Moving Towards an Integrated Framework of IT-Outsourcing Success

By: Anju Mehta and Nikhil Mehta

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Abstract:

Offshore information technology outsourcing is a popular strategic choice for businesses today. Firms are increasingly outsourcing their complex information technology-based projects, business processes, and services to offshore locations to achieve competitive advantage. Traditionally, offshore information technology outsourcing was a means to reduce costs and/or increase efficiencies by focusing on core activities. Recently, the emphasis has shifted to pursuing it as a strategy for cooperative advantage through resource sharing and building long-term relationships with the offshore partners. However, many such offshore outsourcing relationships fail due to a lack of understanding and proper operationalization of the critical success factors that influence global client–vendor partnerships. In the current study, the authors draw upon existing literature to identify popular theoretical perspectives and key operational, environmental, and relational factors influencing the success of offshore information technology outsourcing relationship. A framework of offshore information technology outsourcing success is then developed by integrating these theoretical perspectives and critical success factors. Exploratory data suggests that the proposed framework is valid for understanding offshore information technology outsourcing success and has important implications for theory and practice.

Keywords: Client–Vendor Strategic Partnerships | Integrated Outsourcing Perspective | Offshore IT Outsourcing Success | Relational Outsourcing

Article:

Introduction

Information technology (IT) outsourcing refers to a business practice where an outsourcing firm (the client) transfers one or more of its IT-related value chain activities and/or processes that were previously held or performed in-house, to external agents (the vendor) (Dutta, Gwebu, &

Wang, 2011). A vast majority of these client–vendor arrangements involve *offshoring*, where the partners are located in different countries (Xu & Yao, 2013). Such offshore IT outsourcing partnerships have become a burgeoning global phenomenon due to the rapid technological advancements, a greater access to global human capital, and close integration of international markets (Bharadwaj, Saxena, & Halemane, 2010; Palvia & Palvia, 2016).

According to a joint research conducted by Klynveld Peat Marwick Goerdeler (KPMG) and HfS Research, the global IT outsourcing market was valued at $648 billion in 2013 and is expected to grow at a compound annual rate of 4.7% until 2017 (HfS Research, 2013). The same research reported that globally, IT is among top three functions outsourced by the firms across diverse industries, such as insurance, banking, manufacturing, energy, entertainment, retail, and telecom.

Initially driven by costs, offshore IT outsourcing was limited to activities not "critical" to organizations (Franceschini, Galetto, Pignatelli, & Varetto, 2003). By 1990's, the focus had shifted to core competencies and firms started outsourcing all business activities, except for those core activities in which the organizations had, or could potentially gain unique competitive advantage. As a result, outsourcing, termed "strategic outsourcing," evolved into a core strategic function and thus, a top-management decision taken at Chief Executive Officer (CEO) or board level (Gottfredson, Puryear, & Phillips, 2005). During the last decade, a third perspective has emerged that advocates creating value through relational partnerships and building cooperative advantage through tactical resource sharing (Haried & Ramamurthy, 2009; Kishore, Rao, Nam, Rajagopalan, & Chaudhury, 2003). Such partnerships can have significant ramifications for organizational innovation, competitiveness, and long-term survival. This has led to an increased number of relational offshore outsourcing alliances formed to achieve specific business goals (Kakabadse & Kakabadse, 2005). A relational alliance is characterized by frequent client–vendor interaction, bilateral exchange of resources, and long-term collaboration for mutual gains (Gammelgaard, Kumar, & Worm, 2013).

However, despite the theorized benefits, navigating the murky terrain of offshore IT outsourcing alliances poses a colossal challenge for client firms (Oza & Hall, 2005). In a case-based research on offshore IT outsourcing involving clients and vendors from different countries, Alami, Wong, and McBride (2008, p. 49) reported that "global IT enterprise models face serious relationship issues" due to factors such as cultural differences, communication, lack of client support, contract penalties, and cost savings objectives. In another study, 25% of customers reported a "relationship failure," i.e., termination of a more than 1-year-old contract by the client (Goles & Chin, 2005). For example, a 10-year, $16 billion privatization contract between the IBM and the Indiana Family and Social Administration was terminated in May 2010, with a costly legal battle and no services for the client (Schwarz, 2014). Furthermore, 30%–50% of outsourcing partnerships underperform (Handley & Benton, 2013). No wonder most clients are dissatisfied with the performance and relational gains expected from an offshore IT outsourcing alliance (Schwarz 2014; Zineldin & Bredenlow, 2003).

Failure of a strategic IT outsourcing alliance not only involves high transition costs (e.g., switching, relocating, and redeployment costs) for the client (Goo, Kishore, Nam, Rao, & Song, 2007), but also additional demands in terms of effort and time spent in looking for a new partner for the outsourced IT activity. Therefore, investing in a relationship-oriented offshore alliance is considered more beneficial compared to an arm's length, cost-driven partnership, especially in the case of "total" outsourcing, where clients may outsource 70% to 100% of their IT function (Willcocks & Kern, 1998). Recent research confirms that client–vendor relationship is critical to offshore IT outsourcing success (Alami et al., 2008; Kumar & Palvia, 2002; Weerakkody & Irani, 2010; Xu & Yao, 2013). This has generated considerable interest in how to protract client–vendor partnerships (Simon, Poston, & Kettinger, 2009). Consequently, a robust body of research has emerged that examines offshore IT outsourcing from diverse perspectives, such as contractual, contextual, cultural, and knowledge sharing (see Gammelgaard et al., 2013; Goo et al., 2007; Wiengarten, Pagell, & Fynes, 2013; Xu & Yao, 2013).

In spite of the notable efforts in this direction (see Bharadwaj et al., 2010; Das & Kumar, 2010; Li, 2014), a question that still remains unanswered is: How can clients and vendors develop a successful offshore IT outsourcing relationship? As Schwarz (2014, p. 152) pointed out, "Organizations are willing to pay the cost of working on an outsourcing relationship because they perceive value in it. However, less is known about what changes (if any) are necessary to achieve these benefits from outsourcing." Overall, the domain of successful offshore IT outsourcing partnership is currently facing two major challenges that call for research attention. First, although deemed critical to the success of an outsourcing alliance, the dynamics of the client–vendor relationship are yet to be fully understood (Gammelgaard et al., 2013). Thus, there is a need to consolidate the current body of research to identify critical factors that determine the success of an offshore IT outsourcing partnership. Although recent studies have attempted to determine the factors affecting outsourcing relationship (e.g., Ang & Inkpen, 2008; Li, 2014; Remus & Wiener, 2009; Xu & Yao, 2013), the conclusions are fragmented and deficient. For example, while Handley and Benton (2009) advocated the use of iron-clad contracts for outsourcing success, they acknowledged that environmental factors could affect this equation.

Second, there is a lack of a comprehensive, *relationship-focused* theoretical framework that elucidates how different factors interact to shape up a successful, global client–vendor relationship. The absence of such a holistic relational framework is also felt by the researchers. In a recent meta-analysis on outsourcing relationship frameworks, Lyons and Brennan (2014, p. 163) noted that very few frameworks addressed the areas of relationship evolution and management, and emphasized that these areas clearly "merit further study."

This study fills these gaps in the literature and makes three key contributions. First, the authors argue that achieving long-term collaborative success requires clients and vendors to adopt a multi-faceted approach to offshore IT outsourcing. Drawing upon existing research, the authors conceptualize offshore IT outsourcing success as a multi-dimensional variable and identify key operational, relational, and environmental factors that affect it. Second, the authors propose a dependency framework of offshore IT outsourcing success that can help in understanding *how* long-term, strategic partnerships evolve between clients and vendors. The framework elucidates direct, moderating, and mediating effects of a set of critical factors on offshore IT outsourcing success. The framework is particularly aimed to assist those clients who are engaged (or are planning to engage) in "total" offshore outsourcing of their IT operations and are seeking transformational relationship (Kedia & Lahiri, 2007) with their vendors to realize the cost, competency, and relational advantages. To the best of the authors knowledge, a holistic framework for IT outsourcing success, grounded in an integrated theory of outsourcing, has not been proposed. Third, using a pilot study we validate the framework and discuss its implications for research and practice.

In the next section, three theoretical perspectives of outsourcing—transactional, competency-based, and relational—are discussed. Key tenets from these perspectives are integrated to provide a theoretical foundation for the framework. Next, the conceptual model and propositions are developed, followed by the method, findings, and contribution sections.

Theoretical Background

Over the last few decades, a number of perspectives have evolved to explain client motivations to outsource. As presented in Figure 1, three viewpoints dominate this landscape—transactional cost, core competency, and relational.

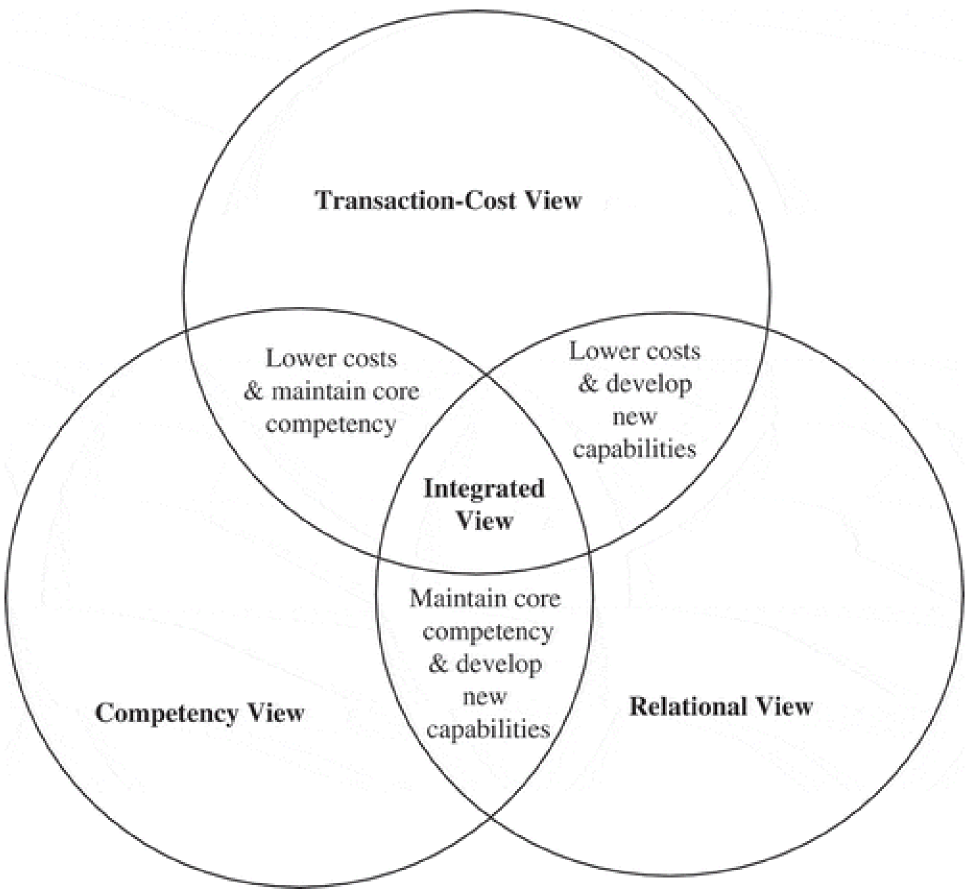

Figure 1. Theoretical perspectives on outsourcing.

Transactional Cost Perspective (TCP)

Motivated by the neoclassical economic theory, the transactional cost perspective considers outsourcing as a means to lowering the costs of production and processes (Kakabadse & Kakabadse, 2005). According to this perspective, firms incur transaction costs when using a market. These costs can be avoided, and economies of scale gained, by making their own inputs. This, however, incurs internal coordination costs. Thus, the decision to outsource is determined by whether it will enable the firm to take advantage of the economies of scale of an outside vendor while reducing internal coordination costs. As Gottschalk and Solli-Sæther (2006, p. 201) explain, "…the question whether to outsource, is a question whether the marketplace can produce product and services at a lower price than internal production." Successful transactional outcomes of outsourcing include transaction and production cost efficiencies (Bharadwaj et al., 2010) achieved by reducing the need for internal resources, reducing process complexity and uncertainty, increasing transaction frequency (Mahnke, Overby, & Vang, 2005), and integrating cost-effective goods and services from vendors.

This cost-based approach to outsourcing can also be explained through the lens of agency theory that postulates that transactional outcomes accrue when the client (the principal) and the vendor (the agent) engage in an agency relationship defined as a contract (Eisenhardt, 1989; Gottschalk & Solli-Sæther, 2005). The "principal" subcontracts some service to the "agent" along with the decision-making authority in order to decrease costs related that service. One common challenge in the agency relationships is the principal-agent conflict due to different goals or risk preferences (Eisenhardt, 1989; Gonzales, Gasco, & Liopis, 2005), which necessitates conforming to a tight and detailed contract. A detailed and specific contract between the client and the vendor would also discourage opportunism and reduce performance measuring problems (Poppo & Zenger, 2002). Another benefit of a water-tight contract is that if clients derive transactional benefits, successful relationships tend to develop between the clients and the vendors.

But in reality, formal and highly specific contracts are not amenable to changing market conditions and technologies. This adaptive constraint of contracts typically impedes the formation of shared outsourcing goals between the two parties, hindering the development of a mature client–vendor relationship, and eventually leading to distrust and opportunism (Ghoshal & Moran, 1996). For this reason, transactional view of outsourcing is criticized for its emphasis on over-specification in client–vendor partnerships and is considered insufficient to steering a strategic outsourcing allianceto success (Gottschalk & Solli-Saether, 2006). Other challenges also abound in cost-based outsourcing decisions such as cost estimation errors (Larsen, Manning, & Pedersen, 2013), hidden costs (Mathew, 2011), and unanticipated cost overrides due to system incompatibilities (Albertson, 2000). However, this does not marginalize the importance of this perspective completely. The authors propose that if the principal-agent problems inherent in transactional outsourcing can be resolved, a foundation for a long-term outsourcing relationship can be built.

Competency Perspective

The competency approach was driven largely by globalization, which required the firms to focus on their core activities to remain competitive. This led to the notion that a firm should identify and outsource its non-core activities and focus its resources only on a set of "core competencies," i.e., activities that offer a competitive advantage and must be protected (Hilmer & Quinn, 1994). Thus, outsourcing morphed into a complex strategic endeavor that involved moving out even the essential functions like engineering and marketing, if the firm had no strategic need for these (Gottfredson et al., 2005).

The competency approach is based on the resource-based view (RBV) that considers an organization as a collection of unique tangible or intangible resources, from which it derives its competitive advantage (Gottschalk & Solli-Saether, 2006). These unique resources or capabilities are typically not products, but intellectually based skills and activities that firms perform at best-in-the-world levels to create a high value for their customers (Gottschalk & Solli-Sæther, 2006; Quinn, 1999). According to the competency view, outsourcing enables the client firms to develop unique competencies in two ways. First, the client may benefit from the value generation potential of vendor resources. The vendor may have complementary capabilities, such as technical competence, customer relationship management, and IT personnel development and other strategic resources. Access to and application of these capabilities and resources may help the client maintain competitive advantage (Gottschalk & Solli-Sæther, 2006). Second, outsourcing allows the client firms to focus on and strengthen their own core competencies by subcontracting non-core functions to a vendor. Top managers must answer two key questions to decide whether a capability is to be outsourced or not (Hilmer & Quinn, 1994). First, is the internal capability currently creating, or has the potential to create, competitive advantage? Second, would the firm be exposed to potential vulnerability if the capability is outsourced? In other words, would the firm suffer strategic damage if rivals could imitate that capability (Gottfredson et al., 2005)? A firm may decide to outsource not only its business functions but also the unique capabilities based on the risks and value generation potential of the outsourcing partnership in achieving strategic goals (Holcomb & Hitt, 2007; Lavie, 2006). This view of outsourcing is commonly referred to as "strategic outsourcing."

Executed property, strategic outsourcing can accrue two key benefits to the client firms. First, by focusing resources on unique capabilities, firms create barriers against current and future competitors (Hilmer & Quinn, 1994). Second, by utilizing vendors' portfolio of innovations and specialized capabilities, which could not be developed internally, firms reduce costs and risks while improving flexibility and responsiveness to market changes (Holcomb & Hitt, 2007). The authors propose that when clients are able to derive competitive advantage by developing their unique capabilities and by applying vendor's resources, their strategic relationship with the vendors has the potential to evolve into a mutually beneficial partnership. Such partnerships form the basis of relational outsourcing.

Relational Perspective

The relational view espouses creating value through an alliance characterized by the client and the vendor pursuing mutually compatible goals collaboratively, which could not be achieved alone (Koh, Ang, & Straub, 2004). Firms adopting the relational approach outsource only if their relationship with the vendor offers "relational rents" generated through the inter-firm exchange or sharing of knowledge, capabilities, and assets (Dyer & Singh, 1998). Relational rents may accrue in long-term contracts, when inter-organizational exchanges become socially embedded over time, leading to cooperation, trust, and mutual commitment. Sharing of unique knowledge resources and core processes may also generate "cooperative gains," which refers to the closeness of a partnership and a positive correlation between supplier's economic performance and a given customer in a vertical alliance. Generating cooperative gain means being profitable in a close trust-based relationship, characterized by active vendor involvement in designing, developing, producing, or selling of goods or services (Donada, 2002).

From a dynamic capability perspective, firms require a deep and extensive knowledge base to develop flexible capabilities to respond to environmental uncertainties (Nonaka, Toyama, & Nagata, 2000). Outsourcing provides clients access to new and sophisticated technology, specialized knowledge, and unique resources, which could not be developed alone, allowing the firm to augment its resource base to support dynamic capabilities (Teece, 2007). Moreover, firms are increasingly realizing that having impressive in-house innovation capabilities may not be sufficient to face competitive threats. The cognitive distance (Noteboom, 2009) and diversity of knowledge inputs (Bertrand & Mol, 2013), coupled with access to best of talent in a particular domain, give the vendor an "innovation advantage" that client firms cannot ignore.

The relational perspective also draws upon the social exchange theory, which posits that partners seek social and economic outcomes from their interactions and compare them to the outcomes from alternative exchanges. As per this theory, outsourcing relationship is seen as a series of dynamic inter-organizational exchanges of valuable resources. Positive experiences related to these exchanges create mutual understanding and generate positive relational norms, resulting in satisfaction with the relationship (Kern & Willcocks, 2002; Lee & Kim, 2005). The relational norms about behavioral expectations also prescribe stewardship behavior, collaboration, and commitment among partners for a mutually beneficial alliance (Lambe, Spekman, & Hunt, 2000).

Previous studies have established the importance of relationship-based strategic alliances. Mehta and Mehta (2009) showed that relational investments could help clients reduce risks emanating from vendor's human resource challenges. Relationship-specific investments are known to influence the duration of inter-firm partnerships (Goo et al., 2007). Partnership-based outsourcing was also linked to superior performance based on mutual trust (Macbeth & Ferguson, 1994) and greater innovation through effective knowledge sharing routines (Powell, Koput, & Smith-Doerr, 1996). Thus, trust and relationship-based strategic partnerships can bring myriad of benefits to both the clients and the vendors. However, the success rate of such partnerships is hardly impressive. A majority of relationships either fail or end up being unsatisfactory, with the partners never realizing the potential gains. The authors argue that this could be due to partners adopting a piecemeal approach to outsourcing that fails to answer how the cost, competency, and relational views of outsourcing might be interrelated.

Toward an Integrated Perspective

A firm's inter-organizational strategy comprises of two essential mechanisms namely, value creation and value claiming, both of which contribute to the firm's performance (Verwaal, Commandeur, & Verbeke, 2009). Value creation refers to "the net is rent-earning capacity of resources" and value claiming is "the capability of firms to appropriate these rents" (Verwaal et al., 2009, p. 421). Since strategic outsourcing inherently involves inter-organizational dependencies, value creation and value claiming mechanisms would be fundamental to outsourcing as well.

For example, the RBV of outsourcing suggests that firms are bundles of unique, inimitable, and rare resources; and that client firms may have to depend on the vendor firms to access some of these resources to achieve their strategic goals. Thus, outsourcing is a means to accessing and exploiting value-creating resources (Das & Teng, 2001; Lippman & Rumelt, 2003). At the same time, outsourcing firms also engage in value-claiming by using bargaining power or the threat to terminate a contract, as emphasized by the transaction cost theory. Thus, a firm's outsourcing decisions are frequently driven by both resource and cost attributes, and an alignment between the two may be important for outsourcing success (Verwaal et al., 2009). Additionally, firms typically engage in relational partnerships due to resource dependencies and the need to develop flexible capabilities that cannot be developed alone. The social exchanges in such a partnership may be critical to both value creation and value claiming, and in turn, outsourcing success. Thus, by adopting an integrated approach to outsourcing (see Figure 1), firms may significantly improve their chances of achieving IT outsourcing success via improved value-creation and value-claiming.

Table 1. Outsourcing perspectives, underlying theoretical orientations, and implications for client–vendor partnerships.

Outsourcing Perspective	Objectives and Theoretical Orientations	Partnership Characteristics
Transactional View	Lower costs Transaction cost theory (Kakabadse & Kakabadse, 2005); Agency theory (Eisenhardt, 1989)	Arm's length partnership Tactical partnership Partner seen as a supplier Water-tight contract Cost-driven model
Competency View	Maintain core competencies Resource based theory (Barney, 1996; Peteraf & Barney, 2003)	Strategic alliance Partner seen as a business associate Flexible contract Focus on productivity and key competencies Strategy-driven model
Relational View	Develop new capabilities Resource dependency theory (Pfeffer & Salancik, 2003); Social exchange theory (Blau, 1964)	Relational alliance Partner seen as a valued business ally Relational contract Shared governance infrastructure Relational capital Shared goals and resources Resource-driven model
Integrated View	Develop flexible capabilities while achieving long-term cost efficiencies and maintaining core competencies Social exchange theory (Blau, 1964); Dynamic capability perspective (Nonaka et al., 2000)	Transformational alliance Partner seen as a valued business ally Relational contract Shared governance infrastructure Relational and social capital Shared goals and resources Shared costs, risks, and benefits Shared capability development Sustained innovation and cooperative advantage Innovation- and value-driven model

However, with a few notable exceptions (e.g., Barthelemy & Quelin, 2006; Holcomb & Hitt, 2007; Qi & Chau, 2012; Rai, Keil, Hornyak, & Wüllenweber, 2012; Verwaal et al., 2009), very few studies have presented an integrated view of outsourcing. Moreover, a majority of these studies have failed to incorporate the relational aspect of outsourcing, which might be critical to creating strategic value. In the current article, combining the three prevalent theoretical views, the authors present an integrated perspective of outsourcing. Table 1 presents the outsourcing views, objectives, and theoretical foundation for each view and key partnership characteristics associated with each view. In the next section, the authors propose an offshore IT outsourcing success framework that incorporates factors pertaining to the three outsourcing perspectives.

Conceptual Model and Propositions

As mentioned previously, from a theoretical perspective, a firm may be driven to outsourcing for cost efficiencies, core competencies, or resource synergies. Past research confirms that the success of IT outsourcing partnership is determined by a number of distinct factors pertaining to these theoretical assumptions. For example, in a study on offshore software projects, Remus and Wiener (2009) identified several critical success factors such as legal and political stability of host country, quality of manpower, the accuracy of contract, cultural sensitivity, communication, and knowledge exchange. Similarly, Fjermestad and Saitta (2005) proposed a success factor model of IT outsourcing including variables, such as infrastructure, contracts, cultural readiness, strategic partnership, and economics. However, an integrated dependency model that can guide the managers to embrace the best tenets of the three perspectives to create strategic leverage from an outsourcing partnership is missing from the literature. Drawing upon the three outsourcing perspectives and existing literature, three sets of factors were identified, namely, operational, environmental, and relational, which influence offshore IT outsourcing success.

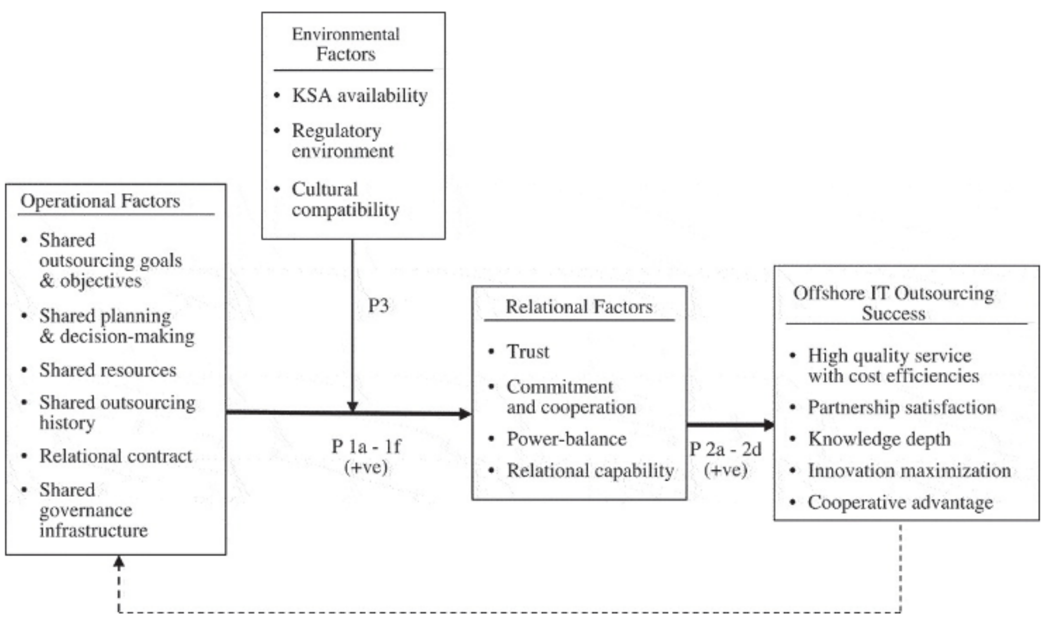

Figure 2. Framework for developing a successful strategic IT outsourcing relationship.

Specifically, the authors propose that firms trying to build a strategic, offshore IT outsourcing collaboration need to first identify the *operational prerequisites* of the alliance. These operational prerequisites will facilitate the development of *relational enablers*. Strategic outsourcing partnerships, enriched with these dynamics, will accrue to the firms, high-quality service with cost and risk efficiencies, cooperative advantage, innovation maximization, and partnership satisfaction. The *environmental factors* will moderate the relationship between these operational and relational factors. Figure 2 presents the proposed framework.

The interrelationships presented in Figure 2 can be explained via the input-process-output (IPO) approach (Brown, 1996). As per the IPO perspective, operational elements and context-specific states would not, by themselves produce successful outcomes directly, rather it is the processes that follow from such states that yield the outcomes. Thus, operational and environmental factors such as shared goals and cultural compatibility would serve as inputs to impact relational factors such as trust and cooperation, which in turn would impact IT outsourcing success. It can be argued that by sharing their strategic intent, resources, and governance infrastructure over time, within context-specific constraints, outsourcing partners become socially embedded (Uzzi, 1996). The relational capital generated by the social embeddedness leads to a successful offshore IT outsourcing partnership (Rai, Maruping, & Venkatesh, 2009). The social exchange theory also affirms that sharing of social and material resources generates trust and understanding, resulting in positive outcomes (Blau, 1964).

Offshore IT Outsourcing Success

A successful offshore IT outsourcing relationship should accrue a number of tangible and intangible outcomes to the client firm such as performance, quality, mutual satisfaction, innovation, and financial benefits (Palvia & Palvia, 2016; Schwarz, 2014). Other indicators of IT outsourcing success include strategic outcomes (e.g., increased concentration on core business and increase in IT-based innovations) economic outcomes (e.g., reduced IT expenditure and increased financial flexibility), technological outcomes (e.g., availability of new technology and good IT infrastructure), and social outcomes (e.g., improved quality of service and user satisfaction) (Dahlberg & Nyrhinen, 2006). Drawing from prior studies, the authors identify five key measurement criteria for IT outsourcing success namely: high-quality service with cost and risk efficiencies, partnership satisfaction, knowledge depth, innovation maximization, and cooperative advantage.

Successful outsourcing alliance should result in the client having access to high-quality service with cost and risk efficiencies. Output quality has been established as an important indicator of IT outsourcing success. A firm can assess quality in terms of the flexibility and integrity of vendor's services compared to one's internal sources (Quinn, 1999) or in terms of customer satisfaction and accuracy of service. Cost and risk efficiencies would involve eliminating future investments in certain facilities and equipment, and sharing operational risk with the vendor (Holcomb & Hitt, 2007).

Another success criterion for offshore IT outsourcing success is greater knowledge depth and innovation—the extent to which outsourcing relationship improves client's access to new insights and key knowledge resources (Hilmer & Quinn, 1994). Greater knowledge depth would facilitate innovation reflected via new product ideas, process improvements, and technological breakthroughs. But the real test of innovation maximization would be the client's ability to focus their attention and resources on innovation opportunities (Holcomb & Hitt, 2007; Quinn, 1999). Appropriate relational investments in a partnership should also result in partnership satisfaction—a positive affective state shared by both partners, measured by their perceptions regarding the success of and happiness with the outsourcing relationship. Finally, the client should achieve cooperative advantage—a strategic advantage that can only result from a long-term, mutually beneficial relationship with the vendor. A cooperative advantage may be measured by unique competencies, developed jointly, that help the firms compete in the market.

Operational Factors

The operational prerequisites need to be created from a partnership-in-action (PIA) perspective, which highlights the joint ability of partners to influence policies, procedures, and decisions impacting partnership performance (Henderson, 1990). In other words, clients and vendors should be partners-in-action, in that they should share outsourcing goals and objectives, planning and decision making, resources, relational governance, benefits and risks, and even transactional costs. Acting as partners-in-action, the clients and vendors improve their chances of developing a successful relationship, and in turn, a successful outsourcing partnership.

Shared Outsourcing Goals and Objectives. The client–vendor relationship may be influenced by goals and objectives of both partners (Golicic & Mentzer, 2005). Firms seeking to exploit the benefits of an outsourcing partnership need to understand their vendors' goals and values before entering into the partnership (Feeny, Lacity, & Willcocks, 2005). Goal congruence has been highlighted as an important driver of inter-firm partnerships (Golicic & Mentzer, 2005). In a study of 1,572 alliances, Dyer, Kale, and Singh (2001) found that companies that were able to create more alliance value than others had a strategic alliance function dedicated to creating goal congruence between partners. Goal congruence encourages partners to pursue a participative approach to achieving those goals (McIvor & McHugh, 2000). Mutual goal-setting facilitates the emergence of key relational enablers and increases synergies, which help the partners develop perceptions of shared benefits and risks (Holcomb & Hitt, 2007). Understanding of each other's goals and objectives is also expected to enhance closeness and trust among partners, discouraging opportunistic behavior and abating power-balance issues in the partnership.

Shared Planning and Decision Making. A win-win partnership requires a mutual understanding of planning and decision-making processes between client and vendor (Dyer & Singh, 1998). Previous studies recommend creating organizational linkages, which are highlighted by the extent of cooperation and joint efforts between partners over processes like long-range planning, control system, training, and product design (Henderson, 1990). Organizational linkages were linked to psychological variables influencing outsourcing success (Lee & Kim, 2005). Thus, creating inter-firm linkages for shared planning and decision-making will facilitate the creation of relational factors, such as mutual trust and commitment among partners. Also, having an equal say in outsourcing decision making and operational issues will curtail any power-control issues (Willcocks & Kern, 1998). Therefore, joint problem solving and decision making may be imperative to an effective relationship (McIvor & McHugh, 2000).

Shared Resources. A high level of resource sharing from both customer and supplier firms are critical to the buyer–supplier relationship. By combining organizational resources such as information, expertise, and technology in unique ways, partner firms can confirm their allegiance to a long-term mutually beneficial relationship and obtain productivity gains in their value chain. Over time, this fosters trust and commitment among partners, both of which are critical to partnership success. By effectively combining resources, alliance partners also create unique resource endowments called relational capabilities. This synergistic effect not only creates a competitive advantage for firms but also makes it difficult to imitate (Holcomb & Hitt, 2007).

Shared Outsourcing History. A shared history is one of the important drivers of inter-organizational relationship (Golicic & Mentzer, 2005). Kumar and Palvia (2002, p. 66) reported, "the longer a client firm has been dealing with a particular global vendor, the more the degree of mutual trust they developed in each other. This, in turn, motivated the client firm to outsource more of their IT activities to that particular vendor. Also, the longer the working relationship between the client and the vendor firms, the more stable the "understanding" they have in terms of management expectations and performance."

Thus, successful relationships manifest through repetitive cycles of inter-firm exchanges, which foster a climate of trust, openness, and confidence. Prior history of cooperation between two firms also results in lesser contractual safeguards due to lesser apprehensions about the opportunistic behavior of the partner (Parkhe, 1993). This can help maintain the power-balance in the partnership (Holcomb & Hitt, 2007).

Additionally, prior history motivates the partners to expand the scope of their relationship (Kumar & Palvia, 2002), improving chances of developing an inimitable relational capability (Jacobides & Winter, 2005).

Shared Governance Infrastructure. While managing strategic outsourcing, information exchange, personal contact among top managers, and feedback systems to share knowledge and expertise in both directions of outsourcing relationship are considered important (Jennings, 2002). This can be achieved via shared governance. Developing governance infrastructure involves creating new roles, or modifying existing ones, to sustain a long-term partnership. It also includes developing routines, processes, and information technologies to support partnership activities, such as relationship building, information and resource sharing, conflict resolution, and partnership appraisal (Ang & Inkpen, 2008). Top managers, for example, need to take the responsibility of breaking bottlenecks even when lower-level misunderstandings occur (Quinn, 1999). Additionally, both partners need to hire and empower "champions" whose careers depend on the success of the relationship. These champions should follow formal and informal processes to solve problems, preferably before they occur and fester. Finally, both partners should develop formal relationship-building and information-sharing routines for their operational-level personnel (Quinn, 1999). Shared governance infrastructure should facilitate trust and commitment, power-balance, and relational capability building.

Relational Contract. An indispensable mechanism for operationalizing an outsourcing partnership is the outsourcing contract. Proponents of transaction cost perspective advise clients to create highly detailed and specific contracts to minimize transaction costs, but such contracts may signify distrust, encourage opportunism, and hurt clients' interests if their outsourcing demands change (Mahnke et al., 2005). The authors prescribe that a firm devise relational contracts instead, based on mutual trust and long-term commitment (Chassang, 2010; Li, 2014).

A critical component of a relational contract would be both partners sharing the transaction costs. This agreement would bring flexibility to the relationship—allowing both the clients and the vendors to adjust to each other's demands and constraints, as their individual and relational dynamics change over time. This may also motivate the partners to share their individual financial management resources for mutual gains (Mehta & Mehta, 2009). Shared transaction costs and financial management would reduce any "power-play" in the partnership.

Another component of a relational contract would be a mutually acceptable statement of shared benefits and risks. Research suggests that firms are motivated to form alliances, or switch to new ones, based on perceived benefits, such as increased sales, access to technology, reduced costs, and better quality (Golicic & Mentzer, 2005). In a strategic outsourcing relationship, the agreement on mutual benefits leads to a feeling of "connectedness" among partners, which generates relational enablers, such as mutual trust and a long-term commitment to the partnership. A clear statement of mutual risks also discourages any "power-play" that could jeopardize the relationship. A relational contract would also facilitate the development of relational capability, which would eventually result in innovation maximization, and a positive affective state of business satisfaction (Lee & Kim, 2005). Thus, we propose the following relationships between operational and relational factors.

> *Proposition 1a*: The degree to which the client and the vendor share outsourcing goals and objectives will be positively associated with the development of relational factors.

> *Proposition 1b*: The degree to which the client and the vendor share planning and decision making will be positively associated with the development of relational factors.

> *Proposition 1c*: The degree to which the client and the vendor share resources will be positively associated with the development of relational factors.

> *Proposition 1d*: The degree to which the client and the vendor share outsourcing history will be positively associated with the development of relational factors.

> *Proposition 1e*: The degree to which the client and the vendor share governance infrastructure will be positively associated with the development of relational factors.

> *Proposition 1f*: A relational contract between the client and the vendor will be positively associated with the development of relational factors.

Relational Factors

Henderson (1990) used the term partnership in context (PIC) for partners' belief in sustainability, stability, and interdependency of the relationship. Building on that, the authors suggest that clients and vendors should work toward becoming partners-in-context, i.e., they should trust the long-term value and reciprocity of the partnership and should be committed to developing relational capabilities together. Doing so would not only help them capitalize on each other's resources to develop cooperative advantage, but would also bring other tangible and intangible gains. The authors highlight below some key relationship enablers that the firms should aim to generate via operational pre-requisites and other activities.

Trust. The importance of trust in developing long-term strategic outsourcing alliances is well-known (Babar, Verner, & Nguyen, 2007; Zineldin & Bredenlow, 2003). Since firms have to rely on their partner's performance, and are vulnerable to their actions, a minimum level of trust is essential in all relationships. Kedia and Lahiri (2007) proposed trustworthiness as a critical moderating factors in offshore outsourcing partnership. In such a partnership, trust emerges over time as a positive attitude toward partner's goodwill and reliability under risky circumstances. Once trust develops, it has been found to lower transaction costs and opportunism, induce positive actions, resolve conflict, and facilitate knowledge sharing between partners (Gulati, 1995; Holcomb & Hitt, 2007; Jap & Anderson, 2003). For example, Xu and Yao (2013) demonstrated that good relational qualities such as trust improved knowledge sharing in outsourced development projects. Trust also creates an environment of openness and improves mutual confidence among partners. This reduces the perceived risk of partner firms, making trust critical to outsourcing success.

Commitment and Cooperation. Commitment is one of the major dimensions of partner cooperation. Mutual commitment refers to the willingness of both partners to sacrifice short-term gains for long-term benefits in the relationship. According to Morgan and Hunt (1994), commitment is critical for maintaining successful relationship in marketing. Commitment helps marketers preserve relationship investments through cooperation with exchange partners and helps them with existing partners for long-term benefits. In outsourcing, both contractual and relationship commitment are considered critical to cooperative behaviors that are essential for outsourcing success.

Power-balance. In typical outsourcing situations, client firms engage in power-play as they try to reduce their dependency on the vendors, which eventually leads to power-control dilemma between the two parties (Willcocks & Kern, 1998). Vendors may also engage in power-play especially when clients have transferred a significant amount of resources to them. Thus, when either the client or the vendor has significantly more power, there are chances of exploitation of the weaker party. However, successful inter-firm relationships require pragmatic restraint in order for both partners to derive strategic benefits from the relationship (Holcomb & Hitt, 2007). A power-balanced partnership also feeds back to strengthen key operational prerequisites, such as shared outsourcing history (Zineldin & Bredenlöw, 2003). It will also justify and sustain the relational contract between partners.

Relational Capability. As previously mentioned, by working together over time, alliance partners create unique endowments called relational capabilities or relationship management capabilities (Holcomb & Hitt, 2007; Palvia, King, Xia, & Palvia, 2010). Relational capabilities are bundles of shared resources, along with unique routines and processes that both partners develop over time to jointly leverage (Makadok, 2001), which makes these capabilities difficult to imitate by the competition. To purposefully develop relational capabilities, partners need to accumulate, integrate, and leverage their partnership experience over time. Alliance partners can deploy these capabilities to significantly improve their partnership quality, service quality, and deliverable quality (Palvai et al., 2010) and to reduce their costs and risks (Holcomb & Hitt, 2007). Additionally, relational capabilities will improve firms' ability to innovate, enabling them to exploit new opportunities in the market. Hence, the authors propose:

Proposition 2a: The degree of trust between the client and the vendor will be positively associated with offshore IT outsourcing success.

Proposition 2b: The degree of commitment and cooperation between the client and the vendor will be positively associated with offshore IT outsourcing success.

Proposition 2c: The degree of power balance between the client and the vendor will be positively associated with offshore IT outsourcing success.

Proposition 2d: The degree of relational capability building between the client and the vendor will be positively associated with offshore IT outsourcing success.

Environmental Factors

Previous research confirms that the context in which the client and the vendor share resources and develop relational capabilities impacts the success of such alliances (e.g., Handley & Benton, 2009; Wiengarten et al., 2013). For example, Brouthers, Brouthers, and Werner (2008) demonstrated that country-specific institutional mechanisms impacted resource-based advantages. Similarly, a number of studies have highlighted the role of regulatory environment, cultural diversity, and manpower availability in outsourcing relationships (Kshetri, 2007; Graf & Mudambi, 2005). The authors argue that these factors may influence the relationship between operational and relational factors. It is, therefore, imperative that firms assess environmental factors such as the availability of knowledge, skills, and abilities (KSA), regulatory environment, and cultural compatibility with their partners while operationalizing their outsourcing relationship (Marriott, 2007).

KSA Availability. Workforce availability with the required KSAs is considered an important factor in outsourcing decisions (Graf & Mudambi, 2005). An assessment of KSA availability before embarking on an outsourcing relationship and sharing the skills forecast with the vendor can help the partners identify resources needed to be shared and manage the fluctuations associated with KSA availability. For example, a lack of KSA availability may demand that firms be prepared to train and cross-train their employees and develop operational routines to share KSAs with their partners. This would be especially important under technological uncertainty, where firm-specific resource commitments would increase risks and firms would benefit from sharing resources and governance infrastructure to mitigate such risks.

Regulatory Environment. Regulatory environment, especially of the host country, poses a challenge for outsourcing partnerships (Palvia, Palivia, & Whitworth, 2002). For example, weak legislations and poor contract and privacy enforcement in India poses a challenge for U.S. and European clients (Engardio, Puliyenthuruthel, & Kripalani, 2004; Ravindran, 2004). Regulatory controls such as policies, formal systems, and legal procedures have been known to constrain the client–vendor relationship (Das & Teng, 2001).

The unpredictability of regulatory environment will influence the client–vendor relationship in that it would require flexible capabilities for a rapid response. Access to a broader and deeper knowledge base would be required to respond in such an environment. Moreover, as it becomes difficult to define contracts (Hobbs, 1996); a trust-based shared governance may be needed for a successful partnership. Thus, in uncertain environment partners are prompted to share scale economies, resources, and governance, and to forge detailed contracts, so as to partly transfer the risk of unforeseen contingencies to the intermediate market (Wiengarten et al., 2013).

Cultural Compatibility. Culture is often cited as a critical variable in IT outsourcing research (Gurang & Prater, 2006; Kumar & Palvia, 2002; Stafford, 2011). Offshore IT outsourcing clients and vendors often belong to distinct cultures. To develop a successful, strategic relationship, partners need to understand the cultural patterns embedded within each culture and devise strategies to deal with any dissimilarities (Khanna, Palepu, & Sinha, 2005). A number of studies have emphasized the impact of culture on client–vendor relationships and IT outsourcing success (e.g., Ang & Inkpen, 2008; Gurang & Prater, 2006; Prasad, Martens, & Declerck, 2012; Stafford, 2011). In a case study of six IT outsourcing firms, Alami et al. (2008) found cultural differences to be a serious relationship issue between the client and the vendor. Similarly, cultural understanding has been found to be important in gaining and maintaining trust in software outsourcing relationships (Babar et al., 2007). Additionally, the success of some operational prerequisites such as governance infrastructure and relational contract, in generating relational factors is contingent upon the mutual readiness of both partners to manage the cultural gap in their partnership (Ang & Inkpen, 2003). For example, the client may have a high uncertainty avoidance culture, while the vendor may thrive on uncertainty. To manage this cultural incongruence, the vendor may need to adopt a structured approach in its client-related operations and also tighten their informal communication infrastructure to provide regular feedback to the client (Ang, Van Dyne, & Begley, 2003). Cultural differences may also jeopardize the communication process between the client and the vendor (Alami et al., 2014) by influencing governance infrastructure or sharing of resources. Thus, in the case of a wide cultural gap, both partners must be committed to providing cross-cultural training to their employees to improve cultural compatibility (Mehta & Mehta, 2009).

> *Proposition 3*: The external environment of outsourcing partnership will moderate the relationship between operational and relational factors.

Method

To validate the proposed framework of offshore IT outsourcing success, the authors investigated two cases from two offshore IT service providers. Both organizations serve Fortune 1000 clients located in different countries. Telephonic interviews were conducted with the CEOs of both organizations and all aspects of the integrative framework were discussed with them. Both respondents were males, with an average of 18 years of experience in the offshore IT outsourcing industry. Despite being CEOs, the respondents were actively involved in the partnership-management efforts with the CEOs and CIOs of most of their respective clients. Interviews were semi-structured and used a common set of questions based on various propositions presented in the framework. Respondents were not given interview questions in advance to avoid any pre-judgment to influence their responses. Interviews lasted between 100 to 120 minutes each and were audio-recorded. Recordings were transcribed and led to about 20 single-spaced pages of transcriptions. The transcripts were content analyzed by two investigators independently and data were categorized according to the study variables. Table 2 lists the questions used in this study to collect pilot data.

Table 2. List of questions used in the pilot study.

General Information and Demographics
• General company related information (age, size, products and services, location, client)
• General client related information (number, location, size, repeat versus new, type of contract, age of partnership)
• Demographic information of the respondent (age, gender, qualification, work experience)
Client-Vendor Relationship
• Is there any designated client-relationship/liaison person or process?
• What are some characteristics of a good client for the vendor?
• How does the client–vendor partnership differ for a long-term versus short-term versus one-time client?
Environmental Factors
• Which external factors have the most critical impact?
• Does culture, availability of skills, and government regulations play a role?
Operational Factors
• Does discussion about mutual goals and objectives or compatibility take place? How does that affect your relationship with clients?
• Do you collaborate in the areas of planning, decision making, and training?
• Are there any inter-firm linkages to facilitate understanding of each other's planning and decision-making processes? How does that affect the partnership?
• Are there any routines/processes to support partnership activities such as relationship building, information and resource sharing, conflict resolution, and so on?
• What type of contract do you have with your long-term clients in terms of costs, shared benefits, and risks?
• Do you share any resources with the client? If yes, how does that affect your partnership?
• Does working together repeatedly makes a difference to the partnership?
Relational Factors
• In successful partnerships, do the partners share a commitment to sacrifice short-term gains for long-term gains?
• Do the partners work together to manage external and internal contingencies? How does that affect the partnership success?
• Do the clients and vendors invest in intentional, mutual relationship building? How does that affect the partnership success?
• Do vendors participate in the decisions related to ongoing client projects? How does that affect the partnership success?
• Do the partners have an equal say in terms of decision making, participation, and negotiations? How does that affect the partnership success?
Offshore IT Outsourcing Success
• What is a successful client–vendor partnership from your perspective?
• What type of outcomes are the partners looking for from a successful alliance?
• What are the main indicators of a successful partnership?

Given the lack of an integrative framework that consolidates various operational, environmental, and relational factors of off-shore IT outsourcing success, a case-based approach is deemed most appropriate (Byrne & Ragin, 2009). A case-based approach allowed for the exploration, in detail, the relationships between various operational and relational factors, and how the environmental factors moderated these relationships. The authors were also able to get detailed insights about how various relational factors contributed to IT outsourcing success.

Findings and Discussion

Importance of Relational Perspective

Overall, both respondents affirmed that it was critical to develop and maintain relational exchanges to have a successful offshore client–vendor partnership. The CEOs commented about how they benefit from "partnership in thinking" with their long-term clients, among other things. In a respondent's words:

> When some kind of thinking is going on, some idea that client has gone ahead with, it is then left to the technical partner. You (vendor) know that it will not work and still go ahead with it and it doesn't work. But with some clients we are like partners-in-thinking, we are consulted in decision making and become co-investors, both making mutual investments in terms of thinking and time. It makes commercial sense. (CEO1)

Both the firms examined in this study had dedicated personnel and processes to manage their client relations. The respondents also confirmed that their clients also actively engaged in managing the partnership. As the respondents commented:

> Traditionally, the person handling the account would become the interface to deal with the client. But as the contracts get renewed every year, we realized that we need to have a dedicated team to manage relationships with our existing customers to provide more value, to move from software 'solution' to the next level of 'value' from solution. (CEO2)

> Customers have also been proactive, they believe in investing in us, mutual investment in terms of time. Not just a few, but several come over and spend time with the project teams. There is no bashing game, but support. (CEO2)

> One of our clients even took the time to come and make a presentation to the project team on how their solution was resulting into saving money for them. This motivated the team and gave them ownership. The team has customer in mind and it helps us in raising our profile. (CEO1)

Offshore IT Outsourcing Success

The respondents affirmed that clients typically looked for quality, good solution, and cost efficiencies provided in a timely manner, among other things. Additionally, one of the respondents mentioned the "engagement benefit" the clients look for in a solution and success from "adoption" point-of-view. As CEO 1 pointed out:

> Customers look for quality thinking that goes into a solution, and a good solution from user perspective. Is the vendor applying the right thinking, is vendor challenging the right assumptions.

> One of our clients even took the time to come and make a presentation to the project team on how their solution was resulting into saving money for them.
>
> It is important to having business success from adoption point-of-view. In a good solution from user perspective adoption has to be there. Adoption is a challenge—features and thinking may be right in a solution, but still engagement benefit does not come. We have to mold the thinking rather than profit management question.

Relationships between Operational and Relational Factors

The findings supported the propositions suggesting associations between various operational and relational factors. But interestingly, the respondents emphasized overwhelmingly that shared outsourcing history was, possibly, the most critical of operational factors. As indicated by their comments, shared history had an impact on other operational factors, and of course, on relational factors.

> (Shared history) In my experience with my customers, and based on my observation of few other outsourcing companies, I think initially, clients try to see the evidence that the vendor is capable to deliver. This goes on for a long period of time. The outcome you (vendor) produce in initial projects determines the relationship. (CEO2)
>
> History of working together brings a trust and understanding, and once they are established, both parties don't have to bother the clients on solving minor issues. (CEO2)

Both CEOs also pointed out that shared history between outsourcing partners also had an impact on conversations about shared outsourcing goals and objectives, shared planning, and decision making, and sharing resources.

> (Shared history and shared goals and objectives) Clients form a structure internally to guide their outsourcing efforts, and that guides their partnership goals and objectives in a structured way. Even we are not interested in putting in a very big structure. It takes a few projects for the discussion of mutual goals and objectives to happen. (CEO2)
>
> (Shared history and shared costs) People try to make the contract relational on both sides, but I don't think that happens initially. But yes, as time passes, and let's say in the second year of the contract, the client may become more positive about sharing some costs.(CEO2)
>
> (Shared history and relational contract) So, what really happens is that although the initial contract is more legal than relational, that is there is no explicit agreement to share benefits or losses, but later contracts evolve as more relational. (CEO1)
>
> (Shared costs) Clients do share some transaction costs with you, sometimes even without mentioning it in the contract. For example, if the initial contract did not cover some part of the project, but it was done later. (CEO2)

Finally, as their comments indicate, operational factors, such as shared history and shared governance were associated with the emergence of various relational factors.

> (Shared history—trust, power-balance) As history becomes strong, I have noticed an equilibrium happens. People become more comfortable with each other. Ego issues subside, and people trust each other more to find solutions to problems. (CEO2)
>
> (Shared history—trust) It takes a few projects for trust to evolve among two parties. It does not build on a schedule, but evolves as both parties share a history of working together. (CEO2)
>
> (Shared governance—cooperation, power-balance) What I have found is that if a vendor sets-up a project management office (PMO) as part of the outsourcing relationship, it creates opportunities and events where outsourcing leaders from both sides get together, to resolve a conflict, or even otherwise. This person-to-person interaction, mostly, builds a cooperative mindset. In many cases, it also curbs power-play. (CEO1)

Relationships between Relational Factors and IT-Outsourcing Success Indicators

Both CEOs were unanimous in highlighting the importance of relational factors, i.e., trust, commitment and cooperation, power-balance, and relational capability. As their comments indicate, both CEOs considered power-balance and trust to have a significant impact on IT outsourcing success. Both stressed the need to neutralize power-balance and to foster trust for a successful partnership.

> (Power-balance) What I have found from the long-term relationships is that we have worked on projects with them by mostly listening to them and their needs, and we were very flexible with them. (CEO2)
>
> (Power-balance—cost efficiencies) As power balance shifts, small problems never become big problems. So, issues are resolved at the project manager level. They are not escalated to higher level. Everyone is happy, especially me, since escalation always increases my costs. (CEO1)
>
> (Power-balance—partnership satisfaction) Say, in one particular contract for a particular system, the vendor bears some loss in the early years. The client understands that, and in the later contracts, he would not penalize you for your mistakes in some other area to cover your initial loss. So, a collaborative approach emerges, and both of us start enjoying the successes. (CEO1)
>
> (Power-balance—cooperative advantage) Many clients and vendors still work with the "me-first" mindset. I challenge my client managers to show commitment and flexibility to the client. We may incur a loss in the short-run, but we mostly "lock-in" the client for the long-term. You could say that I neutralize client's power by first neutralizing mine. (CEO1)

> (Trust, relational capability—partnership satisfaction) I have a client with whom we share a relation for past 10 years, and there is hardly a business decision taken in his organization without my knowing. And this goes both ways, I too share my corporate decisions with him. (CEO2)

Respondents also shared interesting experiences, which indicated that commitment and cooperation between both parties improved service quality and partnership satisfaction. Relational capability, shared by both parties, also created cooperative advantage, which not only improved partnership quality, but also locked-in the partnership for long term.

> (Cooperation, relational capability—cooperative advantage) As cooperation grows, some of our clients would also place their own employees at our end. This helps both parties—they have an inside view of the project, and we ease our resource burden. Some of our best projects have worked on this model. (CEO2)

> (Cooperation—high-quality service with mutual cost efficiencies) Say, if you are building an analytics platform for the client, and you are having trouble getting the business requirements for building their dashboard. You have to talk to ten people at their end, which increases your costs. Although contractually, it is your headache to minimize this fixed cost, client will ease your burden by creating a single point-of-contact at their end. It reduces my fixed cost, and helps deliver a high-quality platform. (CEO2)

> (Trust, Commitment—cooperative advantage, knowledge depth, partnership satisfaction) As the mutual trust and commitment grows, and we (vendors) do well for the clients in one area, say content management or analytics, then we also become strategic advisors to the client in other areas. I may not have the initial capability in those areas, but still the client wants us to do it, which forces us to develop those capabilities. When I start seeing these indicators, I know we have a very successful partnership. (CEO1)

> (Cooperation, commitment—Innovation maximization). What is important is applying right thinking. We have to mold the thinking, rather than the profit management question, helping them (clients) mold their thinking to see new ways. Educating them (the clients) about the new and the latest in thinking…need to be co-investors—invest in term of thinking, doing things that may not be traditionally done. (CEO1)

Moderating Effect of Environmental Factors

Initial evidence, as indicated by our respondents' comments, does seem to support the moderating role of environmental factors, such as cultural compatibility, KSAs, and regulatory environment. As indicated in our framework, these moderating factors enhance or suppress the impact of operational factors on relational factors. As the respondents pointed out:

> Meaning of success factors change in a culture. People in India may overlook some things, but in the U.S., they (clients) are very particular. Mismatch comes…it is expected and not specified in the contract. (CEO1)

> (Culture moderates the impact of shared history on power-balance) Culture makes a huge difference here. I don't find this automatically happening, because this kind of power neutrality is usually driven by culture. But, wherever there is the same kind of cultural personality like ours on the other (client) side, I almost find it happening naturally. (CEO2)

> (Culture moderates the impact of shared governance on trust and power-balance) I find that no matter how big the organization is, or how mature are their processes to manage conflicts, if there are leaders in both organizations that have the pulse of the partnership, and they communicate that sentiment to the rest of the organization effectively—this is a big part of shared governance. And, this decides if governance is being shared, or is it a façade for power games. (CEO1)

> (Regulatory environment moderates the impact of shared history on relational capability) Some factors can prevent the partners from developing joint capabilities, despite a long-term relationship, or even despite collaborative culture on both sides. This usually happens in conservative industries where compliances and regulations are important. (CEO2)

Thus, overall, the data supports most interrelationships proposed in the framework. It was confirmed that a relationship-based partnership is important to both the clients and the vendors. However, there are some interesting findings worth mentioning, which can be used to refine the framework. Shared history was mentioned as the most important operational factor. In fact, shared history seems to be an antecedent or precursor for all other operational factors. The respondents mentioned that clients would discuss shared goals, shared planning, shared governance infrastructure, and so on, only after they had been working together for some time. Thus, it would be prudent to examine shared history as an antecedent to other factors. Confirming prior research, culture was another factor mentioned repeatedly as important.

Another interesting finding relates to offshore IT outsourcing success indicators. In addition to the success indicators proposed in the framework, one respondent elaborated on what a high-quality service or solution entails. Typically, quality (of a solution or service) is widely measured in terms of cost, accuracy, and time. However, the findings suggests that it is important to measure success or quality of a solution from end user perspective, as indicated by the "adoption rate" or "engagement benefit." The solution may have the right features and thinking behind the design, but if the adoption rate is low, it cannot be deemed as successful.

Contributions

Although offshore IT outsourcing is a popular and growing phenomenon, a review of existing literature revealed noteworthy, yet disjointed, efforts in understanding the critical success factors associated with it. To fill this gap in literature, the authors adopted a systematic, theory-based approach to develop a framework that elaborates on the role of multiple factors and their interrelationships in determining offshore IT outsourcing success.

Overall, this study makes three notable contributions. First, the authors integrated three popular theoretical perspectives on outsourcing—transactional, competency, and relational, and proposed that offshore clients and vendors would benefit by embracing this integrated approach. Although the theoretical perspectives have been discussed in the literature, the significance of adopting an integrated approach to building and managing offshore IT outsourcing partnerships has not been adequately addressed. Second, the authors posit that client–vendor partnerships are influenced by a set of contextual, operational, and relational variables, and offshore IT outsourcing success may be elusive without understanding the interrelationships among them. Where a majority of prior studies have examined only one or two categories of variables, leading to a disjointed stream of research, this study provides a holistic framework of offshore IT outsourcing success. The need for such a framework to better understand IT outsourcing success has been espoused in the past (Gottschalk & Solli-Sæther, 2005; Schwarz, 2014). For example, Gilley et al. (2004) advocated that outsourcing theory should include both external and internal antecedents. Hatonen and Eriksson (2009) identified success factors in outsourcing as an important area requiring research attention. Third, the authors provided initial evidence of the validity of the model.

Implications for Future Research and Practice

Future Research

This study provides impetus for further research in the IT outsourcing domain. The findings suggest that it would be prudent to further test the model using in-depth qualitative and quantitative analysis. For example, it would be interesting to examine if empirical data supports the moderating and mediating relationships presented in the model. To that effect, survey data can be collected from the clients and the vendors using existing, validated scales pertaining to the constructs, such as the "cultural compatibility index" (Veiga, Lubatkin, Calori, & Very, 2000) to measure cultural compatibility, the "psychological contract" scale (Robinson, 1996) to measure relational contract, the "organizational trust inventory" (Nyhan & Marlowe, 1997) to measure trust, the "satisfaction" scale (Palvia et al., 2010) to measure partnership satisfaction, and so on.

To analyze survey data, future research can utilize techniques such as the multiple hierarchical regression and structural equation modeling (SEM) to test the direct and interaction effects of P1 and P3 (Frazier, Tix, & Barron, 2004; Hopwood, 2007). Similarly, a moderated mediation approach recommended by Preacher et al. (2007) can also be used to test the moderation and mediation effects hypothesized in the model. Further, bootstrapping test for mediation can be performed to estimate the significance of any indirect effects (Rucker, Preacher, Tormala, & Petty, 2011). Such an analysis would be useful in understanding which independent and intervening variables have the most significant impact on the outcome variables.

Similarly, a multiple case studies approach can be utilized to further verify the model and conduct an in-depth investigation of how various factors emerge over time in a client–vendor partnership. Based on future analysis, the model may be revised or extended. Such an extension of this research will not only establish a sound theoretical framework for offshore IT outsourcing success, but will also enable researchers to focus on other questions such as: How can relational strategy help the partners build trust and commitment; what can be the effects of environmental factors on such strategic alliances; and how can power balance between a client and a vendor impact outsourcing success? It may also be beneficial to test the model employing a longitudinal design to allow sufficient variance in certain constructs such as trust and cooperation and to understand how relationship dynamics mature over time.

The field of offshore IT outsourcing encompasses a diverse array of offerings across the globe such as the application and maintenance of IT infrastructure development, IT-enabled business processes, or IT-based knowledge processes (Bharadwaj et al., 2010; Mudambi & Tallman, 2011). These differences, such as the type of software to be outsourced, may have a bearing on critical factors for outsourcing success (Remus & Wiener, 2009). Moreover, management of outsourcing relationship portfolios across several locations is emerging as yet another challenging area (Hatonen & Eriksson, 2009). Thus, another relevant question for future researchers may be: How does the type of offshore IT outsourcing and the number of partners a client firm has fit within the proposed framework?

Practical Implications

The study offers insights to practitioners about managing strategic offshore IT outsourcing partnerships for maximum leverage. Client firms are increasingly facing contextual, relational, and operational challenges in global IT outsourcing domain resulting in failed partnerships. These challenges can be partly attributed to poor offshore outsourcing decisions based on incomplete criteria. For example, although most clients consider decision factors, such as cost, quality, workforce size and availability, and vendor experience, they fail to account for cultural differences or specific skills available (Graf & Mudambi, 2005). Moreover, there may be differences in the client's and vendor's strategic objectives and expectations from the partnership creating a dysfunctional union. The current findings show that for clients to achieve success, it is essential for them to involve the vendors in planning and decision making. Also, clients may benefit by taking deliberate steps to generate trust and commitment among the partners through sharing of knowledge and other resources, open communication, and relational contracts. Additionally, results suggest that moderating factors such as the cultural compatibility should be considered to realize maximum alliance-specific gains. Since business forecasts signal a trend toward increased offshore IT outsourcing, networked organizations, and cooperative gains, proactive management of offshore outsourcing partnerships may be prudent and profitable.

In conclusion, given the encouraging findings of this study, further empirical verification is warranted. Additionally, critical success factors for offshore outsourcing may be different from onshore and nearshore outsourcing, so the results may not be generalizable. It would be prudent to extend the investigation to different types of outsourcing arrangements. Finally, the current study did not include all the factors mentioned in the literature, but focused only on those that were frequently cited as the most important. Future research can focus on identifying other important factors that may affect such partnerships.

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