence of PBT was not evident from the start and became visible only after the contract was signed, the primary roots for this trust lay in the capability demonstrated by the vendor to provide the expected quality of service. So that, when the client and the vendor were operating under the ‘verbal agreement’, capability-based trust was evident based on the client’s evaluated capacity of the vendor to keep delivery promises. In the literature, a recent study has found that the demonstrated capabilities of the vendor can influence the level of client’s trust (Lohti et al. 2009). Thus, one of the factors motivating FinCorp to trust would likely to be the vendor’s ability to assure the client of its delivery capabilities, especially at the beginning of the arrangement when both organisations did not know each other well.

The continuous growth of PBT was also manifested at the contract renewal, as FinCorp renewed the contract with the vendor without questioning the quality of performance despite the noted issues with the scope. According to the accounts of both organisations about the contract...
negotiations (see CE₁’s and VM₂’s quotes in section 4.3.4), the acknowledged ‘comfort’ with people (based on CE₁’s account), and the fact that FinCorp did not invite other vendors to bid on the infrastructure project when the contract was due (based on VM₂’s account), indicates the satisfaction that FinCorp felt with regard to the project quality provided by the vendor.

The vendor’s view on trust-building was associated with reasonable expectations and the client’s genuine interest in the relationship:

VM₂: “It’s not they just pay the bill. Their requests are not over the top in terms of they’re not constantly asking for projects to be implemented that are not achievable...They’re working with us to deliver what they want, not against us.”

VM₂ acknowledged the client’s payments and reasonable requests, which, in the outsourcing arrangements, were associated with the scope of the responsibilities that the vendor might expect from the client. The characteristics in the client that VM₂ acknowledged above, can also tell us about the formed PBT towards the client. This suggests that in the scope of duties that the client should perform, there were willingness to cooperate with the vendor on the project requirements and prompt payments. In the outsourcing literature, the presence on PBT has been viewed from the client’s view solely, however, this case study suggests that the vendors might also develop different levels of trust in their clients depending on how diligent the latter performed the duties.

The presence of contractual-based trust (CBT) was also present throughout the course of the infrastructure arrangement at the negotiation and renewal stages. The first evidence of this trust could be seen in 2006 when both organisations signed the agreement after long negotiations with the wording of the scope (see section 4.3.4). At the contract renewal, another development change in CBT was seen due to readjustments that both organisations made in terms of the project cost and the SLA. However, the later manifestation of CBT was stronger than the first occurrence (in 2006) due to a common history of interactions that both organisations accumulated through the gained experience.

An interesting implication was revealed with the characteristics of knowledge-based trust (KBT) and its further growth between two organisations. The initial presence of KBT was observed after the contract was signed, i.e. after a year of operation, suggesting that the organisations already had a history of interactions, and therefore, they had gained the primary knowledge about each other’s skills and actions. In the literature, this type of trust is based on the gained knowledge of each other that allows making predictions about the other partner’s actions. At this stage, the early team-building between the two project teams was also
discernable as a result of the new appointments made in both organisations, i.e. CM$_2$ at FinCorp and VM$_2$ at IT Consultant B. The improvement in communication acknowledged by CM$_2$ ("the communication’s been improved over time") was also a valuable contribution to the team-building. An interesting implication was related to CM$_2$’s prior employment history with IT Consultant B. As a result of this, he possessed certain advantages in terms of knowing the vendor’s internal environment which seemed to have contributed to the growth of KBT. The experience of CM$_2$, who had great knowledge of both the client’s and the vendor’s business processes, helped him to restore the relationship with the vendor’s team and build a new one with the client’s team. The literature contains a great deal about the sources of knowledge-based trust such as information exchange, history of interactions and shared experiences on other projects (e.g. Oza et al. 2006; Sabherwal 1999). However, the case findings revealed something new. That is, the prior record of interactions of an individual with the partner organisation, especially if the individual was appointed to the key role of project manager as in this case (i.e. CM$_2$), could play a significant role in facilitating the working relationship and promoting trust-building between the project teams. In addition, the prior working experience of CM$_2$ helped him to gain the internal reputation-based trust (RBT) in working with both project teams.

The further presence of KBT was acknowledged after the contract was renewed, when both organisations preserved same people in the project teams:

CE$_1$: "We don’t have turnover of staff in the contract because it’s never been an issue."

The consistent pool of people facilitated the knowledge exchange between the two organisations and contributed to the building of the project understanding and knowledge exchange on how to perform task activities. Consequently, this entailed higher levels of interdependence over time (e.g. Lewicki et al. 1998), so that each team became dependent on the other’s skills and actions.

Overall, Figure 4.8 below provides a generic overview of the discussed changes in trust in the infrastructure arrangement.
Figure 4.8 Approximate timeline of changes in trust in the infrastructure arrangement

Overall, four types of trust (out of five) and the new capability-based trust were observed at different stages of the infrastructure arrangement.

4.3.6 Perceptions of the Relationship between Trust and Formal Controls

On the subject of the combination of trust and formal controls in the arrangement, CE₁ expressed his view:

CE₁: “With IT Consultant B, they started at 25/75 [25 for trust and 75 for controls]... they’re [at] 40/60 now, they’re moving in the right direction. We still go back to the contract.”

CE₁ acknowledged that at the beginning of the relationship, formal controls outweighed trust. As we know, both organisations spent much time on wording the scope of the outsourced work and struggling to achieve the expected targets. With time trust was acknowledged to have become more important than formal controls, which was likely to be aligned with the recent discussion on changes in trust within the arrangement (the development of trust from ‘25 to 40’
with time, see CE’s quote above). However, the occasional referrals to the contract, as
acknowledged above, suggested that the organisations were far from having a common level of
understanding and despite the claimed trust-building based on knowledge and, common history
of interactions, each was still unable to align its expectations with that of the other. Moreover,
this gives something to think of such as what combination achieved, in the course of which the
role of the former became greater than the role of the latter, eventually resulted in the reduced
development of formal controls.

CM2 gave his view on the complementary relationship between trust and formal controls:

CM2: “I don’t think there is an ability to outright trust someone from the start. You
are putting some trust into them by awarding them a contract, but you will still have
that contract. You have to have a contract first and then you’ll see how they
behave...It comes over time and when you see over time the way someone’s working
and the level of output that they achieve, you build trust in individuals based on how
they perform. I’d say it’s probably continued results that help build trust.”

This view on trust was associated with the delivery capabilities and service outcomes of the
vendor, so consistent delivery of expected outcomes (in terms of quality of service) would likely
to influence the further building of trust. Also, CM2 emphasised the importance of the contract,
the built competence and consistency of delivery as the necessary attributes in building the
relationship that eventually could lead to changes in trust (i.e. growth of trust based on
performance). While the decision to extend trust to the vendor without any legal agreement
seemed to be a rather extreme solution in the outsourcing environment, especially for such a big
corporation as FinCorp.

Similarly, the vendor’s view on the combination between trust and formal controls contributed
to the statement above on the growth of trust based on performance. In particular, VM2’s
comment: “you’ve got to play the balancing game with the client”, is cogent in relation to what
should be delivered according to the contract, while the expressed “give-and-take flexibility”
should be regarded as a trust-building investment with the client. Also, VM2 stressed the
importance of personal judgment and outsourcing project requirements, while VO4 expressed
his view on the current combination between trust and formal controls:

VM2: “It is judgement, read your customer, read your infrastructure support.”

VO4: “If there’s no trust – there’ll be all sorts of controls: defined, very strict. At the
moment it’s not that strict. So I guess there’s still that trust there.”

The acknowledged judgement could be implied as a subjective assessment of the way to find the
generic ‘right’ combination between formal controls and trust, while the comment about reading
the customer and the infrastructure support suggested that the balance should be specific to the needs of the particular client and the outsourcing arrangement. From the operational point of view, trust and formal controls were interdependent, meaning that further trust-building would decrease the level of formal controls implemented in the arrangement. This last comment from VO₄ led me to think that there was the synergistic balance between trust and formal controls achieved in the infrastructure arrangement, suggesting that trust and formal controls were in a dependency of one on another. So that trust was built over time, while formal controls were decreased as the result of that trust-building in the relationship with FinCorp. However, initially both organisations started operating without a contract due to difficulties in articulating the scope (see section 4.3.4). In this case the initial type of balance achieved was antithetical. Both parties relied on trust during the first year of operation, before the contract was signed. During this time, trust-building was based on the client’s confidence in the vendor’s capabilities.

Perceptions of the balance across organisational levels

In Table 4.5 below, the differences on the combination between trust and formal controls are provided across three organisation levels.

<table>
<thead>
<tr>
<th>Organisational level</th>
<th>FinCorp</th>
<th>IT Consultant B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>CE₁: “I trust IT Consultant A more around their ability to skill their people and deliver a good service but I trust IT Consultant B more around they’ll go out and get extra people to help me. At the end of the day they both end up at 40/60, but for different reasons. I don’t think I would run the IT Consultant A agreement without a contract but I would the IT Consultant B agreement. That’s the nature of our relationship.”</td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>CM₂: “The formal controls are in place but trust allows us to go through more than 90% of the time, 95% of the time without having to have an issue whether we go back.”</td>
<td>VM₂: “I would go contract 40%, making sure that what we are committing to we can deliver. Then there’s the trust part because if you deliver goods properly the contract will automatically be completed, and then the customers trust would automatically be taking place.”</td>
</tr>
<tr>
<td>Operational</td>
<td>VO₄: “I’d say probably 70 or 80% trust compared to the other [formal controls] for more job satisfaction...[But] it’s [formal controls] a safeguard for both parties. It keeps a visibility on our engineers, it gives them that responsibility.”</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.5 Perceptions across three organisational levels on the combination

At the executive level, CE₁ acknowledged the vendor’s commitment and flexibility (when comparing its performance with another vendor), and pointed out that he would run the agreement with the current vendor without any contract. The latter was evident at the beginning of their relationship (i.e. no contract at the start of the deal), meaning that the client had confidence in the vendor’s capabilities to deliver. Although trust was acknowledged as
important, CE\textsubscript{1} also highlighted the role of formal controls in the arrangement. The stressed importance of formal controls seemed to be associated with the difficulties in wording the contract and developing formal controls along the course of the arrangement (e.g. enhanced SLA or support documentation). As a result, CE\textsubscript{1} stressed the importance of formal controls, as at his level he monitored the project outcomes per contract.

At the management level, perceptions of the balance between trust and formal controls from two managers were different. In particular, CM\textsubscript{2} argued for the role of trust (i.e. personal trust) in the working relationship by assuming that necessary formal controls had been already implemented in the environment (pre-existing formal controls), and trust would be in the working relationship. On the other hand, VM\textsubscript{2} talked about the ‘40%’ of contract as the major element in the outsourcing relationship which should take the lead in the combination between trust and controls as the essential background that specifies responsibilities and service targets. The acknowledged importance of the contract is linked with its ability to provide the vendor with a safeguard that will provide legal protection against unreasonable requests or expectations. Based on the judgement provided by VM\textsubscript{2}, the development of trust would depend on the ability of the vendor to deliver consistently as per contract. Undoubtedly, the ability to perform in accordance with the terms of the contract plays a significant role for the vendor organisation, since the service targets and responsibilities should be specified in the contract and the vendor eventually links its performance with what the contract prescribes. It seems that this view on the combination naturally comes with his level of responsibility as the service delivery manager.

At the operational level, the perception on the combination shifted towards the importance of formal controls. It seems that VO\textsubscript{4} emphasised the role of formal controls in the forms of the project documentation and formal processes so that they were seen to give a direction to support the teams in performing task activities. He also acknowledged the importance of trust in that combination, meaning that trust was more important for the attainment of job satisfaction. It seems to me that the connotation of trust has been used in the context of interpersonal trust that is built with the other members of the team. In other words, the mentioned job satisfaction implies the team courtship in which personal relationships and informal communications (with other members of the team) have some serious implications for the progress of the project.

### 4.3.7 Perceptions of Outsourcing Outcomes

In Table 4.6 below, different views from participants on how they perceive the outsourcing outcomes are provided.
Responses from two sides

<table>
<thead>
<tr>
<th>Achieved stability</th>
<th>CM: “It’s been greatly improved over time. We are achieving a level of stability that we haven’t had before.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of service and satisfaction</td>
<td>VM: “If they felt the service was not of a high standard or wasn’t being delivered, I don’t think that they would have given IT Consultant B that opportunity. They would have just gone straight out to competitors.”</td>
</tr>
<tr>
<td>VO: “I’d say they’re pretty happy with the service that we provide.”</td>
<td></td>
</tr>
<tr>
<td>Dependency on vendor’s domain knowledge</td>
<td>CE: “With IT Consultant B, there’s a lot more touchy feely, a lot of the infrastructure’s in our buildings. With IT Consultant B, it’s more about being sure that the other suppliers can meet those service levels that IT Consultant B are doing.”</td>
</tr>
<tr>
<td>Consistent performance</td>
<td>CM: “They consistently achieve good results and any time that it’s come time for renewal, IT Consultant B’s basically come to the table and made some agreements on how they will satisfy FinCorp’s requirements.”</td>
</tr>
<tr>
<td>Contract renewal and quality of service</td>
<td>VM: “The relationship has to be successful because we’re delivering a quality service. The customer hasn’t gone out and tendered, it’s completely ‘Just go and quote and send us back the quote and we’ll accept it with a couple of adjustments.’”</td>
</tr>
</tbody>
</table>

Table 4.6 Different views on outsourcing outcomes in the infrastructure arrangement

Both parties agreed on the improved level of service. FinCorp was confident about the quality and highlighted the stability of service achieved in the project. Similarly, the vendor’s stakeholders contended that FinCorp was happy with the service (see VO’s quote) and, given the improved delivery, the contract was renewed (see VM’s quote). Thus, it seems that the quality of the project is positively associated with the client’s confidence in the vendor’s performance and the succession of the contract.

As we know, FinCorp and IT Consultant B renewed the contract once which indicated that both organisations were satisfied with the way their relationship had progressed and the output quality. On this subject, FinCorp acknowledged consistency in the achievement of results (see CM’s quote) and increased dependence on the vendor in terms of domain knowledge (see CE’s quote). Also, a certain level of relationship quality was also achieved, suggesting that FinCorp and IT Consultant B were satisfied to work with each other and linked its success to the recent contract renewal which was acknowledged by the vendor’s manager.

Overall, this section suggests that the acknowledged perceptions of the outsourcing outcomes were linked to the recent signing of the contract and satisfactory performance of the vendor.
4.4 Background of Case Study Three

4.4.1 Overview of FinCorp and IT Consultant C

The client organisation

In this case study, as in the previous two, the client organisation remains FinCorp. The details of the organisation can be found in the first case study.

The vendor organisation

The vendor organisation, IT Consultant C, is one of the largest Indian service providers that specialises in IT services and business solutions, with headquarters in Mumbai, India. It was established in 1968 and since then has grown into one of the largest offshore outsourcing organisations. It now offers an integrated portfolio of IT services and solutions in the areas of IT infrastructure, enterprise and business intelligence solutions, consulting and business process outsourcing at the global level. IT Consultant C was one of the first organisations in the IT sector to achieve an enterprise-wide Maturity Level 5 in such methodologies as CMMI and P-CMM in software development. It currently employs over 160,000 people across 42 countries. It generates revenues of over $US 6 billion dollars annually.

The scope of the outsourcing arrangement

The case study and the discussion focus on the client-vendor IS outsourcing arrangement in the context of the mainframe application support project\(^9\) (subsequently referred to as the mainframe arrangement). In the context of the case study, the mainframe applications comprised the client’s (i.e. FinCorp) internal applications that host the database of its customer accounts and other large-scale transaction processes. FinCorp’s mainframe applications process four to five million credit card transactions each day. The ongoing maintenance and support of these mainframe applications was provided by IT Consultant C, and it is the focus of this case study.

4.4.2 Details of the Outsourced Mainframe Application Support Arrangement

Prior to IT Consultant C being involved in the mainframe support arrangement, FinCorp used IT Consultant C’s resources for the development of different applications. In the mid-1990s, a number of FinCorp’s core IT applications were developed in India by a number of offshore outsourcing companies including Satyam, Tatra, IT Consultant C and others. FinCorp set up

\(^9\) In this work, the word ‘mainframe’ refers to the client organisation’s core IT applications that process financial transactions.
Global Development Centres (GDCs) with the aforementioned companies in India in order to
develop core IT applications and on-going support. Initially, the mainframe applications were
supported by other offshore service providers, but due to the poor quality of support and costly
service, FinCorp decided to find another service provider. In 1997, FinCorp announced a tender
for the mainframe support work and IT Consultant C was awarded a contract. Among the key
selection criteria were the vendor’s price offer and FinCorp’s confidence in the vendor’s
expertise and functional knowledge, which had been gained from a prior outsourcing
arrangement on software development projects. Both organisations signed the contract at once,
and spent almost two years in a transition period and relocating of some of the vendor’s people
to FinCorp’s premises. In 1999, the contract was signed with a detailed specification of the
scope in the SLA. The total value of the signed contract was approximately about $AU 1.5
million dollars a year.

As already mentioned, IT Consultant C had project experience with FinCorp based on the
existing global agreement between FinCorp’s India-based GDCs and the project management
agreement (i.e. the separate contract on the project work outsourced to IT Consultant C). The
mainframe support agreement was signed separately. FinCorp provided a draft of the Master
Service Agreement (i.e. a corporate template of the contract), based on which the general
structure of the contract was defined. The contract also specified the service levels, scope of the
arrangement and key responsibilities of both organisations. The signed contract was based on a
fixed cost for a specified amount of work. It included a specific penalty clause for the vendor in
case service targets were missed, and an ‘SLA payment’ incentive (i.e. financial incentive of 6%
of the contract value) for high quality service performed by the vendor team. Subsequently, the
contract had been renewed a number of times, while the SLA was extended to cover the support
of more applications. Moreover, given the changes that occurred in FinCorp’s IT infrastructure,
and the fact that the mainframe applications were considered to be the core applications of the
organisation, the contract also stipulated a six-monthly review clause, meaning that every six
months both organisations would review the scope and the SLA in case new changes and/or
functionalities had to be included in the project.

According to the contract, IT Consultant C provided 24/7 application support across the
mainframe applications. The vendor organisation maintained the production environment on the
mainframe. Overall, the mainframe applications comprised four different back-end receivable
systems\(^{10}\) that supported FinCorp’s business operations, such as credit card transactions, retail

\(^{10}\) The terms back-end applications (or systems) usually refers to servers, midrange systems and mainframes that provide data
services to users. In this study, back-end receivable systems allow for important information to be stored for an unlimited number of
customers and transactions, and they are capable of accommodating efficient processing of customer payments and adjustments.
finance, mortgages and home lending. The mainframe support team included three people from FinCorp and about 20 people from IT Consultant C. Based on the mainframe support agreement and IT Consultant C’s rotation policy (i.e. every two to three years each member of the offshore team should spend a certain amount of project time on the client’s premises), the vendor team was split accordingly into onshore and offshore teams located in Australia and in India.

The contract was further renewed in 2002. As part of the contract negotiations, both organisations reviewed the SLA and the scope of the work due to an increase in the number of applications. As a result of this expansion, a new mainframe application team was formed as the team specially dedicated to look after these core applications.

Later on, FinCorp appointed a new project manager to the mainframe project in 2005, who introduced new status delivery reports which summarised the performance of the vendor in comparison with the service targets. Likewise, the practice of monthly reviews was usually performed by FinCorp’s manager, since FinCorp’s executive as a support leader for all outsourcing arrangements (not only the current mainframe arrangement) was rarely involved in the monthly reviews of each of the outsourcing arrangements.

In 2006, the contract was renewed for a second time. This time the contract value was reduced, significantly due to the impact of the global financial crisis (GFC) that forced many organisations (including FinCorp) to review their outsourcing deals with service providers in terms of the agreed contract cost. The organisations renegotiated the contract value (i.e. project costs) alone, while the scope and conditions of the contract remained untouched.

Alterations in FinCorp’s internal IT infrastructure during 2008 resulted in changes to the scope of the mainframe arrangement and, as a result, a new functionality (i.e. new platform acquired to process large-scale financial transactions with customer records) was added to the number of supported mainframe applications.

In Figure 4.9 below, the overview of the discussed events in the mainframe arrangement is provided.
Since the very beginning of the mainframe agreement, the organisations have reviewed the contract three times. The most recent renewal of the contract in April 2009, involved the negotiated 15% reduction in price initiated by FinCorp, in terms of the support work and re-evaluated service level agreement. At the time the contract was reviewed, I interviewed the key participants of the mainframe arrangement.

### 4.4.3 Details of the Participants

Table 4.7 below provides the background details of the key participants who were interviewed in the case study.

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Role</th>
<th>Involvement in the mainframe arrangement</th>
<th>Length of time worked on this project (yrs)</th>
<th>Overall length of time in the organisation (yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CE1</td>
<td>Support Services Leader</td>
<td>From Day 1</td>
<td>10+</td>
<td>18+</td>
</tr>
<tr>
<td>CM3</td>
<td>Mainframe Support Leader</td>
<td>Soon after the first contract renewal (2005)</td>
<td>4+</td>
<td>7+</td>
</tr>
<tr>
<td>CO2</td>
<td>Mainframe Support Documentation Analyst</td>
<td>Soon after the second contract renewal (2007)</td>
<td>1.5+</td>
<td>8+</td>
</tr>
</tbody>
</table>
Table 4.7 Key participants in the mainframe arrangement

| VO₅ | Support Team Member | From the time the contract was reviewed for the second time (2006) | 3+ | 4+ |

The early involvement of CE₁ in the mainframe arrangement enabled to shed light on the initial development of the IS outsourcing relationship with IT Consultant C and the subsequent reviews of the contract. Interestingly, the mainframe arrangement was one of the longest outsourcing arrangements that FinCorp had (out of three case studies), which brought interesting comparative views on the development of trust and formal controls across three IS outsourcing projects.

At the management level, CM₃ revealed insights on operational deliverables, quality of service and overall progress of the vendor’s performance. It was not possible to obtain the insight of the vendor’s manager, since he was promoted and left the position he occupied in the mainframe project, whereas the new manager had only been appointed early in 2009, i.e. at the time at which I interviewed the stakeholders, and he had not yet acquired the project knowledge.

At the operational level, CO₂ was able to give insights into the operational difficulties (e.g. logging tickets, resolution) and milestones that both teams dealt with in the arrangement. From the vendor’s side, VO₅ was the only member of the vendor organisation who gave his view on the development of the outsourcing relationship with FinCorp.

Levels of responsibility

In Figure 4.10 below, an overview of the participants’ levels of responsibility is provided.
At the executive level, CE$_1$ was involved in the monthly coordination and the contract performance reviews of the project. However, he was less involved in the monthly coordination than he was in the first two case studies. In this arrangement, the monthly reviews were usually conducted by CM$_3$ at the management level. In particular, CM$_3$ was responsible for managing the mainframe arrangement and the working relationship with IT Consultant C by monitoring the operational deliverables of the vendor’s team. Overall, both managers (CM$_3$ and VM$_{xyz}$ as shown in Figure 4.10) were responsible for managing the contract and the working relationship through constant communication between the project teams. At the operational level, CO$_2$ was responsible for coordinating the support work and evaluating the quality of the reviewed issues (or requests) done by the project team in order to assess the team’s performance. His responsibility was to maintain the support documentation and provide direction on how the team should support the mainframe applications. The vendor’s team (VO$_5$) ensured the reliability of the mainframe applications by maintaining users’ requests (similar to help desk support functions).

### 4.4.4 Current Formal Controls

There were a number of formal controls found in the mainframe arrangement. This included the mainframe support arrangement, the service level agreement detailing project requirements and service targets, delivery status reports (monthly and weekly reports) and VOC-based reports which served as performance measures.

### The contract implementation and the SLA

The contract was signed based on the draft provided by FinCorp. During the course of the mainframe arrangement, there were no reported disputes or conflicts of opinion. On the nature of their contractual relationships, FinCorp’s executive stated:

CE$_1$: “We rarely have issues with IT Consultant C and there’s a corporate umbrella ‘FinCorp-IT Consultant C relationship’ which means I’m shielded from some of that stuff. If IT Consultant C aren’t happy with the way FinCorp pays them, the payment terms in the contract, they don’t come to me. They go at a FinCorp level and try and fix that and I do whatever they agree...At my level, we’ve got a much better relationship because there’s that overarching governance model there.”

The existing global corporate agreement between FinCorp and IT Consultant C assisted both organisations in clarifying expectations and setting up a foundation for the new outsourcing relationship. As we know from the details of the arrangement, FinCorp already had the
agreement with IT Consultant C on setting up the software development centres in India, which had been signed by both organisations at the corporate level. Thus, the terms and conditions, escalation plan and the lines of communication had already been set. In the project, the organisations used one of the corporate contract templates to sign the agreement and the only detail that they discussed was the scope and service targets. Another interesting implication was the mentioned terms of payment, which was also set up at the corporate level. In the outsourcing arrangements, the negotiations around payment conditions are usually crucial and tend to be very intense, since each party attempts to achieve a satisfactory outcome in deal (the client wants a lower price and exceptional service and the vendor wants a higher price and more opportunities to extract profit margins from the contract). However, in this arrangement, the organisations had no such discussions and, although they did review the project costs and increased the scope of the project, they have continued to work with each other through three successful contract renewals. These three episodes of contract renewal speak to the level of maturity that each organisation achieved in negotiating the interests of each other.

Apart from the contract, the background of the arrangement suggested that the service level agreement (SLA) also played an important role in the mainframe arrangement. For example, CM3 acknowledged the flexibility of the SLA:

CM3: “When we come to the end of the contract, we’re renegotiating “Okay, we need to look at resourcing levels. We also need to look at what’s within the statement of work to see what’s still in scope and what’s out of scope.” At that point we adjust the resourcing level and say “For the next two years providing the cost is right, we will adjust the statement of work to match what was actually done”... That’s why it works so well, there is that flexibility.”

CM3 acknowledged the flexibility of the SLA that allowed them to adjust the resourcing levels and make changes to the service level agreement with regard to scope. The importance of the SLA’s structure that allowed both organisations to quickly adapt to the changes occurring either in the business environment or in the outsourcing arrangement is also acknowledged in Goo’s works on the outsourcing SLAs (e.g. Goo 2008, Goo et al. 2009). So that, the well-defined structure of the service agreement enables both organisations to clearly specify the scope and service targets for the further development of the outsourcing project. In the mainframe arrangement, neither organisation disputed the scope and service targets, but they updated the agreement with necessary changes without going through the comprehensive review process that usually takes time and skills in an exhausting negotiation process.
Non-contractual project-specific controls

Similarly, in its dealings with IT Consultant C FinCorp also used different levels of reports and VOC-based reports as the primary method of measuring the vendor’s performance. The reporting mechanisms were initiated by FinCorp for the purpose of monitoring and coordinating the ongoing progress of the project. The monthly delivery reports were also collected to measure the support team’s KPIs with the service targets of the support provided. On the importance of reports, the client emphasised an ability to control the vendor’s team, while the vendor highlighted the clear requirements in the reports:

CO₂: “You can control them [IT Consultant C] through measures of performance and turnover of tickets”.

VO₅: “It’s the business requirements which drive everything. Once you get to know what the business wants, it’s up to you how we are going to implement it.”

CO₂ expressed the regulating (or moderating) view of the reports, so that despite their assessment role, reports also enabled to moderate the behaviour of the vendor team in terms of the performance outputs. By contrast, VO₅ emphasised the business requirements (and service targets) of the outsourcing project that they as the vendor team should meet in order to fulfil the client’s expectations.

The implementation of weekly delivery reports and monthly reviews commenced after the first contract renewal, which was partly caused by the appointment of the new project manager in FinCorp and new project team. These controls can be referred to the mixture of outcome- and behaviour-based controls, since they are designed to assess and moderate the vendor’s behaviour in terms of the project delivery.

In relation to the role of reports and formal controls in general, FinCorp’s executive expressed his opinion on the subject:

CE₁: “Formal controls are in place from a governance perspective. We not only need to be giving the right service, we need to be seen to be doing the right service and that’s what we define –it’s about showing that you’re doing the right thing.”

Clearly, for CE₁, who was involved in the contract negotiations, the ability to control and structure the outsourcing arrangement with appropriate governance was the primary responsibility. Being involved at that level, he was concerned not only with the project expectations (and requirements) that should be properly explained to the vendor, but with the overall direction of the outsourcing arrangement coordinated by a set of appropriate formal
controls. Thus, the reason why formal controls were acknowledged in the context of governance, with a view to ‘doing the right thing’, suggested that formal controls were seen primarily as the coordination tool, ensuring credibility of the vendor’s actions within the client’s discipline to show actions that the vendor should expect from the client in terms of reporting.

On the development of formal controls and the outsourcing relationship in particular, CE\textsubscript{1} talked about the maturity of the outsourcing market overall and how it had a certain impact on the development of their relationships with vendors:

CE\textsubscript{1}: “Ten years ago the whole outsourcing world was different. I think the clients just wanted to get everything for as cheap as they could, even if that meant the supplier making a loss. I don’t think that’s the way it is today, I think suppliers are a lot cleverer and that clients realise that. It’s probably not going to be a long term solution to drill your suppliers into the ground, so I think there’s just a general maturity in the whole market place and price keeps coming down.”

The expressed view was also reflected in Lee et al.’s work (2003) on IS outsourcing when they traced the evolution of IS outsourcing research and its forms from its inception to present times. According to their view, the initial outsourcing arrangements were governed solely by the client organisations and were usually based on a ‘master-servant’ agreement, meaning that masters (or clients) wanted to cut their expenditure. However, with time, the complexity of the business world and outsourcing arrangements required cooperation and equal partnership for the sake of achieving long-term benefits. In relation to this arrangement, both organisations successfully renewed the contract three times and, although the price has come down since 1997, they continued working with each other.

Overall, an overview of the formal controls developed in the mainframe arrangement can be found in Figure 4.11 below.
The implications of the mixture of behaviour- and outcome-based controls seemed to be of a particular interest. The signed mainframe contract included the ‘SLA payment’ (penalty and/or 6% incentive clause) that either favoured or penalised the vendor team in terms of performance. This clause, apart from being a part of the contractual formal controls, could also be classified as the mixed type of outcome and behaviour-based controls. First, it demarcates the initial role of assessment that the client put in place to influence the vendor’s performance, while the incentive is initiated to encourage the vendor to improve its performance. Thus, the boundaries between these two roles of formal controls (of assessment and moderation) are merged and in fact the controls aim to impact on the efficient progress of the outsourcing arrangement.

Overall, it seems that the implementation of formal controls in this arrangement was largely driven by the client.

4.4.5 Development of Trust

Views of trust and perceived reasons for trust-building

The working relationship between FinCorp and IT Consultant C was more than decade long that was significantly based on trust. On the nature of their relationship, CE1 described it as solid and mature:

CE1: “Out of the three [including arrangements with IT Consultant A and IT Consultant B], that’s [with IT Consultant C] certainly the longest running. It’s made easier because of the global relationship…That is the solidest relationship we have.
From how I measure this, it’s the least noisy and the most mature. We very rarely get issues with IT Consultant C, they just do their job and it just keeps going.”

During ten years of building the outsourcing relationship, each organisation gained experience with and knowledge of the other through project dealings and interactions. This was the level of maturity that CE1 emphasised above. Moreover, the ‘global relationship’ that CE1 emphasised indicated that the project experience with the vendor assisted FinCorp to learn about the vendor’s expertise and performance. It also indicated that each of the organisations was clear on the other’s expectations and actions which made it easier to set up the new outsourcing relationship with this vendor.

The working relationship was characterised as being open and honest. For example, this was acknowledged by the client’s stakeholders:

CM3: “They [IT Consultant C] will come back to me and tell me if they believe they can’t meet an SLA or they can’t meet it because they haven’t got enough resources. It’s two way traffic in terms of communication and mutual respect.”

CO2: “There’s no hidden agendas, it’s quite one on one and open discussion...I have a level of trust in dealing with them that they’re actually telling me the correct information.”

It seems that the participants agreed on honest and open interactions prevalent in the working relationship. Similarly, the outsourcing literature suggests that honesty and openness in project communications facilitates trust-building between outsourcing parties. Throughout the ten years of the operation, trust was well established between two organisations. While VO5 argued that the client was “understanding and supportive” in the event of milestones or difficulties faced throughout the mainframe arrangement.

Trust was argued to be built on knowledge, working experience and the vendor’s consistency learned throughout many years, while one of the client team’s people acknowledged integrity and respect shown in the work as the necessary prerequisite for the growth of trust:

CE1: “IT Consultant C’s capability to deliver what we want them to deliver has improved...I trust them because they’ve got a track record of doing what they say they’re going to do and doing what’s within the agreement. It’s based on experience, it’s based on they know, it’s based on a clear communication channels.”

CO2: “We’ve developed trust over a long period of time but before you can have trust you’ve got to have integrity and respect for the work that’s being done and that’s where the trust has evolved through that background of integrity and respect for the work.”
According to CE$_1$, client’s trust in the vendor was based on the vendor’s matured delivery (client’s performance-based trust in the vendor). Moreover, the fact that FinCorp worked with the vendor in the past indicates that the experience, knowledge and clear communication channels that CE$_1$ mentioned above are likely to be characteristics of knowledge-based trust. So that the previous experience and existing knowledge helped each of the organisations to learn and further predict actions of the other. While integrity and respect that were acknowledged by CO$_2$ as antecedents for trust-building, seemed to foster knowledge-based trust, originating in the client’s increasing respect for and confidence in the vendor’s expertise. Integrity as the antecedent of trust could be obtained with time and, therefore, the client learned about the vendor’s skills through regular communications and consistent behaviour in performing tasks.

**Types of trust**

Given the previous offshore outsourcing experience that both organisations had with each other, it seems that some trust was already there, based on the awareness of the client about the vendor’s domain reputation. In particular, FinCorp was aware of the technical expertise and capabilities of the vendor through the mentioned shared project experience. Although the literature claims that reputation-based trust (RBT) is based on the information received from the third parties in the form of background checks or referrals (Uzzi 1996), the case study suggests that the reputation of the vendor was already established given the prior outsourcing experience. For example, CE$_1$ talked about the existing reputation of the vendor within FinCorp:

CE$_1$: “I trust them in terms of FinCorp relationship overall, because we’ve got global sourcing departments that will tell me if there’s problems with IT Consultant C.”

Given the joint project experience accumulated by the two organisations, IT Consultant C had an existing reputation in other departments of FinCorp or in sectors of business with which, and among people with whom, they had dealt in the past.

When the contract was signed, knowledge-based trust (KBT) was present too. Each of these organisations already knew the other and was aware of the other’s behaviour. The literature suggests that this type of trust is usually based on a history of transactions between two parties (Lewicki and Bunker 1996; Sabherwal 1999), which was also evident in the mainframe arrangement. So, the prior working knowledge and track records had assured FinCorp that IT Consultant C would be capable of providing the expected level of quality as they did in other outsourcing projects. Indeed, this type of trust was developed over time largely because the parties had a history of interaction that allowed them to develop a generalised expectancy that the other’s behaviour was predictable and that the other would act honourably according to the
signed agreement. However, it cannot be claimed that there was a consistent growth of KBT throughout the arrangement. In particular, a number of changes that happened in the arrangement (establishment of the new team and new PM) resulted in the fact that IT Consultant C was faced with an issue of how to restore client’s trust built with the previous team. At this time, there seemed to be a decrease in this type of trust between two organisations. In relation to this time, VO5 commented that his team tried to restore FinCorp’s confidence through their performance and achievements:

VO5: “This project has been with us since August 2005. When they first came here there were many clients who said that there was that lack of trust because you don’t know how our team would be performing. With time we have been able to gain that confidence from the client side.”

Accordingly, VO5 mentioned time they spent on restoring the client’s confidence in terms of the performance records. This also suggests something about roots of performance-based trust (PBT). Following the contract sign-off, this type of trust was growing, given the common knowledge and history of interactions that FinCorp had in terms of the vendor’s track records:

CE1: “They do what we need them to do, they do what we’ve asked them to do, they’ve got a track record of doing that.”

CO2: “They’ve got that knowledge expertise to do what we want them to do.”

There was the acknowledged consistency in performance and track records gained over time. Although the change in the project team affected the growth of PBT, the continuous performance of the new team resulted in the subsequent renewal of the contract early in 2009. Another interesting implication that was revealed from CE1’s quote, suggests that both organisations had the same level of understanding of the project and met expectations.

On the growth of identification-based trust (IBT), the literature remains silent regarding what should be considered as trust-building mechanisms for such type of trust. According to a number of researchers (Lander et al. 2004; Nelson and Cooprider 1996; Whitener et al. 1998), the relationship factors such as sharing control, shared goals, joint identification (of the teams involved in daily interactions), commitment and/or concern for others, were identified as mechanisms for building identification-based trust. For example, VO3 provided an account on the subject of the goal match:

VO3: “FinCorp’s goal and IT Consultant C’s goal match. So that’s how we have been able to have a good relationship.”
VO3’s view on the goal match mentioned above suggests that, at the operational level, the organisations came to a mutual understanding about the project.

The growth of contractual-based trust (CBT) was prominent at every contractual renewal of the mainframe arrangement. Three subsequent renewals indicated the client’s willingness to continue the arrangement with the current vendor, whereas the latter was satisfied with their profit margin. However, the most interesting aspect in the present of this trust was the fact that both organisations kept contractual issues on the back of their minds and did not really focus on the contractual negotiations and thus, it is more likely that the growth of CBT was slow since both organisations tended to focus on trust-building in their working relationship.

Nevertheless, the presence of CBT could be observed in the recent contract renewal when CM3 emphasised the external environment pressure on cost renegotiations:

CM3: “We’ve been through two changes in contract, we’ve reviewed the arrangement and looked at the costing. At the moment, we’re just starting the new statement of work, particularly given the global financial crisis, a big focus on cost.”

Despite the long-term outsourcing history, and the evolved maturity of the working relationship between FinCorp and IT Consultant C, the former insisted on cost minimisation all the way through.

In Figure 4.12 below, a generic overview on discussed changes in trust is provided.
In most cases, there was an increase or a decrease in trust throughout the mainframe arrangement. However, there were instances in which no changes occurred in trust were observed, such as in case of identification-based trust.

### 4.4.6 Perceptions of the Relationship between Trust and Formal Controls

It was argued that the contract should specify the boundaries and set the direction for the outsourcing arrangement, whereas trust was a facilitator in developing the working relationship between the parties. For example, FinCorp’s executive expressed his view on the combination between trust and formal controls:

**CE:** “We have the formal controls in place, we have the contract, we have monthly dashboards that we go through, we have it all documented in terms of processes, but I measure trust on “Do I have to get those documents out all the time when I talk to IT Consultant C?” and the answer is “No”. If I go back to my definition of trust is I don’t have to pull out the legal contractual documentation every time I talk to them. In fact if we are pulling out those documents then the relationship has failed.”

CE’s view suggests that, in the combination between trust and formal controls, the contract and formal controls seemed to be a ‘nice background’ to ensure the project governance. The reliance
on performance and coordination would give FinCorp one way in which to monitor the quality of vendor’s deliverables. Trust, however, seemed to be preferred in dealings with the vendor. He made a comment about the negative impact of contract enforcement on the state of the working relationship with the vendor, something which was also acknowledged in the literature as having a negative effect on trust-building between the outsourcing partners. On the other hand, CO\textsuperscript{2} claimed that formal controls had to be in place to manage the performance of the outsourcing project, and argued for the controlling role of formal controls:

\textbf{CO\textsubscript{2}}: “You’re managing the relationship because without the control you might not be getting the work performance that you really require. They need milestones and making sure things are happening.”

Clearly, the role of formal controls was seen to be the regulation of the vendor’s actions in terms of project performance. His view on the role of trust in combination with formal controls in the relationship was different from the executive’s view above:

\textbf{CO\textsubscript{2}}: “Initially we built up the relationship and the trust and got an appreciation of what can be done. But that phase it’s now passed...and we’ve moved onto more of the control side. Part of the control side is getting weekly reports...and it’s also about documenting the procedures...The reason why I need these [documented procedures] is so that we have handover documents in case of change whereas if IT Consultant C just hold onto the knowledge in their heads without documenting it.”

He claimed that the development of the working relationship with IT Consultant C started from trust-building and, consequently, FinCorp focused more on formal controls by monitoring the vendor’s performance. Such view was strongly different from the one given by CE\textsubscript{1} above. Although it is impossible to know for sure what caused such difference of opinion, however it could be related to the differences in the roles that these two played in the arrangement. So that CE\textsubscript{1} as being at the high level of hierarchy, limited himself to the monthly monitoring of the vendor’s work and thus, he might have that luxury of stepping back and looked at the relationship by arguing that contract and formal controls should be initially set and subsequently trust became more important. By contrast, CO\textsubscript{2}’s responsibility was to work daily with both teams and ensured that the task activities were properly documented. Thus, it came to no surprise that he preferred formal controls in order to document all the procedures, including vendor’s project actions.

From the vendor’s perspective, the importance of developing the working relationship with the client’s team and the ability to build trust was seen to be closer to VO\textsubscript{2}’s view. This could be done by showing commitment in the project work:
VO₅: “If we’re asked to accommodate a little piece of work, we are ready to do it and the client also appreciates that we have done it, because no extra cost has been incurred by that...This helps to build trust”.

Clearly, trust-building was more important from the operational point view and, to keep daily interactions and communications, teams usually did not refer to the contract but worked with the service agreement and project documentation. Therefore, VO₅ acknowledged small extras done in the project work (outside the contract), such as the vendor’s teams usually might do as a favour for the client to build a rapport and trust with the client by showing that level of commitment.

The necessity of finding the right combination between trust and formal controls was also acknowledged:

CE₂: “The blend, the balance, is incredibly important. If we didn’t have the contract it wouldn’t work but if we didn’t have the trust it wouldn’t work either. So the day to day interactions have to be based on trust, the formal negotiations recording the governance side of it has to be based on the contract.”

CO₂: “We’ve got a good combination, whether it’s the right combination only time will tell because I can see it changing over time as the type of work moves with the times.”

In order to achieve the right balance, both formal controls and trust were necessary. Formal controls were implemented for the sake of governance, while trust was essential in daily communications in the project. Another interesting factor was the acknowledged dynamism of the combination. Accordingly, the combination between trust and formal controls was likely to be changing, depending on the changes in the project. Although the described ‘state of affairs’ in the mainframe arrangement could be referred to as a certain type of balance that relied on a particular type of trust and formal controls, CO₂ highlighted the assertion that changes in the project requirements might have a certain impact on the achieved combination.

Based on the findings, the combination between trust and formal controls in the mainframe support arrangement can be described as orthogonal balance. Following on from the definition, orthogonal balance is based on the idea that stakeholders do not attempt to align their trust-building and formal controls, so that they (co-)exist but independently. In the mainframe arrangement, the level of trust was very high due to the long-term working experience and knowledge both organisations gained. However, it did not influence the choice of formal controls that were implemented by FinCorp to coordinate the mainframe arrangement. Seemingly, the long-term relationship and the project experience should have decreased the level of coordination from FinCorp’s side, since both organisations gained confidence in and
knowledge of each other’s capabilities. However, the existing “overarching governance model” within FinCorp that CE₁ mentioned when talking about formal controls and the new requirements of the outsourced mainframe project (as opposed to the development projects that IT Consultant C embarked on previously) had caused the introduction of formal controls (e.g. monthly reviews, reports), whereas trust was built independently throughout the course of the arrangement. Although IT Consultant C’s continuous performance contributed to the growth of performance-based trust, and it was likely that FinCorp awarded the vendor’s team with the financial incentive (i.e. “SLA payment”), I found no evidence of formal controls in the development of trust or vice versa. Therefore, it is more likely that the combination between trust and formal controls could be referred to as orthogonal balance, since both trust and formal controls were developed independently without exerting much influence on each other.

**Perceptions of the balance across organisational levels**

In Table 4.8 below, the differences on the combination are provided across three organisational levels.

<table>
<thead>
<tr>
<th>Organisational level</th>
<th>Responses from two sides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>CE₁: “What we learnt is how to get that relationship right, how to move from the 20/80 to the 50/50. It is a huge learning, because you can’t really operate at 20/80 for any extended amount of time...So if this is trust and contract, it went from 20/80 to 50/50 over 10 years...Then it gets more fluid and more flexible as you go.”</td>
</tr>
<tr>
<td>Management</td>
<td>CM: “The informal side of it takes up only 20%, where 80% is driven by metrics. Measuring every week, those several meetings a week we’re going through specifics of “How well are you delivering my service?”</td>
</tr>
<tr>
<td>Operational</td>
<td>CO₂: “I think the proportion would be 30 to 40% trust, 60 to 70% control. If we moved it the other way then who would be pulling the strings?” VO₂: “60% of trust and smooth communication and 40% of statement of work.”</td>
</tr>
</tbody>
</table>

**Table 4.8 Perceptions across three organisational levels on the combination**

At the executive level, CE₁ argued that the proportion of trust and formal controls achieved in the mainframe arrangement changed throughout the relationship with the vendor. It started with a heavy emphasis on formal controls, then progressively evolved to more trust-building along with the maturity of the working relationship. In particular, he stressed out learning curve that FinCorp had endured, and experience it had gained, while dealing with IT Consultant C. Indeed, the outsourcing relationship with IT Consultant C lasted for more than decade, during which each of the organisations had learned about the behaviour and capabilities of the other, while the growing maturity helped to build trust in such a way that both parties were confident operating
without referring to the contract. Moreover, the comment “50/50 is as good as it gets” could be interpreted in such a way as to mean that, in all dealings with the outsourcing partners, there was a standard set of formal controls that should be implemented on a corporate level in order to monitor the outsourced work.

At the management level, CM₁’s perception of the balance was mainly based on the performance measures and monitoring of the vendor’s actions. Clearly, for the manager who took charge of the operational delivery and service targets of the mainframe project, the vendor’s performance was of the utmost importance. Further, as the information in Figure 4.9 suggested with regard to the structure of responsibilities in the outsourcing arrangement, CM₁ was engaged in managing the service level targets and monitoring the quality of deliverables from IT Consultant C’s team. Also, CE₁ was rarely involved in conversations with IT Consultant C which left no choice for CM₁ but to conduct regular monthly evaluation reviews and meetings with the vendor’s team. Thus, his preference for the control-sided proportion could be well understood in the light of the described circumstances.

At the operational level, the client’s view on the proportion between trust and formal controls was heavily weighted toward controls, as alluded to by CO₂. In particular, he associated the role of formal controls with taking an ownership over the vendor’s actions, meaning that by implementing formal controls the client might regulate the vendor’s actions in performing the task. However, in order to understand why he favoured such a proportion, as opposed to the seemingly predominant view among operational staff in which the preference is for trust-building developed through interactions on the project (Oza et al. 2006), I must return to the early discussions on formal controls and the combination between trust and formal controls (see section 4.4.6). CO₂ claimed that the development of the relationship usually started with trust-building and, subsequently, it focused more on formal controls by monitoring the vendor. Such view was argued to be influenced by CO₂’s scope of duties. By contrast, VO₅ emphasised the role of trust in his daily operations, whereas the importance of formal controls was viewed in relation to the statement of work. Since his involvement with the project was limited to the operational activities, it was reasonable that he emphasised the role of statements of work detailing project requirements and service targets, while trust contributed to the development of the relationship and enabled “smooth communication” with the client.

4.4.7 Perceptions of Outsourcing Outcomes

In Table 4.9 below, different views of achieved outcomes are provided.
<table>
<thead>
<tr>
<th>Responses from two sides</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reliability of the system</strong></td>
</tr>
<tr>
<td>CM₃: “Compared to the old Vision Plus platform which has been around for over 10 years, it was so smooth and that was a testament to having that involvement between my team.”</td>
</tr>
<tr>
<td>VO₅: “As of now the system is pretty much robust. The time when we took over I have heard that there were many issues...We have been able to minimise them to very manageable levels now.”</td>
</tr>
<tr>
<td><strong>Improved quality of service</strong></td>
</tr>
<tr>
<td>CO₂: “The quality has always been reasonably good.”</td>
</tr>
<tr>
<td><strong>Strategic importance of provided service</strong></td>
</tr>
<tr>
<td>CE₁: “Right now I can’t imagine us ever moving away from them. The only reason we would, would be a) we stop using the systems they support which is highly unlikely given that it’s our core receivables platform for all of our credit cards or if they did something really bad, really silly.”</td>
</tr>
<tr>
<td><strong>Mature and comfortable relationship</strong></td>
</tr>
<tr>
<td>CE₁: “I’d measure it [quality of relationships] as a success because right now we didn’t go out and tender their piece of work, because we’re so comfortable with what we’re getting and we think it’s a really good price for the service that we’ve just renewed.”</td>
</tr>
<tr>
<td>CM₃: “We’ve got to a mature enough relationship both in terms of the way we work together and what they do not only within the scope of the statement of work.”</td>
</tr>
</tbody>
</table>

Table 4.9 Different views on outsourcing outcomes in the mainframe arrangement

On the subject of the received quality of service, participants gave different accounts. For example, VO₅ acknowledged the reliability and ‘robustness’ of the supported system, while CM₃ highlighted the ‘smoothness’ of the supported platforms. This suggests that the acknowledged perceptions were likely to be remarked with regard to the ongoing progress of the project, so-called process performance. Although, CO₂ provided his view on quality of service, I may suggest that this outcome could be still related to the process performance, since the service provided by IT Consultant C had improved over the ten years.

In terms of continuity, CE₁ commented on the point of dependence on the technology on which, according to him, they became so dependent. This may also suggest that FinCorp was dependent on the level of service provide by the vendor in terms of quality and functional knowledge. However, I assume that there was more involved in terms of hidden costs in case FinCorp decided to start the transition period by switching to the new vendor, given the fact that the current vendor was the offshore service provider who gave considerable cost savings to the client (i.e. 15% reduction of the contract value). Although FinCorp was happy with the quality of service, while the decade-long collaboration with IT Consultant C proved that the former was positively inclined toward the continuation of the outsourcing relationship, FinCorp’s corporate strategy (i.e. two or three year review of outsourcing contracts) still put a certain constraint on the long-term future of the outsourcing arrangement with this particular vendor.
Both organisations achieved a certain level of relationship quality, meaning that FinCorp and IT Consultant C were satisfied to work with each other. For example, the client mentioned the quality provided and cost benefits, and maturity gained in dealings with IT Consultant C as the factors which ensured the success and high quality of the relationship. From the vendor’s side, the genuine involvement in the working relationships and FinCorp’s confidence in the quality of the project, were factors that VO3 mentioned when describing the quality of the relationship with FinCorp. Overall, the outsourcing relationship between FinCorp and IT Consultant C can be called satisfactory because neither of the parties described their working relationship as unsatisfactory or enforced the contract.

### 4.5 Chapter Summary

This chapter discussed details of three different IS outsourcing arrangements that were outsourced by FinCorp to three different vendors, i.e. IT Consultant A, IT Consultant B and IT Consultant C. In particular, the chapter provided information on the development of outsourcing arrangements, formal controls and trust changes in three different outsourcing projects.

There are a number of distinct characteristics found across three case studies. In the first case study, the client was very confident about the vendor’s performance and as a result, the quality of service was never questioned due to mutual understanding built over the project. Thus, the synergistic balance was found between trust and formal controls, where high level of trust drove the effect of formal controls down. In the second case study, the client was less confident in vendor’s performance and occasionally both parties might refer to the contract on the subject of the scope or responsibility that eventually resulted in the increased number of formal controls. The synergistic balance found in this case study was relied on greater presence of formal controls that decreased the effects of trust. However, both parties started operating on the initial antithetical balance, by relying on trust during the first year of operation, before the contract was signed. Thus, there was observed a change in the balance, from antithetical to synergistic.

In the third case study, due to the long nature and maturity of the arrangement, both organisations preferred to rely on trust-building, while formal controls were implemented as necessary formal mechanisms. As a result, the orthogonal balance was found between trust and formal controls since both parties did not require to promote (or align) either of those activities with each other. The next two chapters will discuss details of the other two case studies (Chapters 5 and 6).
Chapter 5: Case Study Four

5.1 Introduction

This chapter presents case study four, which involves a help desk support outsourcing arrangement between a client and a vendor organisations located in Australia. This chapter presents details of organisations, participants and the outsourcing arrangement itself.

5.2 Background of Case Study Four

5.2.1 An Overview of EduPro and ITPro

The client organisation

The client organisation, EduPro, is an Australian commercial education provider that generates revenues from the provision of student services. It was established in 1969 and now operates through the key business units: international student services, assessment and management of international aid projects. The provision of international student services is conducted through placing students in different educational institutions across Australia. EduPro conducts the assessment of students through English language testing services. It also manages international projects valued at $AU 200 million and employs more than 800 people across 75 student offices in more than 25 countries. The company has been gradually evolving from a ‘not-for-profit’ organisation into a commercial student service provider that actively promotes Australian education. As one of the large recruiters of international students, EduPro currently generates revenue of $AU 7.5 billion annually.

The vendor organisation

The vendor organisation, ITPro, is a local Tier 2 service provider based in Australia. It is one of Australia’s leading IT professional services providers and has operated in the ICT industry since 1982. It provides information technology solutions for the federal government and business organisations in such areas as business intelligence and business process optimisation, customer relationship management (CRM), enterprise resource planning (ERP), application development and systems integration, infrastructure and information security services, managed software licensing and training services. It is also a Gold Partner of both Microsoft and SAP and is certified with ISO 9001, a quality standard for software processes. It currently employs 250
people working in ITPro’s offices across Australia and has revenue of over $AU 180 million annually.\(^{11}\)

**The scope of the arrangement**

The case study and the discussion focuses on the client-vendor IS outsourcing arrangement in the context of the first-second level help desk support arrangement (subsequently referred to as the help desk arrangement). The help desk support is an information and assistance resource that troubleshoots technical problems with EduPro’s internal IT infrastructure. In this context, the help desk support is a multi-level technical support, in which ITPro provides the first and second level of help desk support, and it is the focus of case study.

### 5.2.2 Details of the Outsourced First-Second Level Help Desk Support Arrangement

Early in 2007, EduPro restructured its IT infrastructure group. EduPro’s IT infrastructure was handled by the internal IT department, the head of which was located in Sydney, whereas the rest of the team was spread between Canberra and Melbourne. Such decentralisation and the lack of governance convinced EduPro’s board of directors to hire a new CIO to change this. In May 2007, the new regional CIO of EduPro was appointed and one of her first initiatives was to relocate the old staff from Canberra and set up a new centralised IT department in Melbourne. In the meantime, due to a lack of in-house skills and resources, and perceptions of poor quality of support provided by the existing internal team, the CIO initiated the decision to outsource the first and second level help desk support to an external service provider. ITPro, a local Tier 2 service provider was selected as the preferred vendor for the help desk support agreement. The process of recruiting ITPro was fairly simple, as there had been a long history of business relationships (around twelve years) between the senior managers of EduPro and ITPro: this was viewed very favourably in the deliberations that led to the appointment of ITPro. Among the other selection criteria were ITPro’s reputation (gained through reference checks) and its perceived ability to bring EduPro quickly within their service provision capabilities. EduPro did not announce a tender process for the support work and ITPro was offered the contract.

The initial draft of the contract was provided by ITPro and was reviewed by EduPro’s internal legal team, and eventually some of the terms and conditions were changed to reflect the client’s interests. The organisations agreed on the head contract that stipulated terms and conditions,

\(^{11}\) The background information on the client and vendor organisations was adapted from the organisations’ official websites, while the statistical figures were adapted from businessweek.com.
liability clauses and the vendor team’s KPIs (key performance indicators), but did not include any penalties. However, a detailed SLA (service level agreement) was not put in place as the organisations agreed on working on a time-and-materials (T&M) contract. Overall, it took them a month to negotiate on the contract clauses that were eventually included in the final agreement that was signed in October 2007. The initial contract was signed for six months and was subsequently extended and renewed due to the satisfactory delivery and quality of the service. The approximate size of the contract varied within a range of $AU 300,000 to $AU 350,000 a year and depended very much on whether ITPro did other project work (outside the scope of the support arrangement) for EduPro. The latter, known as “point solutions”, might include project work given to the vendor team to perform such as periodic reviews of the IT infrastructure or of data structures that would be further ‘recorded’ in the final invoice provided to EduPro.

The outsourced help desk project involved the provision of 24/7 support for EduPro’s employees with respect to its internal IT infrastructure. The help desk support was handled by ITPro’s people, who provided technical support for user desktops, servers and some internal applications, but they “operate as if they are part of the [client’s] team”. According to the contract, the help-desk support was a type of ‘break-fix’ technical support, meaning that the vendor team ‘troubleshoots’ user (customer) issues such as resolving username and password problems, uninstalling/reinstalling basic software applications, or assistance with navigating application menus (first-level). They also handled more complex issues such as onsite installations of various hardware components, software repair or remote diagnostic testing (second-level support). Overall, the help desk was supported by two help desk support people from ITPro who regularly liaised with EduPro’s team located in Melbourne.

Given the prior decentralised IT infrastructure and the lack of documentation at EduPro, the vendor’s team proactively set up an infrastructure review analysis and created the initial documentation around EduPro’s internal IT environment to maintain the help desk support. When the help desk support, the vendor team faced difficulties when processing requests without formal detailed guidelines and with the absence of information about the response time for requests. As a result, when the contract was extended early in 2008, both organisations developed the statement of work detailing support guidelines and response time for help desk requests.

In the help desk arrangement, the client organisation implemented monthly reports to monitor the vendor’s deliverables and the ongoing progress of the arrangement, while the vendor organisation initiated so-called structured review points (akin to round table meeting) conducted
either every month or once in three months to get both organisations together and review the progress and the quality of the service provision.

It is also worth mentioning that there was no project manager at EduPro, and that the project team from the client organisation only consisted of the operational staff members without a coordinating person. All liaisons and meetings with the vendor team were conducted with the active involvement of the CIO. In the middle of 2008, EduPro hired a technical specialist who was allocated to the project and acted as the team leader in dealings with the vendor’s team. With his active involvement, the project teams started communicating regularly and most of the times they did so informally via catch-ups, telephone calls and email exchanges, and ‘help desk’ meetings.

Figure 5.1 below provides an overview of the discussed events in the help desk support arrangement.

![Figure 5.1 Approximate timeline of events in the help desk arrangement](image)

Subsequently the contract was renewed in October 2008. During the contract negotiations, both organisations revisited the pricing structure of the contract and renegotiated it to the fixed cost basis. The scope of the support work was also detailed in the service targets that were included in the service level agreement. I interviewed the key participants of the help desk support arrangement around the time when the contract was renewed in October 2008.
5.2.3 Details of the Participants

Three participants from the client organisation, and three from the vendor organisation, were interviewed to obtain details of the outsourcing arrangement (see Table 5.1 below).

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Role</th>
<th>Involvement in the help desk arrangement</th>
<th>Length of time worked in this role (yrs)</th>
<th>Overall length of time in the organisation (yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CE₂</td>
<td>CIO (Chief Executive Officer)</td>
<td>From Day 1</td>
<td>3+</td>
<td>3+</td>
</tr>
<tr>
<td>CO₃</td>
<td>Web and Business support officer</td>
<td>From Day 1</td>
<td>3+</td>
<td>5+</td>
</tr>
<tr>
<td>CO₄</td>
<td>Security system administrator</td>
<td>Shortly before the contract renewal (mid 2008)</td>
<td>1.5+</td>
<td>1.5+</td>
</tr>
<tr>
<td>VE₁</td>
<td>Director of Professional Services</td>
<td>From Day 1</td>
<td>3+</td>
<td>15+</td>
</tr>
<tr>
<td>VM₃</td>
<td>Technical project manager</td>
<td>From Day 1</td>
<td>3+</td>
<td>7.5+</td>
</tr>
<tr>
<td>VO₆</td>
<td>Senior support specialist</td>
<td>From the time the contract was extended (early 2008)</td>
<td>2.5+</td>
<td>5+</td>
</tr>
</tbody>
</table>

Table 5.1 Key participants in the help desk arrangement

At the executive level, both CE₂ and VE₁ were engaged in the help desk arrangement from the beginning. Thus, they were able to give accounts of the development and performance of the arrangement, details of the contract negotiations and post-contract management of the outsourcing relationship from both the client’s and the vendor’s perspectives. The vendor manager (VM₃) and the operational level staff from both teams gave accounts of the operational deliverables and coordination, and daily communications in the arrangement.

Levels of responsibility

In Figure 5.2, a generic overview of the participants’ levels of responsibility is provided.
Both executives were involved in monthly coordination of the project. CE₂ was responsible for monthly reviews and contract performance, while VE₁ was responsible for monitoring the deliverables and for contract performance as well. EduPro did not have a manager to coordinate the outsourcing arrangement (as shown in Figure 5.2) and, as a result, EduPro’s executive (CE₂) was also liaising with the operational staff on project coordination. VM₃ was responsible for reporting and managing the operational deliverables (i.e. quality and timely response on performed service), and was accountable to VE₁ for reporting on deliverables as per the contract. At the operational level, both teams were responsible for maintaining operational support and daily communications on the task-related activities of the project. CO₃ ensured the integrity of the project documentation and liaised between the vendor’s team and CE₂. Both CO₄ and VO₆ were technical specialists and were responsible for ensuring the provision of daily status reports on the service performed.

5.2.4 Current Formal Controls

There were a number of formal controls found in the help desk arrangement. These included the help desk support contract and the statement of work. Also, monthly and daily status reports, together with teams’ KPIs and monthly reviews, acted as the performance measures, structured review points and working communications around the project.

The contract implementation

Both organisations signed the initial contract for six months, which was further extended:

CE₂: “I originally set it up as a part-time relationship and I thought we would only go for two or three months, but it’s now a year later [October 2008] and they are still doing a great job, so we have kept it running.”
EduPro extended the contract with the vendor as a result of their satisfaction with the vendor’s track record in delivery. In the outsourcing environment, a high quality service and cost savings are among the common reasons that clients keep extending their outsourcing deals with vendors. In this arrangement, CE\textsubscript{2} seemed to be confident with the level of quality delivered by the vendor’s team and, as a result, extended the contract a number of times.

Both organisations signed a T&M contract, which involves the client being billed for all services performed by the vendor and for any materials needed to provide these services. For example, VE\textsubscript{1} explained how they operated under this type of contract:

VE\textsubscript{1}: “It is quite an informal process, we record the hours that we work and we bill them, so it’s not fixed price, its time/materials. We have an ‘out of hours’ agreement with them and an associated charging rate for that, and likewise for the daily activities. But we don’t have service level targets agreed with EduPro.”

The informal process that was acknowledged by VE\textsubscript{1} was likely to be linked to the type of contract signed. Usually the ‘time-and-materials’ contract is signed in favour of the vendor, as it allows for the provision of services on the basis of direct labour hours at fixed rate, which enables the vendor to easily speculate on rates and may even jeopardise the trust granted by the client. In the literature, many researchers argue that the contract may be an occasion for opportunistic behaviour to be engaged in by the vendor. The vendor has more knowledge of the technology, while the client tends to think about the working relationship with the vendor as a partnership, but interests of the two parties in the arrangement should not be mixed (Lacity and Hirschheim 1995; Lacity and Willcocks 2009b). In this arrangement, no contractual disputes or invoked penalties were mentioned, and both organisations preferred to operate on the time-and-materials basis. That decision can be seen in the context of the existing trust and prior interactions between two executives that significantly reduced the element of uncertainty and/or opportunism from either of the outsourcing parties that is a common thing in any new outsourcing arrangement.

Another interesting factor was the absence of service targets that VE\textsubscript{1} acknowledged above. As we know from the arrangement, the only performance measures that both organisations used were internal KPIs for the vendor team that assessed the performance of each individual on the basis of the response time and the feedback received from the customer (end-user). It is more likely that the nature of the help desk arrangement might have also had led to the inability of the organisations to specify the service targets, given the challenges with the scope and the lack of the project documentation in existence at the time the contract was first signed.
During the discussion on the role of the contract in the outsourcing arrangement, both executives expressed their views on the most desirable type of contract. For example, CE$_2$ preferred flexible contracts as they could ensure long-term benefits as the business environment might always change:

CE$_2$: “There needs to be room to move because businesses change and conditions of contracts change, conditions of the way you deal with someone changes. If the contract is too tight, then both sides will get ruled by the contract rather than relationships...For me, it’s about the relationship with the service provider and the long-term benefits.”

CE$_2$ emphasised flexibility in the contract and argued that changes in the business should also be incorporated into the contract in order to build the relationship with the vendor. It seemed that CE$_2$’s view on the relationship with the vendor was based on the idea of building a partnership with the vendor. In the literature, the idea of partnerships in outsourcing arrangements was initially developed by Fitzgerald and Willcocks (1994), who argued that combinations of the strategic partnership and the client-vendor relationship could be formed and determined by the differences between the degree of uncertainty and the contractual definition (i.e. from tight to loose contracts). In this case, CE$_2$ emphasised the flexibility in the contracts that allowed her to anticipate and manage changes occurring in the business environment and incorporate them into the contract.

In contrast, the vendor’s executive emphasised the benefits of tight contracts for the vendor in clarifying the vendor’s responsibilities in the arrangement:

VE$_1$: “From a vendor’s perspective, a tighter contract is easier to manage, it’s a frustration for a customer because it means that anything that is not in the contract become a change of request...I’ve seen in other companies the contracts be so loosely worded that when you read the contract you can’t actually understand what the vendors are responsible for, or so tightly worded that it is very clear what the vendors are responsible for and any step out of it is clearly a change...So if we try to price something, which is flexible and cannot be defined, then we don’t know how to price that, and if we are asked to price that with a fixed price all we can do is to put in about a large risk buffer to be a contingent.”

The vendor’s view on tight contracts was intimately associated with the ability of such contracts to provide a legal buffer (or safeguard) against any uncertainties and misinterpretations in terms of the project responsibilities of the vendor’s team. VE$_1$ also stressed that the tightness of the contract could be less beneficial for the client since it might involve a change of request and mean more expenses to be borne by the client. Another issue was the set price that the vendor acknowledged in the outsourcing arrangements. In particular, he argued that in tight contracts it
was easier to determine the cost of the outsourced work, which could also indicate that the project scope could be specified clearly with greater ease than could be done in a loose (flexible) contract. It seemed that the vendor favoured tight contacts due to the relative ease with which they managed, as was also argued by many outsourcing studies (Lacity and Hirschheim 1993b; Lacity et al. 1994). Thus, a clearly specified scope allows the risk of misinterpretation and the ignorance of project requirements and expectations to be minimised accordingly.

**Non-contractual project-specific controls**

On the development of formal controls, CE$_2$ discussed the initial stage of the arrangement:

CE$_2$: “At that time it was very little documentation as to any of our applications or any of our structures, so over those 12 months [end of 2007-October 2008] they [ITPro] have taken onboard themselves to set up some documentation and provide assistance to us in terms of our infrastructure upgrades.”

The vendor’s team initiated the review of the client’s internal environment and set up the initial documentation on the arrangement. According to the case details, ITPro was hired at a time when EduPro was experiencing a lot of disruptions internally with its IT infrastructure which lacked system documentation and formal processes detailing the working environment. In this regard, I assumed that ITPro conducted many knowledge transfers with EduPro’s staff to gain an understanding of the infrastructure that they agreed to support. Moreover, given the experience and the business interactions that existed between two executives, CE$_2$ had a broad exposure to the knowledge and skills that the vendor’s team possessed. Therefore, it was more likely that she willingly agreed to the vendor taking a control over the coordination of the project at the initial stage of the outsourcing arrangement in terms of documenting the knowledge and internal processes of EduPro.

**Reporting and measurement mechanisms**

The formal reporting included month-end reports based on the statistics generated from the help desk system on the number of requests that were closed (solved) during the past month. The opinions on the roles of reports and formal meetings from both organisations were somewhat different, since CE$_2$ and VE$_1$ highlighted their preferences quite explicitly:

CE$_2$: “I get monthly reports from them that will detail the work that has been done, I get full time sheets on all of the invoicing come through so I can see who has done what...I haven’t got regular meetings with them and I haven’t needed to do that because I’m getting those regular reports and because we are basically in touch with most of the people who work there on a weekly basis anyway but I certainly catch up
with the account rep at least once a month and occasionally touch base with the end-
users.”

VE1: “The way we typically manage relationships with customers is we will offer a
formal meeting every month just to review how things are going [structured review
points]. CE2 opted not to do that, so our meetings are ad-hoc...I think an outsourcer is
not just someone you give part of your business to and they run it for you, it should be
an organisation where there is a constant feedback...So an ability to get that feedback
formally would be good and it might be on contract review, it might be a six-monthly
review point or a monthly review point.”

It seems that CE2 viewed the reports as the necessary form of monitoring of the vendor’s
actions, while VE1 highlighted the ongoing review of the performance management through
regular meetings with the client. On the other hand, due to the fact that both organisations
operated on the T&M contract and did not formally define the service targets, the importance of
reporting and meetings became great as they relied on these controls for tracking the progress of
the project. The occasional reviews mentioned by VE2 served as a measure for assessing the
quality of the service provided. Another interesting factor was the formal feedback that the
vendor mentioned which indicated that the vendor was committed to a certain level of service
that should be aligned with the client’s expectations.

Despite a seemingly flexible approach towards the contract conditions, and the apparent
concord over business ethics between two executives, EduPro still insisted on rigid monitoring
(see CE2’s comment above) of the vendor team. The “touch base” that CE2 acknowledged with
regard to collecting customer feedback on the quality of support, was meant to be an informal
way of assessing the vendor’s actions by randomly interviewing the end-users of the supported
system. This type of formal control is a type of behaviour-based control, since the client did not
intend to invoke any measurements of the vendor’s output, but rather to moderate the vendor’s
behaviour if the quality happened to be lower than expected.

**Working communication**

The project teams had regular informal weekly meetings (“help desk meetings”) where they
discussed support-related activities. Communication was usually informal through email or
phone conversations. Both organisations acknowledged openness and flexibility in their
communications. For example, VO6 commented on the communication with the client’s team:

VO6: “We just pick up a telephone and talk to each other. So there is no official
handover as such, they [EduPro] don’t need to go to that extreme.”
VO6 emphasised informal interactions with the client’s team at the operational level, suggesting that the nature of their relationship was based on informal and personal interactions and was likely based on a common understanding about the project requirements.

Most of the formal controls found in the arrangement were classified as behaviour-based, due to the fact that the client organisation chose to have controls around the monitoring of the behaviour of the vendor team rather than assessing its performance per se. For example, structured review points or monthly reports were intended to moderate (or review) the actions of the project team in terms of performance. However, monthly reports were classified as a type of outcome-based controls, since they assessed the progress of the team’s performance as well. The monthly reports were initiated by the client organisation, whereas the structured review points were initiated by the vendor organisation. This suggests that the choice of formal controls can be instituted by decisions made by both client and vendor organisations. There is some research done in this area (e.g. Van der Meer-Kooistra and Vosselman 2000) that acknowledges that the choice of formal controls can be influenced by a certain ‘atmosphere’ around business transactions, where the social context in which those transactions are embedded will influence the working relationship and the parties’ behaviours. In the help desk arrangement, the organisational context within which EduPro made the decision to outsource the help desk arrangement to an external party also influenced the choice of formal controls under which both organisations chose to operate, meaning that the role of the implemented formal controls (i.e. behaviour controls) was to regulate the behaviour of the outsourcing partner. It is interesting that the history of interactions and the existing trust between two executives also formed a certain ‘atmosphere’ that influenced the client’s decision to rely on behaviour-based, rather than outcome-based controls since CE2 had confidence in the delivery capacity of the vendor without implementing controls that could track every instalment of the vendor’s performance.

An overview of the formal controls developed in the help desk arrangement can be found in Figure 5.3 below.
Another interesting factor was the presence of the behaviour and social informal control which was related to project meetings and informal catch-ups between two project teams. In the literature, this type of control is implemented to facilitate monitoring of the relationship through interpersonal interactions across the teams (Aulakh et al. 1996). Indeed, both teams encouraged the exchange of knowledge and open communications with the common understanding that the project was intended to deliver a high quality service and “make the user happy” (based on VO’s and CO’s words).

Overall, the formal controls were mostly behaviour-based due to the fact that each organisation preferred to rely on the interactions and the working relationship that moderated actions of the other, rather than structuring their relationship on the performance measurement (i.e. outcome-based controls).

### 5.2.5 Development of Trust

The working relationship between EduPro and ITPro was described as “cooperation, most informal and successful” (based on CE’s words). The starting point for both organisations was that cooperation should be positively encouraged.
Views of trust, perceived reasons for trust-building and types of trust

The participants collectively agreed that the relationship that they had at that moment could be labelled as successful because of the trust with which it was imbued. For example, CE\textsubscript{2} provided the following account of this issue:

CE\textsubscript{2}: “There is a very strong relationship with the individuals and the organization itself [ITPro]. There is trust involved 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 complaints about the service or I don’t get let down by things not being delivered on time. They’ve been very good for a long time in the various organisations that I’ve worked with them for, which is why I keep going back with them.”

CE\textsubscript{2} referred to the trust that had been formed between herself and VE\textsubscript{1} before she was appointed as the CIO of EduPro, a nomination which was based on her knowledge of, and reputation with, that the vendor. The trust was based on CE\textsubscript{2}’s confidence in the vendor’s performance which, in the literature, is known as performance-based trust. It is also interesting that she acknowledged the trust she felt towards both the individuals at ITPro and ITPro itself (as organisation), and in the literature which are known as interpersonal and organisational trust respectively. However, there is an indication that trust can grow from something that exists at the personal level between two executives of two organisations (i.e. interpersonal trust) into trust at the organisational level, i.e. between the client and the vendor organisations (i.e. organisational trust) (Goo and Nam 2007). CE\textsubscript{2}’s last statement suggested that she also had confidence in the consistency of the behaviour of the vendor’s team, indicating the growth of knowledge-based trust in the vendor.

From the vendor’s perspective, ITPro claimed that trust-building facilitates the development of a shared understanding between both parties:

VE\textsubscript{1}: “Trust is about honesty and integrity. We sit on different sides of a fence: CE\textsubscript{2} is trying to buy the right kind of services at the lowest possible price and I’m trying to sell the right kind of services at the highest possible price. So it is all about us being able to talk to each other, she [CE\textsubscript{2}] understands my perspective and I understand her perspective, so collectively we will come to an agreement...In our situation that trust is based on many years of knowing each other and knowing how we behave.”

The acknowledged honesty and integrity were related to the interactions between two parties, suggesting that this would further assist in building a common understanding. VE\textsubscript{1} also confirmed CE\textsubscript{2}’s words about the trust based on personal interactions and knowledge gained through the long-term history of business relationships with CE\textsubscript{2}. In the trust literature, dimensions of trust such as predictability, ability have been described as the relationship
characteristics that determine whether or not individuals (or organisations) would trust each other (e.g. Mayer et al. 1995; McKnight and Chervany 2001). In the help desk arrangement, the personal trust between VE1 and CE2 was established and consolidated on the basis of the other partner’s ability and predictability (how they would behave) in a given situation (e.g. past projects). Also, in the IS outsourcing literature predictability and ability were found to be the most important expectations in a trust-based relationship, and important beliefs about the competence and consistency of the vendor to fulfil the duties based on which the relationship was built (Babar et al. 2007; Oza et al. 2006). Given this, the established trust between ITPro and EduPro was primarily associated with the common understanding between organisations that they could demonstrate commitment by showing a genuine interest in reaching a consensus with regards to satisfying each other’s interests (see VE1’s quote above on the price negotiations). According to the literature, knowledge-based trust is based upon a history of transactions between two parties, so that the two parties know each other well (Lewicki and Bunker 1996; Sabherwal 1999). In relation to this case, this knowledge-based trust between CE2 and VE1 relied on information about the other partner that developed over time, and the fact that they had a history of interactions resulting in the development of a generalised expectancy that the other’s behaviour could be predicted (see last line in VE1’s quote above). Therefore, it seems that there was shared experience between them on other projects.

At the operational level, trust was chiefly associated with confidence in and an improvement in the reputation of ITPro’s team as a result of regular delivery of services, open communication and honesty in daily exchanges:

CO3: “With these guys [ITPro] we’ve got a significant change...Now we’ve gone from countless pages worth of outstanding jobs to a really high-level targeted performance. My perception is that they are very good at what they do.”

CO4: “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 what I want to know’. This helps to restore that confidence that these guys know that they are doing and I can leave it in their capable hands if something goes wrong.”

While CO3 acknowledged trust that was inextricably linked to the performance of the vendor’s team in comparison with the performance of the client’s previous internal team, CO4 emphasised communication as helping to build confidence in the vendor’s IT capabilities. It seemed that both participants are thus emphasising the growth of reputation-based trust. However, for CO3, in retrospect it was the improvement in the vendor’s performance, while for CO4, it was increasing confidence in the vendor’s competence. Despite the existing personal trust between two executives, the client’s trust in ITPro started to increase from the growing
reputation and sound track record of the vendor’s team. The acknowledged honesty and openness developed in day-to-day interactions between individuals handling the support agreement, and this provided the basis on which trust was built.

The presence of RBT and KBT was also found at other stages of the outsourcing arrangement. Despite the long business history and personal trust which existed between the two executives, CE2 collected some reference checks on ITPro’s expertise before appointing them as the service provider for the arrangement. Although the prior personal trust favoured ITPro to the extent that they had not been asked to submit an official tender proposal, client’s reputation-based trust in the vendor’s professional expertise was evident. After the contract sign-off, the vendor’s team demonstrated a proactive attitude by setting up the documentation and conducting review points at EduPro’s premises. Thus, they earned a sound reputation at the operational level. Similarly, KBT continued to grow with early team-building efforts amongst the two project teams. By the time the contract was renewed, both organisations already had a year of interactions and people constantly working on the project, meaning that they possessed knowledge of each other’s skills and actions. VE1’s quote can explain the foundation of this type of trust:

VE1: “From dealing with CE2 if she tells me something – I trust that. Just in the same way that if I tell her something, it is the same thing.”

The account suggests that both organisations passed the ‘leap-of-faith’ phase and each of the parties trusted the other to the level of feeling reassurance about the predictability of the other party’s actions.

The vendor’s operational view of trust was different as it was linked to the development of the relationship, in which dependence and common interests emerged as facilitators of the relationship. For example, VO6 talked about the need for the client’s trust in the vendor, rather than the other way around:

VO6: “It is very important for them [EduPro] to trust the party that’s providing the service. I don’t think it’s ‘two-way’, I don’t think we need to necessarily trust what they are doing, but we need to build on our relationship with them to ensure that the communications stay open. It is more of a case of collaborating and making sure that what we are doing is the right thing.”

VO6 linked his sense of trust to meeting client’s expectations through open communications and delivering the required outcomes. The outsourcing literature also suggests that good communication can facilitate trust-building and result in a higher quality of relationship (Lee and Kim 1999; Sabherwal 1999). Also, his connotation of trust seemed to be linked with building an understanding of client expectations in the outsourcing project.
The presence of CBT was evident in the contractual negotiations and contract renewals. Despite the personal trust between two executives, CE\textsubscript{2} emphasised the importance of the contract when setting up a new outsourcing relationship:

CE\textsubscript{2}: “I insist on a contract being a place, so the relationship with ITPro, for instance, is 12 years, long-term, trust was already there, but their relationship with EduPro was new, so I wanted to make sure that... the organisation still needs to be able to work with ITPro, and they need to establish what the boundaries are of that relationship, so the contract is important from that point of view that it means the relationship between the two companies can exist regardless of the personalities.”

CE\textsubscript{2} argued that the formation of the new outsourcing relationship depended largely on the initial contractual stage, since it would then greatly influence the quality of their relationship. Similarly, some outsourcing studies (e.g. Fitzgerald and Willcocks 1994; Lacity and Hirschheim 1993a) emphasised the role of formal contracts in the working context of outsourcing relationships through detailing the scope of work, financial matters, project monitoring and reporting, and ways of communication. Although it is claimed in the literature that CBT is primarily rooted in the rewards, penalties and safeguards associated with preserving interests of each outsourcing party (Babar et al. 2007; Sabherwal 1999), the case study revealed that both organisations operated on the basic contract and felt confident continuing to work without any penalties or safeguards being introduced. It seems that the prior trust that existed at the upper executive level helped them to negotiate the contract without tightening it.

During the course of the arrangement, the growth of PBT was also observed. At the stage at which the contract was extended, there was observed client’s trust in the vendor’s delivery capabilities. One of the key reasons why the contract was extended was the consistency of performance provided by the vendor. For example, CE\textsubscript{2} was so confident in ITPro’s performance that she used their expertise and skills in other projects (“I used them for point solutions”) apart from the support arrangement. This may only suggest that one of the sources of PBT can be not only early (or interim) successes of a particular outsourcing project, but also the performance successes and the consistent delivery on other adjunct projects.

The presence of identification-based trust (IBT) was also evident in the arrangement. At the stage of contract renewal, EduPro’s decision to continue working with ITPro despite some pricing issues was a very significant indicator of the high level of trust that existed between the organisations. I assume that there was a manifestation of IBT at the executive level. When VE\textsubscript{1} was asked about critical successful factors in the current outsourcing relationship, he replied:
VE1: “It is forming a personal relationship with the other side...it is gaining an appreciation of each person’s position...CE2 can ring me up and speak to me about anything, I can do the same thing with her.”

Such views on forming the outsourcing relationship built an understanding on the common task of delivery with EduPro, meaning the creation of a common understanding about the project in terms of the requirements and expectations.

Figure 5.4 below provides a generic overview of the discussed dimensions (or changes) of trust in the arrangement.

Figure 5.4 Approximate timeline of changes in trust in the help desk arrangement

Overall, five different types of trust were found in the help desk arrangement. The interesting insight that the case study revealed was the experience and trust (i.e. knowledge-based trust) between two executives that further fuelled the growth of trust between two project teams.
5.2.6 Perceptions of the Relationship between Trust and Formal Controls

On the subject of the combination of trust and formal controls in the arrangement, both organisations were definite regarding the necessity for both activities. However, trust was acknowledged as necessary for building relationships, whereas formal contracts were required to define boundaries, and to clarify expectations and responsibilities upfront:

CE\textsubscript{2}: “I don’t think you can develop the trust relationships without getting the core needs outs of the way with the contract. It is almost like a safety net. It establishes the rules of engagement upfront...Once that’s been done, then you never have to refer to it again, unless if something goes wrong and everybody knows where they stand, but it also makes it clear to both sides of what our relationship is.”

CE\textsubscript{2} clearly emphasised the role of the contract in developing the relationship with the vendor. Such an approach was also observed in the support arrangement with ITPro, when the contract conditions were negotiated and signed regardless of the long history of business relationships and personal trust. Thus, the contract was seen as the major foundation on which both parties started developing their working relationship because it ensured that expectations of each organisation were clear. This meant that the working relationship should function effectively regardless of personalities as CE\textsubscript{2} mentioned above. In this regard, the contract is a base level that defines everything from the beginning, after which trust will come as another layer of the working relationship.

Also, CE\textsubscript{2} insisted on the necessity of trust and formal controls in the arrangement, mainly because of business changes, and emphasised a pertinent dependence of one element on another because of contingent uncertainties:

CE\textsubscript{2}: “Either you have a flexible contract and trust, or you have very tight contract and no trust. Very tight contracts and no trust will only work in an environment which is not changing. All contractual relationships contain an element of trust because no contract can fully eliminate risks or unforseen circumstances that may cause a problem with contract delivery. Trust enables both parties to get over any issues on which the contract is silent or which lack full clarity.”

The combination of trust and formal controls was chiefly associated with the tightness of the contract, in regard to which CE\textsubscript{2} highlighted flexibility and trust in the relationship with the vendor. Thus, the development of the support arrangement with ITPro was much guided by CE\textsubscript{2}’s personal preference for building relationships with the vendor rather than operating in accordance with the terms of the contract. However, the flexible contract should be complemented with rigid formal controls in order to track the vendor’s delivery. As we know, CE\textsubscript{2} initiated delivery reports detailing the vendor’s deliverables. This perfectly illustrates the
game of the orthogonal balance, when both activities coexist but do not influence one on another. So that, despite high level of trust was very high, this did not influence the level of formal controls implemented by the client in order to coordinate the ongoing progress of the arrangement.

By contrast, VE₁ was not as explicit about giving his preferences in terms of the combination, though he acknowledged the negative effect of the contract enforcement:

VE₁: “The only time that the contract gets looked at is when the relationship falls apart. Regardless of how good or how bad a contract is, if you have a good relationship with a customer, then if you hit a rough patch, you’ll resolve it because you and the customer are capable of sitting down, discussing issues and agreeing on an outcome.”

VE₁ emphasised the good effect of the relationship in clearing up any argument and/or misunderstanding with the client. Although the contract was seen as an essential background to the outsourcing arrangement, VE₁ suggested that its further enforcement would endanger the good nature of the relationship between the partners. It is likely that the good effects of the relationship are seen in the context of trust between two parties, as both parties show a willingness to negotiate.

At the management level, VM₃ argued that trust and formal controls were equally important in the relationship, though the growth of trust was intimately linked with contract performance:

VM₃: “They are both equally important but it depends on the particular project or the client. To begin with, there is probably not much trust built, contract is more important. As you progress then trust and credibility start to become more important than the contract does...If down the tracks our trust and credibility is declining, then we’ll lose that contract ultimately.”

VM₃ highlighted the importance of the contract in the prolongation of the working relationship. In his view on the combination between trust and formal controls, VM₃ linked the contract performance with trust and suggested that the vendor’s behaviour would impact on the process of trust-building and vice versa. Another interesting consideration was the acknowledged effect of types of projects or clients on the formation of the combination between trust and formal controls. These effects were embedded in the conceptual framework, developed for this study, and frequently discussed as the organisational context that could have an impact on the interplay between trust and formal controls. The discussion on this finding will be continued in Chapter 7.

As described, the existing trust between EduPro and ITPro was built prior this arrangement and the working relationship, which I assume may characterise the impact of the organisational
context in the framework developed for this study (see section 2.7). So that the balance formed within this IS outsourcing arrangement describes a high level of trust that apparently led to the ongoing development of the outsourcing relationship, whereas precise control measures (e.g. monthly reviews, customer feedback) adhered to by the both parties, led to project coordination. According to the concept behind the orthogonal balance, trust and controls should complement each other but not directly. Despite the confidence in and satisfaction with ITPro’s performance, EduPro insisted on applying controls (such as monthly reviews, or reports) to manage the vendor. Thus, the level of balance achieved by both organisations was the combination of trust-building and controls that was operational in this outsourcing arrangement.

**Perceptions of the balance across organisational levels**

At the executive level, the perceptions of the combination were not distinctly different. Both CE₂ and VE₁ linked their views with the stronger role of the contract. Although they acknowledged the importance of trust-building in the management of the working relationship, they insisted that their responsibilities and the boundaries of the relationship should be written in concrete terms and be reflected in the solid contract. Clearly, both of them linked their perceptions with the strategic view of the outsourcing arrangement by spending a certain amount of time on negotiating the conditions of the contract. This is true, given the roles played by CE₂ and VE₁ in EduPro and ITPro respectively, since both of them were responsible for the contract performance. Therefore, they were actively involved in contract negotiations when structuring the new outsourcing arrangement. However, there were some differences as well. For example, CE₂ preferred flexibility in the contract and trust in the working relationship with the vendor. She also gave her view on the proportion of formal controls and trust: “it’s probably 60 to 40, 60% – contract, 40% - trust”, where the role of contract and formal controls was acknowledged in the first instance, while trust was given a ‘contextual role’. It is interesting, that despite the continuous reference towards building trust in the relationship with the vendor, CE₂ preferred a greater role for formal controls, suggesting that such a view was influenced by the scope of the duties that the client’s executive performed. From the vendor’s point of view, VE₁ was not that explicit about his preference regarding the proportion of formal controls and trust, but he insisted on the active role of the contract in the performance management, while trust was seen as the mediating factor in situations involving conflict.

At the management level, VM₃ acknowledged the equal importance of formal controls and trust and apparently linked the growth of trust to the contract. According to his view, trust and the credibility in the vendor’s capabilities were inextricably linked to the contract. Therefore, he
was more concerned with deliverables and the quality of provided service, since these were his primary responsibilities.

At the operational level, opinions on the combination between trust and formal controls were different. From the client’s point of view, CO$_3$ explicitly named the combination of trust and formal controls as the ‘balance’ and gave her view on the combination:

CO$_3$: “I’m very much a 50/50 girl. There is going to be a balance. But I would more heavily weight it in the policies, in the processes and in the procedures because they’ve been so lacking through the entire organisation.”

The preference was much more for formal controls despite seemingly ‘50/50’ proportion as acknowledged above. Such a view was the consequence of the long absence of formal processes and documentation in EduPro, as was earlier described in the arrangement. Indeed, by the time EduPro took the decision to bring a third party onboard (ITPro) to manage the help desk arrangement, the organisation suffered from the dysfunctional and decentralised environment within the IT department without a proper documentation and/or formal processes that could describe how it was run. Thus, according to CO$_3$, the role of formal controls became essential to ensuring the functioning of the organisation. Moreover, this operational view on the combination reflects the scope of responsibilities such as the project documentation and communication that CO$_3$ performed and which were incomplete at EduPro for a long time before they were set up by the vendor’s team.

By contrast, for VO$_6$, formal controls did not play an important role as such, it was trust that should be built and cultivated in the working relationship:

VO$_6$: “The contract on the help desk level doesn’t mean much to us. We don’t think about it day to day. Obviously it needs to be there so I suggest that trust at least 70/30 [70 for trust and 30 for contract].”

VO$_6$ favoured trust in the combination since, for the daily work, it was more important to maintain open communications with the client team. The contract, as the legal instrument, was not important due to its insignificance in relation to the task activities performed daily. VO$_6$ did not comment on the role of formal controls such as reports, for example, meaning that despite delivering those reports (as the part of his responsibility) he preferred trust in the working relationship.

Overall, the case study revealed that the perceptions of the combination between trust and formal controls were influenced by the scope of the responsibilities that each participant had to meet. Another interesting conclusion from the case study was the absence of an explicit view
from the vendor’s team on the balance between trust and formal controls. This is despite the
acknowledgement of the role of the contract and its performance in governing the outsourcing
arrangement which suggests that the vendor was primarily interested in the contract as a source
of profit while other non-contractual formal controls should be properly developed by the client
to further coordinate the project.

5.2.7 Perceptions on Outsourcing Outcomes

Table 5.2 summarises the participants’ views on the achieved outsourcing outcomes.

<table>
<thead>
<tr>
<th>Responses from two sides</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improved quality</strong></td>
<td>CE2: “The service we’ve got and the response I’ve got from the business on the improvements that we’ve been able to make to IT, it’s about on par with what I expected.” VE1: “When we started there was no history and the people who were looking after the support were not diligent…They also had quite a number of outstanding calls that they hadn’t been dealt with which we have cleaned up.”</td>
</tr>
<tr>
<td><strong>Gained confidence in performance</strong></td>
<td>CO4: “I have confidence that they are doing a good job, that they know what they are doing and that they are keeping the majority of the calls away from me.”</td>
</tr>
<tr>
<td><strong>Customer satisfaction and system stability</strong></td>
<td>CO2: “The senior management are very happy, and systems are so more stable.” VE1: “The standard of our support is higher, and the satisfaction of CE2’s customers with IT support is high, therefore satisfaction with us is high.”</td>
</tr>
<tr>
<td><strong>Maintaining service</strong></td>
<td>VM3: “It’s maintained at the right service level that they expect so it is maintaining the support that we are providing.”</td>
</tr>
</tbody>
</table>

Table 5.2 Different views on outsourcing outcomes in the help desk arrangement

The participants acknowledged the improved quality, gained confidence in performance, customer satisfaction and system stability as outcomes in relation to the quality of the project. For example, the service quality provided by ITPro was quite high, which was acknowledged many times by EduPro’s employees (see CO3’s and CO4’s quotes above). Also, as we learn from the previous discussion on trust and case study details, EduPro firstly extended the contract and then renewed it, indicating that the results were of the quality expected by the client.

Although the participants did not specify the outcomes desired in relation to the development of the relationship or its quality, though given the repeated discussion around relationships, it is worthwhile taking this into account. The contract’s extension and further renewal indicated that both organisations were satisfied with the progress of their relationship. It is interesting that
among the factors that contributed to the development of trust and development of relationship characteristics between EduPro and ITPro could be named personal trust between two executives and further grown reputation of the vendor among the client’s people to perform diligently. While the commitment and consistent staff from the vendor team made them almost a part of EduPro’s team, that also decreased the chance of being replaced or being accused of misinterpreting the client’s expectations, since EduPro was satisfied with the quality of work provided by ITPro.

Another potential implication that can be drawn from Table 5.2 is related to the quality of the relationship, meaning that each of the organisations was satisfied as working with the other. During discussions, both sides highlighted the common understanding, open communications and trust as relationship factors. According to the case findings, both organisations described their working relationship as “successful cooperation” and highlighted different characteristics. From the client’s point of view, it was mostly the service quality, consistency of performance and expertise of ITPro that caused the growth of confidence mostly at the operational level, whereas from the vendor’s point of view, it was the appreciation showed of the each other’s interests and the proper diligence on performance management.

Overall, the outsourcing arrangement between EduPro and ITPro can be called satisfactory, because neither of the participants described their working relationship as unsatisfactory or enforced the contract in any instances of dispute.

5.3 Chapter Summary

This chapter discussed details of case study four on the help desk arrangement. In particular, the chapter provided information on the development of the outsourcing relationship between EduPro and ITPro. The findings of the case study revealed interesting insights into the process of trust-building that was influenced by the history and the personal trust that had developed between two executives and the choice of formal controls that were mainly of the behaviour-nature. Also, an orthogonal balance was observed in this case study. Despite the existing interpersonal trust between two executives, the client’s executive insisted on formal controls to be established in parallel. As a result, neither party perceived the need to align trust and formal controls.
Chapter 6: Case Study Five

6.1 Introduction

This chapter presents case study five, that involves the web development arrangement between the client organisation and the vendor organisation located in Australia. The chapter presents details of the organisations, participants and the outsourcing arrangement itself. In contrast to the four case studies presented in Chapters 4 and 5, this case study involves a not-for-profit client organisation and a small vendor organisation which did not have extensive experience in IS outsourcing.

6.2 Background of Case Study Five

6.2.1 Overview of VicChurch and SmallWeb

The client organisation

The client organisation, VicChurch, is a not-for-profit religious organisation established in the late 1970s in Australia. It is now one of the three large Christian denominations in Australia and has over 2000 congregations with more than 240,000 members. Apart from organising worship services, the organisation also provides social welfare, educational, charity and cultural services. It is the largest provider of community services and aged care outside the government in Australia. The leadership and pastoral role at VicChurch is performed by a Leader of the Unit, one of whom is located in each Australian state. This study focuses on the Unit located in Victoria with its headquarters (HQ) in Melbourne. The local Unit has around 60,000 members and employs around 1000 staff, including ministers. It is responsible for the general oversight, direction and administration of the organisation’s services. The role of a Leader is to chair the Unit meeting, speak on public issues, visit congregations and schools and represent the Church on public occasions.

The administrative arm of VicChurch comprises a wide network of administrative offices located across Victoria. The head office employs 100 people. However, this study focuses only on the Information Technology services department, which aims to develop and implement strategies for delivering technology services, maintain the internal IT infrastructure and provide technical support to all work departments and other remote locations as well as members of the church community.
**The vendor organisation**

The vendor organisation, SmallWeb, is a small IT ‘start-up’ that was formed in 2005 with a mission to deliver web-based management solutions for a wide range of clients such as not-for-profit organisations and organisations from the corporate and government sectors. It specialises in providing web content management, e-commerce and marketing, graphic design and IT infrastructure solutions. Originally SmallWeb was managed by two shareholders and had two main offices located in Melbourne and Hong Kong. Later on, because of fierce competition in the Chinese IT market and other business interests, one of the shareholders sold his shares to the other and, since then, SmallWeb has been involved in the local market in Melbourne only and is owned by the Managing Director. Since 2005 SmallWeb has grown significantly in capacity (from two developers to the dedicated team of 15 software developers) and nowadays it occupies a small niche as the e-business solution company that specialises in website content management solution (CMS) and web development, with a focus on flexibility and accessibility built using open-source technology.

**The scope of the arrangement**

The case study focuses on an outsourced web development arrangement and the further functionality subsequently developed for the website, i.e. the network online directory (NOD). The web development comprised design, development and maintenance of the web site. The further development of the NOD is manifest in the additional functionality of the website that comprised directory pages of VicChurch detailing its activities, members and administration networks. The web development work was undertaken by an external service provider, SmallWeb. The web development stage (the website, and the subsequent NOD) is the focus of the case study.

**6.2.2 Details of the Outsourced Web Development Arrangement**

As a religious institution, VicChurch’s office often tended to employ people with sympathetic religious views rather than for their business skills. In 2006 there was a major split amongst VicChurch’s business units (including the old IT department that was formerly part of the Communications unit) and, as a result, a number of professionals (with business acumen) were employed. At much the same time, a conflict developed between the management of VicChurch and the IT department with regard to the organisation’s image on the web. At the heart of the issue was the desire of the new business professionals to present a professional and business-like face to the public and the media via its web site. However, VicChurch lacked the in-house
resources and skills to successfully implement this business vision and thus, a decision was made to outsource the web development to an external service provider.

There was no official tender process and, in order to find a solution quickly and build a website, the management of VicChurch relied on the recommendation of one of the external consultants working at VicChurch at that time, which was to hire SmallWeb, a relatively new IT ‘start-up’ that provided web development services. Another reason for choosing this vendor was the relatively cheap service that it offered. Apparently VicChurch approached SmallWeb to ask about the willingness of the latter to undertake the web development to which SmallWeb expressed the interest and provided a competitive price offer.

Both organisations negotiated the details of the contract and determined the pricing for the signed web development arrangement. During the contract negotiations, VicChurch allowed the vendor to lead the negotiations and used the vendor’s draft as the initial template for the contract. A few significant changes were made to this contract by the client, such as terms and conditions, confidentiality and escrow agreements, and three years of support for the developed website. In September 2006, the contract was signed. The signed contract only included a penalty for the client’s non-prompt payments and did not contain any clause related to the vendor’s delivery deadlines. However, the only safeguard for VicChurch was a refund in case the vendor could not meet the required level of service by maintaining the website (i.e. 99.9% uptime). According to the contract, SmallWeb was required to deliver “a website with five or six key features”, which were listed in the contract. However, neither of the organisations included a requirement specification for the outsourced web development work. The contract was signed on a fixed cost basis, according to which the vendor would provide an invoice on the work quantified in hourly rates. A service level agreement (SLA) was set up requiring the vendor to ensure ‘99.9% uptime’ for the maintenance service (of the website). The SLA was written separately from the signed contract.

While neither of the organisations had dedicated people working on the project, there were some key players on both sides who were involved in addition to their normal duties. At the client organisation, the Communications manager acted as the project manager (while at the same time serving as a Minister at VicChurch), whereas among the operational staff, there were no dedicated people who could have taken care of the project communication with the vendor’s team, except the communications coordinator who combined her communication responsibilities with the content management of the website. At the vendor organisation, the development team consisted of three developers, including SmallWeb’s Managing Director who
also participated in development work. The parties communicated primarily via email and an instant messenger and did not have any formal meetings.

After four weeks of development work, both parties launched the website and a number of issues soon emerged. The problems started shortly after the first deployment: the client was not happy with the usability and navigation of the website, causing the vendor to spend more time on fixing the appointed areas. Every change request required VicChurch to pay extra. As the contract was signed at the fixed cost, this meant that the initial $AU 16,000 dollar investment soon grew into an $AU 40,000 dollar investment. VicChurch felt frustrated and annoyed with the system, yet, at the individual level, acknowledged that the vendor’s team was very responsive in addressing issues with the system. Because of the encountered issues related to usability and technical issues, the deployment of the web development was delayed. At the end of 2006, the website development project was eventually handed over and moved to the maintenance stage.

Early in 2007, VicChurch requested a quote on the planned network online directory (NOD) from the existing vendor (SmallWeb) and other service providers, to extend the functionality of the website. Since most of the communication at VicChurch happened internally through newsletters and emails, in order to increase the readership and promote VicChurch’s events among its internal users and the people within the community, it seemed crucial to develop a consolidated system that could store all contacts (of Ministers, internal users and VicChurch’s community) and information. Thus, this functionality for NOD was requested. However, due to the cost blowout and other problems in the website development stage, VicChurch this time developed a functional specification document that detailed their expectations with regard to the new NOD system.

Despite the issues that the client had with regard to the developed website, VicChurch appointed the existing vendor to the NOD project and signed a second contract. The current vendor was selected on the basis of the experience they had gained with VicChurch through the existing project and the developed technical solution (CMS) embedded in the website. In September 2007, the organisations signed a second contract by extending the existing web development contract and adding the details of the NOD. Although the signed contract on the NOD was an extension of the first contract on website development, both parties referred to it as the second contract in order to differentiate two stages of the outsourcing arrangement. Both organisations agreed on a fixed cost for the project (i.e. to the value of approximately $AU 30,000) and a project timeframe of eight weeks for development work. According to the contract, the NOD
was designed as a plug-in extension to the website (i.e. internal directory) that was accessed through the client’s website.

During the development of NOD, VicChurch did not organise any formal reviews or formal meetings on the subject of coordinating or assessing the progress of the vendor. As a consequence of the internal restructuring at VicChurch, new policies and procedures for the effective administration and management of funds were being developed at that time. Moreover, by the end of 2007, the newly formed IT department (IT-related functions were formerly performed by the Communications unit) was still in the process of consolidating the different systems used in VicChurch’s various departments into one centralised system that would be managed by the new IT department. Thus, the development of formal controls, such as performance metrics and project evaluations of the ongoing progress of the NOD project seemed to be problematic to initiate.

This failure to effectively manage the vendor’s performance ultimately led to the appointment by VicChurch of a new project manager late in October 2007. In addition to the delay, the new project manager discovered other problems, among them the fact that VicChurch had paid an invoice for work on the project which had not actually been completed. In order to speed up the process of the NOD development which was already several months behind schedule, the project manager introduced a milestone-based payment system. With every delivered phase of the project, the vendor would receive 40%, 30% or 30% of the total project value (three main phases), suggesting that the payment would be approved after the successful (to the satisfaction of the client) completion of each instalment of the project. Further, to increase the commitment and their accountability, the project manager insisted on regular weekly communications and meetings as well as status reports prepared for the Steering Committee of VicChurch. Among other changes that were introduced by the manager, a new team member was hired in late February 2008 as a part-time contractor who had technical experience and acted as the web administrator in the NOD project. This decision was prompted by the absence of technical professionals in the client’s current team who might have given a professional assessment of the quality of the developed system.

After a delay of almost seven months, the development of the NOD was finished and it was launched in May 2008. Among the potential reasons that caused the delay was the lack of proper coordination and communication strategy from both organisations, and the poor internal coordination within SmallWeb that resulted in the technically flawed development of the NOD that was eventually rebuilt once again.
Although the working relationship between the organisations remained strained, they continued working with each other. However, the resignation of the project manager at the end of 2008 did nothing to ease the relationship either. After the NOD stage was finished, SmallWeb continued to support the developed website and had a support agreement that did not expire until mid-2010 when VicChurch was scheduled to review the outsourcing contract with SmallWeb.

Figure 6.1 below provides an overview of the discussed events in the web development arrangement.

![Figure 6.1 Approximate timeline of events in the web development arrangement](image)

All case participants were interviewed at the end of 2008 and early 2009. The following sections discuss trust and formal controls activities developed in the current arrangement.

### 6.2.3 Details of the Participants

Three participants from the client organisation and one from the vendor organisation were interviewed to obtain the details of the outsourcing arrangement (see Table 6.1 below).
<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Role</th>
<th>Involvement in the web development arrangement</th>
<th>Length of time worked on this project (yrs)</th>
<th>Overall length of time in the organisation (yrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CM4</td>
<td>Director of Shared Information Systems/Project manager</td>
<td>Soon after the 2nd contract sign-off</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>CO5</td>
<td>Online Communications Coordinator</td>
<td>Soon after the first contract sign-off</td>
<td>4+</td>
<td>4+</td>
</tr>
<tr>
<td>CO6</td>
<td>Web administrator</td>
<td>From the time at which the 2nd contract got signed</td>
<td>3+</td>
<td>3+</td>
</tr>
<tr>
<td>VE2</td>
<td>Managing Director and Technical Leader</td>
<td>From Day 1</td>
<td>1.5+</td>
<td>5+</td>
</tr>
</tbody>
</table>

Table 6.1 Key participants in the web development arrangement

At the management level, CM4, despite being involved in the project for a relatively short period, was able to give a management account on the vendor’s performance and the quality of the project. Moreover, his insights were valuable in revealing his opinion on the progress of the vendor team and some of the key processes being implemented in the project. At the operational level, both participants (i.e. CO5, CO6) gave their accounts of the daily interactions and communications with the vendor team. From the vendor’s side, VE2 was able to give his view of the development of the outsourcing arrangement with the client, particularly on contract negotiations and contract performance. Also, as the technical leader, he was involved in project communications and the development work of the project.

Levels of responsibility

In Figure 6.2 below, a generic overview of the participants’ levels of responsibility in this project is provided. Although the executive person at VicChurch (CExyz as shown in Figure 6.2) was not a participant in this research project, it is important to delineate his position of accountability in the arrangement.
Figure 6.2 Levels of responsibility of participants

At the management level, CM$_4$ was accountable for monitoring the vendor’s delivery of services and performance under the terms of the contract. Thus, he was regularly engaged in high-level conversations with VE$_2$ on the ongoing progress of the arrangement. In SmallWeb, given the small size of the company, VE$_2$ took the responsibilities of both the executive and the manager when negotiating the contract and discussing technical details of the project. At the operational level, CO$_5$ was responsible for maintaining the communication with the vendor team and managed the content of the website, while CO$_6$ was responsible for maintaining the technical functionality of the website. Both participants were members of a so-called Communication unit (the new IT department at VicChurch had not yet finally been formed when I was interviewing them) and interacted only with VE$_2$. Further, VE$_2$ gave directives to his development team, based on the feedback and requests received from VicChurch.

6.2.4 Current Formal Controls

There were a number of formal controls developed in the web development arrangement. This included the website development and NOD development contracts, the SLA and the functional specification document for the NOD, detailing project requirements, the milestone payments as a form of assessment controls introduced later by the project manager, working communications and meetings, and status reports for the Steering Committee. Given the inconsistent development of formal controls throughout the outsourcing arrangement, Table 6.2 is provided to illustrate the types of formal controls developed at different stages of the arrangement.
Website development (first stage)
- First contract and the SLA on support stage of website.
- Informal communications preserved and conducted mainly by email and instant messaging.

NOD development (second stage)
- Second contract.
- Functional specification document created during the tender process.
- Informal communications preserved and conducted mainly by email and instant messaging.

After the appointment of PM (VicChurch)
- Milestone payments.
- Status reports for the Steering Committee.
- Weekly communications on project progress.

| Table 6.2 Formal controls developed in the web development arrangement |

The instalment of formal controls at each stage is following in the next few sections.

The contract implementation and the SLA

The organisations signed the contract based on a fixed cost. However, both sides subsequently admitted that the initial contract was very vague and not well specified:

CM₄: “The contract was a two-page document almost – very informal. A lot of it was based on ‘You are our first major client. We are going to try to do everything we can for you’...Every time we want something new or something different that we believe should have been standard, it costs more. So there was a false economy.”

VE₂: “From a technical perspective, it wasn’t very detailed. It was more “We’ll deliver you a website and here’s the price”. None of the functionality was listed in it. It might have been very vaguely, maybe five or six key features that would be in there. But because we were such an immature company at the time, we went through the content of the contract very quickly because the contract is more a sort of bedding ground for things, but we haven’t really relied on it for anything.”

Both participants acknowledged that the contract was loosely specified and lacked requirement specifications. However, this should not be wrongly interpreted as a fault of one party. CM₄ was concerned with the additional cost, of any changes requested, given that the contract failed to specify what lay within the scope of work for the vendor. VE₂ admitted that the contract lacked specific technical details of the project. Although the arrangement lacked requirement specifications, the client failed to determine what those requirements were, while the vendor let this happen without much involvement, as the vendor might have wanted to build a track record with their new client. Moreover, the exhibition of such an attitude by the vendor could be also explained by the “bedding ground” role of the contract in the arrangement. Usually the written contract is seen as the basis for solving any disputes regarding scope or price. However, in this arrangement, both organisations were inadvertently somewhat negligent when drafting the
contract. The client did not discard the standard contract provided by the vendor, which favoured the vendor in terms of providing the same level of service (see \textit{VE}_2’s quote above about “five or six key features”). As a result, \textit{VicChurch} was faced with costly additional fees for services (see \textit{CM}_4’s quote above about “\textit{false economy}”) since the service levels in the base year (the earliest year designated) were poorly defined. One example was the usability issue discussed in the ‘story’ of the arrangement at which time it was pointed out that the client was not happy with the technical quality of the product delivered by the vendor and with the fact the every change incurred extra cost. The vendor, who seemed anxious for the arrangement to begin, due in part to immaturity looked only quickly through the contract in an effort to bring the negotiations swiftly to a conclusion. Subsequently, the vendor convinced the client to sign the contract before items were specified by giving assurance to the client that ‘we are going to try to do everything we can for you’ and leaving the clarification until the project began.

Both organisations were inept and inexperienced and did not take any legal advice in crafting the contract. Also, it seems that \textit{VicChurch} did not have any knowledge or expertise in IT project management and thought of entering into the relationship with \textit{SmallWeb} without any skills. As the part of this argument, \textit{VicChurch}’s belief system and philosophical position might be a reason of such approach that \textit{VicChurch} took as ‘trusting and caring’ organisation instead of having a sound commercial judgement when structuring an outsourcing arrangement with the service provider.

An interesting detail was the format of the service agreement that both organisations signed in the arrangement. The signed SLA prescribed that the vendor ensure a ‘99.9\% uptime’ for the website. The vendor’s executive acknowledged the role of the SLA in the arrangement:

\textit{VE}_2: \textit{“Our SLA is more or less just for break-fix things.”}

The statement seemed to indicate that the discussed SLA lacked any specific enough measures or KPIs that could have been set up for the vendor’s team to follow in the arrangement. Indeed, SLAs are usually designed to focus on active and efficient maintenance (Goo 2008) rather than the traditional ‘break and fix’ services. This suggests that they involve active monitoring of the maintained services on a daily basis through various reports, regular visits and assessment measures to ensure functionality (of service) at a high level. However, none of the above was evident in the web arrangement since neither of the client or the vendor organisations measured whether it was achieved or not. So that they could not make their assumptions explicit enough and document them in the list of adequate requirements and service targets. Overall, it seems
that VicChurch virtually transferred the entire responsibility for the project to the vendor and, thus, did not insist on a comprehensive written service level agreement.

**Project-specific controls: first stage (web development)**

At this stage, the organisations did not develop any project-specific formal controls. On the quality of the developed website, CO\textsubscript{5} made such comments as “there were constant irritating bugs” and “this was not what we expected”, suggesting that the client’s representative was not happy with the quality, while the issue with expectations was also highlighted. By contrast, VE\textsubscript{2} was surprised to learn about VicChurch’s concerns regarding the website and claimed that they had constantly struggled to get an understanding of what was expected:

\textit{VE\textsubscript{2}}: “There were no project specifications for us to follow, no project monitoring, no coordinating person, because the online content manager is not a very technical person...[and] the technical manager is basically a part-time contractor and he is not result-oriented. I think VicChurch simply relies on us for everything.”

VE\textsubscript{2} acknowledged the absence of any formal controls at this stage and emphasised the lack of accountability in terms of project coordination. Indeed, if we recollect details of the arrangement, there was no dedicated project team. Thus, given the absence of any complaints from the client, the vendor had believed the quality of the service provided to be adequate. On the subject of communications, the client acknowledged the responsiveness of the vendor’s team in addressing technical issues:

\textit{CO\textsubscript{5}}: “They are very quick with feedback...and very accessible”.

This suggests that the vendor was keen to engage in conversation and seemed to be keen in interacting with the client on the progress of the developed project.

**Project-specific controls: second stage (NOD)**

At this stage, project-specific controls were milestone payments, status delivery reports for the Steering Committee and weekly communications on project progress. The discussion on each is follows.

Given the details of the arrangement, the vendor significantly failed to deliver on time due to a series of internal technical and coordination issues, and partly due to the absence of a requirements specification. As we learn from the project details, SmallWeb miscalculated their own capacities (described as “internal technical risks” according to VE\textsubscript{2}) and the NOD was rebuilt for the second time.
Although VicChurch wrote the functional specification detailing the requirements for the NOD prior to the start of the project, the vendor’s executive claimed that it only gave technical details of the project:

VE: “We only had a Functionality Document and we basically delivered the technical component.”

The vendor argued that the project was delivered as per the functional document provided by the client, suggesting that the document was limited to the mere description of the technical details. Thus, the vendor was convinced that the delivery as per technical requirements was completed. This brings us once again to the underlying problem for these two organisations, which was the absence of detailed requirement specifications. It appears that the client failed to formulate project requirements, while the vendor did not attempt to find out more about those requirements either through personal visits or acquiring feedback. This they should have done, especially given the experience they had at the first stage. Thus, this indicates that, despite the ongoing progress of the arrangement, the organisations did not succeed in building a common understanding regarding the project.

A new project manager, who was appointed by VicChurch at the end of 2007, initiated a series of formal controls to coordinate the outsourcing arrangement. On the prior state of formal controls CM described in the following manner:

CM: “When I came onboard, there was no documentation, no formal reviews, no governance. In fact, zero governance, and the Communications Manager blindly signed the first instalment without looking at the actual delivery of that vendor. And this before I was controlling it, we paid the first instalment but they didn’t deliver. We were in trouble!”

CM confirmed that, from VicChurch’s side, there was no project coordination and performance management on the vendor’s deliverables, which eventually led to an instalment payment for work that the vendor had not delivered. The outsourcing literature suggests that clients should not be mistaken about the vendor’s interests and goals (which are not similar to those of the client) and, thus, they should prevent any situation from arising that enables opportunistic behaviour by the vendor (Lacity and Hirschheim 2009). In our case, it appears that the absence of proper project governance and the signed invoice payment somewhat influenced the vendor’s behaviour in terms of delivering the service, suggesting that the vendor might have taken advantage of the situation and let it evolve without thinking much about the long-term nature of the outsourcing arrangement. Such an attitude caused VicChurch’s top management to get the new manager involved in the progress of the web arrangement, whose role was to actively
monitor the vendor’s work (i.e. behaviour-based control). As a result, the project manager initiated a number of formal controls aimed at regulating the vendor’s behaviour and coordinating the operational deliverables:

CM4: “When we did the online directory component [NOD], we had project governance over that, there was a formal requirements spec that went out, there was a due diligence process, we compared a couple of different vendors, there were check-points, there were milestone payments. So there was more control over that part of the project.”

CM4 acknowledged the functional specification and the diligence process, suggesting that VicChurch set up a systematic process for selecting a vendor and preparing project information. Although it has been already stated that the document mentioned contained only technical information and failed to specify client’s requirements, CM4 introduced so-called milestone payments to coordinate the vendor’s output. Although the vendor did not comment on the fact that they were paid the first instalment upfront, VE2 admitted that the introduction of milestone payments “encouraged them to allocate appropriate resources to deliver each milestone”. The introduction of milestone payments could be referred to as a mixture of outcome- and behaviour-based controls, since their primary role was not only to assess the quality of delivered outputs, but also to regulate the vendor’s behaviour in delivering them.

At the operational level, there were no performance metrics, project baselines or delivery reports developed to formally assess the vendor. For example, CO6 talked about the absence of performance evaluations in the project:

CO6: “There are no performance metrics put in place, no baselines. We do monitor whether the website is up or down and we also wondered how quick the site is to respond. Other than that, we really don’t monitor it. We don’t have any project reports that say ‘late delivery’ or anything like that.”

It seems that the only evaluation method that the client used to measure the quality of work was the response time and availability of the website that was specified in the SLA, suggesting that such vaguely specified measures did not give the teams a benchmark by which something can be measured. This again leads us to the conclusion, suggesting that neither of the organisations made their expectations explicit enough in a written form that could have helped them to effectively manage the outsourcing relationship.

Both internal organisational and behaviour-based controls were developed in the NOD arrangement. In particular, status reports for the Steering Committee and regular weekly communications with the vendor’s team were introduced:
Usually the Steering Committee’s responsibilities are to oversee the strategic direction and planning of the Church, including various projects. The status reports are likely to be focused on the overall progress of outsourcing projects and lack of performance and quality details. In this arrangement, the acknowledged status reports could be classified as a type of internal organisational controls since they served to report directly to the client’s internal organisational body (unit) and not to the vendor. However, the important implication is that the implementation of organisational controls may not always precede the outsourcing project itself, as was suggested in the literature review section on formal controls (see section 2.4), but may also be developed further in the course of the arrangement, after the project started. These changes can be caused by internal organisational changes at the client organisation or an individual’s initiatives (e.g. introduced by the manager, CM₄). Also, the weekly communications could be classified as a behaviour-based control, since they served to regulate the behaviour of the vendor team through personal visits and received feedback.

Overall, formal controls were mostly introduced by the client and were implemented at the second stage of the project, suggesting a reactionary nature. So they were initiated after an incident occurred.

At the first stage of the arrangement, both parties preferred to rely on the informal communication that was already classified as the behaviour-based (social) control due to its regulating effect on the social behaviour of the project teams. Moreover, a mixture of behaviour and outcome types of controls found in the arrangement. Although the introduction of milestone payments did help to improve the consistency of the vendor’s performance, and ‘corrected’ his behaviour, it was a rather isolated case. This improved the vendor’s performance, but the subsequent resignation of the initiator of these measures (CM₄) negated the positive effect of formal controls on the progress of the arrangement.

The overview of the discussed formal controls can be found in Figure 6.3 below.
Figure 6.3 Formal controls developed in the web development arrangement

The findings on formal controls revealed that both sides largely neglected to implement any formal mechanisms for managing the course of the outsourcing arrangement in the long run. As a result, both organisations were faced with the inappropriate coordination of the project and the repeated failures to determine requirements that eventually affected the performance of project outcomes and quality of outsourcing relationship.

6.2.5 Development of Trust

Views of trust, perceived reasons for trust-building, and types of trust

The development of trust was undermined because of the relatively poor communication between the two organisations. Not only the communication was limited but there were quality issues in the service and this served to undermine trust from VicChurch’s (client) perspective. For example, CO5 acknowledged the lack of understanding of business analysis and emphasised the differences in their expectations:

CO5: “I find that SmallWeb do make themselves accessible to us and so those things are very good. That’s very valuable. So the relationship is certainly not negative on a personality level, but on a business analysis level, it’s fraught with different sets of expectations.”
Clearly, both organisations had good relationships at the individual level, suggesting that the vendor was accessible and responsive in the information exchanges. However, there was the lack of a common understanding with the vendor team of what was expected.

The lack of business analysis skills in SmallWeb had a number of implications for both parties. First, the client seemed to fail to ensure that the vendor understood their business needs and requirements with regard to the anticipated web development project and, as a result, the vendor delivered only a technical component of the project. Second, the vendor failed to recognise the critical role of the project manager who could have acted as the channel of communication between his team and the client team. As a result, VE2 tried to be a handyman, both the manager and the technical specialist in the project that eventually resulted in poor communication and misinterpretations of the client expectations. Third, reviews and feedback are useful means of evaluating progress and anticipating future developments in a project. However, in this arrangement, neither of the organisations performed regular assessment reviews (VicChurch) or requested constant feedback (SmallWeb) on the project interim milestones to make sure that the project was heading in the right direction.

The technical issues caused a decline in the client’s competence-based trust in the vendor. In particular, CM4 described the developed website as “a cumbersome system to use”, while CO6 acknowledged flaws in the software architecture and usability issues with the website:

CO6: “Usability is a big issue. I don’t think they have the skills to understand what that means. So when they do something, they don’t really understand what’s required... The only issue I have is the architecture, how the application is developed and how it actually works... [So] I don’t have trust in the architecture of the software that they have developed.”

CO6 emphasised their dissatisfaction with the quality of the website and acknowledged usability and software architecture issues, suggesting that the developed website was technically flawed. The technical ability of the vendor’s team was questioned and, therefore, CO6 acknowledged distrust towards the website. In the literature, competence-based trust is based on the ‘ability’ of the partner (Mayer et al. 1995) or the vendor (Paul and McDaniel 2004). In this case study, although the client did not explicitly acknowledge mistrust of the vendor’s technical expertise, he questioned the technical competence applied in developing the website and, therefore, a decline in competence-based trust is evident. Apart from the competence-based trust that was acknowledged in the vendor, a concept of ‘trust in product’ is likely to emerge from the context, suggesting that the client had distrust in the quality attributes of the developed system which was inherent in misunderstandings occurred between two sides.
Another interesting revelation was the nature of information-based trust in communications during the arrangement. For example, CO₆ acknowledged the vendor’s responsiveness and communication skills, while VE₂ emphasised the lack of appropriate communication:

CO₆: “I trust them to be responsive and communicate well.”

VE₂: “CO₃ is actually the one who is very reactionary so we deal with her on a day to day basis and she will say “Well, fix this SmallWeb” and we’ll say “We’ll fix it, give us some more information” and we just won’t hear back. So I think that does cause some strain on both sides. It’s very difficult to engage them when it’s not a crisis.”

VE₂ commented on the client’s reactive approach to communication in the project, suggesting that one of the client’s participants did not communicate effectively on a regular basis. By contrast, CO₆ did not question the vendor’s communication skills. In the literature, information-based trust is fostered through constant communications in the project (Paravastu 2007). The presence of information-based trust was only evident in the attitude of the client towards the vendor team (CO₆’s comment), while VE₂’s comment about CO₃’s reactionary attitude suggests that the vendor had no confidence in the client’s ability to follow through on the communication exchanges and provide necessary information. Although it is well argued that trust cannot be meted out at the front-end of the working relationship and should be earned through day-to-day communications and not only from the vendor team, as has principally been the case in most outsourcing engagements (Oza et al. 2006), but from the client team as well. This may be a valuable implication since it suggests a two-way process of building information-based trust between two organisations.

The revelation of this trust led me to think about the role of information-based trust as key in the IS outsourcing context. In the literature, information-based trust has been generalised as knowledge-based trust that involves previous interactions and the likelihood of organisations predicting one another’s actions (Paravastu 2007). This cannot be always true since both teams, despite the history of interactions and their knowledge of one another (knowledge-based trust), still exhibit a mutual distrust at an organisational level (trust between VicChurch and SmallWeb as client and vendor organisations). Thus, instead of trying to achieve reconciliation between two organisations in the short run, individuals from both teams may instead try a so-called information-based approach to overcoming the rift in trust, i.e. to build information-based trust between two teams. This approach suggests building (or promoting) trust in the information, despite its source, by identifying accurate sources of the project information both parties required to work with, instead of having to rely on perceptions held by the team individuals (e.g. VE₂’s comment about CO₆’s reactive attitude). Although this approach does not directly address
the nature of trust between two organisations in the long run, it may remove the need to do so by introducing a mechanism that allows individuals to rely on the information they need (especially at the beginning) to productively conduct business with each other rather than focusing on negative results.

From the client’s perspective, trust in SmallWeb declined because of the project delays and the failure to meet expectations, which was also linked to the deterioration of performance- (PBT) and capability-based trust in the vendor. The following accounts illustrate the client’s view in terms of the vendor’s performance and delivery capabilities:

CM4: “Because of the way they have delivered that project and smaller components as well, I’ve lost the trust…not in the sense that they won’t deliver, but they don’t deliver what we expect. They consistently deliver from very much a technical point…So the delivery has rarely met our expectations.”

CO6: “It [the NOD] hasn’t provided what we need and we’ve got ongoing issues, so I suppose there wasn’t trust-building, it was more trust maintenance.”

The decrease in trust was a consequence of the client’s perceptions of the vendor’s performance (PBT), a belief which was reinforced by the fact that separate components of the service were not delivered as expected. This influenced the client’s level of confidence in the vendor’s capabilities (i.e. capability-based trust). In the literature, PBT is based on a consistent delivery of the interim and final milestones set up during the project planning (Sabherwal 1999). Although CM4’s comment on the vendor’s technical expertise indicated the presence of PBT, the major delay with the NOD resulted in a decrease in trust. CO6 commented about trust maintenance that seemed as they tried to suppress the downward of trust in the vendor. Moreover, perceptions of the vendor’s incapability of delivering in accordance with expectations (decline of capability-based trust) eventually led to a decline in VicChurch’s PBT.

From the vendor’s perceptive, there was trust in the management team, while the decline of knowledge- (KBT) and PBT in the client team is justified below:

VE2: “There’s a lot of trust for the senior management team because we understand each other’s professional expectations and we’re good at getting in touch with each other. With the people on the ground, it’s a lot more difficult, they don’t want to meet with us; it’s a lot less predictable and a lot less reliable…While CM4 was there, we really did get on quite well, but now [March-April 2009] when CM4’s not there…we have difficulty with that because we put in quotes in December [2008] and we haven’t heard anything about our requests for quotes, scheduled appointments. So we don’t know what to expect and it’s very strange now.”

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It seemed that an inability to communicate regularly and receive sufficient information influenced VE2’s decision to be cautious in placing his trust in the client. The strong trust in the client’s senior management suggests that a lot of VE2’s trust was based on the client’s reliability in handling communication exchanges. While the last comment that VE2 made with regard to the client’s attitude indicated the decline of both KBT and PBT in the client team. In particular, the decline of KBT in the client team was associated with sudden changes in the management team (i.e. resignation of CM4) and, as result, the vendor was in a difficult position since they did not know what to expect and struggled to predict the next action from the client team. The client team as being inadvertently negligent in fulfilling its own obligations (prompt payments) negatively influenced the vendor’s level of PBT in the client organisation as the latter seemed to fail to perform their part of the job (i.e. pay the bills).

Further, the presence of reputation-based trust (RBT) in the vendor’s team was observed at the beginning of the arrangement. VicChurch hired SmallWeb based on a reference given by one of its former employees:

CO5: “One of the people who was involved with the Church as a Change Consultant had some contacts from other places he’d worked and heard good things about this new startup, they were very new.”

One of factors prompting the selection decision for VicChurch was the endorsement of SmallWeb obtained from the consultant working for VicChurch at that time, suggesting that this ‘word-of-mouth’ had formed the initial positive expectations regarding the vendor’s abilities.

Given the experience and knowledge of SmallWeb gained through the project, there was a strong KBT that influenced VicChurch’s decision to give the NOD project to the existing vendor:

CO5: “We already knew them and what to expect when we gave them this second project.”

The client was aware of the vendor’s skills and technology and was able to predict the vendor’s actions. Such ability to develop a generalised expectation of the other’s behaviour and the shared knowledge on other projects were acknowledged as key characteristics of KBT (Lewicki and Bunker 1996; Sabherwal 1999).

Both sides seemed to get along well at a personal level but professionally, in terms of the expectations of the client and the vendor, the outsourcing relationship failed. The confused communication, the misalignment of expectations and the poor project coordination resulted
with the conclusion that in this arrangement there were no joint attempts to build a common understanding of the project and therefore, identification-based trust (IBT).

Overall, in Figure 6.4 below, a generic overview of changes in trust in the web development arrangement is provided and is characterised by different levels of trust from the client and vendor’s perspectives.

![Figure 6.4 Approximate timeline of changes in trust in the web development arrangement](image)

Overall, the case study revealed that, along with the gradual building of trust between the two sides, the sudden changes or events at one of the organisations might severely affect the conditions of trust-building, such as the decline of knowledge-based trust with the resignation of the project manager or the decline of performance-based trust with the prolonged delay of the project due to the vendor’s poor internal coordination.

### 6.2.6 Perceptions of the Relationship between Trust and Formal Controls

The organisations agreed on the complementary nature of trust and formal controls in the arrangement, though they highlighted different reasons for this. In particular, the client acknowledged the combination between strict contracts and trust in the relationship, while the vendor preferred building personal relationships and working on trust:
CM4: “You need to have a balance between very restrictive contracts and working on a relationship and building some trust around that relationship. I see the contract more as the guideline, as a parameter in which we will agree to operate. You really don’t want to go to court on your contracts.”

VE2: “You really can’t operate without trust, whereas [the] contract is important but only from a sort of checking the boxes point of view. The contract is really just a background and a due diligence, we need to make sure that we tick all the right boxes first.”

Both CM4 and VE2 viewed the contract merely as a guideline, while trust was seen to contribute to the relationship development. It seems that both participants were inclined to see the value of the contract not as a means of solving any conflicts but in its capacity to provide a threshold for measuring the work and following (standardised) routines (e.g. “due diligence” in VE2’s quote above). Essentially, both participants seemed to imply that the relationship is absolutely essential in outsourcing, because the contract on its own can be neither a means of enforcing nor adjusting the relationship. Macneil (1980; 1985) found that the classical (and neoclassical) contract theory suffered from rigidity in contracts that did not take into account the relational aspect of business interactions. Indeed, both parties in this case chose to maintain combination between trust and formal controls that was weighted towards building informal working relationships and trust-building rather than applying formal processes and performance metrics. The working relationship between VicChurch and SmallWeb was largely created by the atmosphere that pervaded the web development arrangement throughout its course. Thus, the ongoing working context determined the ‘combination’ that VicChurch and SmallWeb found sufficient to operate on.

Also, the vendor’s performance was argued to be one of the factors in finding the appropriate combination between trust and formal controls:

CM4: “The best way is to have enough control over your milestone payments and have Steering Committee approval for each of those milestone payments and then use the relationship to make sure that those are met. With every milestone they deliver badly – they start to lose trust.”

CO6: “Theoretically, I think it should be possible [to find a balance], but practically it comes down to the vendor’s skills, when it comes to implementing things.”

Both participants commonly expressed the view on the role of the balance under the influence of the so-called ‘working context’. For example, CM4’s perception on balance was based on combining the role of performance measures as something that could give an amount of control over the vendor and trust as a facilitator in the working relationship to monitor the progress of the project. According to CO6, it seemed that the balance between trust and formal controls
might be closely related to the performance progress of the vendor, suggesting that the working context established in the outsourcing arrangement had its impact on the combination between trust and formal controls.

An interesting implication was the size of the outsourcing project that was acknowledged as one of the factors that would determine the combination:

CM: “The directory project is a 30,000-dollars project, it is a very small project compared to our other projects. So the size of the project will determine the formality of the processes.”

VE2: “The more expensive the project the better the documentation needs to be.”

The acknowledged view revealed that, depending on the size of the project, participants would promote trust and formal controls activities differently, suggesting that the more expensive projects might require the higher degree of formalisation. Early in the thesis, it was suggested that the impact of the outsourcing context on finding the appropriate balance is significant, though these findings also revealed the impact of the outsourcing context (e.g. project size) on how both of the organisations would place trust and formal controls in the relationship continuum (see section 2.7).

Further, the established combination between trust and formal controls could be described as the antithetical balance. Antithetical balance is based on the idea that stakeholders implement or promote a type of trust-building initiative or formal controls by focusing only on one type of activity. In this arrangement, the influence of the organisational context on trust and formal controls was strong. For example, the internal organisational restructuring at VicChurch and/or the understaffed project team at SmallWeb induced the creation of an informal working relationships based on trust, rather than a reliance on formal activities and mechanisms that were simply missing in the project. It could be also argued that both organisations perhaps avoided implementing more precise initiatives (e.g. performance metrics), as it would have increased costs for both organisations and/or could have been risky given the immaturity of SmallWeb and internal changes happening at VicChurch at that time. Although the concept of the antithetical balance suggests that trust and controls are seen to be substitutes, in this case the balance shifted constantly and by the end of the second stage, despite relying on informal relationships, some presence of formal controls (e.g. milestone payments) was observed and thus, they complemented the existing trust. As we know from the details of the arrangement, the nature of those formal controls was rather a short-term solution and did not last long, there was observed a shift of the balance towards the orthogonal type, when the new project manager (at VicChurch) implemented a number of formal controls such as the milestone payment system or
weekly status meetings. However, as we learn from the case study details, the manager left the organisation soon after and the balance regressed back to antithetical. Neither of the sides implemented any formal controls after this time.

**Perceptions of the balance across organisations levels**

In Table 6.3 below, the differences on the balance between trust and formal controls are presented across three organisational levels.

<table>
<thead>
<tr>
<th>Organisational level</th>
<th>Responses from two sides</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive</strong></td>
<td>VE₂: “It’s probably about 80% trust, the rest, the contract is there and it dictates how much things cost but really it is about the trust. It is a proportion of what makes us work with them. If we didn’t have any trust I think we’d have to say ‘Well no we can’t work with you anymore.””</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>CM₁: “There was 80% trust and 20% contract because the initial contract was very small and it was in the favour of the vendor, there was absolutely zero protection at the very beginning. There was a second project we put more protection in...and then trust has come down. So when we came to the second project, it was about 60 – trust, 40 – contract.”</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
<td>CO₁: “There is trust there to start with and it’s gone down since. Since then [the NOD stage] it hasn’t provided what we need and we’ve got ongoing issues, so I suppose there wasn’t trust-building, it was more trust maintenance, trying to keep things going at a regular pace.”</td>
</tr>
</tbody>
</table>

**Table 6.3 Perceptions across three organisational levels on the combination**

At the executive level, the combination between trust and formal controls seemed to be based on the opportunity to build informal relationships with the client. He emphasised a far more important role of trust in the development of the working relationship, while the contract was acknowledged as a reference source in case of disputes over cost issues. As already mentioned, adopting such an ‘amateur approach’ to outsourcing projects without proper internal project management and negligence with regard to contract obligations, was likely caused by the immaturity of SmallWeb as an outsourcing service provider, and resulted in poor performance and misunderstandings further on in the life of the project. On the other hand, the absence of proper formal controls that the client did not wish to initiate, did not raise any doubts with SmallWeb who certainly had more skills as opposed to VicChurch’s ‘taking and caring’ attitude. VE₂ viewed the outsourcing arrangement with VicChurch as more of a partnership-based arrangement that caused further misinterpretation of the client’s expectations and, as a result, the vendor was keen to build a good rapport with the client instead of performing its service provision obligations.
At the management level, CM₄ viewed the combination as changing in the arrangement. In particular, the combination between trust and formal controls started with a major reliance on trust in the vendor. However, later in the project, due to numerous issues raised with quality and delivery, the combination changed towards more formalisation because of the decrease in trust.

At the operational level, CO₆ also confirmed CM₄’s view about the decline of trust and claimed that it was the maintenance of the trust gained rather than trust-building. Thus, the operational view of the combination was formed and further shaped by the ongoing progress of the project.

### 6.2.7 Perceptions of Outsourcing Outcomes

In Table 6.4, different views on the achieved outcomes are summarised.

<table>
<thead>
<tr>
<th>Responses from two sides</th>
<th>Lack of flexibility and design flaws in product</th>
<th>Quality of service and performance</th>
<th>Lack of diligence and accountability</th>
<th>Performance measures</th>
<th>Formal meetings</th>
<th>Continuity of relationship and lack of vendor relationship management skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>CM₄: “It comes down to the lack of flexibility of their product and repeated design failures. What they deliver is not quite what we expected.”</td>
<td>CO₆: “Considering the time that it took to deliver, as well as what’s missing from it, I’d say it have to be an average delivery and an average satisfaction.”</td>
<td>VE₂: “It’s very high. Overall I think they’ve been very happy with it as it does exactly what they want it to do...I don’t think our deliverables have altered at all...[and] the service that we’re offering has actually got much tighter.”</td>
<td>CM₄: “With this project–not enough due diligence, there was not enough clear responsibility.”</td>
<td>CO₆: “I think more formal notifications and meetings would be beneficial.”</td>
<td>VE₂: “We really need to have the formal process where we’re sitting down with VicChurch every quarter or couple of months and saying, “We want to know what you need to do online. What are the needs that you need to address?” But we just aren’t having those meetings.”</td>
<td>CO₆: “I would like to move away from them due to the way that the system has been set up. We have arrangements with SmallWeb to keep doing that until 2010 but I don’t foresee a long-term relationship there.”</td>
</tr>
</tbody>
</table>
Dissatisfaction with performance and dysfunctional relationship

<table>
<thead>
<tr>
<th>CO:</th>
<th>“I haven’t been very happy with the vendor in terms of their output. In terms of the actual deliverables I found they are very late, there’ve been a lot of delays.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>VE:</td>
<td>“I could be happier. I had more trust six months ago than I have now [March-April 2009], and that is because we’ve got a reasonably dysfunctional relationship, a dysfunctional client-vendor relationship, so that really has hurt things quite a lot.”</td>
</tr>
</tbody>
</table>

Table 6.4 Different views on outsourcing outcomes in the web development arrangement

Among the perceived outcomes, there were acknowledged technical quality of the developed product, satisfaction with quality of service and relationships overall, and project coordination. For example, VicChurch was not happy with the quality of the developed system due to its inflexibility and repeated design flaws that also resulted in failed expectations. In contrast, VE2 claimed that the quality of their product was high enough and that they constantly provided good service by delivering what was requested. Given the opposing views on the quality of service, it seems that the disagreement lies in different expectations (or assumptions that were not cleared up) regarding the web development project.

An interesting revelation was the fact that participants from both organisations acknowledged due diligence, rigour around project performance, formal notifications and meetings as required mechanisms (or actions) that must develop in the outsourcing arrangement. Since these mechanisms are not intended to deliver final results and focus on the progress of the arrangement in the outsourcing process, suggesting the coordination of resources (due diligence), activities (project performance) and information (meetings and notifications). The purpose of project coordination is to ensure that both project teams work together toward a common goal, meaning that the project and all related processes run smoothly. Thus, the acknowledged perceptions have been classified as the outcomes of project coordination. The view on project coordination was somewhat similar, in a way that both parties wished to have more formal meetings and notifications to coordinate the ongoing progress of the project. Given the fact that both CO3 and VE2 engaged in the project interactions, the confused communication at the operational level was the true obstacle that prevented the parties from exchanging information effectively.

It is interesting that the views in terms of the negative experience gained in the project on the outsourcing relationship were held in common between the client and the vendor, though the vendor expressed the hope that with a new team with better vendor relationship management skills, the situation could be improved. The participants from VicChurch expressed a reluctance to continue working with the current vendor for a number of reasons mostly related to the delays in project performance. Moreover, the vendor acknowledged that they did not have any
doubts regarding the quality of service, but doubted the quality of the working relationship and described it as dysfunctional. Also, one of the major concerns was the misalignment of hopes and expectations from the two organisations. Thus, VicChurch complained about the quality of the developed product by stressing its numerous technical failures and inflexibility, while SmallWeb remarked upon the confused communication and negligence of VicChurch’s staff to do its part of the deal (i.e. prompt payments).

Increasingly, the confused communication between the parties remained a constant obstacle and only caused more misunderstandings between the parties (e.g. VE₂’s comment that “it’s very difficult to engage them when it’s not a crisis”). In the literature, ongoing communication is acknowledged to be vital in the efforts of partner to manage each other’s expectations (Lacity et al. 1994), while the expectations are partly defined by the SLA and the contract and specifically by how the vendor responds to demands and changes made by the client. In this instance, both parties felt trapped in the arrangement. VicChurch felt dependent on the vendor’s product (CO₅’s observation that: “it’s proprietary product, so everything that you want extra has to be built from scratch”, and CM₄’s complaint that: “we are totally dependent on this vendor, because it’s a proprietary solution”), while SmallWeb had an ‘unfair advantage’ in the relationship because they delivered what they thought VicChurch required. Thus, the level of satisfaction with the quality of the relationship between two organisations was low. Such words as “unhappy” or “average satisfaction” were mentioned a number of times, while VE₂ described the association as “a dysfunctional client-vendor relationship” (see VE₂’s quote above). In the literature, relationship satisfaction has been defined as “a positive affective state resulting from the appraisal of all aspects of a firm’s working relationship with another firm” (Anderson and Narus 1990, p. 66). In the outsourcing context, satisfaction with the arrangement will come naturally with the achievement of mutual expectations or benefits (Kern 1997). The pursuit of mutual benefits increases the client’s perception of closeness and trust in the vendor, while satisfaction with the outcomes increases the vendor’s trustworthiness over time and determines the overall success of the relationship (Kumar 1996a). In the current arrangement, despite the presence of trust and seemingly good informal relationships between the two organisations, misunderstandings about each other’s expectations were still prevalent in the relationship. Therefore, the working relationship was far from successful.

The perceptions of the continuity of the working relationship were commonly acknowledged by both parties to be negative. Although the participants were pessimistic regarding the future of their dealings with each other, the rationales underlying their attitudes were different. According to VicChurch, the main concern lay with the product delivered and, therefore, it was the
vendor’s inability to meet the expectations of the client. According to SmallWeb, the challenge lay in inability of the client’s current team to manage the relationship with the vendor something which in fact resulted in the relationship becoming what he called dysfunctional.

6.3 Chapter Summary

The findings of the case study revealed that the aftermath of the poorly drafted contract and the failure to formally specify the project requirements, coupled with the absence of performance measurement and monitoring mechanisms, left both organisations alienated and dissatisfied with the progress of the outsourcing arrangement. With regard to the development of trust, despite some gradual trust-building at the personal level, there was a substantial decline in performance-based trust placed by the client in the vendor team, which was one of the key factors that determined the final outcome of project. It was also found that antithetical balance was achieved in the arrangement, suggesting that both parties relied heavily on informal relationships rather than trying to harmonise them with the formal processes. Despite the temporarily shift towards the orthogonal balance during the active presence of the client’s project manager, both sides failed to recognise the positive effect of complementing trust and formal controls activities, and continued operating without much of the project governance.
Chapter 7: Cross-Case Analysis

7.1 Introduction

In the previous three chapters (see Chapters 4-6), five case studies of IS outsourcing arrangements were presented. Each case study comprised a discussion of the project background, aspects of formal controls and trust, perceptions of participants of the role of trust and formal controls, and their perceived impact on the outsourcing outcomes.

This chapter contains a discussion of the findings from five case studies. The cross-case discussion is loosely organised around discussions of three research questions. The chapter starts with a summary of details of case organisations and participants involved. It continues with a summary of cross-case findings on the development of the outsourcing arrangement, i.e. details of contract implementation and formal controls (section 7.2). The chapter then focuses on the development of trust and the achieved balance between trust and formal controls, and the effects of the balance on the outsourcing outcomes by drawing cross-case conclusions and comparing them with the existing literature (sections 7.3-7.5). Finally, the chapter summarises the cross-case discussion of the research findings.

7.2 Summary of the Case Organisations and Participant Details

A comparative overview of the five cases is presented in Table 7.1 below. The table shows details of theparticipant organisations, the type of outsourcing arrangements, experience with outsourcing and the outsourcing decision, the length, the value and the outcome of outsourcing arrangements across five case studies.
### Case 1: FinCorp-IT Consultant A
Client organisation
A global conglomerate (headquartered in US), with four main business divisions: credit and financing, technology infrastructure, energy infrastructure, entertainment media. The research focus is on the Australasian region and the finance business division that provides financial solutions on commercial and personal loans.

Vendor organisation
A large Australian organisation that provides IT services in strategy and architecture, application development, and project management.

Type of the outsourcing arrangement
Midrange application support.

Outsourcing decision (including selection criteria)
Client’s corporate strategy of cost savings (i.e. 70% rule) and Vendor’s expertise. Tender bidding.

Length of the outsourcing arrangement
6 years.

Project value
Approx. $2.5 m p/a.

Outcome of the outsourcing project
The contract has been renewed twice. Project is still ongoing.

### Case 2: FinCorp-IT Consultant B

### Case 3: FinCorp-IT Consultant C

### Case 4: EduPro-ITPro

### Case 5: VicChurch-SmallWeb

### Table 7.1 Summary of details on five case studies
The information which is presented in Table 7.1, provides an overall view on the background details of the case organisations. However, a more compelling discussion of the cross-case findings is provided in subsequent sections and in the following order: development of client-vendor outsourcing arrangements (section 7.2), development of trust in client-vendor outsourcing arrangements (section 7.3), the discussion of the balance between trust and formal controls (section 7.4) and perceptions of balance in outsourcing outcomes (section 7.5).

Taking into account the theoretical background (see section 2.7), both trust and formal controls are argued to be complementary and there is an appropriate balance be found in IS outsourcing arrangements. To examine the case studies within the adopted theory lens, the development of formal controls and trust in the outsourcing relationship continuum should be also taken into consideration. Thus, I start with the discussion on the development of outsourcing arrangements.

As IS outsourcing arrangements progress, the relationships between client and vendor organisations are constantly evolving and the changing nature of outsourcing relationships was clearly evident in the case studies. All of the outsourcing relationships in the five outsourcing arrangements were developed and maintained differently. To capture the changing nature of the relationship in the case studies, the development of outsourcing relationships is discussed through the following themes: contract implementation and formal controls which were based on the general coding template and discussed in Chapter 3 (see section 3.6.2). These themes are presented in Table 7.2 below and are consequently discussed.
### Table 7.2 Summary of cross-case findings on five IS outsourcing arrangements

<table>
<thead>
<tr>
<th>Perception of success</th>
<th>Type of contract</th>
<th>Implementation of formal controls (behaviour- and outcome-based controls)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1: FinCorp-IT Consultant A</td>
<td>Successful (completed within the contract scope, defined SLA).</td>
<td>• Client had pre-existing organisational formal controls (&quot;overarching governance model&quot;) and implemented a number of project-specific formal controls.</td>
</tr>
<tr>
<td>Case 2: FinCorp-IT Consultant B</td>
<td>Successful (completed within the contract scope, defined SLA).</td>
<td>• Mixture of outcome and behaviour controls.</td>
</tr>
<tr>
<td>Case 3: FinCorp-IT Consultant C</td>
<td>Successful (completed within the contract scope, defined SLA).</td>
<td>Vendor initiated more rigour (i.e. behaviour-based controls) on the scope of work.</td>
</tr>
<tr>
<td>Case 4: EduPro-ITPro</td>
<td>Successful (completed within the contract scope, no SLA).</td>
<td>• Vendor initiated the development of formal controls on Client's premises.</td>
</tr>
<tr>
<td>Case 5: VicChurch-SmallWeb</td>
<td>Client claimed unsuccessful (was not completed as per expectations and budget, delays, generic SLA) but Vendor claimed success in contract implementation.</td>
<td>• Client mainly focused on outcome controls, and Vendor initiated behaviour controls.</td>
</tr>
</tbody>
</table>

- Sporadic presence of behaviour or outcome controls.

- Both parties ignored the implementation of formal controls.

- Mixture of outcome and behaviour controls.
7.2.1 Contract Implementation and Completeness

The case findings on contract implementation\textsuperscript{12} reveal interesting information on the client and vendor perceptions of success in terms of the signed contract. In four case studies, there seems to be no disagreement from either of the parties on the subject of success in the implementation of a contract. In the outsourcing environment, contracting is traditionally seen at the beginning of any outsourcing arrangement as it establishes the basis of the relationship, and defines the expectations of the project, the financial exchanges and dispute resolution mechanisms (Lacity and Hirschheim 1993a; Kern and Willcocks 2000a). Once the contract is signed, attention is focused on managing the service levels that are measured according to the terms of the SLA (Goo et al. 2009). Four contracts have been successfully implemented within the specified scope, suggesting that neither of the parties in these four cases have raised any issues with regard to service targets, quality of service, financial disputes or failures to meet expectations. By contrast, the findings of the fifth case study have shown divergent views on the perceived success of the signed contract. The client claims it to be unsuccessful due to budget overruns, significant delays in delivery and a failure to meet expectations. The vendor claims that the contract was implemented successfully and, with regard to technology, delivered what was required. However, both parties fail to specify the targets and the scope. The significant implication is that both client and vendor organisations should clearly determine service targets and scope definition in the detailed SLA. Although the findings of the fourth case study have shown that the absence of the SLA (and clearly defined service targets) did not prevent the outsourcing parties from performing successfully, this may have been because the vendor implemented the internal key performance indicators (KPIs) to enable his team to assess the quality of the services provided. Another example can be seen from the vendor in the first case study which has acted positively and initiated additional reviews for defining the scope of the project. This suggests that the vendors should also be positive and be actively involved in defining the scope and accurately setting service targets (Lacity and Hirschheim 2009) together with the clients. Further, some of the findings on the completeness of contracts have revealed something significant about the type of contract signed in the outsourcing arrangement. It seems that the fixed cost or ‘fee-for-service’ arrangement (Lacity and Willcocks 1998) has been dominant among the case studies. In the fourth case study, the parties switch from the time-and-materials contract originally signed to the fixed fee model once the scope of the project was well defined and the requirements were confirmed. However, the aforementioned implication about

\textsuperscript{12}In this thesis, contract implementation and completeness comprises the overall process of the negotiation and management of the outsourcing contract in terms of the details of the contract, obligations and responsibilities, scope, price and challenges faced (for further details, refer to Appendix C).
the contract completeness has been found in the first two case studies where a so-called “per device” model of contract was developed and further evolved in FinCorp’s dealings with IT Consultant A and IT Consultant B. Subsequently, both parties continue operating on this model by adjusting (renegotiating) the price or specifying the scope of work. The signed fixed cost contract also included a ‘time-and-materials’ feature with regard to the new applications. The signed contract can be referred to as a hybrid form of contract (Gopal and Koka 2009) that emerged as the result of changes in the environment and in the project itself. This suggests that although the cost was fixed for the determined scope of the project, the supported service might change (by requiring new functionality, for example) and this would eventually impact on the pricing structure. For example, in the first case study, the signed contract has comprised three-month variation costs, during which period the vendor’s team is obliged to determine the scope of the newly added requirements for the outsourced service. This contract thus comprises features of the fixed cost and time-and-materials types of contracts, where the project cost is fixed, but the scope of the project is based on the estimation of the actual hours spent on the project. Because of its applicability to complex outsourcing projects, many of which do not have a defined scope due to certain changes in the technology (of the project) and/or outsourcing environment, the use of such a hybrid form of contract is justified because it allows alterations to be made. In other words, this approach allows for flexibility to extend the scope as needed, by allowing both parties to engage in a discussion regarding costs and scope as the outsourcing project scope changes.

Although risks and complexity in the outsourcing projects are not investigated in this work, it may be for future researchers to investigate the impact of hybrid contracts on levels of risk and complexity arrangements. Overall, the implication of the discussed hybrid contract is that it may suggest to the parties a greater flexibility to alter specifications. It gives clients some capacity to rapidly accommodate unplanned activities, while it provides vendors with leeway to adjust project resources based upon evolving requirements throughout the course of the outsourcing arrangement.

7.2.2 Implementation of Formal Controls

The case findings on the formal controls reveal that pre-existing formal controls are initiated by the client organisation. In FinCorp’s dealings (three case studies), FinCorp has initiated the implementation of formal controls that were already institutionalised and widely used in its corporate quarters (e.g. templates for delivery reports, VOC-based feedback). Thus, the pre-existing formal controls can be denoted as being among the best practices that client organisations usually follow in managing outsourcing deals, which are instituted partly as a
consequence of the fact that IS outsourcing is perceived nowadays as part of the common business strategy. The importance of well-established formal controls can be also supported by the negative results found in the fifth case study. As we know, the fifth case study has revealed the blissful ignorance of both parties in effectively coordinating the outsourcing project. Both organisations seem to be inept and inexperienced in the outsourcing and do not seek for any legal advice in crafting the contract and/or the SLA. Although this has already been discussed in Chapter 6, the fault lies with both parties. The client has a specific belief system that encourages welcoming any newcomer (whether it is a business partner or a new member of the church community) and, thus, it does not have a business mindset. The vendor is an immature service provider who tackles the project while carrying its own internal technical risk and with poor project management. Both parties seem to rush into the outsourcing or what Lacity and Hirschheim (1993a) have coined as ‘outsourcing bandwagon’. Even almost two decades later, they have cautioned the outsourcing practitioners blindly following the common outsourcing trend (Lacity and Hirschheim 2009). Neither of the organisations has implemented any governance mechanisms later in the outsourcing arrangement, at least of those types most commonly used such as delivery reports, performance measures and formal communications which are pertinent to any outsourcing arrangement. Although the internal steering control and weekly communication mechanisms have been initiated by the new project manager at the client organisation, they were of short duration. Overall, the implication is that client organisations should follow the outsourcing practices as proven and well-laid as those in FinCorp’s dealings to ensure that all the necessary formal controls in place to govern the ongoing progress of the outsourcing arrangements.

The discussion on the presence of pre-existing formal controls such as those reported in FinCorp (e.g. corporate procedures or policies around the outsourcing contacts) has confirmed the proposition made in the theoretical part of this thesis (see section 2.4) which addresses the argument concerning the pre-existing nature of formal controls within the client organisation. Moreover, this proposition has been corroborated with the findings of the fifth case study, where despite the relatively short presence of the project manager at the client organisation who implemented formal controls that has improved the situation in the short term, the presence of pre-existing controls (e.g. performance metrics) would have been prevented the organisations from misunderstandings and dissatisfaction with the progress of the outsourcing arrangement.

A mixture of project-specific controls, behaviour- and outcome-based controls has been initiated by both parties, is also evident in the case studies. In particular, it has been suggested that in outsourcing arrangements there are clients who usually implement formal controls, especially
those focused on assessing vendor’s performance (outcome-based controls). This view is consistent with the literature, in which it is argued that clients expect the vendor to take over and deliver the service, while the client managers stand back and monitor (Kern and Willcocks 2001). Client organisations tend to implement a mixture of behaviour and outcome controls for the sake of monitoring both the behaviour of the vendor and the deliverables. As these exchanges become institutionalised, the working relationship starts to gain status and benefits become visible. In other words, formal controls should be mandatory for all vendors in projects in order to improve monitoring of outsourcing relationships. This has proved to be true for four case studies, whereas the client in the fifth case study (VicChurch) failed to recognise the role of project-specific controls and as a result, achieved negative outcomes in the outsourcing arrangement. Also, it is interesting to note that there are vendors who may initiate formal controls, such as the service scope guidelines observed in the first case study or the set documentation and system reviews discerned in the fourth case study. These formal controls have been classified as behaviour-based controls and are intended to regulate the actions undertaken in the performance of project activities. Overall, the case studies have revealed that formal controls can be developed by both organisations and further modified throughout the course of the arrangement.

In addition, the discussions on formal controls in the case chapters (see Chapters 4-6) have also revealed the presence of informal social controls that the participants acknowledged to be important in outsourcing arrangements. The role of informal controls such as informal communication exchanges, emails and team-building initiatives, has been discussed in the outsourcing literature for some time (Koh et al. 2004; Miranda and Kavan 2005) and, once implemented, informal social controls may facilitate monitoring of the relationship through interpersonal interactions between the project teams (Aulakh et al. 1996). The case studies have pointed out that such informal activities may help in building the working relationship and monitoring daily activities in a friendly environment. However, the interesting aspect in the case studies is that the participants have acknowledged the “working operating rhythm” (e.g. case one) as something reliable with which to complement the formal controls implemented for coordinating the arrangement. Moreover, informal communication has seemed to be prevalent in the minds of the people at the operational level who argued that personal interactions and “informal catch-ups” as such, underpin relationship efforts so much, so that only through these mechanisms can problems be identified and alleviated and trust between the teams is built (e.g. case four or five). Overall, both outcome- and behaviour-based controls are encouraged to be implemented together in the outsourcing arrangement because they serve fundamentally different purposes within the overall monitoring of the outsourcing project. The former is aimed
to assess the vendor’s outputs in terms of the project work and is usually implemented by the client side, while the latter is aimed at regulating the ongoing performance of the task activities by the project teams and can be implemented by either of the parties. Moreover, it cannot be argued that the implementation of formal controls should remain constant and both organisations may choose to find the appropriate combination between outcome- and behaviour-based controls in the outsourcing arrangement.

7.3 Development of Trust

Research question 1 asks: How does trust develop throughout the IS outsourcing relationship? This question examines how trust is perceived among the case participants in the outsourcing arrangement and whether or not there are any changes in trust throughout the course of the arrangement.

Trust is perceived as a process-oriented rather than an outcome-oriented concept (Lee and Kim 1999), this suggests that it is dynamic and that a time factor is inherent. Based on these assertions, the cross-case analysis has revealed three major themes from all five case studies related to the development of trust, namely views of trust, reasons for trust-building and changes in trust (types of trust). Views on trust represent perceptions on the nature of trust and which have been emerged during analyses of individual case studies. Similarly, the perceived reasons for trust-building are factors that contribute to the process of trust-building between two outsourcing parties and which have been emerged during analyses of individual case studies. Changes in trust are representations of how trust may change through the lens of five different types of trust adopted in this study (see section 2.8). In Table 7.3 below, a summary of the participants’ views on trust and reasons for trust-building across five case studies is provided.
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<tr>
<td>Both organisations agreed on openness and honesty in interactions.</td>
<td>Mutual respect and knowledge expertise between two project teams from the start.</td>
<td>Mutual respect between two project teams from the start.</td>
<td>Mutual respect between two project teams from the start.</td>
<td>Client linked trust to reliability and confidence in receiving regular and accurate communication from Client.</td>
<td>Client linked trust to confidence in quality of service.</td>
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<td>Vendor emphasised necessity of trust.</td>
<td>Mutual dependency was noted as &quot;unavoidable&quot; in cooperating with Vendor.</td>
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<td>Vendor emphasised credibility in dealings, while Client linked trust to confidence in quality of service.</td>
<td>Vendor emphasised necessity of trust as &quot;do the right thing&quot;.</td>
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<tr>
<td>Perceived reason(s) of trust-building</td>
<td>Client marked Vendor’s consistent delivery, &quot;cultural fit&quot; and &quot;workforce commitment&quot;.</td>
<td>Trust is based on gained knowledge and experience between two organisations.</td>
<td>Client noted increased confidence in Vendor’s performance.</td>
<td>Client acknowledged Vendor's openness and honesty in interactions but acknowledged 'distrust in product'.</td>
<td>Significant decrease of Client's trust in Vendor’s performance.</td>
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<td>Client marked Vendor’s ‘reasonable requests’ and genuine support.</td>
<td>Increased respect, integrity and confidence between two project teams.</td>
<td>Honest and open communications.</td>
<td>Vendor acknowledged different levels of trust in Client and expresses concerns about Client’s willingness to communicate appropriately.</td>
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<td>Supporting quote(s) on the perceived reason(s) for trust</td>
<td>CE1: “I like our relationships with IT Consultant A around their ability to skill their people and deliver a good service...They are open and willing to learn, they have a commitment to their people, the same cultural fit.”</td>
<td>Client linked trust to confidence in quality of service.</td>
<td>Client linked trust to confidence in quality of service.</td>
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<td>VM1: “It’s important to be proactive. If we see something going wrong, even if it’s detrimental to us we’ll raise our hand and say ‘There’s better ways of doing this.’ FinCorp genuinely trusts our decisions.”</td>
<td>Increased respect, integrity and confidence between two project teams.</td>
<td>Trust between teams increased due to shared interests and a common understanding.</td>
<td>Client linked trust to confidence in quality of service.</td>
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<td>CE2: “I trust IT Consultant B because they’ve got a truck record of doing what they say they’re going to do and doing what’s within the agreement. It’s based on experience, it’s based on a clear communication channels.”</td>
<td>Client noted increased confidence in Vendor’s performance.</td>
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<td>CM1: “They have the right intention of doing the right thing.”</td>
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<td>VM2: “It’s not they just pay the bill. Their requests are not over the top in terms of they’re not constantly asking for projects to be implemented that are not achievable. So they’re a partner in the relationship. They’re working with us to deliver what they want, not against us.”</td>
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<td>CE3: “Trust is based on gained knowledge and experience between two organisations.”</td>
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<td>VO1: &quot;If there is lack of trust in the relationship it would not be happening so smoothly.”</td>
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<td>VO2: &quot;In our situation trust is based on many years of knowing each other and knowing how we behave.&quot;</td>
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<td>CM2: “Because of the way they have delivered that project and smaller components as well, I’ve lost the trust... they don’t deliver what we expect. So the delivery has rarely met our expectations.”</td>
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<td>CO1: “I trust them to be responsive and communicate well but I don’t trust them to do deliver on a consistent basis...I don’t have trust in the architecture of the software that they have developed.”</td>
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<td>VM1: “There’s a lot of trust for the senior management team because we understand each other’s professional expectations and we’re good at getting in touch with each other. With the people on the ground it’s a lot more difficult, they don’t want to meet with us; it’s a lot less predictable and a lot less reliable.”</td>
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Table 7.3 Cross-case comparison on trust from client and vendor perspectives
7.3.1 Views of Trust

Given the information provided in Chapter 3 (see section 3.6.2), a general coding template was utilised in conducting data analysis in this study. Thus, the theme (or code) ‘views of trust’ is one of the general codes adopted in this study and which has been utilised in each of the conducted within-case analyses (see Chapters 4-6). It implies the perceived views on the understanding and necessity (or role) of trust in outsourcing relationships (for further details, see Appendix C). Within this theme, a number of sub-themes have been emerged in the cross-case analysis. Among those sub-themes are openness and honesty, performance and capability, ‘to do what is right’ as the attribute of trust, mutual respect and mutual dependency. Each is thoroughly discussed on the subject of revealing commonalities, contradictions and implications of trust as the research concept.

Openness and honesty

In every case, participants have acknowledged the need for openness and honesty in interactions as a sign of trust in working relationships. Open and honest interactions have frequently been acknowledged in the IS outsourcing literature as a key trust-building activities (Oza et al. 2006), and four of the case studies confirm this view. However, the literature is rather silent on what seems to emerge in the fifth case study which is a call for accurate information to be exchanged from client to vendor and potentially vice versa without any necessity to form any relationships or liking of each other (information-based trust). It has been argued in Chapter 6 that information-based trust between two organisations is based on the project information they need to work with, rather than an attempt being made to build trust based on the perceptions about each other (see section 6.2.5). As a result, both organisations have faced with a series of misunderstandings and disruptions in the development of their outsourcing relationships. It can be argued though, if such an attitude in building information-based trust could have been employed by the both parties at the beginning of the outsourcing arrangement, this would have been resulted in more efficient communication and better structured outsourcing relationships for future success of the project. Although openness and honesty have been argued to facilitate the bonding and the good nature of working relationships between two parties, there is also an information component in it. While bonding can facilitate the accuracy in information or it can possibly be built from the accurate information shared in an open manner, there is also information-based trust in the shared information. Thus, information-based trust can be argued as the new dimension of trust that needs to be considered, since it is potentially (closely) linked to openness and honesty and forms a good working relationship but may exist without the other.
Capability and performance

Among other views of trust, client participants have linked the former with the vendor’s ability and behaviour to perform, while vendor participants have acknowledged the importance of trust particularly for clients. In particular, client participants explain that confidence in the vendor can only be built through high levels of satisfaction and good service delivery by the vendor. Such a view on trust is confirmed by the literature, in which it is claimed that trust refers to confidence that the behaviour of another will conform to one’s expectations and in the goodwill of another (Hart and Saunders 1997; Kern and Willcocks 2000a; Sabherwal 1999). However, one cannot assume that behaviour and hence, capability to deliver is a static concept. It is dynamic and it changes along with the changes made in the outsourcing arrangements (either human or infrastructure-related) and thus, in the outsourcing context, one must be mindful of the fact that the vendor’s behaviour and capabilities may change as well. This leads us to the connection between capability-based trust and performance-based trust which has been discussed in the second (see section 4.3.5) and fifth (see section 6.2.5) case studies. According to this view, the client’s confidence is usually built on the vendor’s ability to keep promises on delivery on each project milestone (or process capability). This is demonstrated either by showing continual improvements in behaviour over time, as in the second case study, or prioritising the processes through which the project will be improved and delivered as per client requirements, which the vendor has failed to recognise in the fifth case study. Though researchers in the IS outsourcing literature have established the positive impact of the vendor’s demonstrated capabilities in building client’s trust (Lohti et al. 2009), their effect on a client’s performance-based trust has yet to be made known.

One may think that performance subsumes capability, however, I claim that these are two different concepts. Given the outcome of this discussion is that one (vendor) must have capability to perform if this capability is appropriately utilised and this will result in an adequate performance. Also, the vendor may have capability to perform but the actual performance is inadequate or poor due to management and internal coordination issues that the vendor may experience as the outcomes of the fifth case study have reported. Thus, one of the outcomes of this research is an emergence of the category which I call capability-based trust which refers to inherent ability of the vendor to perform as required.

‘To do what is right’ as trust attitude

In the literature, some argue that trust is commonly associated with an attitude ‘to do what is right’ (Hollis 1998). This connotation seems important and relevant in the context of IS
outsourcing but has been relatively under researched. In this study, looking across the cases, this is a significant point of discussion that has been acknowledged by many participants. However, ‘to do what is right’ needs to be looked from two different perspectives, i.e. client and vendor. From the client’s point of view, ‘to do what is right thing’ implies the attitude of the vendor to deliver per expectations. From the vendor’s point of view, it implies the attitude of the client to pay promptly, set reasonable workload and be supportive. Such diversity in perspectives has been emerged in three case studies. Although the current study has contributed with some merit, this certainly can be explored further in future research by taking Hollis’s connotation of ‘to do what is right’ and apply it to the outsourcing context.

**Mutual respect, knowledge, and expertise**

Among other views of trust, there have been identified mutual respect, knowledge and expertise. In the IS outsourcing literature, Oza et al. (2006) have found that respect is one of the factors that establish client’s trust in vendor. This study has corroborated this claim, with a suggestion that respect should grow mutually between the parties. In fact, it has been claimed that such respect is cultivated through the awareness that each of the teams developed, through mutual interactions, of the knowledge and expertise of the other. Thus, this outcome suggests that trust may grow, not only from the vendor’s established industry reputation, but also from the vendor’s competence and capabilities (competence-based trust) and the effective communication established by the client at the beginning of the outsourcing arrangement.

**Mutual dependency**

Mutual dependency has been acknowledged as one of the attributes associated with trust. Mutual (rather than one-sided) dependency, is defined as by one party’s perception of its dependency on the other in receiving mutual benefits and sharing risks in the interactions (Anderson and Narus 1990; Mohr and Spekman 1994), has been noted as “unavoidable” in the relationship with the vendor in one of the case studies, implying that there is a transfer of the knowledge that the vendor originally obtained from the client. This process still involves the sharing of knowledge between the two organisations involved in the outsourcing arrangement. It has been argued in the relevant literature that mutual dependency is more prevalent in situations in which outsourcing relationships are asymmetric and knowledge is transferred rather than shared (Lee et al. 2008). However in one of the case studies that I have studied (case study two), there is certainly knowledge-sharing and mutual dependency between two parties but there is not very much trust. Thus, it can be asserted that it is possible that knowledge-sharing and mutual dependency can take place without high levels of trust. This is somewhat
speculative since only one case study reported on this matter, yet it is an avenue for future research.

7.3.2 Perceived Reasons for Trust-Building

Another theme ‘reasons for trust-building’ has been utilised when conducting within-case analyses. This theme includes the participants’ perceptions on the process of trust-building and the degree of trust, meaning to what extent the outsourcing relationship is based on trust (for further details, see Appendix C). Within this theme, a number of sub-themes have been emerged in the cross-case analysis that include the nature of trust-building, working ethos, different levels of trust and the newly emerged concept ‘trust in product’.

Nature of trust-building

The building of trust has been observed across all case studies, with the exception of the fifth which resulted in different outsourcing outcomes. In the fifth case study, the outsourcing relationship has started with ‘good faith’ being shown by the client towards the vendor during the contract negotiations and early in the project work. However, at the second stage of the outsourcing arrangement, there has been a substantial decrease in trust shown by both sides as a result of the service delays, misunderstandings and poor communication. Despite seemingly good relationships at the personal level between the two parties, the vendor’s performance has become of the utmost importance for the client suggesting that the growth of performance-based trust is critical in outsourcing arrangements (Sabherwal 1999). In the IS outsourcing literature, there is a common view that positive outsourcing outcomes stimulate higher levels of trust and strengthen the capabilities of both clients and vendors, so that the former move forward and renew their outsourcing arrangements with the latter (Gopal et al. 2003; Levina and Ross 2003; Sabherwal 1999). Although this assertion has been confirmed by the outcomes of four case studies, the fifth case has reported different outcomes. Though the client has harboured concerns about the vendor’s capabilities and the quality of the project at the end of the first stage, this has not prevented them from signing the second contract. Both organisations have experienced further communication problems, a further erosion of trust and negative results in the progress of the project and the relationship overall. One of conclusions is that neither party does well and, by the time of the signing of the second contract, they have not learned from their mistakes. This shortcoming is related to the immaturity of both organisations in IS outsourcing practices. Another conclusion that seems to emerge from the discussion of the fifth case study is that the vendor’s knowledge of the (developed) system might override a lack of client’s performance-based trust in their further outsourcing decision. Despite the lack of
client’s confidence regarding the vendor’s performance capabilities, the latter has still known the system and the ‘bespoke’ software that might initially tie the client to the vendor when there is no performance-based trust in the outsourcing relationship. The client’s decision to continue working with the current vendor has been somewhat driven by the low extent of substitution (Nam et al. 1996). According to Nam et al. (1996), the low extent of substitution denotes the most typical (or traditional) outsourcing relationships that involved non-core IT activities and small-sized contracts. Although this is true for the settings of our case study (i.e. the web development was not considered to be a core IT activity for VicChurch, nor was the several thousand dollars contract value considered great), the case study has also revealed the impact of the vendor’s obtained knowledge of the system on the client’s outsourcing decision.

Among the reasons named for trust-building are consistent delivery, credibility, reasonable requests and genuine support. In particular, client participants have acknowledged the vendor’s consistent delivery and credibility as a source of trust, while vendor participants have highlighted client’s reasonable requests and genuine support (in interactions). This suggests that a primary source for trust should be interpreted in the context of each party’s obligations, i.e. for client, it is the vendor’s consistency and performance, and for vendor, it is the client’s support and payments for work done on the project. It is interesting to observe that such an interpretation is consonant with the conceptualisation of trust provided in the literature review (see section 2.5.5), that implies positive expectations of each party of the other’s actions with regard to fulfilment of one’s obligations as stated in the signed agreement. Thus, this may suggest that each of the parties in the outsourcing arrangement is willing to cooperate with the other for the sake of completing the project.

**Cultural fit as work ethos**

It is of interest to note that one of the client participants from the first case study has remarked on the subject of the vendor’s commitment and cultural fit. In particular, CE₁ claims that the source of his trust has come from the vendor’s team having the same cultural fit. It appears to me that the cultural fit that he is talking about is somewhat related work ethos and responsiveness of the vendor’s team to the client needs. So that, the more the client and the vendor complement each other ‘culturally’, the more efficient the outsourcing venture becomes. This may only suggest that the parties are able to reach a common understanding over the project and have team cohesion and motivation to collaborate, suggesting that they are enthusiastic and strongly dedicated to overcoming challenges and misunderstandings. In the literature, outsourcing researchers have been arguing about cultural match but from the perspective of national cultures, different languages, values and assumptions, and dissimilar
working and communication habits (e.g. Beaumont and Cost 2002; Krishna et al. 2006; Oshri et al. 2009; Sarker and Sahay 2004). However, this study has revealed a new dimension of the cultural fit between two outsourcing organisations (where the vendor may not necessarily be located offshore) that is related to organisational ethos in terms of blending working styles and habits. Thus, thought should be given to looking beyond mere cultural similarities and differences (Plugge et al. 2008) to the creation of an atmosphere in which the teams are able to collaborate because each has the skills-set, training methods and various technologies comparable to the working infrastructures of the other.

**Different levels of trust**

Among the outcomes of the case studies, there has been also revealed the importance of different levels of trust, both interpersonal and organisational. For example, in the fourth case study, the existing interpersonal trust between two executives certainly has had a positive impact on the further growth of organisational trust among operational team members (between EduPro and ITPro), which seems to be kindled by the attitude that ‘if CE₂ trusts VE₁ and ITPro, we can also trust them’. In the IS outsourcing literature, Cong and Chau (2007) have examined trust using a top-down approach, suggesting that the initial trust-building usually happens at the executive (and management) level and subsequently spreads among the project teams. Similarly, the trust that exists between the two executives has been transmitted down among the project teams. Although this may be true for small projects or teams, such as that has been examined in the fourth case study, in bigger projects (by size) or in very complex environments (e.g. that of FinCorp), the existing trust at the upper level may not always spread further down. For example, in the third case, despite the existence of trust between CE₁ and IT Consultant C’s project manager, when the latter has formed the new project team, as VO₅ explains, it took a certain amount of time and effort to restore the client’s confidence.

Another illustration of the fact that trust is indeed a multidimensional concept has been noted in VE₂’s account from the fifth case study about different perceptions of trust, suggesting that he perceives those at different levels of the organisation with varying degrees of trust. Unlike the interpersonal trust, the different degrees of trust that VE₂ has acknowledged having in the management and operational teams of the client organisation can still be considered as organisational trust (between the client and vendor organisations). In this case, mutual trust (Lee et al. 2008) has seemed to be formed at the upper management level in terms of project expectations, whereas the people at the level of the operations have proved to be unreliable in terms of their actions. This may lead to a possible relationship between the acquisition of the
knowledge of certain individual’s attributes and behaviour and the growth of knowledge-based trust (see further discussion on KBT).

**Trust in product**

In the fifth case study, a concept of ‘trust in product’ has been revealed. According to one of the client participants (CO6), trust has been mentioned in the vendor’s ability to be responsive and consistent but there was a lot of distrust in the vendor’s product (i.e. the developed website). It may be thought that trust in the vendor’s product is almost equivalent to the reputation-based trust that the client has in the vendor’s domain expertise (Oza et al. 2006), though there is one important distinction. Reputation-based trust is usually based on an awareness of an individual’s (or group’s) skills and expertise gained either with time or through a reference check. In contrast, trust in a product is based on both the quality of its attributes, such as functionality, reliability and maintainability, and more project-oriented attributes such as cost and timely delivery (Barney and Wohlin 2009). Indeed, if we recall details of the fifth case study, the client has raised a number of concerns regarding the developed product such as design issues, usability, cost overruns and a series of project delays. In Chapter 6, it has been posited that one of the possible reasons is the absence of adequate project requirements, as a result of which, the parties have conflicting notions of what should constitute an adequate level of quality for the product on which they are working together. This has been the upshot of the lack of trust between two organisations. However, the importance of this concept becomes evident if the client’s perspective is taken, since the product quality should ‘fit for purpose’ and ‘conform to specification’ (Hoyer and Hoyer 2001), whereas without trust the parties will not be able to come to a mutual agreement about common attributes of the prospect product.

Until now, researchers have acknowledged different levels of trust, including trust between individuals (and groups of people), organisations and institutions (see section 2.5.1). However, this case study revealed that in the outsourcing arrangements, the client may also have trust (one sided) in the system (or product) developed by the vendor. Nor should this concept be compared with product quality as one of the outsourcing outcomes (Whitten and Leidner 2006) that represents the outcome of the end-product delivered within the outsourcing arrangement. In contrast, trust in product implies the process concept since it cannot be absolute or perfect but should be determined by a specific context or instance, when both organisations are agreed on the optimal level of quality. After all, it should be linked to the client’s confidence in the vendor’s ability to understand the project requirements, and the benefit of having a common understanding of product quality is that it is the most effective way for multiple groups to be successful in achieving a common project goal.
Overall, the discussions outlined above on the views and perceptions of trust have uncovered a number of findings:

- At the start of the outsourcing arrangement, information-based trust (focused on the information) may ensure the further development of effective interactions between two organisations.
- A positive relationship has been revealed between a vendor’s capabilities and a client’s performance-based trust, suggesting that capability-based trust is a new emergent category which refers to inherent ability of the vendor to perform as required. Moreover, the vendor’s knowledge of the (outsourced) system has been found to influence the client’s decision in selecting the vendor, despite low performance-based trust in the vendor.
- Mutual respect and knowledge expertise are important from the start of the outsourcing arrangement, while mutual dependency between two project teams may facilitate knowledge sharing without high levels of trust.
- The revealed impact of different levels of trust (interpersonal and organisational) has confirmed the nature of trust as the multidimensional concept and as the case findings suggested, the awareness of different levels of trust might facilitate the further cooperation between two outsourcing organisations.
- Case findings have revealed a new dimension of the cultural fit between two outsourcing parties as related to work ethos and commitment and the new concept ‘trust in product’.

### 7.3.3 Types of Trust

For the purpose of this study, five different types of trust have been chosen to represent types of trust that may be anticipated as being important in the IS outsourcing context (see section 2.8). Each may be observed at any point throughout the outsourcing arrangement. In the following paragraphs, each of the types of trust is discussed in detail.

**Reputation-based trust**

As defined, reputation-based trust (RBT) is based on the trustworthiness of a known third party. The presence of RBT seems to be commonly observed at the beginning of outsourcing arrangements, and it is generally placed by the client in the vendor team. The client usually tends to seek background checks or referrals on prospective vendors at the selection stage before signing any contract (Oza et al. 2006). For example, in the first case study, the
organisations have been working with each other for a number of years on different projects and, as a result, FinCorp is fully aware of IT Consultant A’s reputation when the new project started. In the fourth case study however, despite an existing business relationship between the two executives, the client’s executive undertakes some background checks on the vendor’s expertise. In the second case, the growth of reputation has been observed after the contract was signed when the vendor’s team finds itself in a position to prove its credibility by performing delegated tasks. Overall, the case studies suggest that the establishment of RBT is usually observed at the beginning of the arrangement and is initiated by the client, interested in finding out about the prospective vendor. As the part of the growth in reputation, different client participants have also acknowledged vendors’ professional expertise and domain knowledge.

Further, RBT grows with the experience and knowledge (KBT) that the each of the organisations has gained of the other’s skills and performance. There is no evidence of the vendors seeking to initiate RBT by ‘investigating’ clients, which can probably be interpreted as less significant for the development of working relationships given the fact that the vendor is usually the one who is dependent on the outsourcing contract.

**Contractual-based trust**

As defined, contractual-based trust (CBT) is founded on the rewards and penalties associated with the preservation of each party’s interests in contract negotiations. The presence of CBT is usually observed during that phase when the organisations are engaged in the contract negotiations, whereas during the project work, the subject of the contract tends to recede into the background unless any of the organisations wish to enforce it over any dispute that has occurred. The importance of CBT is critical, because the result of the negotiations will further impact on the course of the arrangement. For example, given the two contract negotiations in the fifth case study, neither organisation could negotiate the deal in terms of the scope, price and requirements, which eventually has resulted in significant losses for both parties.

The development of CBT is evident during the contract negotiations and further renewals. As case studies suggest, when the balanced power is set, both organisations come to an agreement that satisfies both parties. In Figure 7.1, the development of CBT has been presented with a curve line, suggesting that in-between contract negotiations, the importance of CBT is backgrounded in the outsourcing arrangement so long as the outsourcing organisations perform adequately (see trendi in Figure 7.1 below).
Although the discussion in the literature regarding CBT has been closely associated with the sign-off of the outsourcing deal (Babar et al. 2007; Sabherwal 1999), the outcomes of all the five case studies have provided a significant indication that at each stage of either sign-off or renewal of the contract, both sides should balance their interests (and safeguards) to a point at which mutual CBT can be established.

**Knowledge-based trust**

As defined, knowledge-based trust (KBT) is based on a history of transactions between two organisations that are well known to one another. The presence of KBT is evident at certain times in all case studies. For example, the first case study reveals the strong KBT that has been established from the first day, based on the experience shared between two project teams, suggesting that the teams know one another well before the outsourcing arrangement started. This suggests that the growth of KBT between two organisations indicates an accumulated history of interactions and a constant pool of people working on the project, since this trust implies that each party knows and can predict the actions of the other well (Lewicki and Bunker 1996; Sabherwal 1999). It also implies the continuation of reasonably good performance, given the consistency preserved in members of the project teams and a sound track record. For example, the importance of keeping the same people constantly on the project is evident in the third case study, when the introduction of new members into the project team has led to a decrease in KBT and eventually to PBT. As a result, this will likely to have an impact on
perceptions of the success of the project, as the client is unaware of the expertise and performance capabilities of the new team.

An interesting implication with regard to changes in trust has been found in some of the case studies that affirm the important role of project managers in the outsourcing arrangement. The late involvement of the client’s project manager and his later resignation in the fifth case study has negatively affected the growth of vendor’s KBT towards the client team (see section 6.2.5). Similarly, the vendor’s service delivery manager has been acknowledged as the source of client’s trust in the vendor team that has made the outsourcing relationship with the vendor successful (case study one). In the literature, Willecocks and Griffiths (2010) have argued that middle managers’ role is crucial in the modern complex outsourcing environments, whereas the current study has revealed positive effects of project managers on trust-building.

Overall, the development of KBT is primarily associated with the knowledge and experience that each of the organisations has gained about the other’s behaviour and actions during the course of the arrangement, given the consistent membership of the project people and capabilities of the project manager.

**Performance-based trust**

As defined, performance-based trust (PBT) is developed on the basis of the project’s early successes and the delivery of key instalments. The presence of PBT is evident at points of contract renewals or assessment reviews. According to the literature, PBT is observed at the milestone and periodic reviews (Sabherwal 1999). The importance of such trust has been reported in the case studies and is linked to the consistent delivery of successful outcomes for the project. In fact, the case findings have revealed that this type of trust is the most important in the IS outsourcing context and should not be overlooked by the parties as it was done in the fifth case study (see section 6.2.5). Although in the literature, the growth of PBT is closely associated with the growth of the client’s trust in the consistency of the vendor’s performance, the case studies have extended this claim by adding new insights on the development of PBT.

According to some of the vendor participants, the performance of duties by the client can also be judged, by the timely payments, reasonable requests and a genuine support providing to the vendor’s team. However, the previous literature has not addressed that the concept of PBT can be looked at from the vendor’s perspective. Since the growth of performance-based trust is typically based on the client’s confidence in the vendor’s performance (Sabherwal 1999). However, this study has raised the issue that PBT can also be built based on the vendor’s
confidence in the client’s performance. This can be potentially important for studies that investigate the vendor’s perspective in managing the outsourcing partnerships and strategic alliances, where both outsourcing partners shared resources and profits (e.g. co-sourcing in Kaiser and Hawk 2004).

Overall, the findings on PBT suggest that this trust develops after the contract is signed, when both organisations have formed a working rhythm in the arrangement and started meeting their respective responsibilities.

**Identification-based trust**

As defined, identification-based trust (IBT) is based on two organisations identifying with each other’s goals (Sabherwal 1999), and the mutual understanding developing to the point that each can effectively act for the other. The presence of IBT has not been reported in all case studies. The development of IBT remains under-explored in the literature, and it is closely associated with team-building initiatives and shared goals formulated partly on the basis of cultural and geographical similarities (Miranda and Kavan 2005; Paul and McDaniel 2004; Oza et al. 2006). Although in our case studies, the cultural and geographic similarities have not been considered. However, the case participants have recognised a number of attributes that helped them to build IBT with the partner’s team. For example, the development of IBT can be observed in some of the case studies in which the team building initiatives have been established with the people involved in the project teams over the long term (i.e. case study one). According to the accounts of some of the case participants, the vendor team has been treated “as if we are part of one team”. That helped the team members to construct a sense of striving to achieve a common goal in the project.

Also, the “cultural fit” as work ethos and the “workforce commitment” of the vendor team have been revealed in the case studies. Such characteristics have helped each of the parties to know the other and obtained a sense of identification with one another’s interests and actions. Among other common characteristics of IBT, there have been mentioned common goals and concerns for client’s interests in the project. In the fourth case study, both teams have acknowledged the “sharing the interests” as a positive driver for identifying each other’s interests and aligning them with a common goal. Thus, the findings of the case studies have revealed new insights that signify an increase of IBT between two project teams that may not always be close geographically or culturally (Miranda and Kavan 2005), though the time and space issue (Sarker and Sahay 2004) which has been successfully dealt in the third case study through organised knowledge transfers between two project teams, but through the team-building initiatives (and
therefore, a sense of a common goal) and proactive actions throughout the course of the outsourcing arrangement.

Overall, the discussion on IBT suggests that the development of this type of trust is usually evident after the contract renewal when both organisations are mature enough in terms of the experience gained and solid project teams to build a shared goal. However, it does somehow influence the performance of the project since the shared goal grows from an understanding of the project and acting to meet the project requirements to ensure the progress of the project.

**Cross-case view on the dynamics of trust**

Each of the five types of trust has been discussed above across five case studies and now in Figure 7.2, a cross-case overview of types of trust is illustrated with some generic trends to observe. The cross-case view has been constructed based on mapping of all the five figures presented in the case chapters (see Chapters 4-6), with a further extraction of generic (indicative) trends observed within the development of each type of trust. The outsourcing process timeline has been synthesised to most general stages, i.e. the pre-contract stage, and stages at which the contract is signed and renewed. The mapping has been done with the help of a software visualisation tool in order to capture and make visible key relationships among all types of trust (including newly emerged categories such as capability and information-based trust). All interrelationships (trends depicted in Figure 7.2) among types of trust have been captured across all case studies and are based on the general outsourcing stages (for further details, refer to Appendix H). However in Figure 7.2, a linear (flat) view of the development of trust has been presented with indicative trends to depict interrelationships among the types of trust.

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13 In order to differentiate between the first and second (post-contract) renewal stages that have been observed at different case studies, I have added a short description of the most likely events occurred at these stages. For example, at the first (post-contract) renewal stage, there may be changes occurred in staff and project requirements that are significant to KBT and PBT. At the second stage, the scope and cost of the project may likely to be changed that is significant to PBT and IBT.
Figure 7.2 Indicative trends of RBT, KBT, PBT, and IBT

The case studies on trust in outsourcing arrangements suggest that the development of trust should not be taken as a linear-like process since it is impossible to build a general trust-building model with the types of trust discussed above since they may involve both individual and collective beliefs embedded in the organisational settings. However, if one takes a general outsourcing process and breaks it down into common phases such as pre-contract, contract and post-contract, it may be feasible to foresee what change in trust-building occurs at any point of time. Given the discussion above, RBT and KBT are usually related to the vendor’s (rarely client’s) skills and individual characteristics based on the prior history of interactions or the gained knowledge about each other. Early building of these types of trust is beneficial for the initial development of outsourcing relationships and will limit any opportunistic actions from either of the parties. It would appear that over time in successful outsourcing projects, RBT almost merges with KBT (see trend2 in Figure 7.2 above). After the contract is signed, the presence of RBT, KBT, PBT and IBT is closely associated with the progress of the project. In case of RBT and KBT, both client and vendor build confidence and develop the common history of interactions in the arrangement (e.g. case four). The development of PBT is based on the history of track records of each party to be consistent in the contract performance, while the development of IBT should be seen as the development of shared goals which may not occur for
some period of time after two organisations have been working together. The shared goal is usually built from the assurance of the good performance and demonstrated commitment to be proactive in identifying client’s needs (see trend5 in Figure 7.2 above). For example, in the first case study, the client suggested that trust was based on the vendor’s performance and common understanding of what was required. Also, this may imply that the growth of KBT between client and vendor will likely to merge with IBT due to the common history and goals that the organisations shared with regard to the outsourcing project (see trend4 in Figure 7.2 above).

Also, some of the general trends have been already discussed earlier in the section about the interrelationship between KBT and PBT (the more one partner knows the other partner through the gained history of interactions, the more he is confident about the consistency in performance of the project task; refer to trend3 in Figure 7.2 above).

Overall, the discussion on the joint relationship among five types of trust is the first empirical attempt to actually map the instances of changes in trust over the life of the outsourcing arrangement. Thus, this adds some newness to the context of IS outsourcing and significantly enhances the previous static attempts of the outsourcing researchers to investigate different types of trust (e.g. Babar et al. 2007; Sabherwal 1999).

**Additional types of trust**

The case studies have been also reported on the additional types of trust in outsourcing arrangements. These discoveries are arranged in Table 7.4 below with the given name, the theoretical background, the relevant source from the case studies and the definition provided within the outsourcing context.

<table>
<thead>
<tr>
<th>Name</th>
<th>As defined in organisational studies literature</th>
<th>As found in case studies</th>
<th>As defined in the outsourcing context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence-based trust</td>
<td>Competence is the set of skills and competencies that enable the trustee to enjoy a position of influence within the specific context (Mayer et al. 1995; McKnight and Chervany 2001).</td>
<td>Competence-based trust between two project teams (case study one).</td>
<td>Competence-based trust is defined as trust based on the set of professional skills and technical expertise of the members of both project teams, required to perform a certain project task.</td>
</tr>
<tr>
<td>Capability-based trust</td>
<td>Capability is quality of being capable or able to efficiently perform something that the partner requires (McKnight and Chervany 2001).</td>
<td>Capability-based trust in the vendor team (case studies two and five).</td>
<td>Capability-based trust is defined as the client’s confidence in vendor’s capabilities (both performance and process) to act in accordance with the given promises as per client’s expectations.</td>
</tr>
</tbody>
</table>
Information-based trust is a simple information-sharing between the parties (Doney et al. 1998).

Information-based trust between two organisations in the project communications (case study five).

Information-based trust is developed towards the information despite its source by identifying objective sources for the project information both parties required to work with.

Table 7.4 Additional types of trust found in the case studies

New insights have been found on the three types of trust in the case studies. Competence-based trust has been acknowledged by CM₁ as “technological trust” in relation to the technical competencies, knowledge and expertise that each of the members from the both teams should possess to perform a project task. In the IS outsourcing literature, there are a number of researchers who have examined the technical knowledge required perform a unit of work in the outsourcing environment (e.g. Aubert et al. 2004; Lander et al. 2003; Nelson et al. 1996). However, the importance of competence-based trust is that it signifies a belief in the capacity of an individual to learn new tasks and technologies within the project. The potential implication of this type of trust can be applicable to the context of virtual and geographically distributed teams where the solid confidence about the other member of the team may contribute to the efficiency with which tasks are performed.

Capability-based trust in the vendor team has been found in case studies two and five. In the former case, the presence of trust has been identified at the beginning of the outsourcing arrangement, when the client has initially ‘believed’ the vendor’s promises to provide quality services and both organisations have been operating without a contract about a year. In the latter case, the vendor has been faced with a number of internal issues and, as a result, is not capable of delivering on time and within budget. Although capability as one dimension of trust (Mayer et al. 1995) has been defined in the outsourcing literature as the client’s belief that the vendor is sufficiently competent to deliver the requirements outlined in the contract (Oza et al. 2006), this study has added two important characteristics into this concept. First, the vendor’s performance capability that defines an ability to perform is usually known as the basis of performance-based trust in the outsourcing environment (Sabherwal 1999). Second, PBT is aimed at assessing the vendor’s outputs (or deliverables), while capability-based trust is based on the capabilities of the vendor that may change in the process of the arrangement. Thus, the value of capability-based trust in the outsourcing context is pertinent, since it is a very dynamic and complex business environment nowadays and depending on the changes occurred in the environment, capabilities may change (or evolve) as well.
In addition, one may think that two categories described above are not conceptually distinct. For example, one can argue that competence-based trust appears to be a latent (technical) capability that is inherent in the capability-based trust of the service provider. However, in the context of this study, these two categories have been discussed from different perspectives. Competence-based trust is argued to be emerged between two project teams from different organisations and is based on the confidence in the technical competency and skills of the partner. In contrast, capability-based trust is argued to be emerged in the vendor’s capabilities, both performance and process to act in accordance with given promises. Thus, in this study these two types of trust have been argued to be conceptually distinct.

Information-based trust has been revealed in the fifth case study that implies a basic willingness to engage in the information exchange and promotes trust in the information given by the outsourcing party rather than building trust towards the individual. The importance of this type of trust becomes evident as it has been suggested in Chapter 6 (see section 6.2.5) in the arrangements where both parties may experience misunderstandings of the project requirements. Thus, by promoting information-based trust, both organisations may suppress the negative reactions and focus on the efficient information exchange that is necessary for building a common understanding of the project.

Overall, the outlined discussions on the types of trust have uncovered a number of findings:

- Different types of trust have been argued to be important at different stages of the outsourcing arrangement.
- This is the first empirical study to track different types of trust in the outsourcing continuum, meaning that they have been mapped in an attempt to track the development of trust over the life of the outsourcing arrangement.
- Additional types of trust have been identified that are relevant in the outsourcing context, and can be also applicable to other areas or disciplines such as e-commerce and organisation studies.

7.4 Achieved Balance

Research question 2 asks: How do participants from both the client and the vendor organisations conceptualise the balance between formal controls and trust in the IS outsourcing relationship? This question examines the participants’ perceptions of the nature of the combination between formal controls and trust in the outsourcing relationship. Perceptions of
the stakeholders from both client and vendor organisations and across three organisational levels (executive, management, operational) are discussed as well.

Following the adopted theoretical stance (see section 2.6), both trust and formal controls have been viewed as complementing each other and forming a balance that may take one of three types (antithetical, orthogonal, synergistic). The theme ‘view of the balance’ is based on the general coding template and has comprised perceptions and descriptions of the participants on the nature of the balance. During the cross-case analysis, a new theme ‘working context’ has been emerged and is discussed further in the section. Another theme on the types of balance is based on the analytical categories of three types of balance that have been described in Chapter 2 (see section 2.6). Table 7.5 below has compiled the described themes with appropriate quotes to substantiate the claims.
Trust and formal controls are complementary with formal controls that precede trust and set up the course of the arrangement.

### Summarised view(s) of the balance from two perspectives

<table>
<thead>
<tr>
<th>Case 1: FinCorp-IT Consultant A</th>
<th>Case 2: FinCorp-IT Consultant B</th>
<th>Case 3: FinCorp-IT Consultant C</th>
<th>Case 4: EduPro-ITPro</th>
<th>Case 5: VicChurch-SmallWeb</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supporting quote(s) on perceived views on balance</strong></td>
<td><strong>Supporting quote(s) on perceived views on balance</strong></td>
<td><strong>Supporting quote(s) on perceived views on balance</strong></td>
<td><strong>Supporting quote(s) on perceived views on balance</strong></td>
<td><strong>Supporting quote(s) on perceived views on balance</strong></td>
</tr>
<tr>
<td>CM₁: “I want to have this bit of paper, the statement of work to refer back to. It tracks their progress and you find out about problems...I trust that someone is going to do what they say. But you need both. It’s all very well to have a prescriptive approach where you detail exactly everything that we want, but there’s things that are just outside that square.”</td>
<td>CM₂: “The formal control provides guideline, the framework that you need to work within and the relationship allows you to flow within that framework...It allows things to work more efficiently.”</td>
<td>CE₁: “We have the formal controls in place, we have the contract, we have monthly dashboards that we go through...but on a normal daily operating rhythm we don’t refer to those things.”</td>
<td>CE₂: “Either you have flexible contract and trust, or you have very tight contract and no trust. Very tight contracts and no trust will only work in an environment which is not changing. All relationships contain an element of trust because no contract can fully eliminate risks or unforeseen circumstances. Trust enables both parties to get over any issues on which the contract is silent or lack full clarity.”</td>
<td>CM₄: “You need to have a balance between very restrictive contracts and working on a relationship and building some trust around that relationship. I see the contract more as the guideline, as a parameter in which we will agree to operate...And the size of the project will determine the formality of the processes.”</td>
</tr>
<tr>
<td>VM₁: “You need to have certain terms and conditions otherwise you don’t know what you’re doing...Then it’s a matter of trust and interaction to keep steering the boat in the right direction.”</td>
<td>VM₂: “At the beginning you’ve got to have your contract beside you, you’ve got to trust the customer. So you’ve got to play the balancing game...It is always shaping the environment and delivery and changing the depth of it.”</td>
<td>CO₂: “They are both equally important but it depends on the particular project or the client. To begin with, there is probably not much trust built, obviously contract is more important, so as you progress then trust and credibility start to become more important than the contract does.”</td>
<td>VM₃: “The formal control provides guideline, the framework that you need to work within and the relationship allows you to flow within that framework...It allows things to work more efficiently.”</td>
<td></td>
</tr>
<tr>
<td>CO₁: “They have set the formal processes first because they were there for every other team. So there’s no reason why they won’t be there for IT Consultant A. Then after a couple of years trust gets built.”</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How participants described the balance</td>
<td>How participants described the balance</td>
<td>How participants described the balance</td>
<td>How participants described the balance</td>
<td>How participants described the balance</td>
</tr>
<tr>
<td>“Good medium” (CM₁) and “the right balance” (CE₃)</td>
<td>“Good neutrality” (VM₃) and “right intention” (CM₃)</td>
<td>“Working blend” (CE₂) and “good combination” (CO₂)</td>
<td>“Flexibility” (CE₂ and VE₂) in the combination.</td>
<td>In ideal situation, both client and vendor acknowledged “necessity” of the balance but this was not in the case study.</td>
</tr>
<tr>
<td>Type of balance</td>
<td>Synergistic balance, i.e. positive trust-building (based on good and consistent performance of the vendor) reduced the effect of formal controls.</td>
<td>Synergistic balance, i.e. occasional disruption of service triggered implementation of formal controls that reduced trust-building. The balance changed from antithetical balance (operated on initial trust-building and absence of contract and other controls) to synergistic balance.</td>
<td>Orthogonal balance, i.e. both parties were comfortable to work on trust due to mature and solid relationships but formal controls were implemented independently.</td>
<td>Orthogonal balance, i.e. both parties built their relationship based mainly on trust and informal interactions. The balance changed to orthogonal balance (i.e. new milestone payments and weekly status meetings were introduced for a short time) and returned to antithetical balance.</td>
</tr>
</tbody>
</table>

Table 7.5 Cross-case comparison on views and types of balance
7.4.1 Views and Perceptions of the Balance

All participants have agreed that trust and formal controls are complementary, with formal controls being implemented in the first instance to set the course of the arrangement, while trust seemed to develop along with the relationship. In the organisational literature, researchers have claimed that the combination of controls and trust may be more effective in terms of safeguarding assets, since jointly they are able to deliver much higher levels of performance than controls in isolation (Baker et al. 1994; Mayer and Argyres 2004). A well-specified contract narrows the domain and severity of risk to which an exchange is exposed and, therefore, encourages cooperation and trust (Klein 1996), while appropriate formal controls ensure project coordination (Kirsch 1997). According to the case studies, all participants have emphasised the role of formal controls as being in the background when referring to the contract (see CM1’s quote in Table 7.5 above), or as a monitoring tool for tracking the progress of the project (see CM4’s quote in Table 7.5 above). Similar to Goo and Nam (2007), in this study the role of formal controls is seen primarily as that of a mechanism through which to set responsibilities and clarify issues before developing outsourcing relationships and to coordinate the ongoing progress of the project. Trust is seen mainly as a catalyst in working relationships (see VM1’s comment in Table 7.5 above). Although IS outsourcing relationships are typically characterised by uncertainty in the specification of expected outcomes or ways in which to achieve them, they may be prone to potential disputes and opportunism (Goo et al. 2009). Therefore, trust-building can help to deal with such uncertainties and unforeseen circumstances, as has been suggested by some participants (see CM1’s and CE3’s quotes in Table 7.5 above), and improve the rhythm of operations (see CE1’s quote in Table 7.5 above). It is also interesting that the case studies have revealed ability for trust to grow with an outsourcing party’s actions during the course of the arrangement. This has reinforced the claim made previously by Kern and Willcocks (2009) about trust being interwoven within a certain working context.

Another interesting outcome regarding the complementary nature of trust and formal controls has been found in the fourth case study, where the client (CE2) notes the working combination of trust and flexible contracts (as opposed to tight contracts and no trust). This observation suggests that increased formal controls (e.g. formal controls are initiated to increase the performance of the work output) could have a negative effect on trust-building which may be counterproductive in the long run. This research has indicated that organisations may benefit from establishing an appropriate balance (or comfort zone) between trust and formal controls in the outsourcing arrangement.
**Impact of the ‘working’ context**

Both trust and formal controls have been found to be influenced by a certain ‘atmosphere’ around outsourcing transactions. This suggests that the organisational context in which transactions are embedded may influence the working relationship and the organisations’ behaviours within the arrangement. Accordingly, the findings in case studies two and four (see quotes by VM2 and CE2 in Table 7.5 above) suggest that the business environment may impact on how trust and formal controls interact, suggesting that if any change occurred in the business environment (e.g. the GFC), both organisations will be able to return to the contract and review it (e.g. price readjustment) provided they enjoyed a trusting relationship. On the other hand, trust is important given its role in helping to support flexibility, since it enables small variations to be made in the working relationship and, as a result, it may persuade either (or both) of the parties to accommodate the changes that occurred.

**Perceptions of the nature of the balance**

Balance has been conceptualised in Chapter 2 (see section 2.6.2) as a ‘comfort zone’ which, when it is achieved, will induce both parties to think that it is the favourable condition: a satisfactory balance has been attained in the outsourcing arrangement between trust and a reliance on formal controls. According to the findings provided in Table 7.5, participants have used expressions such as a “good neutrality”, “good medium”, “good combination” or even “right balance” to describe balance once achieved. This suggests that the idea of finding a ‘comfort zone’ or balance for both sides has been supported by the participants. In a sense, the idea of finding a balance is almost intuitive, since all the participants have instinctively understood the balance, but struggled to articulate what the balance might mean in the outsourcing context. Basically, the nature of the balance seems to be limited to the way of finding a comfortable combination between trust and formal controls in order to work effectively in the outsourcing arrangement. While the “right intention” and “flexibility” noted in case studies two and four respectively, this may imply that either both organisations are headed towards finding the right balance or flexibility is chosen as the maxim in the working combination. Thus, these comments reinforce the conceptualisation provided by Long and Sitkin (2006), that a trust-control balance should be seen as “harmonious integration” (p. 91), since our participants seem to use words that have similar connotations to describe the combinations they have achieved in their arrangements. However, the significance of the case findings is that the discussed reflections on the balance incorporated both client and vendor perspectives on the way of finding a balance, suggesting that both client and vendor stakeholders may contribute to striking the right combination (or balance) between trust and
formal controls in outsourcing arrangements. Long and Sitkin (2006) claim that the balance is usually determined by one side (manager or employer). However, this study has found that both client and vendor may contribute to finding the balance as evident from the case studies.

Further, the case findings have revealed similarities and differences in client and vendor’s views on the balance between trust and formal controls. In Table 7.6 below, a cross-case view on the different perception of the balance from client and vendor is provided.

<table>
<thead>
<tr>
<th></th>
<th>Case 1: FinCorp-IT Consultant A</th>
<th>Case 2: FinCorp-IT Consultant B</th>
<th>Case 3: FinCorp-IT Consultant C</th>
<th>Case 4: EduPro-ITPro</th>
<th>Case 5: VicChurch-SmallWeb</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Client view</strong></td>
<td>Formal controls precede trust and trust is built in the course of the working relationship.</td>
<td>Vendor’s performance records as the impact factor.</td>
<td>Importance of flexible contracts and long-term cooperation with vendors.</td>
<td>Vendor’s performance records as the impact factor.</td>
<td></td>
</tr>
<tr>
<td><strong>Vendor view</strong></td>
<td>Management judgement is a way of finding balance.</td>
<td>Formal controls precede trust and trust is built in the course of the working relationship.</td>
<td>Importance of tight contracts and ‘formalised’ relationships.</td>
<td>Importance of trust and personal relationships with clients.</td>
<td></td>
</tr>
</tbody>
</table>

Table 7.6 Cross-case comparison of client and vendor perspectives on balance

All participants have acknowledged the complementary nature of trust and formal controls in outsourcing arrangements. In the previous discussion on the roles of trust and formal controls, formal controls are seen as crucial in setting up expectations and service levels, while trust is seen mainly as the factor that facilitates the development of working relationships. However, the established combination between trust and formal controls is dynamic and shifts under the influence of organisational (and/or outsourcing project) changes.

From the client’s view, the vendor’s performance records have been acknowledged to be a significant factor that might have an impact on the balance between trust and formal controls. Accordingly, inconsistent delivery of project milestones will reduce the client’s trust in the vendor’s team and, as a result, new types of formal controls can be introduced to improve the vendor’s performance which will eventually shift the combination achieved to a different interplay between trust and formal controls. It seems that, for the client, the vendor’s track record and, thus, the progress of the project, will be one of factors that contribute significantly to the creation of the right combination. The outsourcing environment is similar to any other
business environment that involves commercial transactions, in which both parties are expected
to perform their primary duties for the success of the project.

In the fourth case, both organisations have linked the combination between trust and formal
controls to the tightness of the contract. The client prefers flexibility in the contract and long-
term cooperation in the working relationship, while the vendor prefers tight contracts and a
‘formalisation’ of working relationships for the sake of having a clear scope and measurable
service targets to eliminate possible contingencies. Despite the seemingly opposing views on
the contract, both organisations have achieved good relationships and are happy with the way in
which the arrangement progresses. Discussions in the outsourcing literature regarding contract
type and the stakeholder’s choice between tight and less detailed (flexible) contracts (e.g.
Fitzgerald and Willcocks 1994) suggest that clients prefer to sign outsourcing deals with a
flexible contract in hand, while vendors prefer tight contracts for their assured safeguards in
order to minimise risks throughout the project. Although in the fourth case study, the vendor
prefers to work on the basis of a tight contract, one may think that the potential differences in
the type of contract that the organisations wish to sign, due to different interests, can be a source
of tension. However, in relation to this case study, the vendor has been taken out of his ‘comfort
zone’ to operate under a flexible contract, though there is interpersonal trust based on a long
history of business interactions that persuades the vendor to enter into this outsourcing
relationships and enables the parties to work together very well. This again has reinforced the
claim I made earlier in this section about the impact of the working context (around a particular
outsourcing arrangement) in finding an appropriate balance between trust and formal controls.

One of the vendor’s managers has made an interesting observation that personal judgement may
play an important role in finding the appropriate balance, implying that the client may have
different expectations and needs that can change with time, as well as the infrastructure
requirements (case two). As a result of these changes, the balance cannot be static and should be
able to incorporate those amendments. In doing so, the manager’s judgement has been noted as
key in finding the appropriate balance between trust and formal controls in a particular
outsourcing arrangement. Thus, this assertion has corroborated the theoretical footing adopted
for this study which holds that the balance is dynamic in nature and may change, depending on
the contextual (both organisational and outsourcing) changes.

Further, the research question examines similarities and differences in views on the balance
between trust and formal controls collected at three organisational levels. Table 7.7 below
provides an overview on those differences across five case studies.
<table>
<thead>
<tr>
<th>Executive</th>
<th>Case 1: FinCorp-IT Consultant A</th>
<th>Case 2: FinCorp-IT Consultant B</th>
<th>Case 3: FinCorp-IT Consultant C</th>
<th>Case 4: EduPro-ITPro</th>
<th>Case 5: VicChurch-SmallWeb</th>
</tr>
</thead>
</table>
| **Greater focus on formal controls and contract when negotiating scope and service levels in the arrangement.** | **With IT Consultant B, they started at 25/75 (trust versus formal controls). So they’re probably at 40/60. They’re moving in the right direction, but we still go back to the contract.”**
| **Equal power of formal controls and trust is established with the experience and knowledge gained of the outsourcing arrangement.** | **If this is trust and contract, it went from 20/80 to 50/50 over 10 years…Then it gets more fluid and more flexible as you go. I don’t think it’ll go beyond 50/50.”**
| **Dynamic nature of balance.** | **“It’s probably 60 to 40. 60% is trust”**
| Supporting quote(s) | **CE1: “I trust IT Consultant A around their ability to deliver a good service. At the end of the day they end up at 40/60 (trust versus controls)”** | **CE2: “With IT Consultant B, they started at 25/75 (trust versus formal controls).”** | **CE3: “If this is trust and contract, it went from 20/80 to 50/50 over 10 years…Then it gets more fluid and more flexible as you go. I don’t think it’ll go beyond 50/50.”** | **CE4: “It’s about 80% trust, the contract dictates how much things cost but really it is about the trust. It is a proportion of what makes us work with them.”** |
| Management | **Equal power of formal controls and trust, when formal controls specify the scope and performance targets.** | Greater focus on trust in relationships but formal controls should be specified upfront. | Greater focus on formal controls to measure vendor’s performance. | **Contract performance is linked with trust-building.** | **Greater focus on trust but vendor’s inadequate performance led to a greater emphasis on formal controls (perception of the dynamic nature of balance).** |
| **Trusted is involved in interactions.** | **CM4: “It is 51/49 for trust you need to have the documentation that says “We’re paying you X amount of money to do all this work.” But equally important is the personal trust that I have with these people.”** | **CM5: “You need half and half: You need to have certain terms and conditions otherwise you don’t know what you’re doing; you need some reporting on the top that shows you delivering to those service levels. Then it’s a matter of trust and interaction to keep steering the boat in the right direction.”** | **CM6: “I would go contract 40%, making sure that what we are committing to we can deliver. If you deliver goods properly, and then the customer’s trust would automatically be taking place.”** | **CM1: “Initially there was 80% trust and 20% contract because it was in the favour of the vendor, there was absolutely zero protection...When we came to the second project, it was about 60 - trust, 40 - contract.”** |
| Supported quote(s) | **CM1: “It is 51/49 for trust you need to have the documentation that says “We’re paying you X amount of money to do all this work.” But equally important is the personal trust that I have with these people.”** | **CM2: “The formal controls are in place but trust allows us to go through more than 90% of the time without having to have an issue whether we go back.”** | **CM3: “The informal side takes up probably only 20% where 80% is driven by metrics. Measuring every week, those several meetings a week we’re going through specifics of “How well are you delivering my service?”** | **CM2: “Initially there was 80% trust and 20% contract because it was in the favour of the vendor, there was absolutely zero protection...When we came to the second project, it was about 60 - trust, 40 - contract.”** |
| Operational | **Contract is less important, and formal controls should be implemented beforehand.** | Greater focus on trust but formal controls should facilitate the progress of the project in the arrangement. | Greater focus on formal controls to have control over vendor. | **Trust is built along the course in the arrangement.** | **Contract performance is linked with trust-building.** |
| **Trust is built along the course in the arrangement.** | **CO1: “They have set the formal processes first. Then after a couple of years trust gets built.”** | **VO3: “If we’re talking about the contract and the SLAs versus the trust, the trust is more important - 70/30. But if we’re talking about processes it’s closer to 50/50. If we didn’t have that we wouldn’t have trust basically.”** | **CO2: “The proportion would be 30 to 40% trust, 60 to 70% control. If we moved it the other way who would be pulling the strings?”** | **VO2: “60% of trust and 40% of statement of work. It depends on the situation.”** | **CO3: “It’s a very much a 50/50 girl. There is going to be a balance. But I would more heavily weight it in the processes and procedures because they’ve been so lacking through the entire organisation.”** |
| Supported quote(s) | **CO1: “They have set the formal processes first. Then after a couple of years trust gets built.”** | **VO2: “Formal controls should be in place for service improvement. I’d say 70 or 80% trust compared to the rest.”** | **VO5: “The contract doesn’t mean much to us. We don’t think about it day to day. Obviously it needs to be there so I suggest that trust at least 70/30.”** | **VO3: “The contract doesn’t mean much to us. We don’t think about it day to day. Obviously it needs to be there so I suggest that trust at least 70/30.”** | **CO2: “The best situation would be to evaluate the relationship every three or six months and allow additions to the contract...I don’t think that guarantees 100% delivery, but that’s where you start building trust.”** |

Table 7.7 Cross-case comparison on balance at three organisational levels
Executive level

This view on the balance has included the acting role of formal controls (and the contract in particular) in establishing rules for both organisations regarding obligations, pricing and service targets. In four case studies, both sides have spent considerable amounts of time on negotiating the contract details including terms and conditions, project scope, cost and performance measures. The role of trust has been acknowledged in the development of outsourcing relationships, suggesting that trust will facilitate interactions further in the arrangement. Moreover, trust and formal controls have been acknowledged to be equally important when both sides gain knowledge and experience of each other through working together. In FinCorp’s dealings (first three case studies) it appears that the executive’s view of the combination has been guided somewhat by an adherence to the contract, and its performance in terms of the defined service provision. Similarly, the critical role of the contract in establishing the boundaries and service levels has been acknowledged by the senior executive in the fourth case study. By contrast, in the fifth case study, the vendor executive argues that the balance should be heavily weighted towards building trust and personal relationships with the client. Overall, in four of five case studies which are successful, there is a close resemblance on the basis that both organisations have recognised the importance of formal controls and the contract when building their outsourcing relationships, as opposed to the fifth case study, in which great emphasis has been placed on trust and personal relationships with the outsourcing partner.

An interesting point on the subject of the balance between trust and formal controls has been raised in the third case study (see CE1’s comment in Table 7.7 above), suggesting that there is a limit to the extent to which trust can be developed in the outsourcing relationship and a number of formal controls will be initiated in any case for the purposes of governance. It appears that, despite the enduring nature of their relationship with the vendor, FinCorp sets a limit for the investment in trust-building, suggesting that this will not prevail over the governance side of the project. Such a view on the combination between trust and formal controls has added another dimension to the conceptualisation of the balance of the different combinations of trust and formal controls. Given the limitation of this study in terms of the number of participants, it would be interesting to see whether or not other executives of big corporations (both client and vendor organisations) think the same way on the nature of the balance, which could be explored as a potential topic for future research.
Management level

Managers have commonly emphasised the role of formal controls as a reference point in setting performance targets. Similarly as with the executive view, trust has been argued to be developed further in the arrangement during the project interactions. In case studies two and four, vendor managers have linked the contract performance with trust-building, suggesting that the consistent performance as per the contract tends to ensure an increase in the client’s trust towards the vendor. The importance of this performance has been raised by the client manager in the fifth case study who claims that the poor performance of the vendor leads to a decrease of trust and, subsequently, a bungling of the outcomes of the project. The reporting and performance metrics have been also expressly acknowledged as a concern by the managers in case studies one and three, respectively. Overall, it seems that the management view closely corresponds to the objectives of the project management which in the IS outsourcing context, reflects the monitoring and assessment of the interim objectives of the work and working relationships between two project teams.

Operational level

People on the ground tend to worry less about the contract and focus more on trust-building in their daily lives. Formal controls have been acknowledged as essential and to have been, of necessity, implemented before the start of the project. In case studies two and three, the implementation of formal controls has been argued to be necessary in order to ensure improvements in service and is linked to the statements of work, which are necessary for the performance of task activities. Some of the client’s people have emphasised the role of formal controls in monitoring the project (i.e. case studies three and five). Overall, the operational view reflects the notion of the balance relying mainly on trust-building and interactions, with formal controls in place to coordinate the work along the course of the arrangement.

Overall, the case studies have reported cross-organisational views on the balance that seem to reflect the scope of responsibilities of the participants involved. Executives, who manage contract negotiations and contract performance, refer constantly to such issues as “scope”, “service levels”, “negotiations”, and “boundaries”. The recurring themes among project managers, who ensure delivery of service targets and communicate through reported measures, have included “performance targets”, “contract performance”, “measurements”, and “reporting”. The operational staff, who perform daily activities and interact on the progress of the project, have returned frequently to the subjects of “formal processes”, “service improvement”, and “task activities”.

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In summary, the discussions on the multiple perceptions of the balance have uncovered the following findings:

- The client participants have emphasised the impact of the vendor’s track records and performance in finding the right balance, while the vendor participants have emphasised the tightness of the contract and an almost intuitive decision to find the balance depending on the changes occurred in the outsourcing arrangement.
- The perceptions of the balance across three organisational levels have incorporated the differences in opinion which are related to the accountability and the scope of responsibility of the participants involved.

### 7.4.2 Types of the Balance

In Chapter 2, it has been argued that three types of the balance (synergistic, orthogonal and antithetical) are adopted in the study and subsequently discussed in each case study. A number of insights concerning balance are evident from the case studies and are achieved in different ways that are further discussed.

**Synergistic balance**

Following the discussion on balance, a synergistic type of balance has been found in case studies one and two. It has been found in two outsourcing arrangements in which both vendors worked with the same client (FinCorp) and has around five and a half years of outsourcing experience with FinCorp. Following the definition of this balance, outsourcing stakeholders use both trust and formal control initiatives in the arrangement as these can be mutually influential, meaning that when one of those activities changes, the other will as well. To make the project run effectively, client and vendor participants have introduced both formal controls and trust-building activities. In the first case study, it seems that finding the right balance between trust and formal controls has been a deliberate decision of which the client executive is aware:

**CE1:** “IT Consultant A has the right balance [between trust and formal controls]. We talk about the formal controls every two years when we do the contract. We change them, we mix them, then we do the monthly reviews. And trust is really around the working processes and relationship.”

The balance that CE1 discussed above is more of a constructive and formal way of implementing formal controls for the governance of the project, while trust-building is evident in the operating rhythm of working relationships. In other words, such organisations as FinCorp have many years of experience in outsourcing and manage dozens of outsourcing arrangements.
with service providers. Thus, it is able to capitalise and leverage this experience through the well-established formal controls and actively balance formal controls with trust-building in the working relationships. It seems that the maturity of the client organisation in outsourcing practices can play a significant role in preserving the appropriate balance, as opposed to the organisations of a type such as VicChurch (case five), which is immature and lacks a business mindset and people with appropriate skills in managing the relationship with vendors.

Overall, the synergistic balance seems to be preferable to the other types of balance. It enables adaptation to changes, either in the outsourcing project or to the organisations involved. It is a flexible type of balance that can work in dynamic contexts, with different interplays between trust and formal controls. For example, in case one, the synergistic balance was established between trust and formal controls, reinforced by the ongoing good performance of the vendor. In case two, additional controls (e.g. periodic follow-up reviews) were implemented to regulate the vendor’s performance. The synergistic balance between trust and formal controls may be referred to the harmonious integration between trust and formal controls (Long and Sitkin 2006). There is a synergy between trust and formal controls which leads to successful outsourcing and desirable outcomes for both service quality and relationship development. With synergistic balance, trust and formal controls act as complements and substitutes within the outsourcing relationship (Goo et al. 2009). If both parties are aware of synergistic balance, they can understand that a decrease in either trust or formal controls can lead to rational actions. For example, a decrease in trust in the vendor may cause the client to implement a set of monitoring activities. The virtuous cycle between trust and controls leads to better performance and relationship outcomes (Sabherwal 1999).

**Orthogonal balance**

An orthogonal balance has been found in case studies three and four, i.e. in the long-term arrangement and the arrangement in which there is a history of business interactions and interpersonal contacts between two executives. Following the definition of this balance, both formal controls and trust are present in the arrangement, though stakeholders do not attempt to align the two. In these case studies, the common attribute is that each of the parties learn a lot about the other, through either experience gained on other projects and maturity (case study three), or the existing knowledge and personal trust in the same vendor (case study four).

In both case studies, the participants do not attempt to align the development of formal controls and trust-building. One of the possible reasons for such a decision is the common understanding that the parties have built on the outsourcing project, since the partners do not need to
implement any formal controls to moderate the behaviour of the other, nor introduce additional performance measures as we can observe in case study three, nor are required extra efforts required to promote trust-building activities as it has been reported in case study four. Thus, the implication is that both organisations do not feel the need of aligning trust and formal controls since they run in parallel modes which can only be possible in case of the solid working experience as it has been reported in the third case study or the long history of interactions and existing trust between two executives from the fourth case study, that has significantly eased the management of the arrangement.

Overall, the orthogonal balance seems to work well in outsourcing arrangements that involve long-term partnerships and/or key stakeholders that have known each other for a long time. For example, in case three, the organisations had worked together on other projects previously and in case four two key managers had known each other for a long time. However, orthogonal balance may be risky when trust is reliant on the individuals involved. If any of the key stakeholders leave the project or the organisation then trust may decrease significantly. For example, in case five, when the key manager left the client organisation, the balance changes from orthogonal to antithetical, and the outsourcing relationship was in difficulty. Recent research has revealed the essential role of managers in executing outsourcing arrangements (Willcocks and Griffiths 2010).

**Antithetical balance**

An antithetical type of balance has been found in the fifth case study, where both organisations rely on informal interactions and personal trust-building, rather than implementing any formal controls to govern the arrangement. In contrast to the outcomes discussed in the case studies above, both organisations that are inexperienced in outsourcing, have decided to rely on trust and informal communications only. We also know that both parties have been dissatisfied with the outcomes, which has resulted in negative project outcomes and thwarted the effective development of the working relationship. However, it would be interesting to speculate on whether or not the antithetical balance has actually led to negative outcomes (either relationship or project). Such conjecture can be left for future research. Yet, according to the main argument provided in Chapter 6 on this matter, both sides could have avoided the negative outcomes if they had commenced with building the synergistic balance in mind by ensuring that both trust and formal controls are in place, so appropriate project coordination (and governance) and trust-building are. This occurred in case two, where both parties moved rapidly from an initial antithetical balance (based on trust alone) to a synergistic balance, with the establishment of appropriate formal controls.
Overall, it seems that the antithetical balance is risky because it focuses on either trust or formal controls exclusively. In case five, the focus in the outsourcing relationship was on trust. Although a new manager tried to implement formal controls, and move the relationship towards an orthogonal balance, the changes were short-lived and temporary, and the project outcomes were poor. An antithetical balance appears to be far from the desirable ‘comfort zone’ which is possible with synergistic balance. This however suggests that there are two types of balance (synergistic and orthogonal) that can be referred to as ‘appropriate balance’ that lead to better outcomes (Sabherwal, 1999) in the IS outsourcing context, which contrasts with Long and Sitkin (2006) who acknowledged all three types of balance as being effective.

Further, different levels of trust are apparent in different types of balance. With synergistic balance, trust may be conceptualised at the organisational level. This type of trust is a driver of eased negotiation and reduced conflict between two parties, allowing them to implement a variety of governance mechanisms (e.g. service catalogue) to improve project performance (Zaheer et al. 1998). With orthogonal balance, trust typically depends on strong interpersonal relationships between key managers. With this type of trust there is no direct link between trust and performance, however the success of the outsourcing relationship was encouraged through the establishment of formal controls.

In summary, the case studies have corroborated the claims in the current literature concerning formal controls and trust being complementary (Goo et al. 2009; Prifling et al. 2009; Wüllenweber et al. 2008), and reinforced the suggestion made by Poppo and Zenger (2002) that formal controls are accorded primacy, while trust will grow with time during the development of the working relationship. However, this study has revealed the valuable insight that the balance is a dynamic and emergent concept that can change over time, as the context of the outsourcing relationship changes. Both organisations in IS outsourcing arrangements need to be aware of the need to constantly seek to balance the mix of trust and formal controls in order to optimise outcomes including service quality and the quality of the working relationship. This extends to original work of Long and Sitkin (2006). Also, the current study has significantly extended Sabherwal’s (1999) work on finding the appropriate balance between trust and formal controls with the proposition that there is no ideal balance (combination) to be achieved between the two and, depending on the complexity and history of the IS outsourcing arrangement, the organisations may promote different types of the balance.

Overall, the outlined discussions have revealed a number of significant issues with regard to the nature of the balance:
• The participants’ reflections on the nature of the balance have supported the initial theoretical conceptualisation of the balance as a ‘comfort zone’, while making a decision between trust and formal controls under the impact of organisational and/or outsourcing contextual factors such. This study is the first attempt to conceptualise the nature of the balance in the IS outsourcing environment and given its promising nature that has been acknowledged by the case participants, it certainly should be continued.

• This study is the first attempt to investigate empirically how the balance between trust and formal controls can be achieved in the IS outsourcing arrangement. Among the case findings, it has been claimed that the balance can be found deliberately and/or rationally pursued, given the outsourcing experience of the client organisation, or it can be intuitively driven, somewhat emerged in the context, depending on the progress of the project. It has also revealed that both client and vendor organisations are involved in finding the right combination between trust and formal controls, as opposed to the statement made previously that is a one-sided activity (Long and Sitkin 2006).

• Drawing from organisational behaviour theory, this study has explored three types of balance (antithetical, orthogonal and synergistic) and demonstrated empirically that two types of balance (synergistic and orthogonal) can be considered as appropriate in IS outsourcing arrangements.

7.5 Effects of the Balance on Outcomes

Research question 3 asks: In what ways does the balance between trust and formal controls impact on the perceptions of the outsourcing arrangement? This question examines the participants’ perceptions of the effects of the achieved balance on the outcomes in IS outsourcing arrangements.

In the operationalisation of this question in Chapter 2 (see section 2.8), it has been claimed that participants in outsourcing arrangements usually acknowledge outcomes regarding the progress of the project and development of the outsourcing relationship. Thus, the collected perceptions have been broadly classified as either project or relationship outcomes (or themes). Each theme has been defined in accordance with the literature (for further details, see Appendix C). According to the case studies, participants have provided comments on performance, delivery and quality of the IS outsourcing project, which are subsequently put under the project category. Moreover, participants have acknowledged the outcomes related to coordination of the project that has been emerged in data analysis. In this study, the project coordination could be referred to the process of managing the project teams to accomplish a set of collective task activities in
the IS outsourcing arrangement. Similarly, comments on satisfaction, relationship characteristics and quality that participants have been noted as important to a successful relationship, are subsequently put under the relationship category. Some of the participants have also remarked on the continuity of their outsourcing relationships which had been defined as the actual time period of a continuing outsourcing relationship. This period can be more or less than the duration of the contract and further renewals.

In Table 7.8 below, a cross-case view of the outcomes of the outsourcing arrangement is provided.
## Outcomes

### Categories

#### Project-related

- **Summary of comments**
  - Consistency in delivery.
  - Good quality of service.
  - Technical stability.

- **Case 1: FinCorp-IT Consultant A**
  - Improvements in delivery.

- **Case 2: FinCorp-IT Consultant B**
  - Consistency in delivery.
  - Improvements in quality of service.

- **Case 3: FinCorp-IT Consultant C**
  - Gaining confidence in Vendor’s performance.

- **Case 4: EduPro-ITPro**
  - Delivery per technical requirements.

- **Case 5: VicChurch-SmallWeb**
  - Average quality of service and long delays in project deployment.

- **Summary of comments**
  - Vendor occasionally struggled with delivery targets.

- **Summary of comments**
  - Reliability of the supported system.

- **Summary of comments**
  - Higher level of customer satisfaction.

#### Coordination

- **Summary of comments**
  - Ongoing stability of the processes.
  - Vendor called for more coordination mechanisms (at the transition stage between development and support stages).

- **Summary of comments**
  - Achieving level of stability of supported infrastructure.

- **Summary of comments**
  - Maintaining service levels.
  - Request from Vendor for the project documentation and performance management.

- **Summary of comments**
  - Lack of diligence and non-clear accountability in project coordination.

- **Summary of comments**
  - Vendor emphasised lack of skills in the client’s team and Client called for more notifications and meetings.

#### Satisfaction and Quality

- **Summary of comments**
  - Gained reputation of Vendor based on good performance.

- **Summary of comments**
  - Gained experience and learning curve led to the solid and comfortable relationship.

- **Summary of comments**
  - Gained reputation and competence of Vendor.
  - Strong shared understanding among executives.

- **Summary of comments**
  - Dissatisfaction with the progress of the relationship from both sides.

- **Summary of comments**
  - Lack of vendor relationship management skills led to dysfunctional client-vendor relationships as acknowledged by Vendor.

#### Relationship-related

- **Summary of comments**
  - Very positive relationships led to two contract renewals.

- **Summary of comments**
  - Very positive relationships led to a contract renewal.

- **Summary of comments**
  - Very positive relationships led to three contract renewals.

- **Summary of comments**
  - Very positive relationships led to a contract renewal.

- **Summary of comments**
  - Both parties acknowledged the lack of foresight of the long-term arrangement.
  - Outsourcing contract was not renewed.

**Table 7.8 Cross-case comparison on perceptions of outsourcing outcomes**

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7.5.1 Perceptions of the Project Outcomes

The case studies have indicated that the project-related outcomes have commonalities and differences in the views regarding the performance (and quality) of IS outsourcing projects within the process of the outsourcing arrangement. All participants have noted the performance of the project by describing the vendor’s actions in the delivery of the project. Some emphasise the vendor’s consistently good performance (cases one and three) or the performance that has improved with time (case two), while others highlight a higher level of customer satisfaction (case four) or average quality of service and long delays in the project deployment (case five). It may be thought that the listed outcomes are final performance outcomes and that they may be tied to the overall success of IS/IT outsourcing (Gopal et al. 2002; Sabherwal 1999). However, the participants have reflected on this matter from a process point of view, suggesting that these outcomes may change and be improved with time (as found in cases two, three and four), or occasionally be late and deployed later than expected (Agarwal et al. 2006), as it has been reported in the fifth case study. In the literature, I have found very few works that discuss so-called process performance in outsourcing arrangements (Downing et al. 2003). In particular, Downing et al. (2003) determine process performance as the level of performance that includes process, efficiency, quality, level of satisfaction as process attributes and adopt a business manager’s (client) point of view. Although this study does not intentionally study performance process, a number of participants have recognised some of the process attributes such customer satisfaction (VE₁ in case one: “the feedback I have is that the standard of our support is higher”) or quality (CM₂ in case two: “it’s been greatly improved...and I’m very confident to say that”). Thus, one of the insights to be revealed by the above discussion is the process-based approach towards determining outcomes. The client and vendor participants have agreed that outsourcing outcomes are usually process-oriented and should be viewed from this perspective.

Further, the discussion on the performance outcomes in outsourcing arrangements from the process point of view is indicative of the balance between trust and formal controls that is established (and further developed) in the IS outsourcing arrangement. In the previous discussion on synergistic balance (see section 7.4.2), it has been argued that organisations that achieved synergistic balance, also achieved higher service quality and good performance in the outsourcing arrangement. It is true for the first case study, where both organisations achieved consistency in delivery and good quality of supported service. Similarly, in the second case study, both sides achieved synergistic balance, mixing the initial trust activities with additional formal controls to improve the quality of delivery and project performance. The case findings of orthogonal balance have revealed that this type of balance is dependent on personal interests of the key stakeholders involved and although in both case studies (cases three and four), good
performance and service quality outcomes were achieved; this was only possible because of the gained knowledge and existing history of interactions between two organisations. However, this type of balance can be risky in case of any change in senior management and/or project team (e.g. case three with the restructure of the vendor’s team) as it may result in losing the confidence in the vendor’s performance capability and thus, more time to restore it back. The findings of the antithetical balance have shown that this type of balance cannot be considered as appropriate (Sabherwal 1999) and in fact is detrimental to both sides in terms of achieving performance and high service quality outcomes. In the fifth case study, both sides relied on trust and informal interactions only (‘one-sided activity) in the web development project that resulted in poor project outcomes such as late delivery, inconsistency in project performance and poor qualities of developed project (e.g. technical and design flaws in software architecture). Although it is too early to draw wider conclusions about the risks of achieving antithetical balance based on the findings from one case study only (limitation of the study), it is however worth exploring the effects of antithetical balance on the project outcomes with the case study where both sides rely heavily on formal controls.

Apart from the performance and quality outcomes, the case studies have also reported on the outcomes of the coordination that manage the outsourcing process and the teams with regard to project activities. Among the coordination outcomes, there have been noted the ongoing maintenance and/or increased levels of service (Dibbern et al. 2008; Domberger et al. 2000) in cases one, two and four. Moreover, one of the case participants expressed the need for project documentation and performance management in managing the outsourcing arrangement with the client (case four). Given the discussion on the balance between trust and formal controls (see section 5.2.6), the orthogonal balance has been achieved in this case study, in which strong interpersonal trust between two executives has helped both organisations to structure the new outsourcing relationship, while the client has initiated a set of necessary formal controls, including the contract and monthly reports. However, what attracts attention is the need expressed by the vendor representative for more coordination outcomes to manage the ongoing progress of the project, suggesting that the vendor should also assist in finding the right balance between trust and formal controls. In contrast, the orthogonal balance has been also achieved in the third case study. However, there are no coordination outcomes revealed by the participants, suggesting that after a decade long relationship, both organisations have reached a sense of the right balance through the experience gained and maturation of the processes. Thus, it seems that different organisations would reach the same type of balance (orthogonal) but in different ways.

In contrast, the outcomes of the fifth case study have revealed that poor project coordination is evident because of a lack of diligence and a lack of clear accountability for the project on both
sides. It has been argued in the literature that it is the vendor’s obligation to put in place clear
ermaking rights and reporting structures for
 outsourcing projects in terms of the responsibilities of the people involved (Koh et al. 2004),
while the client has the ownership of the project. By contrast, the outcomes of the case study
have indicated that, although VE referred to “internal technical risks…[and] lack of project
management”, it is the client who failed to structure the outsourcing arrangement appropriately
by assigning the project team and establishing clear communication and monitoring
mechanisms. As a result, the project was poorly managed, which has resulted in a considerable
delay and cost overruns for the client (see section 6.2.4). Moreover, one of the client
participants expressed the need for meetings and notifications to be initiated for the sake of the
proper management of the project, though both sides continued operating on informal
relationships without ‘formalising’ their interactions. This vouched for the call of
complementing trust and formal control activities to influence the outsourcing environment.
Although we know that the newly appointed project manager introduced a number of formal
controls (e.g. status delivery reports, milestone payments), this does not last long and the
balance returned to the antithetical point. Both organisations continued relying on the informal
basis of their relationships and ignored formal controls. As a result, the lack of properly defined
service levels and project requirements have led the client to become dissatisfied with the
vendor’s deliverables and misunderstanding on the part of the vendor (see Table 7.8 above).

Hence, in a collective attempt to find the right combination between trust and formal controls in
the outsourcing arrangement, both organisations should be aware of the strengths of
complementing trust and formal controls since each separately may not always lead to effective
project outcomes. Also, the balance as the emergent concept has proved to be dynamic and
evolves throughout the outsourcing arrangement leading to different process outcomes through
different interplays between trust and formal controls.

7.5.2 Perceptions of the Relationship Outcomes

The case participants have revealed their perceptions of the quality of their working
relationships. In the literature, researchers have examined the quality of relationships as
outsourcing outcome (Gopal et al. 2002; Grover et al. 1994b; Lee and Kim 1999; Whitten and
Leidner 2006). Among the commonly acknowledged characteristics of quality relationships are
the competence of, and reputation gained by, the vendor team. These perceptions provide an
explanation of how different types of the balance in cases one and four appear to impact on the
perceptions that have been formed. In the first case study, the client is well aware about the
vendor’s expertise and ability to perform through the experience they have shared on
outsourcing projects which has eventually helped to build strong performance- and knowledge-
based trust in the vendor team. Based on this premise, the client team has developed a firm confidence in the vendor’s team based on their track, which has resulted in a reduced imposition of formal controls later in the life of the arrangement (synergistic effect). Also, the synergic balance that has been observed in the second case study, led to the development of positive grounds of the outsourcing relationship that helped both sides to overcome occasional struggles in project deliverables (by adding more formal controls). In the fourth case study, the existing interpersonal trust between two executives and the broad exposure of the client executive about the vendor’s skills and expertise has formed the initial positive attitude of the client team towards the vendor. Although trust-building is clearly observed among the members of both teams, formal controls have been implemented separately to assess the vendor team’s input (orthogonal effect). Moreover, the vigorous effort and strong support of top management (from both organisations) that, in this instance, has eventually created the atmosphere around the chosen orthogonal balance between trust and formal controls can be a significant facilitator in building a certain type of the balance that leads to effective relationship outcomes. However this claim should not be taken for granted since this case study has narrated the ‘successful story’ of an outsourcing relationships that is based on a shared understanding between two executives. Yet, the presence of orthogonal balance led to strong relationship outcomes either through high interpersonal trust and/or long-term working relationships, where personal interests (or history) of the stakeholders play the key role.

Among other relationship outcomes, the flexibility and openness of the vendor, shared understanding and vendor management skills have been acknowledged as important to the perception of success. Similarly, there are studies that investigate flexibility and shared understanding as characteristics that contribute to the relationship development (Goles and Chin 2005; Haried and Ramamurthy 2009; Kern and Willcocks 2001). Other studies have argued that client and vendor capabilities become stronger with trust-building and positive performance (Levina and Ross 2003; Sabherwal 1999). The findings in the current case studies not only reinforce the claims discussed above but also corroborate them with new insights. In particular, the vendor’s flexibility and the openness that has been acknowledged by one of FinCorp’s stakeholders indicate that the vendor is willing to adapt the working relationship to changing circumstances and, therefore, is committed to respond to change. Hence, it can be inferred that this has contributed to the increase in trust evident in the perceptions of the client participants.

The fifth case study has reported that the client lacks vendor management skills (Feeny and Willcocks 1998; Willcocks et al. 2007), which have resulted in a decrease in the vendor’s trust in the client. As a result, the vendor manager has described the working relationship with the client as a dysfunctional client-vendor outsourcing relationship. The participants of the third case study have reported that the gained experience and maturation of the outsourcing
arrangement foster the learning curve between two organisations (Fisher et al. 2008). However, in this research study, the noted learning and experience have implied that both organisations are intuitively heading to the right combination that enable them to achieve effective outcomes and become more mature in managing the outsourcing arrangement. These changes also underlie the dynamic nature of the balance as being modified under the influence of the natural changes that occurred in the outsourcing arrangement.

Another interesting matter has emerged from the fifth case study. It may be considered that if organisations rely solely on informal relationships and trust-building, at least good cooperation, open and honest communication and common understanding should be ensured, given the role of trust as catalyst (Goles and Chin 2005; Sabherwal 1999). It might be in this context surprising to observe, that our participants have revealed quite the opposite perceptions on the state of their working relationships. This in itself provides an interesting topic for discussion due to the seemingly contradictory perspective on the complementarity of trust and formal controls adopted in this study. The main argument is that trust and formal controls in combination produce better outcomes, due to the benefits (project and/or relationship-related) that they can bring if taken together than they may if one or the other is implemented alone. However, as Flyvbjerg (2006) argues, when metaphorically referring to the ‘negative’ case in a range of selected case studies, sometimes the “black swan” identified among “white swans” (p. 228) may significantly challenge a well-formed proposition or on occasion add another perspective to the developed theory. This case study has reinforced the latter claim. Indeed, as per the discussion provided in section 7.4.2, it has been argued that antithetical balance is inappropriate (ineffective) in the IS outsourcing context due to its ‘one-sided’ activity and poor outcomes.

Further, the case studies have reported on the outcomes related to the continuity of IS outsourcing arrangements. Among the continuity outcomes, participants have acknowledged satisfactory performance and expectations met, satisfaction with quality (case one), the vendor’s domain knowledge (case two) and strategic importance of outsourced services (case three). In four out of five cases, both organisations seem to be satisfied with the progress of their arrangements and, as a result, have extended their deals a number of times. Although the causal relationships between the balance and the duration of the arrangement are not examined in this study, in the light of previous discussions it may be assumed that both parties feel confident. Some have even used the word “comfortable” (e.g. CE1) when describing the working combination between trust and formal controls in their arrangements, implying satisfaction with the outcomes achieved. In contrast, the participants from the fifth case study have commonly acknowledged the lack of foresight regarding further cooperation by calling the relationship as
“dysfunctional” which directs attention back to their dissatisfaction with the project and relationship outcomes.

Overall, the effects of the synergistic balance imply the virtuous cycle (Sabherwal 1999) of mixing trust and formal control activities that lead to better project- and relationship-related outcomes. The effects of the orthogonal balance suggest that both sides may achieve better outsourcing outcomes only if they work in a close partnership and has a long history of interactions between two project teams. Finally, the antithetical balance has found to have negative effects on achieving the outsourcing outcomes, both project- and relationship-related because of a single activity involved (either trust or formal controls) and should not be considered as a feasible option for managing IS outsourcing arrangements.

Further, it has been claimed in the literature review that the theoretical approach offered by Möllering (2005) on the trust/controls duality is best suited to overcoming the challenge when addressing the balance between trust and formal controls in the IS outsourcing context. It is suggested that trust and formal controls as necessary conditions each assume the existence of the other, refer to the other and can sometimes be influenced by one another. Thus, they co-exist in a so-called binary opposition (see section 2.6.1). Trust is an integral part of any business relationship (including outsourcing) that involves human interaction. So also are formal controls that, due to their project-specific focus, are designed to regulate behaviours and assess the efficiency with which activities are performed by each of the outsourcing partners (see section 2.4). Indeed, the outcomes of the fifth case study have revealed that both parties, despite relying on informal interactions and trust, have failed to recognise the professional value of formal controls in the setting of service targets, requirements and formal meetings. This inability has eventually negated the gradual building of trust between the two organisations and caused the relationship to crumble. Therefore, this leads us to the apparent conclusion that Möllering’s proposition has been supported in the outsourcing environment as well, while the theoretical underpinning of the trust-control nexus suggests that trust and formal controls should complement and co-exist with each other along the outsourcing arrangement process. Trust and formal controls have been previously investigated in a static phenomenon (e.g. Poppo and Zenger 2002) and with fragmentary views of different dimensions of controls (Beimborn et al. 2009; Goo et al. 2009) or trust (Balaji and Brown 2010). Thus, the current study has now added a dynamic element to the conceptualisation of the trust-controls nexus through adding an explanation of how the balance between trust and formal controls can be achieved through different combinations.
7.6 Chapter Summary

In this chapter, a cross-case analysis of the empirical findings has been presented. The discussion started with a delineation of the commonalities and differences in the profiles of the case studies and the stakeholders interviewed, including the details of outsourcing arrangements, contract implementation, formal controls and characteristics of the working relationships. The chapter further discussed the development of trust, how the balance between trust and formal controls was achieved in the IS outsourcing arrangement and its effect on the outsourcing outcomes. Overall, the core discussion of the cross-case chapter rests on building insightful explanations of how the balance between trust and formal controls has been achieved in five different outsourcing arrangements. In particular, it has been found that the synergistic and orthogonal types of balance can be referred as appropriate (and effective) in pursuing outsourcing outcomes, whereas the antithetical balance is not effective in achieving better outcomes. Also, the case study findings have revealed that the balance is dynamic and emergent concept and therefore, can change throughout the life of the outsourcing project. The next chapter summarises the research project by outlining the key findings, limitations and significant implications for both theory and practice in the IS outsourcing field.
Chapter 8: Conclusion and Implications

8.1 Summary of the Project

The purpose of this study was to gain a better understanding of the balance between trust and formal controls in IS outsourcing arrangements. Drawing on the prior research adopted from IS outsourcing and organisational behaviour studies, the theoretical background of the project was built with a detailed conceptualisation of formal controls, trust and balance as the research concepts that were incorporated into a research framework, suggesting a process view of how the balance between trust and formal controls can be achieved and changed throughout the IS outsourcing relationship. Empirical data was collected through individual interviews with client and vendor organisations (across three organisational levels: executive, management and operational) in five case studies that were chosen to fit theoretical conditions (theoretical replication) of the three types of balance (antithetical, orthogonal, synergistic).

In the next section, the major findings of the study are summarised. This is then followed by the limitations of the work and implications for theory and practice. Finally, the chapter discusses future research opportunities that arise from the research reported in this thesis.

8.2 Summary of Research Findings

The starting point for this study was the notion of a complementary relationship between trust and formal controls. A conceptual framework was developed to illustrate the process of how the balance between trust and formal controls could be achieved in outsourcing arrangements. To further investigate this process, an empirical investigation of five qualitative case studies was conducted to reveal findings across the key themes, i.e. trust, formal controls, and balance, working relationships and outcomes that made it possible to answer the research questions. The empirical findings were discussed and compared with the existing literature on revealing similarities, contradictions and new insights across these five case studies (see Chapter 7). The ‘answers’ for each research question are summarised below:

Research question 1: How does trust develop throughout the IS outsourcing relationship?

Based on the findings, among the common characteristics of trust evident in the case studies, were openness and honesty in interactions, mutual respect, integrity, credibility, reliability and confidence in the other party’s actions. Mutual respect and knowledge expertise were noted in the first case study, as being important at the start of the outsourcing arrangement, while mutual dependency between two project teams in the second case study was claimed to facilitate
knowledge sharing and foster the building of trust. The first case study also revealed a new perspective on the concept of cultural fit by emphasising the importance of matching the working ethos and commitment of the two outsourcing parties. The concept of ‘trust in product’ that was revealed in the fifth case study, implied the client’s confidence in the product (or system) delivered by the vendor, and was argued to be significant to the outsourcing environment, especially for outsourcing projects that involved application development. However this concept should not be erroneously compared with product quality (Whitten and Leidner 2006) which represents the outcome of the end product delivered as part of the outsourcing arrangement. Rather, trust in product implies a process since it cannot be absolute or perfect but should be determined by a specific context or instance, when both parties are agreed on an optimal level of quality. The different levels of trust (interpersonal and organisational) that were observed in the participants’ perceptions from the case studies three, four and five, confirmed the nature of trust as a multidimensional concept.

The development of trust was found to be a recurring process, with changes in trust occurring in a somewhat linear manner throughout the IS outsourcing relationship. All five types of trust that had been adopted in the conceptual framework were argued to be important at different stages of the IS outsourcing arrangement across the five case studies. According to the participants’ views, a number of characteristics were used to describe certain types of trust. Reputation-based trust was associated with the background checks made by the client regarding the vendor’s expertise at the beginning of the arrangement. Contractual-based trust was observed during contract negotiations, until the signing of the contract, and again prior to the renewal of the contract. During contract negotiations, contractual-based trust allows the outsourcing parties to cooperate with each other in order to preserve the self-interests in the project. For example, the client organisation may negotiate a major win with the reduction of the contract price, while the vendor may negotiate the tightness of the scope for the agreed price. Thus, these findings claim that, in building this trust, balanced negotiations in which the interests of each party are preserved play an important role.

In three out of five case studies, knowledge-based trust was observed after the ‘initial testing’ period had passed and each of the organisations learned about the skills and actions of the other. In other two case studies (one and four), knowledge-based trust was observed at the pre-contract stage given the prior project experience or the long history of business interactions. Among the characteristics of this trust were open and honest communication, shared experience on other projects (e.g. a relationship built by two project teams), a history of interactions in business (between two executives in particular) and a constant pool of people working on the project site. Also, the findings of the first case study revealed that the presence of the project manager with
strong service delivery skills had a certain positive impact on the growth of the client’s knowledge-based trust towards the vendor. Performance-based trust was usually observed after the contract was signed and/or renewed, when contract management was more evident and after periodic performance reviews were undertaken. The development of client’s trust was closely associated with a vendor’s ability to perform soundly on a consistent basis, while a vendor’s trust was based on the willingness of a client to pay on time (prompt payments), make reasonable requests for changes and maintain open communications. A vendor’s knowledge of the (outsourced) system was also found to influence a client’s outsourcing decision, despite a low degree of performance-based trust. Identification-based trust was characterised by team-building attributes such as cultural fit in terms of the working ethos and commitment, shared interests, common goals and shared understanding.

Among the additional types of trust were capability-based trust in the vendor that was found in case studies two and five, competence-based trust (as the technical competency) among the members of the teams that was acknowledged in the first case study and information-based trust between two project teams that was found in the fifth case study. All types of trust were properly defined and discussed for their relevance in Chapter 7 (see section 7.3). For example, capability-based trust was pertinent because of the positive relationship between the vendor’s capabilities and client’s performance-based trust, especially with regard to the contemporary outsourcing context, which is dynamic and complex. Competence-based trust was based on the awareness of one party about the skills and technical expertise of another. However, in contrast to the capability-based trust that is inherent in the ability of the vendor to perform, competence-based trust can grow mutually. The findings of the fifth case study reported that building information-based trust at the start of the outsourcing arrangement might ensure effective building of two-way interactions since the grounds of this trust allow building trust based on the adequate information shared by the parties.

Overall, it can be concluded based on an examination of the existing literature, that this is the first empirical study that traces down different types of trust in the life of the outsourcing arrangement, meaning that they were mapped in an attempt to combine five types of trust throughout the outsourcing arrangement to reveal indicative trends. That is, at the vendor selection stage, reputation- and (existing) knowledge-based types of trust can set a positive tone for the new outsourcing arrangement. At the negotiation and contract performance stages, the growth of contractual-, knowledge- and performance-based trust can be grounded in the actions and proven track record of each party. The development of identification-based trust will grow based on mutual understanding and a shared goal of identifying with the other’s goals by building strong team dynamics and experience that both organisations gain with time. While the
additional types of trust as Chapter 7 illustrated (see section 7.3), were transitory and evident at various stages of the outsourcing arrangement.

**Research question 2**: How do participants from both the client and the vendor organisations conceptualise the balance between formal controls and trust in the IS outsourcing relationship?

This study demonstrated that trust and formal controls complement each other. Trust helps to deal with uncertainties, while formal controls represent the prescriptive approach with ‘tangible measures’ and reports to counterweight trust. The balance was conceptualised by participants as a “good medium”, “right balance” or “good neutrality”, meaning that the organisations agreed on the nature of the balance as the ‘comfort zone’ between trust and formal controls that they achieved in the outsourcing arrangement. Among the participants perceptions on the balance, it was argued that the balance could be found deliberately, or rationally pursued, given the outsourcing experience of the client organisation (e.g. FinCorp in three case studies), or it could also be gained intuitively as some of the vendor participants claimed. Overall, as Chapter 7 discussed (see section 7.4), the significance of the balance was explicitly acknowledged, the participants did not deliberately try to find the balance, it was rather emerging and depended on the working context of the outsourcing arrangement. It was also revealed that both client and vendor organisations might be involved in the decision of pursuing the appropriate combination between trust and formal controls. Although, in a previous study, Long and Sitkin (2006) were silent about whether they actually studied two perspectives in their examination of the trust-control balance, this study has certainly contributed to the body of knowledge by adding two (the client and vendor) perspectives. Overall, this study was the first attempt to conceptualise the nature of the balance in the outsourcing environment by drawing the theory on the balance from organisational behaviour studies (Long and Sitkin 2006), given its promising nature, as acknowledged by the case participants, it certainly should be continued.

Another outcome of the study as reported in the case studies was the revelation of the dynamic nature of the balance. In particular, participants acknowledged that the combination between trust and formal controls might change with time as case study findings illustrated (cases two and five). So the balance achieved between trust and formal controls can further evolve over time accordingly with the changes of the organisational and/or outsourcing context (e.g. change in project management team). This possibility is not considered in the original work by Long and Sitkin (2006), but has been included in this study’s conceptual framework.

Drawing from organisational behaviour theory, this study initially adapted three types of the balance (antithetical, orthogonal, and synergistic) and explored them in five IS outsourcing arrangements. Overall, the empirical work has expanded the current IS outsourcing literature
with the revelation of the appropriate balance between trust and formal controls leading to outcomes through three types of balance. Subsequently, a number of lessons derived from the case studies, suggesting that the synergistic balance seems to be the most appropriate combination between trust and formal controls, which is capable to tackle with dynamic changes emerged during the outsourcing arrangement such as change in project requirements, and the antithetical balance as being the least desired. The orthogonal balance has been found to be appropriate only when both outsourcing parties know each very well either through prior business interactions or have the long-term collaboration. The antithetical balance has been found to be very risky because of one-sided emphasis it pursues. In this way, the thesis made a valuable contribution to the body of knowledge in IS outsourcing by conceptualising the balance which could be transferred back to the field of organisational studies.

**Research question 2.1:** Do the perceptions of balance differ from the client’s perspective and the vendor’s perspective?

The findings revealed no distinctive differences in views on the balance between the client and vendor perspectives. Most participants acknowledged the complementary nature of trust and formal controls in outsourcing arrangements. Formal controls were seen as crucial in setting expectations and service levels, while trust was seen primarily as the relationship factor that would grow between two organisations with the development of working relationships. This study demonstrated that from the client’s perspective the concept of balance was mainly associated with the vendor’s performance and sound track record, suggesting that, if that performance was poor, there was a perception that that balance could be heavily weighted against trust. In the case of excellent performance with excessive formal controls, one could argue that there was some justification for perhaps relaxing of some of those controls and encouraging further trust-building. From the perspective of the vendors, participants tended to emphasise the tightness of the contract and an almost intuitive decision to find the balance, depending on the changes occurring in the outsourcing arrangement.

**Research question 2.2:** Do the perceptions of balance differ at different organisational levels?

The perceptions on the balance across three organisational levels reflected the differences in opinion which depended on the accountability and the scope of responsibility of the participants involved. In particular, executives saw the balance to set between the signed contract and trust-building in the light of negotiations, contract performance and monthly coordination of the outsourcing project. Managers saw the balance to be established between formal controls (e.g. outcome-based controls for client managers) as that which would ensure the provision of operational deliverables and the promotion of trust to enable communication through reports
and weekly meetings. The people involved at the operational level preferred to have a balance that was weighted towards the building of trust that was necessary for the performance of daily tasks and regular interactions, with formal controls in the form of the service level agreement and project documentations. Overall, the study suggested that in the effort to find the right (or comfortable) combination between trust and formal controls, both organisations should be aware of the views that different stakeholder groups hold on this matter.

**Research question 3: In what ways does the balance between trust and formal controls impact on the perceptions of the outsourcing arrangement?**

The outcomes of the case studies were broken down into various categories, such as project-related, and relationship-related outcomes, with a further breakdown within each of those categories, which added another dimension to the current literature on outsourcing outcomes. In particular, participants voiced their perceptions of the outcomes related to the progress of the project, i.e. performance (and quality) and coordination of the delivered project, and the outcomes related to outsourcing relationships, i.e. satisfaction (and quality) and continuity of outsourcing arrangements. Moreover, the discussion on coordination outcomes revealed a process-oriented view and so-called process performance intended to manage the ongoing course of the outsourcing arrangement. This finding was contended to be of potential value for the outsourcing literature, which presently lacks a process-oriented view on the subject of examining outsourcing outcomes. Moreover, the insights on the coordination outcomes have supported the notion of the balance as being dynamic and emergent concept that requires constant mixing of trust and formal controls activities.

Researchers have previously maintained that trust and formal controls positively influence on the success of outsourcing arrangements, though they have treated the two factors separately. In contrast, the thesis argues that if stakeholders employ trust-building and formal controls in a complementary manner, they may develop better outcomes in outsourcing arrangements. So that with the synergistic and orthogonal types of balance, both sides can aim at achieving better project and relationship outcomes, whereas the antithetical balance seems to be risky and is likely to lead to poor outcomes related to the dissatisfaction with the progress of the project and outsourcing relationship overall. Clearly, this study is an initial attempt to build an in-depth understanding of how balance between trust and formal controls was achieved in the IS outsourcing arrangement and as a result, it has established a connection between the types of balance that emerged in the outsourcing arrangement and the outcomes achieved. Further research, both empirical and conceptual, is important in order to extend and further refine the conceptualisation of balance and the causal relationships between the balance and outcomes, explored in this thesis.
8.3 Limitations of the Project

While every attempt was made to conduct the highest quality of research, as evidenced in Chapter 3, there were a number of limitations identified during the research process which need to be acknowledged.

The first limitation is associated with the data collection process. One of the issues encountered when conducting the interviews was the difficulty in gaining access to participants, and sometimes it proved impossible contact a participant at a particular organisational level. This meant that the number of interviews that could be conducted for each client-vendor pair was sometimes more limited than would have been necessary. However, most interviewees agreed to follow-up interviews, telephone calls or email communications to clarify certain things and address unanswered questions. In those cases in which certain participants were absent (either from client or vendor organisations), I conducted the follow-up interviews and meetings with their superiors, subordinates or colleagues to compensate for the absence of the participant. Second, I only have one case study for antithetical balance. A further case study where the outsourcing relationship is based solely on formal controls is required. Also, further case studies (from different industries) are required for stronger generalisation of the insights discussed in the thesis.

8.4 Contribution of the Research

Given the key research objective, this study advances the relationship between trust and formal controls by considering the balance between trust and formal controls within client-vendor outsourcing relationships. The potential theoretical and practical implications of the study are explained in the next two sections.

8.4.1 Implications for Theory

This study contributes to the building of a conceptual framework for finding the balance between trust and formal controls in the client-vendor outsourcing arrangement, grounded in qualitative empirical data. Given the lack of research on the balance in the existing outsourcing literature, this contribution is important and has conceptual merit. In particular, the empirical findings reveal very promising implications for the conceptualisation of the balance as the ‘comfort zone’ for both outsourcing organisations. With the progression of the outsourcing arrangement, the balance may alter to reflect changes resulting from the actions taken by each party (either trust-building or formal controls), and to accommodate those (organisational and outsourcing) changes in order to achieve better outcomes.
In the current literature, research studies have been inconclusive when attempting to explain the relationship situation when it comes to the use of proposed frameworks and adopted approaches (Kern and Willcocks 2009). There are two prevailing perspectives underlying outsourcing relationships. The first is an ‘economic view’, commonly informed by transaction cost theory and/or agency cost theory approaches. The second is a ‘partnering view’, which argues for building long-term and sustainable relationships that provide the flexibility and collaborative benefits of a partnership against any uncertainties. This study contributes to the ‘partnering view’ by highlighting the benefits of combining trust-building and formal controls in outsourcing arrangements. Previously, Klepper (1995), in focusing on the partnership aspects between clients and vendors in IS outsourcing, neglected the contract and its effect on the relationship by simply proposing management initiatives that could be taken by a client organisation to develop partnership relationships with vendors. However, he could not explain how management processes (e.g. interorganisational coordination) evolved. Thus, in this context his work seems somewhat limited and incomplete since he did not consider these matters. However, in this instance, both have been addressed within one study. This has been accomplished by developing a framework that combined trust and formal controls to obtain a better understanding of the mechanisms by which the outsourcing relationships develop and evolve, and how this process could be managed to achieve better outcomes from both client and vendor perspectives.

This study represents the initial attempt to conceptualise the balance between trust and formal controls in the IS outsourcing context. In particular, the study has empirically revealed how the appropriate balance can be achieved and further changed between trust and formal controls activities under the impact of organisational and/or outsourcing context. Also, the study has built an understanding about interpretive patterns of the three types of balance (antithetical, orthogonal, synergistic) in the IS outsourcing context. The study has shown that only two types of balance (synergistic and orthogonal) lead to better outcomes in IS outsourcing arrangements. However, this study has implications not just for further theory-building in the IS outsourcing area, but also for other fields of research, including the following:

1. **Trust research**: the research on the development of trust has revealed new characteristics of the adopted types of trust (including additional types of trust) in the outsourcing context that can contribute to this stream of research. Also, the findings revealed that trust should be ‘contextualised’ in the working relationship and is located in a partner’s actions rather than decision-making, since outsourcing is a highly risky and changeable business environment.
2. **Organisational studies research**: the concept of balance and its three types that had been adapted from organisational studies, and which were further supported by the empirical findings, can contribute to this field as well. Given the underlying rationale of this field, to investigate the intricacies of hierarchical relations between transacting parties (which are not dissimilar to the outsourcing settings that involved a client and a vendor), these findings (and derived insights about the causal relationships between the types of balance and the outcomes) may be transferable to organisational studies research. Therefore, they may contribute to the management process of (inter)-relationships while mixing trust-building initiatives and formal controls.

Overall, this study has brought new insights on the development of each of the research concepts (including outcomes and formal controls) within the research phenomenon as achieving balance between trust and formal controls. This could be a very good basis on which researchers may elaborate and distil reflections on further conceptualisation of the balance as a research phenomenon.

### 8.4.2 Implications for Practice

This research cannot guarantee ‘the right path’ to manage complex IS outsourcing arrangements, each with its unique combination of objectives, stakeholders, organisations and project teams. Instead, this study offers a number of key areas for consideration and those involved in outsourcing arrangements will see how they can adapt these recommendations to their specific environments and needs:

1. The study provides an analysis of IS outsourcing arrangements by describing the relationship between a less tangible aspect such as trust and a more tangible aspect such as formal controls. In an attempt to find an appropriate balance between these two elements, outsourcing practitioners can have an impact on such tangible outcomes such as quality, time and cost (of service) by taking the implications found in this study and turning them into hard (quantitative) measures to improve their practices. This has been made possible by displaying and explaining the complex interrelation of concepts and yet maintaining conceptual parsimony and, therefore, producing a theoretical (conceptual) framework that is easy to understand and use.

2. The concepts around this research could be used to heighten awareness of the balance in IS outsourcing arrangements (how tight a party may have a contract to protect its interests but at the risk of alienating people and losing trust, or an overly trusting practitioner who might implement too few formal controls on the governance side of the outsourcing project). This marks a considerable shift in thinking in terms of the
management of outsourcing arrangements. With the balance, this suggests moving away from a paradigm in which formal controls and trust are perceived separately and toward the idea of constructing a ‘comfort zone’ that is suitable for the working context between the client and the vendor. Thus, this may help people to be more effective, particularly at the management level (Willcocks and Griffiths 2010), and be sensitive to the issues associated with the contract and the promotion of trust-building.

3. The study contributes by providing a set of insights to consider when assembling and conducting outsourcing arrangements. Following this, there have been developed and presented insights for clients and vendors (see Appendix I). The proposed insights presented in Appendix I will appeal directly to clients and vendors to better understand and manage their outsourcing arrangements. The findings can be applied directly to IS outsourcing arrangements. In addition, a number of lessons derived from the case studies, suggesting that the synergistic balance seems to be the most appropriate combination between trust and formal controls leading to desired outcomes in terms of service quality and relationship development, which is capable to tackle with dynamic changes emerged during the outsourcing arrangement such as change in project requirements, and the antithetical balance as being the least desired.

The discussed implications are built on and complement existing advice published for outsourcing practitioners (e.g. Cullen et al. 2005; Willcocks et al. 2007). The insights are detailed and tailored specifically for (but not limited to) IS outsourcing arrangements managed in Australia.

8.5 Suggestions for Future Research

Given the initial promising findings, one of the potential research options is to continue exploring the balance in outsourcing settings guided by the interpretive paradigm. Further empirical evidence collected through a greater number of stakeholder interviews and case studies (with successful and unsuccessful stories) will only enhance the understanding of the research phenomenon. This research topic can be further pursued with longitudinal case studies that examine the evolution of the balance, with transitions from one type of balance to another.

Another interesting path for future investigation involves the quantitative ‘testing’ of the developed framework, through which researchers can reveal any ‘cause-and-effect’ relationships among different elements of the framework through a series of propositions.
Moreover, the developed framework as such only provides the initial reflections for conceptualising the balance between trust and formal controls in the outsourcing environment. To expand this further, researchers can continue working in this area and build various portfolios (or options) of the possible combinations between two types of formal controls (behaviour- and outcome-based) and different types of trust that lead to three types of balance in outsourcing arrangements. In this vein, one of the possible research avenues may also involve the investigation of the effects of the type and size of outsourcing projects on the process of achieving the balance in outsourcing arrangements.

Finally, according to the outcomes of the discussion on trust provided in Chapter 7, there were articulated a number of future research opportunities. For example, researchers may continue investigating trust from the perspective of ‘doing the right thing’ as the attribute in customer-supplier relationships and not be constrained by the outsourcing context. The outcomes of the second and fifth case studies revealed promising findings on the importance of mutual dependency and ‘trust in product’, and certainly further research is encouraged to be continued on. Other potential research topics may include newly identified types of trust such as information-, capability- and competence-based trust in the development and management of outsourcing relationships. Also, the significance of conducting research on the nature of competence-based trust may be relevant to the context of virtual and geographically distributed teams (within e-commerce context) where the solid confidence about the other member of the team may contribute to the efficiency of the task performance (see e.g. Jarvenpaa et al. 1998).
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Appendices

Appendix A: Case Study Details

To ensure the anonymity of the participants, pseudonyms have been used for the organisations.

<table>
<thead>
<tr>
<th>#</th>
<th>Name of organisation (alias used)</th>
<th>Industry</th>
<th>HQ</th>
<th>Location</th>
<th>Year est.</th>
<th>Staff</th>
<th>Revenue</th>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EduPro</td>
<td>Education management</td>
<td>Melbourne</td>
<td>Australia, Central Europe, China, South East Asia, Southern Africa</td>
<td>1969</td>
<td>850</td>
<td>AU $200M</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>VicChurch</td>
<td>Religious institution</td>
<td>State offices across Australia</td>
<td>Australia</td>
<td>1977</td>
<td>5000</td>
<td>Non-profit</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>FinCorp</td>
<td>Financial services</td>
<td>New York</td>
<td>Americas, Asia Pacific, Australia, Europe, Middle East, Africa</td>
<td>1892</td>
<td>60000</td>
<td>US $67B</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>University</td>
<td>Education</td>
<td>Melbourne</td>
<td>Australia</td>
<td>1908</td>
<td>5000</td>
<td>AU</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Council</td>
<td>Government</td>
<td>Melbourne</td>
<td>Australia</td>
<td>1994</td>
<td>N/A</td>
<td>N/A</td>
<td>3</td>
</tr>
</tbody>
</table>

Table A.1 Client organisation information

<table>
<thead>
<tr>
<th>#</th>
<th>Name of organisation (alias used)</th>
<th>Industry</th>
<th>HQ</th>
<th>Location</th>
<th>Year est.</th>
<th>Staff</th>
<th>Revenue</th>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ITPro</td>
<td>Information technology and services</td>
<td>Melbourne</td>
<td>Australia</td>
<td>1983</td>
<td>250</td>
<td>No info</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>SmallWeb</td>
<td>Information technology and services</td>
<td>Melbourne</td>
<td>Melbourne area</td>
<td>2005</td>
<td>15</td>
<td>No info</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>IT Consultant A</td>
<td>Information technology and services</td>
<td>Melbourne</td>
<td>Australia</td>
<td>1988</td>
<td>1200</td>
<td>AU $115M</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>IT Consultant B</td>
<td>Information technology and services</td>
<td>Originated in Auckland but HQ based in Australia</td>
<td>Australasia, South Asia Pacific</td>
<td>1965</td>
<td>3075</td>
<td>AU $504M</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>IT Consultant C</td>
<td>Information technology and services</td>
<td>Mumbai</td>
<td>Chennai, Bangalore, Mumbai</td>
<td>1968</td>
<td>14376</td>
<td>US $5.7B</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>GoodEdu</td>
<td>Information technology and services</td>
<td>Melbourne</td>
<td>Australia, Europe</td>
<td>1974</td>
<td>N/A</td>
<td>N/A</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>GreenIT</td>
<td>Information technology and services</td>
<td>Melbourne</td>
<td>Australia</td>
<td>1996</td>
<td>15</td>
<td>AU $2M</td>
<td>3</td>
</tr>
</tbody>
</table>

Table A.2 Vendor organisation information
Appendix B: Interview Guide (General template)

**Project Title:**

*Exploring the complexity in balancing formal controls and trust in IS outsourcing relationships*

**Interview Protocol**

1. Administer an informed consent form
2. Interview objectives and the total length of the interview
3. Set the tone (ice-breaker period)
4. Ask unstructured questions
5. Refer to semi-structured questions (i.e. related to research questions)
6. De-briefing period

**Request permission** from an interviewee for recording.

**The interview** is aimed to cover research themes and objectives as outlined in accordance with the interview protocol. The average length of the interview lies between 40 to 60 minutes which is defined individually.

**Introduction section:** name of the interviewer, doctorate program, expertise of supervision, non-commercial aim of the research project.

**Introduction to the research project:** the project explores the nature of the relationship between formal controls and trust in the IS outsourcing context. So that the research focuses on, i) finding a balance between formal controls and trust in the IS outsourcing arrangement, whether there are any differences in individual interpretations/or perceptions of the balance from the both sides; ii) in what ways trust may change and how trust has been built throughout the outsourcing relationship, iii) in what ways the combination of both of these elements may impact on the outcomes in the outsourcing arrangement.

**Business value of the project:** the revealed insights and research outcomes in terms of looking at those problems may eventually bring to the achievement of the higher prospects in terms of the relationship development (successful management) and the project outcomes as well. **Expected outcomes:** the delivery of the case study report, an executive summary with all the outcomes based on comprehensive case study analysis. Also as full transcript is available upon request. All participants are guaranteed individual and organisation anonymity. If the case findings are published externally, the organisation will be given a pseudonym to ensure confidentiality of the data collected from the organisation.

**List of common interview themes and interview questions**

**Interviewee details and profile of the case organisation** 
(tone-focused questions)

- **Interviewee profile:**
  - Description of the role playing within the organisation;
o Years of employment with this organisation;
o Previous role and previous working experience *(if applicable)*.

o **Company profile (business details) (if unable to find myself)**

o **Background of the outsourcing experience:**
  o What do you think about IS/IT outsourcing?
  o In which IS/IT outsourcing projects did you participate?

***************

**Description of the case study (background of the IS outsourcing project)**

*For the purpose of this discussion, I would like you to focus on one outsourcing project and one specific vendor (client). This will provide me with the consistent answers and help to form a general picture of your relationship with this vendor (client).*

1. **Could you tell me briefly about this outsourcing project?**
   a. Background of the project:
      
      **Key words**: services outsourced, selection criteria, details of SLA, demographics and geography of project teams.
   
   b. Role in the project
   
   c. Total length of the project and the length of the outsourcing relationship

2. **Could you tell me about negotiation and finalisation stages of the contract?**
   a. Details of the contract:
      
      **Key words**: obligations (including responsibilities, payments and incentives/and performance bonuses linked on, benchmarks for performance, including pricing systems), initial contract duration (i.e. timeframe), size (dollar value, % of IT budget).
   
   b. Who provided the initially drafted contract?
   
   c. Any third-parties involved in the negotiation process:
      
      **Key words**: participation of high and/or low levels, uni/bilateral (balanced) negotiation process, time spent on dealing and negotiating the contract.
   
   d. Satisfaction or dissatisfaction with the way of how the whole ‘contractual arrangement’ was carried out
   
   e. How is the contract managed after the deal was signed?

3. **In general, what is your overall impression of the project and its progress?**
   a. Ongoing progress and problems faced
   
   b. Comments on vendor’s (client’s) team performance

***************

*Introducing theoretical concepts*
Outsourcing contract and degree of completeness

4. In your opinion and experience, what kind of contractual arrangement (type of contract) would make the good outsourcing relationship?
   a. Degree of completeness – extent to which the contract takes as many elements as possible into account; and extent to which the contract leaves room for interpretation
   Key words: tight versus flexible contracts.

5. What type of the contract do you think you have in this project?
   a. Any existing contractual safeguards in order to ensure the success of the outsourcing arrangement

6. What role does the contract play in the outsourcing relationship? Have you had to refer, enforce it or use it in anyway in the relationship so far?
   a. Whether or not you have enforced certain clauses of the contract (e.g. reference to the resolution and/or enforcement plan);
   Key words: contract as the power tool, as the reference and background only.

Formal controls

Definition: It denotes a set of formal mechanisms to be set, such as codes of conduct, policies, specific rules and procedures for monitoring communications and behaviours through performance evaluation and rewards (e.g. target implementation, functional specifications), reporting and formal communication modes that focus on the efficient performance of activities.

7. Are there any formal policies and procedures being enforced that regulate the ongoing progress of the project?
   a. Are you sharing the control over the project?

8. Do you have any reporting put in place to document and to restore the records of how project work has performed?
   a. Ways of how the work has been reported (e.g. quarterly, monthly);
   b. Did the reporting follow according to the one specified in the contract.

9. How do you communicate with your vendor’s (client’s) team?
   a. Did the communication follow according to the one specified in the contract?
   b. Are there any methods of communication more effective than others? (e.g. informal way versus formal way)

10. How has the project been assessed?
    a. Vendor’s performance monitoring: how do you facilitate and monitor the contract with your business partner?
    b. Ways of assessment
       Key words: customer/end-user feedback reports, target implementation, other techniques for evaluation (e.g. models, metrics, guidelines).

11. How important do you think the role of contract and formal controls in the outsourcing arrangement?
Now we talked a little bit about the contract and the role of formal processes in the outsourcing environment and now I would like to draw your attention to more informal factors such as the relationship development and the role of trust in it...

The concept and role of trust in the IS outsourcing relationship

12. How would describe your working relationship?
   a. Main characteristics of the relationship
      Key words: cooperative attitude, partnering, supplied-based.
   b. What operational difficulties have you encountered?
   c. How the relationship is managed?
      Key words: milestones, achievements in development of relationships.

13. Do you think we need trust in an outsourcing arrangement? If so, why?
   a. The meaning of trust in a business context
   b. What level of trust – at the senior level or operational level
   c. Do we need trust throughout the entire life of the project?
   d. Would you say then that you trust your vendor (client)?

14. To what extent your relationship is based on trust?
   a. Different levels of trust: interpersonal trust (between individuals), organisational trust;
   b. What does make you trust your business partner?
   c. Trust-building characteristics
      Key words: frequent information sharing, shared understanding and common vision of the project, equitable relationship based on met expectations and ‘give-and-take’s, commitment, peaceful resolution of conflicts, genuine support or assistance.
   d. Extent to which the relationship was characterised by a feeling that they would be long term.

15. Ad-hoc questions
   a. Do you think your vendor (client) is reliable and open in dealings with you?
      Key words: being forthright and trustful in interactions, no fear of opportunistic behaviour, fulfilled promises.
   b. Excellent work performance as an indicator of trust, otherwise – distrust?
   c. Strong confidence in the vendor’s (client’s) values and integrity, knowledge and expertise.

16. At the beginning of the project, what helped to determine your trust in the abilities of your vendor (client)? Did this change throughout the project? What helped to develop your trust in the abilities of the vendor (client) as the project progressed?
   a. How did trust ‘grow’ in the relationship?
   b. Was the development of trust between you and the vendor (client) important? If so, why?
c. What was done to help to develop trust?

d. Were there any significant changes in the level of trust between you and the vendor (client) throughout the project?

17. How do you think your relationship has changed over time? At the beginning and now?

a. At the beginning, what was the gelled factor in the relationship?
   **Key words:** contract, rewards and incentives, previous history of relationships.

18. During the course of your relationship with the vendor (client), have you ever considered building joint social functions?
   **Key words:** occasional team lunches, organised events (e.g., joint holidays, birthdays).

19. What do you think about the role of ‘cultural match’ in the development of the outsourcing relationship?
   **Key words:** organisational culture versus personal culture, role of trust, team diversity.

20. In your opinion, what are the main factors that make the relationship successful? Do you consider or label your current relationship as the successful one? If so, why?

The concept of balance in the IS outsourcing relationship (nature of relationship between trust and formal controls)

21. Speaking about trust and controls, do you think we need a combination of both of them in the outsourcing environment? If so, why?

a. Dynamic or static relationship between them:
   **Key words:** formal versus informal evaluations (KPIs versus informal meetings or handshake agreements), ‘pro’s and ‘con’s, uncertainty and complexity of relationships, risks involved, specific investments.

22. What do you think is there any balance to be set up between trust and formal controls? How do you see this may be found?

a. Perceived concept of balance
b. Ways of finding the balance
c. Motivating reasons:
   **Key words:** explicit mechanisms, intuitively-driven thoughts
d. Rough proportion of having that integration (balance) in percentage;
e. Do you think you have got the right balance achieved in your relationship with the vendor (client)?

23. Have you achieved your expectations and outsourcing intentions with regard to this project?
24. How would you comment on the outcomes achieved in terms of the project performance and relationship development?
   a. How critical do you think trust and controls were related to them?

25. Do you think that in the long run, it is important to aware of that balance between trust and controls? Why it is so?

Final questions
26. What lessons have you learned while managing the relationship with this vendor (client)? What could have been done better?
   a. If any chance to work again – would you continue working with this partner?

27. What advice would you give to a company considering IS outsourcing?

De-briefing section
28. Is there anything you would like to comment on or you think I should know?

29. Could you provide me any additional documents with regards to this project?

If time left, show graphs and locate the current state of trust levels and the oscillations of trust and formal controls in the relationship with the vendor (client).

Ending words
Many thanks for your involvement today. I very appreciate your time commitment and dedication that you agreed to spend with me and I am looking forward to the research output that will assist you and your organisation in achieving higher prospects of success in IS outsourcing through addressing issues that we have just talked about.

In case of further questions, request for permission to contact the interviewee via email or telephone.
Appendix C: General Coding Template (tree-coding)

INTERVIEWEE PROFILE:

- Name, age and education
- Role
- Years of employment
- Any IS outsourcing experience

PROJECT BACKGROUND

- Case organisation background
- Outsourcing decision
- Selection criteria
  - vendor profile
- Project background
  - outsourced services
  - length
  - Team structure
- Outsourcing process
  - Ongoing progress
  - Existing operational challenges

CONTRACT

- Description
  - obligations and responsibilities
- Duration
- Value

All the relevant information about an interviewee
Name, age and education of the interviewee
The current role of the interviewee
The length of time the interviewee has worked for in the current organisation
The previous experience in IS outsourcing

All the relevant information about the background of the outsourced project
The background information about the case organisation (i.e. turnover, staff, core business, market strategy)
The motivators for the outsourcing decision made
The background details of the vendor organisation and the key selection criteria
The background information about the outsourced project (i.e. nature, duration, teams)
The overall description of the progress of the outsourced project (i.e. progress, existing difficulties)

All the relevant information about the outsourcing contract
The description of the contract in terms of performed obligations and specified responsibilities
The length of the contract according to which the project has its start and finish dates. It may also include renewal schedules
The total value of the contract in monetary terms
<table>
<thead>
<tr>
<th>Type of contract</th>
<th>The number or degree of detailed clauses in the contract (e.g. brief versus comprehensive, pricing structure used, incentives and safeguards for both parties, invoked penalties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLA details</td>
<td>The details of the service level agreement in terms of the defined scope and service targets</td>
</tr>
<tr>
<td>Negotiation process</td>
<td>The description of the negotiation process before the contract was signed (e.g. initial draft, legal third-parties involved, difficulties)</td>
</tr>
<tr>
<td>Contract implementation</td>
<td>The comments on the overall impression of the contract implementation (e.g. satisfaction, adherence to scope, challenges)</td>
</tr>
<tr>
<td>Role of contract</td>
<td>The perceived role of the contract in the outsourcing arrangement</td>
</tr>
</tbody>
</table>

**FORMAL CONTROLS**

<table>
<thead>
<tr>
<th>Policies and procedures</th>
<th>A number of formal mechanisms or devises used to promote desired behaviour and regulate performance of activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharing control</td>
<td>A number of existing policies and regulations existed within the client organisation on the coordination of outsourcing arrangements</td>
</tr>
<tr>
<td>Reporting mechanisms</td>
<td>A number of reporting mechanisms used in the performance of activities</td>
</tr>
<tr>
<td>Communications</td>
<td>A number of communications modes (both formal and informal) that were specified in the contract and modified along the project course</td>
</tr>
<tr>
<td>Formal</td>
<td>A number of assessment mechanisms used by the client organisation to monitor the performance of the project (e.g. performance metrics, scoring, informal follow-up reviews)</td>
</tr>
<tr>
<td>Informal</td>
<td>The perceived role of formal controls in the outsourcing project</td>
</tr>
<tr>
<td>Assessment mechanisms</td>
<td></td>
</tr>
<tr>
<td>Performance monitoring</td>
<td></td>
</tr>
<tr>
<td>Assessment ways (e.g. informal)</td>
<td></td>
</tr>
<tr>
<td>Role of formal controls</td>
<td></td>
</tr>
</tbody>
</table>
## WORKING RELATIONSHIP

- Characteristics
  - operational difficulties
- Relationship management
  - Upcoming challenges
- Importance of relationship development
- Length of relationship
- Successful relationship factors

<table>
<thead>
<tr>
<th>The description of the working relationship between two outsourcing parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>The identification of the key characteristics of the working relationship</td>
</tr>
<tr>
<td>The actions that are taken by participants to manage the working relationship</td>
</tr>
<tr>
<td>The perceived role of relationship development in outsourcing arrangements</td>
</tr>
<tr>
<td>The number of years a client and a vendor organisation has worked together</td>
</tr>
<tr>
<td>The identification of successful factors that contributed to relationship development</td>
</tr>
</tbody>
</table>

## TRUST AND TRUST BUILDING

- Understanding
- Necessity
- Degree of trust
  - why (whys)
- Characteristics of trust-building

<table>
<thead>
<tr>
<th>The identification of trust-building process in the outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The perceived view on trust and its role in outsourcing arrangements</td>
</tr>
<tr>
<td>The extent to which the relationship based on trust and perceived reasons for that</td>
</tr>
<tr>
<td>The overall impression on the process of trust-building</td>
</tr>
</tbody>
</table>

## COMBINED: BALANCE

- Necessity
- Value
- Balanced view
  - how
  - proportion in current relationship
    - why (description of process)
    - dynamic nature

<table>
<thead>
<tr>
<th>The perceived view on the combination of trust and formal controls in the outsourcing arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The perceived view on the role and value of the combination between trust and formal controls</td>
</tr>
<tr>
<td>The identification of the current combination in the outsourcing arrangement acknowledged by the participants</td>
</tr>
<tr>
<td>The extent to which the achieved combination may change</td>
</tr>
</tbody>
</table>
OUTCOMES

- General comments
  - Achievement of expected outcomes
    - Degree of impact of trust and controls
- Project development
- Relationship development
- Role of balance for outsourcing success

The identification of outcomes achieved in the outsourcing arrangement

The overall impression on perceived outcomes and the degree of variance from expected outcomes
The perceived role of the impact of trust and formal controls in achieving outcomes
The perceived view on the project outcomes in terms of costs, quality, performance, and/or time for the outsourcing project
The perceived view on the relationship outcomes in terms of relationship quality and overall satisfaction with the relationship
The extent to which the combination between trust and formal controls has an impact on the perceived outsourcing success

CONTEXTUAL ISSUES

- Changes
  - Internal: organisational change
  - External
- Organisational roles
- Project complexity
- Organisation size

The identification of various contextual issues, both internal and external to be acknowledged by outsourcing participants

Three different roles (or levels) are adopted: executive, management and operational
The degree to which a size of the organisation and complexity of the outsourcing project requires compound steps and amount of attention

Note: The provided template do not necessary stipulate a fixed number of hierarchical coding levels. Herein, a general template only has been provided and it varies from one case study to another.
Appendix D: Explanation of the Conducted Data Analysis

The data analysis process is based on the mixture of analytical techniques, deductive and indicative. The deductive technique involves the use of seven ground categories (“project background”, “contract”, “formal controls”, “working relationship”, “trust”, “balance”, and “outcomes”). The initial ‘brush-up’ coding (King and Horrocks 2010) organises the initial reading of the interview transcript in accordance with a priori categories (or themes). These themes relate to important theoretical concepts that have informed the aims of this study.

Description of the data analysis process

For the representation of the conducted data analysis, I used a mixture of template and matrix analysis strategies. A template style of analysis (Crabtree and Miller 1999) involves the construction of a coding structure, the template that is applied to the data and revised as necessary until it captures as full a picture of the researcher’s understanding. In Appendix C, a generic template is provided with major codes correspondent to the ground categories. The use of data matrices (Miles and Huberman 1994) is adopted for the visual displays of the data, which typically tabulate units of analysis (i.e. individual participant, group, organisation) against the key concepts relevant to the study.

In Table D.1, an example of level one matrix analysis (individual) is provided. While Figure D.1 provides an example with inductive (bottom-up) analysis of how emerging themes have been classified into ‘Trust’ ground category from a single case study. Table D.2 provides an example of a cross-case comparison (matrix analysis) of findings on trust and formal controls based on a single type of balance as unit of analysis (i.e. orthogonal balance).
Source: (ab, 2004/09)

<table>
<thead>
<tr>
<th>Line</th>
<th>Raw data (extract from an interview transcript)</th>
<th>Data reduction and organising (based on ground categories)</th>
<th>Descriptive coding</th>
<th>Interpretive coding (analytical interpretation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>So since August last year I have been the midrange support leader for FinCorp. So FinCorp we’ve got a number of different applications that sort of cover my applications support team, the Middleware team and the data warehouse team...So that involves the commercial front line systems which are mainly AS400 based systems, not so much for data warehouse and there are a lot of small web applications built in Java. I guess my position is to ensure that we keep the lights on and ensure that everything keeps running, to make sure the ticket levels are kept low, manage your budget, manage the maintenance budget as well.</td>
<td>Interviewee profile and project background</td>
<td>Midrange support leader since August 2008</td>
<td>Length as project manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Three project teams: Middleware, midrange and data warehouse</td>
<td>Structure of the (project) team</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Description of duties: ensure that everything keeps running, ticket level low, managing budget</td>
<td>Project coordination and managing budget</td>
</tr>
<tr>
<td>50</td>
<td>I think cost is the number one driver. Maybe there is experience with IT Consultant A within FinCorp before. So if they were currently doing the job they may have then offered them, put out as tender an offer...I mean IT Consultant A are a reasonably well respected company from what I understand and having seen them work here and the number of people that I’ve had to deal with there, they do a quite good job.</td>
<td>Project background</td>
<td>Cost</td>
<td>(Vendor) selection criteria</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Prior experience with FinCorp</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Vendor’s reputation, expertise and performance</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Most of the times they’re pretty good at communicating and letting us know how things are. For me they’re good at actioning tickets. So as soon as we get a problem they action it reasonably straight away. We’ve got SLAs that they meet. I get a report every month on SLAs, whether or not they’ve been met or not.</td>
<td>Working relationship</td>
<td>Good at communicating and letting us know how things are</td>
<td>Honesty in communications and interactions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Good at actioning tickets and they action reasonably straight away</td>
<td>Good performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>SLA, monthly reports on meeting SLA</td>
<td>Description of types of formal controls</td>
</tr>
<tr>
<td>109</td>
<td>There’s open and honest communication and there’s a lot of it when things go wrong like project implementations go wrong probably because of things not working in different environments. But overall it’s good in terms of communication, in terms of the processes that they’ve got and that they’ve documented. Compared to the other areas</td>
<td>Working relationship</td>
<td>Open and honest communication</td>
<td>Open and honest communication</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mature in performing tasks</td>
<td>Maturity and professional approach</td>
</tr>
</tbody>
</table>
they’re pretty mature in how they’ve got process documented on the wiki.

<table>
<thead>
<tr>
<th>Line 115</th>
<th>Contract</th>
<th>Fixed component and a variable component in the project scope</th>
<th>Adjustable pricing structure to the scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>There’s two components. There’s a fixed component and a variable component. So the fixed component is everything that we’ve got in production running today. The variable component is all the new projects that come on board plus some of the – so any new project or any projects that aren’t fixed. So the way it usually goes is projects get – there’s code to be built. So it’s built, it’s tested, it’s implemented in production. For a three month period we then assess the code making sure it’s stable. We deal with any issues. Then we come up with a figure that we think that we can fix that amount with. So we then fix project A at $2,000 a month or whatever, then put that to the fixed invoice. So then we’ve only just got open projects on a variable invoice.</td>
<td>Three month variation period</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 135</th>
<th>Trust</th>
<th>It’s the technological trust</th>
<th>Technical knowledge of the team members (competence-based trust)</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s the technological trust. I don’t have an IT background as such. I haven’t been a developer. I’ve worked in IT for probably about six years now, but maybe as a business analyst and as a testing analyst. Then in support. So I don’t have that hands-on technical knowledge of web systems or Middleware or data warehouse. So I have to rely on them.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 170</th>
<th>Formal controls</th>
<th>Statements of work, monthly reports, documentation, anecdotal evidence as security and control</th>
<th>Role of formal controls for security and control purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>You want to have the security, a piece of paper, i.e. statement of work and also your controls in place, like the monthly report I get and other various documentation and anecdotal evidence to ensure that we control what’s going on.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 228</th>
<th>Trust</th>
<th>I do have trust in what they do. They do deliver</th>
<th>Performance-based trust in the vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fact that I do have trust in what they do. They do deliver.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 248</th>
<th>Balance</th>
<th>Prescriptive approach to detail needs (or expectations)</th>
<th>Formal controls as documented safeguards</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s all very well to have a prescriptive approach where you detail exactly everything that we want from, but there’s always going to be things that are just outside that square.</td>
<td>Trust</td>
<td>Things that are outside the square</td>
<td>Role of trust in preventing uncertainties</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line 291</th>
<th>Trust</th>
<th>It’s the technological trust</th>
<th>Technical knowledge of the team members (competence-based trust)</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s the technological trust. I don’t have an IT background as such. I haven’t been a developer. I’ve worked in IT for probably about six years now, but maybe as a business analyst and as a testing analyst. Then in support. So I don’t have that hands-on technical knowledge of web systems or Middleware or data warehouse. So I have to rely on them.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Table D.1 Coding excerpt with data analysis of a single individual (case one) | |

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Figure D.1 Excerpt with a single case inductive analysis on ‘Trust’ theme (NVivo 7)

<table>
<thead>
<tr>
<th>Case 3</th>
<th>Case 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal controls and trust activities</strong></td>
<td><strong>Formal controls and trust activities</strong></td>
</tr>
<tr>
<td>- Successful contract completeness, fixed fee-based contract (based on corporate outsourcing provision contract), including well-defined SLA.</td>
<td>- Successful contract completeness, time-and-materials contract was further replaced with the fixed-fee contract, no SLA (internal KPIs set by vendor).</td>
</tr>
<tr>
<td>- Regular (two-year) contract reviews, standard service delivery reports (i.e. weekly, monthly), performance measures (VOC-based feedback and dashboards), regular fortnight team meetings and executive monthly review meetings.</td>
<td>- Ad-hoc project meetings and ‘structured review points’ (akin to formal meetings with the defined agenda).</td>
</tr>
<tr>
<td>- Complete restructure of the vendor team and weekly status delivery reports.</td>
<td>- Informal ‘touch base’ approach in reviewing vendor’s service quality.</td>
</tr>
<tr>
<td>- Trust-building based on gained experience and knowledge, strong trust at senior executive level, decrease of trust at operational level between teams.</td>
<td>- Gradual trust-building based on existing strong trust between two executives and gained confidence in performance of vendor team.</td>
</tr>
<tr>
<td><strong>What leads to this balance</strong></td>
<td><strong>What leads to this balance</strong></td>
</tr>
<tr>
<td>Both parties were comfortable to work on trust due to the mature and solid relationship but formal controls were adhered because of changes in vendor team.</td>
<td>Both parties were comfortable to work on trust due to existing interpersonal trust at the senior executive level but formal controls were chosen to be implemented independently.</td>
</tr>
</tbody>
</table>

Table D.2 Description of orthogonal balance found in cases 3 and 4
Appendix E: Evidence of Ethics Clearance

From: "Keith Wilkins" <KWilkins@groupwise.swin.edu.au>
To: "Judy McKay" <jmckay@ict.swin.edu.au>, "Nargiza Bekmamedova"
Date: 14/07/2008 4:59 PM
Subject: SUHREC Project 0708/267 Ethics Clearance

To: Assoc Prof Judy McKay/Ms Nargiza Bekmamedova, FICT

Dear Judy and Nargiza

SUHREC Project 0708/267 Exploring the complexity in dynamically balancing structural controls and trust in IS outsourcing relationships
Assoc Prof J McKay FICT Ms Nargiza Bekmamedova
Approved Duration: 01/08/2008 To 20/12/2009

I refer to the ethical review of the above project protocol undertaken on behalf of Swinburne's Human Research Ethics Committee (SUHREC) by a SUHREC Subcommittee (SHESC1). Your responses, as emailed on 7 July 2008 with attachments, were put to an available delegate of the Subcommittee for consideration. In giving consideration, the delegate would recommend some further minor reformatting of the consent information statement to better aid participant ease of reading.

However, I am pleased to advise that the project (as submitted to date) has been cleared to proceed in line with standard on-going ethics clearance conditions here outlined.

- All human research activity undertaken under Swinburne auspices must conform to Swinburne and external regulatory standards, including the National Statement on Ethical Conduct in Human Research and with respect to secure data use, retention and disposal.

- The named Swinburne Chief Investigator/Supervisor remains responsible for any personnel appointed to or associated with the project being made aware of ethics clearance conditions, including research and consent procedures or instruments approved. Any change in chief investigator/supervisor requires timely notification and SUHREC endorsement.

- The above project has been approved for ethical review by or on behalf of SUHREC. Amendments to approved procedures or instruments ordinarily require prior ethical appraisal/clearance. SUHREC must be notified immediately or as soon as possible thereafter of (a) any serious or unexpected adverse effects on participants and any redress measures; (b) proposed changes in protocols; and (c) unforeseen events which might affect continued ethical acceptability of the project.

- At a minimum, an annual report on the progress of the project is required as well as at the conclusion (or abandonment) of the project.

- A duly authorised external or internal audit of the project may be undertaken at any time.

Please contact me if you have any queries about on-going ethics clearance. The SUHREC project number should be quoted in communication.

Best wishes for the project.

Yours sincerely

Keith Wilkins
Secretary, SHESC1

----------------------------------------

Keith Wilkins
Research Ethics Officer
Swinburne Research (HEP)
Swinburne University of Technology
Appendix F: Informed Consent Form

Informed Consent Form

Project title: Towards finding a balance between structural controls and trust in IS outsourcing relationships

No: This informed consent form will remain with the researchers from Swinburne University of Technology for own records.

Student Investigator: Nargis Bekmenmedova
Chief Supervisor: Associate Professor Judy McKay
Affiliation: Swinburne University of Technology
Associate Supervisor: Dr Adi Pramanto

1. I consent to participate in this research project. I have been provided with a copy of the consent information statement and this consent form. Any questions I have asked have been answered to my entire satisfaction.

2. By expressing desire to take part in this project, I am willing to:
   - I agree to be interviewed by the student investigator [Yes] [No]
   - I agree to allow the interview to be recorded by an electronic device [Yes] [No]
   - I agree to be available for further contact if required (I.e. in relation to this research project only) [Yes] [No]

3. I acknowledge that:
   - (a) the current study is for the purpose of scientific research and not for a commercial profit;
   - (b) my participation is totally voluntary and I am free to withdraw from the study at any stage of the project without being penalised or disadvantaged in any way;
   - (c) any subjective assessment expressed by me as a result of my participation in this project will be (i) collected for the purpose of this project only and (ii) assessed and analysed by the authorised researchers for the purpose of this study only;
   - (d) the transcript of the interview that will be further used for data analysis will be sent to me for my approval;
   - (e) my anonymity is preserved and I will not be identified in publications or in any other way without my express written consent.

By signing this document, I agree to participate in this research project.

Name of Participant: ________________________________
Signature & Date: ________________________________

Name of Witness (if applicable): ________________________________
Signature & Date: ________________________________

Swinburne University of Technology
2008

Faculty of Information and Communication Technologies
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Victoria 3122 Australia
PG Box 218 Hawthorn
Victoria 3122 Australia
Telephone +61 3 9914 3505
Facsimile +61 3 9919 0823
www.swinburne.edu.au/ict

ABN 19 625 908 858
CRICOS Provider 00135G
Appendix G: Consent Information Statement

Consent Information Statement

Project Title: Exploring the complexity in dynamically balancing structural controls and trust in IS outsourcing relationships

Dear Participant,

Thank you for your interest in participating in this project.

My name is Nargiza Bekmamedova and currently I am doing a PhD (Business Information Systems) at Swinburne University of Technology under the guidance of my supervisors, Associate Professor Judy McKay and Dr Adi Prananto. Our research interest addresses issues around establishing a balance between trust and contractual controls within the outsourcing relationship and how this balance might enhance the prospects for the success of outsourcing arrangements.

The current project is wholly to satisfy requirements for the doctorate qualification and thus, it aims to meet both academic and practical needs. The main objective of the project is to explore how the balance between formal controls and trust might impact on the outsourcing relationship and whether such balance enhances the overall success in the outsourcing process. Within this context, we are going to investigate how the key stakeholders perceive a sense of "establishing or finding" a balance between trust and formal controls, what might constitute this balance and whether mechanical norms and geography (e.g. geographical location) impact the balance required. Also, the project seeks to explore how trust might change throughout the duration of an outsourcing contract. The research hopes to establish that the value of establishing a balance between trust and formal controls in the outsourcing relationship will contribute to the successful development of the outsourcing relationship, favour trust-based collaboration among the key stakeholders and will facilitate the process of achieving higher and positive outcomes in the outsourcing effort.

Ultimately, we believe that the project might contribute significantly to the body of knowledge of IS outsourcing and will provide useful insights of how to better address issues of contractual and relationship management.

As the part of this project, we kindly ask you to spare some time and take part in the individual interview with the main student researcher that will not last more than one and a half hours. During the course of the interview, your knowledge and working experience, and also personal opinion with regard to the posed questions will be greatly appreciated. At the end of the project, if you are interested, you will be sent an executive summary of the findings and outcomes derived from this research project.

Please note that your participation is totally voluntary. Your responses will be confidential. All your responses will remain in the exclusive possession of the researchers for further analysis. Storage of the data collected will adhere to the Swinburne University regulations and will be kept on University premises in locked storage for five years following the publication of the final paper based on this research. Case study reports and any representation of the findings will be submitted for publication but no reference to the identities of the participants or the case organization will be made in these publications.

For any further information regarding the project, please do not hesitate to contact:

Associate Professor Judy McKay
Academic Leader,
Research into IS in Organisations
Email: jmckay@swin.edu.au
Phone: (03) 9214 5385

or

PhD Candidate
Nargiza Bekmamedova
Email: nbekmamedova@ct.swin.edu.au
Phone: (03) 9214 4753
Victoria 3122 Australia

Should you have any concerns or complaints about the conduct of this project, you can contact:

Research Ethics Officer, Swinburne Research (HEEQ) 3122 Australia
Swinburne University of Technology, PO Box 218, HAWTHORN VIC 3122
Tel: (03) 9214 5216 or resehco@swin.edu.au
Facsimile +61 3 9214 5035
www.swinburne.edu.au/REO
ABN 19 625 596 889
CRICOS Provider 00111A

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Appendix H: Analysing Types of Trust with a Mapping Visualisation Tool

For analysing changes in trust development across the five case studies, I used the software mapping visualisation tool, called PersonalBrain (vers. 6.2.0.4). This software allows organising different thoughts (ideas) and presenting them in a systematic way. The following features I found helpful in capturing the dynamics of trust:

- facilitate discovery of trends among the types of trust across the five case studies;
- simplify the complexity of trust as the non-static concept;
- foster the new understanding of the interrelationships among types of trust across the case studies and at multiple stages of the outsourcing process.

Below, a number of screenshots is provided to depict the ongoing progress of the work on mapping different types of trust across the case studies.

Level 1: ‘Trust type’ thought (idea) is centered and linked to four outsourcing stages.

Level 2: ‘Pre-contract stage’ thought (idea) is centered and linked to case studies with types of trust observed.
Level 3: ‘Contract stage’ thought (idea) is centered and linked to case studies with types of trust observed.

Level 4: ‘Post-contract (first renewal) stage’ thought (idea) is centered and linked to case studies with types of trust observed.
Level 5: ‘Post-contract (second renewal) stage’ thought (idea) is centered and linked to case studies with types of trust observed.
Appendix I: Developed Insights for IS Outsourcing Practitioners

The appendix presents insights for managing client-vendor outsourcing arrangements. Both client and vendor organisations can use these insights. The insights are developed on the outcomes of the empirical investigation presented in the case study chapters.

I.1 Applicability of Insights

The insights outlined in this thesis apply to practices of mainly Australian client and vendor organisations that are managing IT/IS outsourcing projects. The applicability of insights is limited due to its investigation of three clients as opposed to five vendors and therefore, the insights may not be balanced in terms its applicability to vendors, clients and both. A self context assessment should be conducted to review the applicability of the insights. Also, the insights may be added, modified, expanded or reordered for the specific context.

I.2 Design Procedures for Insights

Insights are developed on the basis of empirical findings revealed in the case studies and while answering three research questions of this study. Although there are not any established rules for developing insights, I use empirical evidence to form an insight. The proposed insights are developed based on the review of all interview transcripts (and used quotes) related to each empirical finding revealed. Consequently, all interview quotes are gathered into different boxes corresponding to the main elements of the developed conceptual framework (see Figure I.1 below).

![Figure I.1 Framework view on the developed insights](image)

Insights 1-2 are developed from the findings revealed around the contract and formal controls in the outsourcing arrangements. Insight 3 is followed from the discussion around trust and its changes in the development of outsourcing relationships. Insight 4 is developed based on the outcomes revealed from the discussion on the nature and role of the balance between trust and formal controls in outsourcing arrangements. Insight 5 is developed based on the empirical findings of the effects of the revealed types of balance on outcomes across five case studies.

An example below is provided to show how different insights are developed from the empirical findings.
I.3 Insights for Managing Client-Vendor Outsourcing Relationships: Applicable to Client and Vendor Organisations

Insight #1: Contract implementation and completeness

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of practice</th>
<th>Description of practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>The signed contract should comprise the complexity of the outsourcing project and business environment changes.</td>
<td>Usually in outsourcing engagements, a well signed outsourcing contract should be able to cover all possible aspects of the outsourcing project, such as the scope and technical details of the project, the level and quality expected, the completion timeframe and the payment mode. Also, outsourcing contracts should be designed to include certain flexibility, so that it is possible to incorporate any new changes, developments or technologies in the outsourcing project.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1.2</td>
<td>Clearly determined service targets and the negotiated cost for provided services.</td>
<td>Clients need to clearly determine the service targets (or quality level) of the expected quality of service from the vendor. These targets should be formally agreed as project targets which the vendor must meet but the required measures should be fair for both parties. In addition, vendors may also determine internal KPIs for the project team to follow in the project task activities. The cost for provided services should be also clearly negotiated with the vendor to avoid extra cost expenditures for clients in the future.</td>
</tr>
<tr>
<td>1.3</td>
<td>Scope definition.</td>
<td>The practice is fundamental for the success of the outsourcing project since it describes the deliverables and expectations for the vendor. This should be based either on detailed schedules or functional specifications issued separately or embedded into the service level agreement (SLA), with the point being that neither party can be in any doubt as to what is required. The vendors should also be interested in defining the clarity of the scope in order to minimize risks and have a good idea about required resourcing (both human and infrastructure).</td>
</tr>
<tr>
<td>1.4</td>
<td>Added penalties and/or rewards should be fair for both parties.</td>
<td>The defined service levels can have penalties or benefits attached to them. The most common forms of penalties refer to a specific breach of contract, such as late performance by the vendor. Also, the vendor may insist on adding penalties such as late (non-prompt) payments by the client. In terms of rewards, incentives are often used to reward the vendor for delivering an exceptional quality of service and/or the business value to the client.</td>
</tr>
<tr>
<td>1.5</td>
<td>Clients are not encouraged to sign the drafts of the contract provided by vendors.</td>
<td>During the contract negotiations of a new outsourcing arrangement, clients should not take the draft provided by the vendor as the template for a new contract. Usually the vendor’s drafts are designed one-sided that favour the vendor’s interests. At best, the client may engage the internal legal department to review the contract clauses and properly formulate terms and conditions. In the vendors may consider signing the deal based on the draft provided by the client, especially if the client organisation has an extensive outsourcing experience. Such contracts are well-designed for procurement of outsourcing services.</td>
</tr>
<tr>
<td>1.6</td>
<td>Tasks and responsibilities.</td>
<td>Another important thing for outsourcing contracts is the specific tasks that the outsourcing vendor will do for the client. Accurate descriptions of the tasks should be included in the contract so that both parties have a clear understanding about what needs to be done and what can be expected. Apart from the vendor’s defined part, the client is also obliged to assign the accountability of each member of the project team.</td>
</tr>
<tr>
<td>1.7</td>
<td>Standard delivery reports and communication strategy.</td>
<td>Good contracts describe the reporting methods for service level measurement. They can cover factors such as how and when targets are met, either for a month or more regularly – for a week. Apart from the standard reports outlined in the contract, both parties may choose to deviate from this and further initiate follow-up reviews or informal assessment of the deliverables. Also, clients and vendors should ensure the constant communication between the teams in the arrangement. Constant communication will not only help in delivering project installments efficiently but also help to encourage both teams to work more proactively. Apart from the standard form of communication channels that should be outlined in the contract such as formal meetings with pro-forma and communication tools (e.g. phone, email, documentation), both parties may choose to follow ad-hoc meetings and informal communications.</td>
</tr>
</tbody>
</table>
Subsequent contract negotiations and renewals should be equally balanced (CBT).

During the contract negotiations and further renewals, both parties should be able to come to an agreeable outcome that brings a ‘win-win’ situation to both parties.

Priority for performing the outsourcing contract obligations.

This is crucially important for vendors. Along the course of the arrangement, the vendor sometimes gets distracted by the side-projects offered by the client to make the profit out of them (out of the scope of the existing contract). In this case, the vendor should set up the priority of performing the project he had been hired for in the first instance.

Insight #2: Implementing formal controls in managing the project

The implementation of both types of formal controls, i.e. outcome-based controls and behaviour-based controls that if they are used in combination, may bring better outputs or efficiency in the outsourcing arrangement.

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of practice</th>
<th>Description of practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Clients should initiate the outcome-based controls in the first instance.</td>
<td>These controls are aimed at assessing the outputs of the vendor (i.e. result-oriented controls). For such purpose, performance measures should be implemented as the performance metrics and baselines of the expected quality of service. In addition, clients may choose to initiate additional assessment controls (e.g. milestone payments) in order to influence the progress of the project performance.</td>
</tr>
<tr>
<td>2.2</td>
<td>Ensured constant working communication and regular meetings.</td>
<td>In addition to the communication modes specified in the contract, both parties need to arrange the working communications on a regular basis by using email, phone, conference calls, instant messaging and occasional personal visits. The personal visits may occur in a form of unscheduled informal ‘catch-ups’ to discuss project-related issues. The client’s team should make oneself available for the requested information from the vendor’s team, while the latter should be constantly seeking for feedback on the project progress. The efficiency of communications can be done through the active engagement of the project managers from both parties in the outsourcing operations. Regular meetings are important in bringing different perspectives and status report about the project from both perspectives. Beyond the project work, meetings may also assist in building the rapport and mutual respect with the team fellows. Meetings may be arranged at different organisational levels from both parties. In particular, high and middle level (executive and management) meetings should be organized between senior and management people from the client and the vendor organisations to discuss the results of the contract performance, delivery (or status update) reports and performance management. At the operational level, meetings tend to be less formal and focus on daily interactions and task activities (i.e. informal social control).</td>
</tr>
<tr>
<td>2.3</td>
<td>Both parties may implement behaviour-based controls to regulate the behaviour of each other along the course of the arrangement.</td>
<td>In the outsourcing arrangement, both organisations can initiate behaviour-based controls aimed at regulating (or moderating) of the behaviour of the other party’s team. Although there is no list of the industry-approved controls, however for clients it is recommended to place the vendor’s team (or members of the team) on the own premises as one of the successful behaviour-based controls or document the project knowledge that the vendor possessed. Vendors may consider organising knowledge transfers with the client or they may initiate additional reviews of the</td>
</tr>
</tbody>
</table>
2.4 Project documentation and informal reviews. The practice is important for the clients to ensure that the project documentation is kept and informal reviews are encouraged to be conducted as the part of the process-oriented approach.

2.5 Active involvement of the top management in the arrangement. The practice is important for both organisations to attract senior people more actively in order to build situation awareness (e.g. budget, time, cost issues) around the progress of the project.

<table>
<thead>
<tr>
<th>Insight #3: Developing trust in managing the outsourcing relationship</th>
<th>No.</th>
<th>Name of practice</th>
<th>Description of practice</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.1</td>
<td>Show commitment.</td>
<td>Clients and vendors should be committed to their promises in the outsourcing arrangement. Commitment should be achieved by performing as per the contract. High level of commitment develops trust in the relationship.</td>
</tr>
<tr>
<td></td>
<td>3.2</td>
<td>Willingness to cooperate.</td>
<td>Clients and vendors should be willing to cooperate with each other in case of any difficulties or challenges raised. So that both parties should appreciate the other’s interests in the outsourcing arrangement.</td>
</tr>
<tr>
<td></td>
<td>3.3</td>
<td>Manage expectations.</td>
<td>Clients and vendors should document and mutually agree on what they expect from each other and the outsourcing arrangement. In particular, the client should ensure that the vendor understands what is required from them regarding the project. This can be done by requesting results of the reports, organizing reviews. The vendor ensures that working communications stay open and honest in order to have a sense of ‘doing the right thing’.</td>
</tr>
<tr>
<td></td>
<td>3.4</td>
<td>Keep constant pool of people in project teams (KBT).</td>
<td>Both parties should preserve constant members of their teams in order to build effective team-building initiatives. This also facilitates trust-building and keeps the confidence level about the teams.</td>
</tr>
<tr>
<td></td>
<td>3.5</td>
<td>Presence of a strong service delivery manager.</td>
<td>The practice is applicable to vendors. For the performance success, the vendor should ensure to appoint a delivery manager who has strong business (management) and technical skills in terms of the project deliverables.</td>
</tr>
<tr>
<td></td>
<td>3.6</td>
<td>Allocate teams with a professional skills set.</td>
<td>Both parties should assign dedicated project teams with clearly specified scope of responsibilities. Each team should have a relationship management person, whose job is to nurture the working relationship with the outsourcing partner. The project manager may also comprise such responsibility. Vendors are encouraged to have people with business acumen (e.g. project manager) in their teams in order to understand project’s requirements.</td>
</tr>
<tr>
<td></td>
<td>3.7</td>
<td>Build reputation (RBT).</td>
<td>Vendors should continually put effort into building a reputation with the client and not only in terms of a technical competency but also in terms of dealing with the client. Clients should get third-party references, either an internal reference if another department (applicable for large organisations) within the organisation had worked with the vendor previously. Also, they can get an external reference from the vendor’s previous clients in the area of required expertise.</td>
</tr>
<tr>
<td></td>
<td>3.8</td>
<td>Act proactively.</td>
<td>Vendors should be proactive in approaching clients with the updated information relevant to the outsourcing arrangement or being initiative in facing with project difficulties and ways to overcome them.</td>
</tr>
<tr>
<td></td>
<td>3.9</td>
<td>Build cultural fit and shared interests (IBT).</td>
<td>Clients and vendors should develop cultural fit of each other (between teams). In addition to constant communication and regular meetings, cultural fit can mainly be created by spending time together on the project (e.g. shared interests, strong team-building).</td>
</tr>
</tbody>
</table>
3.10 Keep constant open communication (information-based trust).

Both parties should preserve open and honest interactions that ensure constant information exchange about the project details.

3.11 Develop professional expertise and domain knowledge.

Vendors should develop professional expertise and domain knowledge across different sectors depending on the interests of the client’s business areas.

3.12 Consistent delivery and performance (PBT).

Vendors should be consistent in delivering both different components (installments) of the outsourcing project and high quality performance.

3.13 Show reasonable requests and prompt payments (PBT).

Clients should show an understanding and a genuine support to the vendor’s team. Also, such effort as asking for reasonable requests and prompt payments, may help building trust with the vendor.

3.15 Show ability to carry out given promises and obligations (capability-based trust).

Vendors should be able demonstrate an ability to carry out given promises and continuously perform obligations.

### Insight #4: Effects of applying complementary (trust and formal controls) activities in outsourcing arrangements

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of practice</th>
<th>Description of practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Facilitate implementing both trust and formal controls activities.</td>
<td>Both parties should not avoid developing formal controls and trust activities since they can counterweight weaknesses of each other. Formal controls are thought as a monitoring (and measurement) mechanism in the project, while trust is considered as a facilitator in the development and quality of outsourcing relationships.</td>
</tr>
<tr>
<td>4.2</td>
<td>Monitor the vendor’s performance and history of track records.</td>
<td>Clients should take a choice of changing formal controls and trust activities based on the vendor’s performance in the process. Vendors are encouraged to meet clients’ expectations and satisfy the needs.</td>
</tr>
<tr>
<td>4.3</td>
<td>Beware of impact of business environment (including organisational settings) and outsourcing project changes.</td>
<td>Clients and vendors are encouraged to be flexible as details of the project (e.g. technology, size), internal organisational or environment factors may affect the state of affairs. As one of proposed ways is to add flexibility to the contract and do not sign tight contracts (do not mix with a tightly defined scope) in terms of the unforeseen circumstances and changes in the business environment.</td>
</tr>
<tr>
<td>4.4</td>
<td>Find the working combination between trust and formal controls initiatives.</td>
<td>Both parties should find an agreement about the working combination between trust and formal controls that they both find comfortable to operate on. Since there is no ideal combination, both parties should make an effort of finding the ‘right’ balance applicable to details of their arrangement.</td>
</tr>
</tbody>
</table>
### Insight # 5: Effects of different balance types and perceptions of outcomes

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of practice</th>
<th>Description of practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Achieve synergistic balance.</td>
<td>Both parties should be aware of the mutual reinforcement and/or synergistic impact of one activity one another (e.g. decrease in trust in the vendor may cause the client to implement a set of monitoring activities) when structuring a new outsourcing arrangement. It is the most ‘comfort zone’ found between trust and formal controls because of the virtuous synergy effect.</td>
</tr>
<tr>
<td>5.2</td>
<td>Achieve orthogonal balance.</td>
<td>The practice is best suited for clients and vendors who had already a long history of outsourcing experience, either with each other on the projects or with other organisations. Both parties should be aware that trust and formal controls are not aligned and do not influence each other. When aiming to find this balance in the new arrangement, both parties should have already a prior history of interactions (e.g. existing trust) and matured formal processes in order not to align these two activities. However, there is some risk involved if key stakeholders and/or project teams are going to be retrenched or leave any of the organisations.</td>
</tr>
<tr>
<td>5.3</td>
<td>Achieve antithetical balance.</td>
<td>The practice is not recommended to apply for clients and vendors that are not experienced in outsourcing and do not have matured processes and resources in the outsourcing arrangement. Both parties should be aware that this balance facilitates the effective implementation of a single activity (either trust or formal controls) and the other may be left aside.</td>
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<tr>
<td>5.4</td>
<td>Target high satisfaction and consistent quality.</td>
<td>Clients should encourage the vendor to deliver consistently and collect formal and informal reports from end-users about quality of delivered services. Vendors should consider delivering high quality services that satisfy both technical and business requirements (added value) of the outsourcing project.</td>
</tr>
<tr>
<td>5.5</td>
<td>Ensure process-driven coordination.</td>
<td>Both parties should ensure the ongoing coordination of the project.</td>
</tr>
<tr>
<td>5.6</td>
<td>Build satisfaction and quality of the relationship.</td>
<td>Both parties should nurture the good foundation of their working relationships by working together as partners and not against each other. In developing relationships, both parties should value openness and flexibility, gained working experience and learning curve. Also, good quality of service and alignment of expectations should be closely managed by both parties. A shared understanding formed between two executives can further facilitate the growth of reputation and confidence between two project teams.</td>
</tr>
<tr>
<td>5.7</td>
<td>Continuity.</td>
<td>Clients may wish to continue their arrangements with vendors when, their expectations are met, satisfactory quality, vendor’s domain understanding or strategic importance of outsourced services.</td>
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<tr>
<td>5.8</td>
<td>Cost benefits (savings).</td>
<td>Clients should not forget about the primary reasons why IT/IS functions (or entire IT department) have been outsourced to the third party and it is mainly of cost benefits (savings).</td>
</tr>
<tr>
<td>5.9</td>
<td>Aside project opportunities.</td>
<td>Vendors may consider gaining profit from aside projects assigned by the client. However, this should not intervene with the main obligation of the vendor to deliver as per the signed contract.</td>
</tr>
</tbody>
</table>