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East meets West

Building trust and reducing the effects of
cultural differences in long-term offshore
outsourcing relationships



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Lund, January, 2010

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Abstract

| | |
|----------------------------------|---|
| Title: | East meets West – Building trust and reducing the effects of cultural differences in long-term offshore outsourcing relationships |
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| Key words: | Outsourcing relationship, Cultural differences, Trust, Risk, Interaction model. |
| Purpose: | The purpose is to study the relation and dynamic between offering services higher up in the value chain, risk, trust and cultural differences for an offshore outsourcing vendor. |
| Methodology: | The research of our thesis is based on a qualitative case study with interviews, observations and document studies at our case company OKS Group. |
| Theoretical perspectives: | Our theoretical framework consists of models regarding outsourcing relationship and success, trust, and cultural differences. |
| Empirical results: | The empirical material consists of primary data collected through interviews, observations and document studies at OKS Group, India. |
| Conclusions: | Our conclusions are based on an extensive analysis of how OKS build high levels of trust and reduce the effects of cultural differences in order to reduce outsourcing risk. |

Sammanfattning

| | |
|-------------------------------|---|
| Uppsatsens Titel: | Öst möter Väst – Bygga förtroende och reducera effekterna av kulturella skillnader i långsiktiga offshore outsourcing relationer |
| Seminariedatum: | 2010-01-22 |
| Ämne/kurs: | FEKP01, Examensarbete magisternivå, 15 poäng |
| Författare: | Max Rapp, Jakob Sandén |
| Handledare: | Christer Kedström |
| Fem nyckelord: | Outsourcing relationer, Kulturella skillnader, Förtroende, Risk, Interaction model. |
| Syfte: | Vårt syfte är att studera relationen mellan att erbjuda tjänster högre upp i värdekedjan, risk, förtroende, samt kulturella skillnader för en offshore outsourcing leverantör. |
| Metod: | Vi har gjort en kvalitativ fallstudie där vår primärdata består av intervjuer, observationer samt studerade dokument från vårt fallföretag. |
| Teoretiska perspektiv: | Vår teoretiska referensram består av teorier och modeller som behandlar ämnena outsourcing relationer, kulturella skillnader och förtroende skapande. |
| Empiri: | Vårt empiriska material består av de intervjuer, observationer samt studerade dokument vi genomfört hos vårt fallföretag OKS Group i Indien. |
| Slutsatser: | Våra slutsatser bygger på en omfattande analys om hur OKS skapar förtroende och minskar effekterna av kulturella skillnader för att minska risken i dess outsourcing relationer |

| | |
|--|-----------|
| 1 Introduction | 7 |
| 1.1 How it all started..... | 7 |
| 1.2 What is outsourcing?..... | 8 |
| 1.2.1 Outsourcing popularity is increasing | 9 |
| 1.2.2 Influential concepts | 10 |
| 1.3 Problem discussion | 11 |
| 1.3.1 Increased competition and failed outsourcing relationships | 11 |
| 1.3.2 Trust, cultural differences, and risk | 12 |
| 1.4 Purpose..... | 14 |
| 1.5 Scope and limitations..... | 14 |
| 1.6 OKS Group..... | 15 |
| 1.7 Disposition | 16 |
| | |
| 2 Methodology | 18 |
| 2.1 Research approach | 18 |
| 2.2 Data collection..... | 19 |
| 2.2.1 Interviews | 19 |
| 2.2.2 Interviewees | 20 |
| 2.2.3 Observations | 21 |
| 2.2.4 Document studies..... | 21 |
| 2.3 Theoretical framework..... | 22 |
| 2.4 Empirical results | 22 |
| 2.5 Relevance of study..... | 23 |
| | |
| 3 Destination India | 24 |
| 3.1 Location attractiveness..... | 24 |
| 3.2 People attractiveness..... | 25 |
| | |
| 4 Theoretical framework..... | 26 |
| 4.1 Outsourcing vendor and client..... | 26 |
| 4.1.1 Outsourcing drivers..... | 26 |
| 4.1.2 Outsourcing criteria..... | 28 |
| 4.1.3 Outsourcing vendor advantages..... | 29 |
| 4.1.4 Outsourcing risk..... | 29 |
| 4.1.5 Relationship complications..... | 30 |
| 4.2 Outsourcing and trust..... | 32 |
| 4.2.1 The importance of trust | 32 |
| 4.2.2 Managing outsourcing relationships through trust | 33 |
| 4.2.3 Building high levels of trust | 33 |
| 4.3 Cultural differences..... | 35 |
| 4.3.1 Eastern vendors and Western clients..... | 35 |
| 4.4 The Interaction model..... | 38 |
| 4.4.1 The interaction process..... | 39 |
| 4.4.2 The parties of the interaction process..... | 41 |
| 4.4.3 The environment | 42 |
| 4.4.4 The atmosphere..... | 44 |
| 4.4.5 Marketing and purchasing management..... | 45 |
| 4.5 Nine types of information exchange | 47 |
| 4.6 Defining the outsourcing relationship..... | 49 |

| | |
|--|-----------|
| 4.7 Strategies in problem solving | 52 |
| 4.8 Theoretical framework for the study | 54 |
| 5 Empirical results..... | 56 |
| 5.1 OKS in the value chain | 56 |
| 5.1.1 OKS before new strategy was implemented..... | 56 |
| 5.1.2 Value chain before new strategy was implemented..... | 56 |
| 5.1.3 Reason to climb in the value chain | 57 |
| 5.1.4 OKS in the value chain – With new strategy..... | 58 |
| 5.2 OKS’ communication with customers | 63 |
| 5.2.1 Implications on communication of climbing the value chain..... | 63 |
| 5.2.2 Communication difficulty for Indian outsourcing company | 64 |
| 5.3 OKS’ Communication in New Strategy..... | 69 |
| 5.3.1 Sales Phase - Building reputation | 69 |
| 5.3.2 Sales Phase/Pilot Phase - In-country Managers..... | 69 |
| 5.3.3 Pilot Phase/Production Phase - Partnership Service Team..... | 71 |
| 5.3.4 Example of new communication approach | 73 |
| 6 Analysis | 75 |
| 6.1 Parties of the interaction model - OKS’ strategic approach..... | 76 |
| 6.2 The Environment | 77 |
| 6.3 The interaction process | 78 |
| 6.3.1 The product/service exchange | 78 |
| 6.3.2 The information exchange | 80 |
| 6.3.3 The financial Exchange | 81 |
| 6.3.4 The social exchange (cultural differences) | 81 |
| 6.3.5 The social exchange (building trust) | 84 |
| 6.3.6 Institutionalization | 87 |
| 6.4 The atmosphere..... | 87 |
| 7 Conclusions | 89 |
| 7.1 Summary | 89 |
| 7.2 Recommendations..... | 92 |
| 7.3 Reflections..... | 93 |
| References | 95 |
| Published references | 95 |
| Thesis | 97 |
| Electronic references..... | 97 |
| Appendix 1 – Abbreviations..... | 98 |

1 Introduction

The chapter begins with how outsourcing started and gives a background to the concept and its increasing popularity. Furthermore we discuss influential concepts that have affected the outsourcing concept over time. The chapter continues with a problem discussion, our purpose and the scope and limitations of our thesis. It ends with a presentation of our case company OKS Group.

In a more and more globalized world, Western companies increasingly seek cost cuts by turning to low price level countries in the East for supporting services, so called outsourcing. However, due to large geographical distances and different working cultures, these sorts of collaborations are challenging and companies are struggling with efficient ways of managing them successfully. Here, this thesis comes in to the picture. By studying an Indian outsourcing vendor's strategic development and how it deals with the gaps between East and West, this thesis can provide useful insights into the management of outsourcing relationships.

1.1 How it all started

Several thousand years before Christ people started to concentrate on their core competencies and began to outsource less complicated processes such as spears and arrow making. It is generally believed that this is where outsourcing has its roots.¹ However the concept outsourcing first became a popular term in the late 1980s. In today's increasingly globalized world, the concept is more fashionable than ever before. The concept has several similarities to subcontracting, joint ventures and strategic partnerships. What separates outsourcing from other partnerships is that internal activities are being transferred to other companies. As a modern term outsourcing first had its breakthrough in the car manufacturing industry where a lot of components became a commodity and were therefore outsourced to suppliers. During the 90s the popularity increased due to globalization of the markets and other functions such as payroll, accounting, information systems and telecommunications became the subject of outsourcing.²

¹Jenster, Perderson, Plackett & Hussey (2005) p. 2-3

²Greaver (1999)

BPO (business process outsourcing) is seen as the new generation of outsourcing and stems from outsourcing. Although BPO has become a market of its own, many IT outsourcing suppliers include BPO in their service portfolio. It can be seen as offering expanded services to IT outsourcing with possible solutions to innovation and pricing structures. According to a survey made in 2006, BPO spending is believed to increase by 13.9 per cent annually over the next five years.³

1.2 What is outsourcing?

The definition of outsourcing may differ with different authors and purposes. We intend to describe outsourcing through a definition which has a neutral point of view to the concept:⁴

*Outsourcing is defined as the market procurement of formerly in-house produced goods or services from legally independent supplier firms.*⁵

According to this definition, tasks are outsourced if they used to be part of in-house production, but have started to be provided by external suppliers. There are different subcategories of outsourcing. One is *Business Process Outsourcing* (BPO). The definition of the concept is *the management of one or more specific business processes or functions by a third party.*⁶ A process can be identified as a number of activities that are linked together to create an output for the customer.⁷ Processes, where the activities are not crucial or where the standards will not change over the next few years, are possible business processes to outsource.⁸

Outsourcing that involves the procurement of formerly in-house produced goods or services from geographic areas remote to the business centre are known as *offshore outsourcing*, for instance a low cost production country.⁹ To simplify the process of our thesis, whenever outsourcing is mentioned we refer to offshore outsourcing.

³ Halvey & Melvi (2007)

⁴ Jenster et al (2005) p. 2

⁵ Ibid. p. 2

⁶ Halvey & Melvi (2007)

⁷ Greaver (1999)

⁸ Jenster et al (2005) p. 3

⁹ Beugré & Acar (2008) p. 4

1.2.1 Outsourcing popularity is increasing

Since the outsourcing concept was introduced in the 1980s the world has undergone much change which has triggered an increased recognition of outsourcing. Three major affects of change that has increased the popularity of outsourcing can be identified:¹⁰

Competition/Globalization is increasing. Much due to globalization, the overall competition has increased and most industry competition can no longer only be found within the industry boundaries. A high innovation rate has resulted in many products crossing each other's territories and companies' are now competing for the same suppliers and customers. Companies are being pushed to think global since they are now, to a greater extent, competing on a global market.¹¹

Customers are more demanding. Customers have become more demanding due to customer awareness and the multitude of products and services. This has resulted in higher customer expectations and customers who are now less tolerant with poor products and services.¹²

Technological obsolescence is accelerating. Product lifecycle is shortening due to more frequent innovations. For instance, today PC models have a lifecycle time of less than 9 months and companies that cannot afford to update their products are often losing their competitive advantages.¹³

As a result of these changes outsourcing has become one of the solutions to produce at a lower cost and to match global competitors. The increased customer pressure gives less room for product failure and companies therefore outsource non-core processes to the better suited outsourcing vendor in order to become more efficient. Furthermore, outsourcing innovation technology and development has become more popular and important in order to stay competitive.¹⁴

¹⁰ Jenster et al (2005) p. 6-7

¹¹ Ibid. p. 7

¹² Ibid. p. 7-8

¹³ Ibid. p. 8-9

¹⁴ Ibid. p. 6-9

1.2.2 Influential concepts

From a theoretical perspective a number of concepts have influenced the development of outsourcing since the introduction in the 1980s. These concepts have shaped and formed the outsourcing model to how it is seen today.

Total Quality Management (TQM) is a concept that has increased in popularity over the last decades and thereby influenced outsourcing as well. The concept highlights the importance of a well functioning buyer and supplier relationship. Buyers strive to reduce the number of suppliers to instead focus on long-term relationships with that few ones.¹⁵

The *Core Competencies* concept gained popularity in the early 1980s. According to the concept, companies shall identify their core competencies needed for future success. Those processes that are not defined as core competencies have the potential of being outsourced. Today the concept is well established for companies that are considering outsourcing.¹⁶

Virtual Organizations consists of several individual organizations that come together and do business as one entity. The emergence of Virtual Organizations in the 1990s was made possible through IT (information technology) and IS (information systems). Virtual organizations rely on their core competencies and a large share of outsourcing or subcontracting.¹⁷

Supply Chain Management is about optimizing the relationship between actors, which begins with raw materials and ends with the final customer, so that value is improved for all companies. The concept has its roots in Porter's Five Forces model and the Value Chain concept. With these models Porter put the supplier back into strategic thinking. By identifying the key cost drivers or how to restructure the value chain to optimize, companies can gain advantages. This model can be used by all companies in the supply chain in order to improve supplier and buyer relationships, which is one of the goals with outsourcing.¹⁸

¹⁵ Jenster et al (2005) p. 11

¹⁶ Ibid. p. 11

¹⁷ Ibid. p. 12-14

¹⁸ Ibid. p. 14-15

1.3 Problem discussion

1.3.1 Increased competition and failed outsourcing relationships

During the new millennium outsourcing popularity has increased even further due to reasons presented in paragraph 1.2.1, and the fast growing Asian and Eastern European countries have established themselves as outsourcing vendors on the global market.¹⁹ Biggest outsourcing vendor country in the world today is India. The export revenues of the Indian IT-BPO market are estimated to be USD 47 billion (gross) in FY2009, accounting for 66 per cent of the total IT-BPO industry revenues.²⁰ The Indian outsourcing industry is growing at a rate of around 8 % annually.²¹ At the same time as the industry has grown the number of failed outsourcing partnerships have increased. One major reason for these failures is the high real and perceived risks associated with outsourcing compared to in-house production; the difficulties of cooperation and communication between a vendor and client.²²

In 2009 the competition in the Indian outsourcing vendor market peaked higher than ever before. With the revenues declining and the competition increasing, Indian vendors search for new ways to create competitive advantages and survive on the market.²³

Along with the new development, it is estimated that outsourcing clients will change their relation to Indian outsourcing vendors. The clients are starting to seek more than only cost savings. Innovation, customized solutions and expertise is being given more attention. Consequently, Indian vendors are trying to adopt a culture that encourages these characteristics. Generally, adding to their value proposition, Indian vendors seek to find synergies across domains and processes, in order to increase flexibility and scalability.²⁴

Studies have shown that relationship management and risk management are two key success factors when creating a successful outsourcing relationships and thereby decreasing the number of failed outsourcing partnerships. Trust has been identified as one major influential

¹⁹ Winkler, Dibbern & Heinzl (2008) p. 1

²⁰ http://www.nasscom.org/upload/60452/Executive_summary.pdf p.2

²¹ http://www.nasscom.in/upload/5216/Strategic_Review_Feb2008.pdf p.1

²² Langfield-Smith & Smith (2003) p. 2

²³ http://www.businessweek.com/globalbiz/content/sep2009/gb20090923_316936.htm

²⁴ Perspective 2020, Nasscom, p. 7

factor that can reduce risk in outsourcing relationships.²⁵ However, the subject has been poorly studied in offshore outsourcing relationships and problems regarding cultural differences, communication and complications have only recently become a subject of outsourcing relationships due the increased failure rate.²⁶

According to Langfield-Smith & Smith there is a gap in outsourcing literature regarding outsourcing relationship management and trust, and thereby in handling risk in these sorts of relations.²⁷ There is also a strong focus on the customer and the vendor is not regarded sufficiently. The literature often includes the decision process, reasons and benefits of outsourcing, and activities that are suitable to outsource, in other words taking the customers' perspective.²⁸ The gap and the problems with applying outsourcing literature on outsourcing vendor's activities and the positive effect trust can have on outsourcing success are the main reasons for this thesis' focus on outsourcing vendor strategy.

The authors have had the possibility to study the Indian offshore outsourcing vendor OKS Group (from now on referred to as OKS). OKS provides BPO services for around 20 European and American companies and in 2007, in order to maintain competitiveness and growth, OKS renewed its business strategy and decided to climb up the value chain of their customers. Similar to the development of the Indian outsourcing industry OKS has reshaped their strategy in order to meet new requirements from clients.²⁹ Our case company OKS will be presented more thoroughly in paragraph 1.6.

1.3.2 Trust, cultural differences, and risk

In relation to risk in outsourcing relationships, where the vendor and client often are in different parts of the world, cross-cultural dimensions have an important role. Cultural differences can complicate communication between the parties and therefore add to the risk of the relationship. Since it is common that clients in the West outsource to suppliers in the East,

²⁵ Wullenweber, Jahner & Krcmar (2008) p. 1

²⁶ Langfield-Smith & Smith (2003) p. 2-4

²⁷ Ibid. p. 2-4

²⁸ Ibid. p. 2

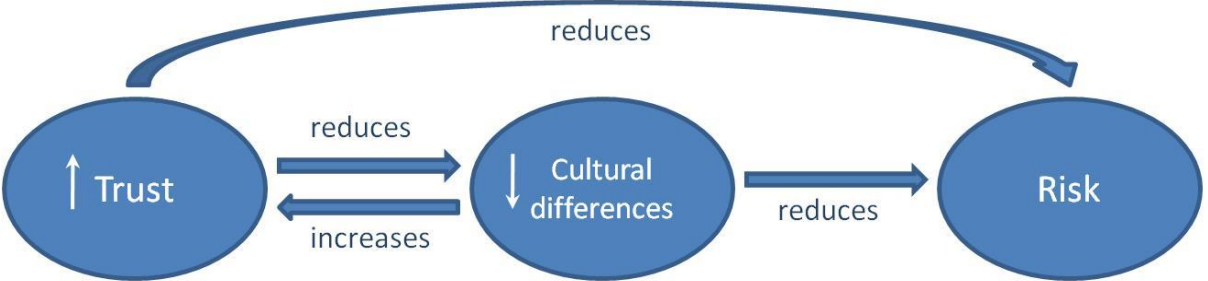
²⁹ John O'Kane, August 2009

the cultural differences between these parts of the world are repeatedly discussed in business articles.³⁰

Trust is a tool to govern an outsourcing partner and is therefore relevant for outsourcing vendors such as OKS to take into consideration. It can be used as a gateway to future long-term cooperation with a possibility to climb the value chain. A question of great interest that will be focused on is how OKS can promote the building of trust and reduce the effects of cultural differences to their western clients.

Through the research of Langfield-Smith & Smith (2003) it is identified that increased *trust* has a direct affect on reducing both real and perceived *risks* in an outsourcing relationship. It also affects another challenge in offshore outsourcing relationships: the *cultural differences* between client and vendor. Cultural differences also affect the risk-trust issue in an outsourcing relationship. To illustrate the relationship between trust, cultural differences and risk we have created a new figure which is presented below.

Figure 1: The relationship between trust, cultural differences and risk



This thesis aims to study how an offshore outsourcing vendor can create a strategy that promotes trust and reduce the effects of cultural differences in an outsourcing relationship. We also intend to survey the cultural differences that may exist and how it affects the outsourcing relationship. In today’s development of the outsourcing industry, vendors are reshaping their strategies to face competition and meet new market demands. The way in which these strategies are designed can shed light on the strategic key factors that influence the relationship between an outsourcing vendor and outsourcing client. Baring in mind the risks related to outsourcing and the cultural challenges of its highly globalized market

³⁰ <http://www.networkworld.com/news/2008/020808-offshoring.html>
<http://www.sourcimgmag.com/content/c061211a.asp>

structure, we aim to analyze the relation between the higher value service offers of OKS' newly shaped strategy, the risk associated with that and the influence of cultural differences between OKS and its customers.

The following two questions are of importance to our thesis:

1. *How has OKS designed its strategy to offer services higher up in the value chain?*
2. *How does OKS build trust and how does it fit in to the strategy of offering services higher up in the value chain?*

1.4 Purpose

Our purpose is to study the relation and dynamic between offering services higher up in the value chain, risk, trust and cultural differences for an offshore outsourcing vendor. This will be examined through a case study of the Indian outsourcing vendor OKS' newly formed strategy to climb the value chain, especially focusing on the way OKS interacts with clients in order to build trust.

1.5 Scope and limitations

Our thesis is a case study of the outsourcing vendor OKS in India. It is mainly aimed to analyze and establish the importance of building mutual trust and reducing cultural differences in OKS' outsourcing relationships. Our thesis also includes suggestions of how OKS may work and develop over time in order to reduce the risks of both parties in an outsourcing relationship. However, we also found that our thesis is of importance to other offshore outsourcing vendors as well as suppliers in other industries working cross-culture. We believe that our thesis, which focuses on how to build mutual trust and reduce the affects of cultural differences, may also be of importance to other business fields.

The theoretical part of our thesis focuses on theories about trust and cultural differences which we integrate with a general model about relationships between organizations, *the interaction model* by Håkansson (1982). This is an extensive model which is used to analyze

the relationship between supplier and buyer as well as the atmosphere and the environment where the parties are active.

Furthermore, in the beginning of this thesis we strived to include interviews with some of OKS' customers and thereby include a client aspect as well. However, with OKS currently implementing a new strategy and focusing on creating new successful outsourcing relationships with their customers this was a desirable approach we had to abandon. A study that would have involved both vendor and client aspects would result in a more accurate analyzes of OKS. All interviews and observations have been conducted at OKS in India and with managers. The interviewees therefore may have a tendency to present their organization and strategy as more successful. Including customers in the study would have made it possible for us to also evaluate OKS' strategy and trust building efforts from a different perspective.

1.6 OKS Group

Our case company, OKS has been a BPO company since 1985. It all started with the founder and CEO working alone from his student apartment in Philadelphia, USA. At that point, he had few assets: a 13 year old car, a type writer and a telephone were some of his main belongings. Since then, he describes the development as being very fortunate and the company has grown. Between 1998 –2004 it each year won awards from Deloitte & Touche for being one of the 50 technical outsourcing companies with highest growth.³¹

OKS is a privately held company. The company headquarter is in Philadelphia and there are sales offices in various locations in the United States and Europe (Frankfurt, Germany; London, England among others). The greater part of the company is constituted by its production department which is located in India. 2009 it had revenues of around \$ 13 million and almost 1,100 employees.³²

OKS was one of the pioneers within so called *data entry* which means process by which information is put into a database, either by people manually typing the information or by

³¹ Vinit Khanna, December 2009

³² <http://www.oksgroup.com/en/aboutus.asp>, OKS Group consolidated results sept. 2009

using a software tool or a combination of both. The information OKS has mainly been involved with is quantitative business data.³³

As the company has grown, OKS has also engaged in other services. It is currently active within mainly two categories: *Customer interaction services* (CIS) and *Data interaction services* (DIS). CIS includes call centres, e-business solutions, direct mail and marketing whereas DIS includes business process services such as processing of financial transactions, transcription services and web mining.³⁴ Historically, these services have been provided to a broad and, to an extent, undefined market. Today, the target group has been narrowed and OKS is focusing on three markets: *The database marketing industry, the publishing industry and the directory industry.*³⁵

| The OKS Group | |
|---------------|--|
| Type | Group, Private, Limited |
| Founded | 1985 |
| Headquarters | USA |
| Industry | Database marketing, publishing and directory |
| Services | BPO-solutions |
| Revenue | \$ 13393260 |
| Profit | \$ 39281 |
| Employees | 1053 |

OKS Group Consolidated Results Sept 2009

In 2009, OKS provided services for around 20 customers, all located in Europe and USA. As part of the outsourcing concept, customers outsource tasks to OKS which commonly would have been kept in-house.³⁶

1.7 Disposition

1 Introduction

The first chapter of our thesis begins with an introduction of how the outsourcing concept as well as business process outsourcing was created. We also establish how the outsourcing popularity has increased and other concepts which have come to influence outsourcing. Furthermore, the chapter involves our problem discussion, the purpose of our thesis, and our scope and limitations.

³³ Ibid.

³⁴ <http://alden.co.in/partner.html>

³⁵ Bob Mannarino, August 2009

³⁶ John O’Kane, August 2009

2 Methodology

In this chapter we present the research approach of our thesis. More specifically the chapter includes the collecting of our primary data through interviews and observations and our secondary data through document studies. The chapter also includes the validity and reliability of our material, and evaluation of quality.

3 Destination India

In this small chapter we present a summary of India as an outsourcing option compared to other countries.

4 Theoretical framework

The chapter presents our theoretical framework and includes theories on outsourcing risk and trust, cultural differences, and interaction process.

5 Empirical foundation

In this chapter we present our empirical material gathered from interviews, observations, and document studies at our case company OKS Group in India.

6 Analysis

Our empirical evidence is in this chapter analyzed by our theoretical framework.

7 Conclusions

In this chapter we present the conclusions and recommendations we have drawn from the result of our analysis.

2 Methodology

The methodology chapter consists of our research approach, data collection, as well as more specified explanations of the interviews and observations performed, and the documents we have studied. The chapter ends with a review of the thesis's overall relevance.

2.1 Research approach

As one of the authors to this thesis recently was employed at OKS Group in India we have been given the opportunity to study and observe their outsourcing relationships with their partners from a vendor point of view. As our main focus has been to investigate OKS Groups unique workflow we have chosen to use a qualitative investigation method. We believe that the qualitative method is most suitable to create a deeper understanding of the interaction between OKS and their outsourcing partners and to analyze OKS' way of building trust to their outsourcing partners. According to Bryman and Bell the qualitative method is best suitable to a study where the researchers want to focus on matters which are unique with each interview object and to create a greater understanding of the subject.³⁷ The quantitative investigation method is suitable to more structured studies with a greater research selection and is less suitable to create a balanced picture of situations with a fewer number of companies.³⁸ Our empirical material consists of *interviews* with suitable employees at OKS Group in India, *observations* regarding their way of working, and *document studies*.

The qualitative method is often associated with an inductive research approach. However, in our study we have chosen both a deductive and inductive course of action.³⁹ Our approach includes that we analyze our empirical material with chosen models but in our conclusion we also contribute to previous research in form of new ways to use these models and how to build trust. The thesis also includes both a normative and descriptive approach. The chapter *Theoretical framework* and *Empirical material* are included in the descriptive part of our

³⁷ Bryman & Bell (2005) p. 297-298

³⁸ Ibid. p. 40-41

³⁹ Ibid. p. 23-25

thesis, which presents our framework and the situation and challenges of our case company OKS Group. The final chapters where we analyze our material which leads up to several conclusions have a more normative approach.⁴⁰

As we attempt to create a deeper understanding for OKS' trust building efforts and analyze how these efforts may reduce the risks associated with outsourcing, we have chosen to conduct a case study. A case study is a detailed study of one single case which focuses on the complexity and the specific nature of that case.⁴¹ Case studies are often associated with a qualitative research method that consists of observations and interviews, which is also the approach we have chosen.⁴²

2.2 Data collection

The primary data of our thesis consists of material based on interviews and observations at OKS Group in India. Our secondary data consists of documents we have received and studied. In the following paragraph we will present specific information on the data collecting of each method.

2.2.1 Interviews

We have based our choice regarding the interviewees on the non probability selection method. This method means that a person is handpicked according to their specific knowledge on the subject. The main problem regarding the non probability selection method is that the interviewees do seldom represent the opinion of the larger population.⁴³ However, since this is not the purpose of our thesis it is not necessary for us to reflect on this problem. Instead, our wish with the non probability selection method has been to access crucial information to our study. Information that is limited to only a few people at OKS Group. We have chosen five interviewees at OKS based on their unique knowledge and their position in the company.

⁴⁰ Jacobsen (2002) p. 106-107

⁴¹ Bryman & Bell (2005) p. 71

⁴² Ibid. p. 72

⁴³ Jacobsen (2002) p. 198-203

The interviews have been conducted in a semi structured way in order to adapt the interviews to each person. This method enables the process to become more flexible and at the same time partly structured as we also used an interview guide.⁴⁴ Several interviews have been conducted with each person through personal meetings and telephone calls. During the meetings a tape recorder has been used in order to reduce the risk of miss interpreting the information. Interviews over the phone have mainly been a mean to follow up on certain information and for clarifications.

Four of the interviewees are employees that all have played a key role in creating of OKS' new strategy. They are all also part of the senior management. Even though the four interviewees have similar positions in the company we have found that each person plays a different role in the company and therefore also different roles as interviewees in our thesis. The interviewees have similar experience in the company, they however have different perspectives on OKS' organization and strategy which why they make ideal interview candidates.

The fifth interviewee in our thesis has the position of country manager in Germany. Together with two of the senior management interviewees this person has a long experience of working with different cultures and problems regarding cultural differences. This aspect is of great importance to our thesis and we believe that we have found an adequate mixture of interviewees with fulfilling knowledge regarding our thesis's focus.

2.2.2 Interviewees

As mentioned we have chosen to interview five employees at OKS due to their knowledge regarding OKS and customer relationships. Vinit Khanna, Bob Mannarino, John O'Kane and Gowri Shanker have also been active in the shaping of the new strategy. The interviewees are:

Vinit Khanna – Founder and CEO of OKS. Apart from leading the company, he is to a large extent active in generating new clients for OKS.

Bob Mannarino – Vice Chair. He has been working for OKS since 2007 and is born in USA.

⁴⁴ Bryman & Bell (2005) p. 362-363

John O’Kane – Head of marketing. John O’Kane is born in Scotland. In his line of work he has travelled extensively between countries and dealt with different working cultures. He has been working for OKS since 2003.

Gowri Shanker – Head of production. Since the production department constitutes the vast majority of OKS, his role stretches to OKS’ strategic issues on a general level, beyond production related issues.

Andrea Kaiser – In-country Manager, Germany, 2003-2009. In her position, she was the main contact person for the German client base as well as involved in sales activities.

2.2.3 Observations

Throughout the process of this thesis one of the authors have been located in New Delhi, India at the office of OKS Group. He has been involved in creating OKS’ new business model and other management issues. Alongside with his work he has been able to observe the workflow and customer approach at OKS. Not only by being a part of the management team but by observing the senior management and the persons we have interviewed. Through these observations we have been able to identify the major problems presented in this thesis and establish possible solutions.

2.2.4 Document studies

A part of our empirical material is also based on document studies, which is material already gathered by OKS. This material mostly consists of financial reports and market materials, which are not public documents. The material has been used to help us analyze OKS’ client relationships and their market situation. According to Bryman and Bell there are three ways of analyzing document; qualitative method, content analysis, and semiotic method.⁴⁵ Both a qualitative method and content analysis has been used in order to obtain the necessary information from received document.

⁴⁵ Bryman & Bell (2005) p. 438-444

An important aspect when using document studies as empirical material is to evaluate the level of authenticity and the documents trustworthiness. However, since one of the authors to this thesis was employed by OKS in India we can with almost certainty guarantee the authenticity of the documents we have studied. The trustworthiness of the document can also be guaranteed, as we have also conducted interviews in order to clarify their content.⁴⁶

2.3 Theoretical framework

Our thesis' theoretical perspective mainly consists of theories and models regarding outsourcing relationships, cultural differences, and trust. Through extensive studying of relevant literature and consultation with our advisor we have chosen *The Interaction model* by Håkansson (1982) as our main model in order to analyze the different aspects of outsourcing relationships. The model is very extensive and we therefore found it preferable to integrate our other theories into this model. We have thereby created a framework which enables us to analyze the different aspects of the outsourcing relationship with the help of other models in each aspect.

2.4 Empirical results

As an observant, a substantial amount of time has been spent in attaining understanding of OKS as an organization. When performing the interviews, the observations have been taken into account. The interviewees have been able to shed light upon issues and confirm facts. In all, the observations and interviews have worked dynamically to, over a period of time, increase the understanding for the observant/interviewer.

Several key individuals in the shaping and implementation of the new strategy have been chosen in order to increase the validity of the information gathered as well as fill in each other's gaps of information. We are aware of that the information gathering is coloured by the perception of the observant. The goal has always been to map the facts in such a way that it coincides with the perception of the interviewees.

⁴⁶ Bryman & Bell (2005) p. 425

2.5 Relevance of study

As we presented in our problem discussion there is a shortage of literature regarding outsourcing relationships and trust. We have also identified a lack of focus on the vendor perspective when studying outsourcing relationships. We believe that our thesis will contribute to both these aspects by studying the effects of and how trust can be built in an outsourcing relationship from a vendor point of view.

OKS shares many similarities to the general development of the Indian outsourcing Industry – it is characterized by big cultural differences between supplier and client, by an expansion of the business in scope, scale and depth and shares the threat of increasing competition. It is therefore arguable that it makes the case study representative of the general development of the Indian outsourcing industry, even though the qualitative research method is not usually associated with this. Further, it is rare for a study from a Swedish University to focus on a case company based in India. It therefore creates a rather unique angle – readers in Sweden and in other Western countries are able to get an insight into the Indian side of the outsourcing business, the supplier side.

One weakness is that all empirical study stems from the case company, which creates a risk for the study to be subjective in favour of the case company. For instance, there might be other problems related to climbing the value chain and gaining trust amongst customers for which OKS is blind. Furthermore, the interviewees might feel obliged to not present us with any problem related information since it may reflect negatively on OKS. However, as one of the authors has previously worked at OKS we believe that we have avoided this problem as much as possible.

3 Destination India

In this chapter we will present our readers with a summary of India as an outsourcing option compared to other countries. It is divided into two paragraphs which aim to give the reader a larger understanding of India's attractiveness as an outsourcing vendor country.

*'If India was a stock, I would buy the hell out of it. I see beauty everywhere in India – even in her chaos.'*⁴⁷ – Saira Mohan, Author

India has become one of the most popular countries for offshore outsourcing. The country combines the best quality with low costs and a large number of leading companies in their respective industry are using outsourcing to create competitive advantages.⁴⁸ In this paragraph we intend to indentify why companies all over the world choose India as their first alternative in outsourcing.

When the consultant company McKinsey & Co. compare outsourcing destination they use two variables; *location attractiveness* and *people attractiveness*. When examining the *location attractiveness* you measure the quality infrastructure such as telecommunications, quality and transport. But you also measure the local government by examining the political stability and investment incentives. When examining the *people attractiveness* you measure factors such as the size and quality of the labour pool as well as labour costs and English language skills.⁴⁹

3.1 Location attractiveness

*'Companies come to India for the cost, but stay for the quality.'*⁵⁰ – Pramod Bhasin, President of GE Capital in India

In 1991 India accepted a new reform that destroyed the old bureaucratic legislation and resulted in a more stable government with openness to business innovations. Information

⁴⁷ Kobayashi-Hillary (2005) p. 151

⁴⁸ Ibid. p. 151

⁴⁹ Ibid. p. 152

⁵⁰ Ibid. p. 152

technology became a common strength of India that promoted new policies to benefit the technology and the industry. In the year 2000 new industrial parks and economic zones were created due to a new legislation regarding IT security, contracts and tax which gave high support to offshore outsourcing to India.⁵¹

The privatization of the *telecommunication* sector resulted in a large increase in bandwidth and with the free competition the market grew with 20 % on a year-to-year basis from 1996 to 2003. The long distance rate, licenses for gateways, and the cellular market all saw tremendous drop in costs, factors that have influenced India in becoming the call-center capital that they are today.⁵²

Today India is known as one of the leaders in high *quality* software and outsourcing services. Vendors use internationally recognized quality benchmarks and in 2002 Indian companies received higher score than no other country in the world. Other factors that work in favor of India as an outsourcing country are the highly developed air travel system and power availability, or investor incentives such as ten-year tax breaks.⁵³

3.2 People attractiveness

*India is the undisputed leader of the global offshore services industry and sets the benchmark against which all other countries are measured.*⁵⁴ – Elizabeth Sparrow, Author

The size and quality and the labour pool, as well as labour costs and English language skills, are directly linked to the education system of India. Today India has over 250 universities and 900 colleges where over 2.1 million people graduate every year, a very large pool of English speaking workers with high quality, and their salaries are usually 25-30 % of the European equivalent. This is also as one of India's main advantages to other offshore outsourcing countries such as China, the Philippines and Ireland. Another advantage is the infrastructure, where only Ireland can compete with India. However, Ireland only produces 43,000 graduates per year.⁵⁵

⁵¹ Kobayashi-Hillary (2005) p. 151-152

⁵² Ibid. p. 151-152

⁵³ Ibid. p. 151-152

⁵⁴ Ibid. p. 159

⁵⁵ Ibid. p. 155-157

4 Theoretical framework

In order to analyze how OKS Group can build trust we believe it is necessary to first fully understand the relationship between trust, cultural differences and risk. We will therefore in this chapter investigate these main concepts more thoroughly. However, we will begin with presenting outsourcing drivers, criteria and risk, concepts that are essential to understanding our analysis. The chapter also includes other models and frameworks which we will later use in order to analyze our empirical material.

4.1 Outsourcing vendor and client

In order to further study the outsourcing relationship in this thesis we need to identify the vendor's and the client's advantages of outsourcing. The outsourcing drivers can be seen as criteria that have to be met by the outsourcing vendor. Furthermore, we will discuss the client's selection criteria when searching for an appropriate vendor and the risks of outsourcing, and finally the problematic of outsourcing relationships.

4.1.1 Outsourcing drivers

For an organization to develop a strong competitive position it needs to cooperate with other organizations. All the necessary abilities needed to build long term competitive advantages can seldom be found within one organization. External network and relationships also give companies the possibility to focus on core competencies when the responsibility of support activities falls on a partner. The goal is to achieve scale economy and ability to focus on what one company does best. External relationships also increase a company's flexibility.⁵⁶

In common outsourcing literature lists such as "the main reasons to outsource" or "top five outsourcing reasons" can be found, but the lists usually give different results. This is often because the people interviewed vary. For example a CEO's reasons to outsource may be different from those of a CFO or CIO. A large number of drivers can be identified and a

⁵⁶ Alvesson & Svaningsson (2007) p. 120-132

presentation of most of these reasons to outsource adds up to a list of 20 examples. In this paper, only the major activities with one example included in each one will be presented:⁵⁷

- *Organizationally Driven Reasons* – Enhance effectiveness by focusing on what a company can do best.
- *Improvement Driven Reasons* – Improve management and control.
- *Financially Driven Reasons* – Reduce investments in assets and free up these resources for other purposes.
- *Revenue Driven Reasons* – Gain market access and business opportunities through the provider's network.
- *Cost Driven Reasons* – Reduce costs through superior provider performance and the provider's lower cost structure.
- *Employee Driven Reasons* – Give employees a stronger career path.

The reasons and benefits of BPO may differ from the traditional reasons mentioned above. The main initiative is to identify noncore processes that are too costly, inefficient, or too difficult to manage and where a supplier can add value. Outsourcing such processes may create benefits for instance by using vendors with higher industry knowledge or experience, increase productivity, streamlining or standardizing processes across the organization or improving methodology.⁵⁸

Building trust in an outsourcing relationship is directly linked to the outsourcing drivers. Trust is built with consideration to the drivers and it is for that reason crucial to have an understanding of the driver functions.

⁵⁷ Greaver (1999)

⁵⁸ Halvey & Melvi (2007)

4.1.2 Outsourcing criteria

When companies have identified a need to outsource one or several processes, an intense period begins in order to find the most suitable outsourcing vendor. Companies may have different objectives with an outsourcing venture but the basic selection criteria of outsourcing vendors are often similar. Below follows a list of several selection criteria:⁵⁹

- *Quality of service of product*
- *Technology or research and development capabilities*
- *Price*
- *Production capacity and flexibility*
- *Financial structure*
- *Legal and government constraints*
- *Scope and variety of services provided*
- *Consonance between culture and organization*
- *Credibility with respect to translating commitment into action*

However, a large number of companies use more advanced models in order to establish their offshore outsourcing vendor, so called multi-criteria methods. Two of the most common used methods are *Analytic Hierarchy Process* (AHP) and PROMOTHEE. The AHP model is used to analyze the location selection problem and establish the importance of the different criteria. The PROMOTHEE method is used to establish the final ranking of the criteria. We do not intend to discuss these methods any further in this thesis due to our different purpose. Instead we refer our readers to reference of this paragraph for more extensive reading regarding the AHP and PROMOTHEE model.⁶⁰

⁵⁹ Chiu, Lai, Chen (2009) p. 2-3

⁶⁰ Lin, Wang, Qin (2007) p. 1-3

4.1.3 Outsourcing vendor advantages

One criterion for an outsourcing relationship to become successful is the matching between the advantages of the client and vendor. It is thereby also important for this thesis to identify the advantages of outsourcing vendors. Common advantages may include:⁶¹

- *Furthering the company's competitive strategy*
- *Conservation of company resources*
- *Reduction of capital expenditure*
- *Concentration of resources on core activities*
- *Control of special resources*
- *Utilization of excess capacity*
- *Entry into new markets or expansion of customer base*
- *Transfer of technology*
- *Ability to circumvent legal or political constraints*

4.1.4 Outsourcing risk

Risk has been inadequately studied in outsourcing relationships even though many researchers have pointed out the relevance of outsourcing risk research. The risk associated with outsourcing often has its roots in arguments against outsourcing.⁶²

The main arguments against outsourcing mentioned in literature is the quality problem due to the vendor's poor knowledge regarding language, communication and expertise. There is also a risk among the outsourcing clients that they will lose in-house expertise, create vendor dependency and thereby lose control and the social responsibility against the staff and community. Furthermore an outsourcing partnership can lead to extensive security problems regarding sensitive information.⁶³

⁶¹ Chiu et al (2009) p. 2

⁶² Blumenberg, Beimborn, Martin, Brodник, Gunne & Wendt (2009) p. 2

⁶³ Knol (2008) p. 24

Another problem within an outsourcing relationship derives from *the Agency theory* where two risk related problems can be identified; the conflict between the agent (outsourcing vendor) and the client regarding goal congruence. An example of this is when the client's goal is to reduce costs but the vendor's goal is to maximize profits. The second problem regards to risk sharing between the client and vendor. A difference between vendor and client risks might have an impact on the companies' attitude towards certain strategies.⁶⁴

The previously mentioned risks associated with outsourcing ventures (from a cliental perspective) can more specifically be divided into three types; operational risks, strategic risks and composite risks. *Operational risk* refers to faults in quality, time, and cost. These risks are fairly common when the work transfer malfunctions or processes fail due to human errors. They are not usually deliberate misbehaviours but instead often occur when the vendor does not fully understand their client's requirements. *Strategic risks* however are deliberate, opportunistic behaviour from the vendor. This risk type includes theft of intellectual property, vendors cutting corners by understaffing, and the problem with clients becoming too dependent on the vendor. *Composite risks* are the risks that occur when a client have outsourced a process for so long that they can no longer apply it to their own organization.⁶⁵

4.1.5 Relationship complications

Every BPO vendor operates in three fields, regardless of their area of expertise. The first one is *delivery competency* which shows how well a vendor can adapt and meet client requirements on a day-to-day basis. Companies are less likely to outsource to a vendor if they are not confident that their minimum required standards are to be met. *Transformation competency* refers to the vendor's ability to deliver other formal or informal expectations that arise over longer period. Such expectations can be that the outsourced process will improve in terms of quality, cost or functionality. The final area is *relationship competency* which is the extent to which the vendor is willing to align the client goals with their own. This is affected by the negotiation power which changes once a contract has extended for many years.⁶⁶

⁶⁴ Knol (2008) p. 25

⁶⁵ Tucker, Alvarez & Niebuhr (2005) p. 2

⁶⁶ Feeny, Lacity & Willcocks (2005) p. 2

All together these areas are the base of many problems and complications in an outsourcing relationship. There are several important aspects that therefore need to be considered when choosing outsourcing vendor. Does the company need a vendor who can deliver the highest level of service, or is a moderate level sufficient? Does the company want a vendor which can be replaced easily, or would they like to have a long-term partner? One common problem that occurs is that companies choose their vendor through a process which involves a bidding war. This often results in the vendor feeling immediate pressure to restore profitability to the outsourcing company, which may lead to a failing relationship.⁶⁷

A company which is in the process of choosing an appropriate outsourcing vendor must carefully evaluate the vendors' infrastructure, values, methodologies, and expertise. Companies usually have different outsourcing needs and will therefore have to look to vendors for different capabilities. For further knowledge regarding evaluation of the vendor's expertise and skills we refer to Feeny, Lacity & Willcocks (2005) who has created a framework with twelve capabilities to evaluate.⁶⁸

⁶⁷ Feeny, Lacity & Willcocks (2005) p. 3

⁶⁸ Ibid. p. 3-5

4.2 Outsourcing and trust

Merchant (1985) noted that a large number of management control systems, even in outsourcing relationships, involve a trust factor that is relevant for success. Trust can be developed in a relationship over time through learning and adaptation. Outsourcing relationships involve sharing information, interactions and communication, joint process development and joint cost improvement activities, and trust enables these relationships to prosper. Trust also reduces opportunistic behaviour and makes each party to honour their commitment.⁶⁹

4.2.1 The importance of trust

In strategic alliances, such as outsourcing, trust is a continuous and long term issue. The cooperation usually demands that a certain undertaking, cultural differences resource allocation and exposure of sensitive information are made to your partner etc. Trust is in this case an essential condition in order for companies to reveal the information needed to create a successful relationship. Furthermore are companies depended on their partner when it comes the product or service quality, delivery time, quantity etc., factors where trust ones again is of great importance.⁷⁰ Trust itself is difficult to define due to many different contexts, for instance as a result of a cognitive process, decision making concerning economics or social relationships. Both expectations and risk plays a large part and in this thesis we will define trust as:⁷¹

An agreement which is reliable and when expectations are fulfilled in a behavioural goodwill.

To further explain the definition an agreement can be seen as *reliable* when it is worthy of being dependent on, the *expectations* should be achievable in a predictable and fair way, and *behavioural goodwill* can be seen as the friendliness between two parts.⁷²

⁶⁹ Langfield-Smith & Smith (2003) p. 284

⁷⁰ Alvesson & Svenningsson (2007) p. 131-132

⁷¹ Lennerholt & Söderström (2007) p. 1-2

⁷² Ibid. p. 2

4.2.2 Managing outsourcing relationships through trust

In situations and relationships where there is risk, trust becomes a crucial factor to consider. Three definitions of trust are relevant to managing outsourcing relationships; contractual trust, competence trust and goodwill trust. *Contractual trust* is based on honesty and the assumption that the outsourcing partner will honour the agreement. A high level of contractual trust decreases the need to collect information in order to prevent possible opportunistic behaviour. *Competence trust* regards to the vendor's abilities and expertise or more specific, the partner's ability to perform according to the specified agreement or contract. *Goodwill trust* focuses on dependability and responsibility, and can be seen as the partner's intention to perform in accordance with the agreement or contract. All three trust types are present from the beginning in an outsourcing relationship but can develop over time or by trust building.⁷³

4.2.3 Building high levels of trust

Initial trust in an outsourcing relationship is built through friendships, former contractual relationships and reputation. A number of control devices (personal consultations and intense communications) are activated to develop competence trust and goodwill trust. At the beginning of a relationship contracts are only broad frameworks but developed further over time. The institutional environment also has some effect on contractual trust and competence trust through certifications of the company and legislations. Goodwill trust is the solution to create information asymmetry which, together with personal contacts and an attitude of commitment, may result in its development.⁷⁴

Competence trust can be built in several ways in order to reduce the risk in an outsourcing relationship. The foremost way is proactive information collection which includes ensuring the vendor's competence level, reputation, credibility etc.⁷⁵

⁷³ Langfield-Smith & Smith (2003) p. 285

⁷⁴ Ibid. p. 287

⁷⁵ Ibid. p. 302

Goodwill trust is difficult to achieve in an outsourcing relationship, however it is crucial to reduce the possibilities of opportunistic behavior. There can be many reasons for a low goodwill trust, which may have dire consequences. Some of these reasons are an incomplete contract, conflicting priorities, or a gap in knowledge, insights and control which may occur immediately after the relationship begins. Cultural differences is another factor which has an effect on goodwill trust due to communication difficulties. Trust is built through learning and adapting and three different types of goodwill trust which reduces risk in an outsourcing relationship can be identified; establishing mutual interests, building individual and team-level trust and joint dispute resolution.⁷⁶

Establishing mutual interests is the major way to build goodwill trust. Its basics consist of client and vendor establishing an understanding of the common areas of interest. This can be made through regular meetings and communication between the partners, performance indicators, a risk-reward system etc. However, whether it is compatible or not using both performance indicators and risk-reward systems has been disputed in several studies.⁷⁷

Building individual and team-level trust refers to the trust development between individuals or teams and the outsourcer in order to build goodwill trust. Some researchers argue that trust between individuals is critical to larger cooperation, however it may take time to achieve.⁷⁸

Joint dispute resolution involves frequent meetings and communications, especially in the early stage of the relationship, which allows the partners to develop a strong understanding for each other, their perspectives and their protocols. It is especially important in an outsourcing relationship where the contract has not been specified.⁷⁹

⁷⁶ Langfield-Smith & Smith (2003) p. 302-303

⁷⁷ Ibid. p. 303

⁷⁸ Ibid. p. 303

⁷⁹ Ibid. p. 303-304

4.3 Cultural differences

*'Culture is the collective programming of the mind that distinguishes the members of one group or category of people from another.'*⁸⁰ - Geert Hofstede

Hofstede uses this definition of culture in his book *Cultural Consequences* (2001) where he claims that culture is to a human collectivity what personality is to an individual. National cultures often show evidence of both differences and similarities, some which have very old historical roots. The origin of cultural differences comes from the *culture origin* (geography, history etc.), *societal norms* (major groups of population etc.) and *consequences* (religion, political system etc.). The major factors influencing cultures today are believed to be *outside influences*, such as trade and scientific discoveries.⁸¹ In this chapter we intend to survey the cultural differences between east (in this case India) and west in order to understand the relationship between cultural difference, trust and risk, and how to analyze how cultural differences affects the outsourcing relationship between OKS group and its western clients.

4.3.1 Eastern vendors and Western clients

*'The human resource issue is one of the greatest challenges to the success of an outsourcing initiative.'*⁸² - Charles L. Gay

Even though India shows relatively high location- and people attractiveness regarding outsourcing vendors (see chapter 3), outsourcing projects can still suffer due to cultural differences and poor communication. An offshore BPO project in India includes a move to outsourcing as well as a move to India and a culture with a different personal and management culture.

As mentioned, cultural differences are a very important factor regarding offshore outsourcing, however the nature of cultural differences is very hard to understand. Hofstede created a

⁸⁰ Hofstede (2001) p. 9

⁸¹ Ibid. p. 9-13

⁸² Kobayashi-Hillary (2005) p. 235

cultural model in 1983 which involves a survey of 50 countries. In order to investigate the countries' cultures Hofstede uses five dimensions; *power distance index*, *individualism*, *masculinity*, *uncertainty avoidance* and *long term orientation*. The dimensions are measured on a scale from 1 to 100.⁸³ In this paragraph we will present the average result of cultural differences between eastern vendors and western clients. We will also more thoroughly investigate the result of Indian cultural differences compared to the western society.

Power distance index (PDI) is a measure of societal inequality. A high PDI means a large gap between the people regarding their social rank, seniority and wealth. For example, in a country with a large PDI employees are less likely to express their opinions to their supervisors. *Individualism* (IDV) regards to the degree of societal interpersonal relationship. A high IDV indicates an individualistic culture which focuses on self interests and a will to express their feelings in public. A low IDV culture shows collectivism and pursues group interests. *Masculinity* (MAS) is a measure that indicates the social gender roles. A high MAS value shows a culture with a competitive society in contrast to low MAS which indicates a modest and tender society. *Uncertainty avoidance* (UAI) is a measure of tolerance of uncertainty and ambiguity in the society. The measure shows the low likelihood of uncertainty confrontations. *Long-term orientation* (LTO) shows a culture's perceived value of long term commitment and tradition. A high LTO usually indicates a culture which works towards long term results.⁸⁴

In *table 1* we present the result of the top six offshore outsourcing destinations and the two largest client countries according to a report by A.T. Kearney Inc.⁸⁵

*Table 1: Top six outsourcing destinations*⁸⁶

| Country | PDI | IDV | MAS | UAI | LTO |
|----------------|-----|-----|-----|-----|-----|
| China | 80 | 20 | 66 | 30 | 118 |
| India | 77 | 48 | 56 | 40 | 62 |
| Malaysia | 104 | 26 | 50 | 36 | - |
| Philippines | 94 | 32 | 64 | 44 | 19 |
| Singapore | 74 | 20 | 48 | 8 | 48 |
| Thailand | 64 | 20 | 34 | 64 | 56 |
| United Kingdom | 35 | 89 | 66 | 35 | 25 |
| United States | 40 | 91 | 63 | 46 | 29 |

⁸³ Ramingwong & Sajeev (2008) p. 2

⁸⁴ Ibid. p. 2-3

⁸⁵ A.T. Kearney Inc. (2006) www.atkearney.com/shared_res/pdf/GSLI-2006_S.pdf

⁸⁶ Ibid.

A more interesting table to this thesis would be to compare the average result of the two largest clients (which are also western countries) in *table 1* with India in a second table.

*Table 2: The two largest clients and India*⁸⁷

| Country | PDI | IDV | MAS | UAI | LTO |
|-----------------|------|-----|------|------|-----|
| India | 77 | 48 | 56 | 40 | 62 |
| Western clients | 37,5 | 90 | 64,5 | 40,5 | 27 |

The result in *table 2* shows a high *power distance index* in India and a low PDI in the two western countries. The large difference in PDI suggests that there are large communication gaps between Indian vendors and western clients. The power distance also has an effect on team solidarity. The smaller the power distance gap, the easier for members of a team to communicate and bond. As seen in *table 1*, a high PDI is common for eastern outsourcing vendors.⁸⁸

The result of the *Individualism* column in *table 2* indicates a high collective behavior in India (a low individuality index) compared to the western countries. The difference between east and west are significant, as shown *table 1*. Countries with a collectivist culture like India tend to avoid conflicts and remain silent instead of making straightforward criticism. Also internal confrontations are less likely. These effects increase the communication gap between eastern vendors and western clients even further.⁸⁹

The differences in *Masculinity* and *Uncertainty avoidance* are insignificant to this thesis and are therefore disregarded in this chapter and in our analysis. The *long-term orientation* result indicates that Indian vendors focus on long term objectives unlike the western clients which are more short term orientated. This fact tends to complicate the communication level even further since vendors and clients have different objectives.⁹⁰

India and western clients show significant cultural differences according to *table 2*. These cultural differences between client and vendor may affect the factors which are crucial to offshore outsourcing success; trust, vendor performance, cooperation, and conflict.⁹¹

⁸⁷ A.T. Kearney Inc. (2006) www.atkearney.com/shared_res/pdf/GSLI-2006_S.pdf

⁸⁸ Ramingwong & Sajeev (2008) p. 3

⁸⁹ Ibid. p. 3

⁹⁰ Ibid. p. 3

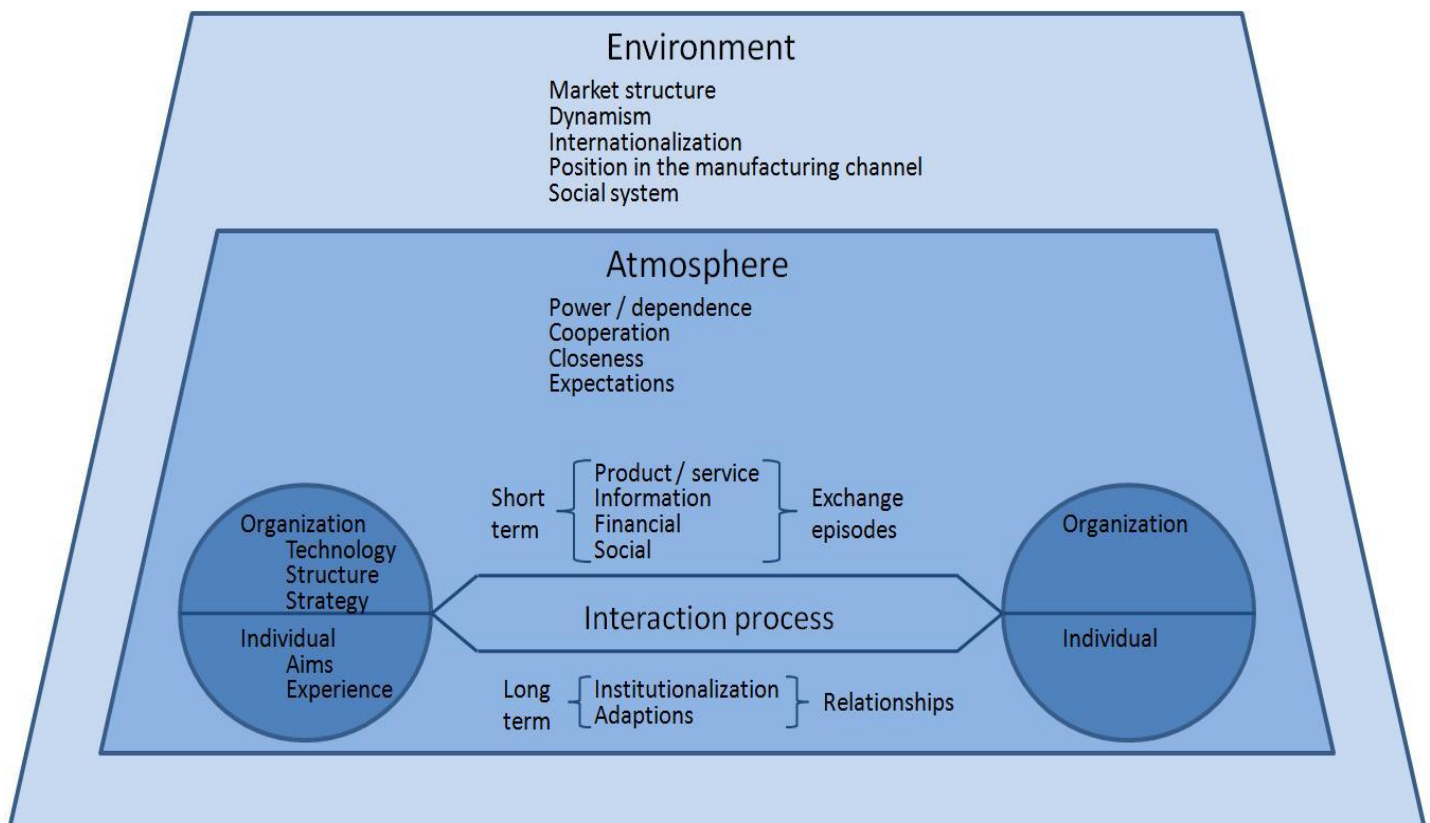
⁹¹ Winkler et al (2008) p. 250

4.4 The Interaction model

In this chapter we stress the importance of the relationship between vendor and client through a model (figure 2) from the book *International marketing and purchasing of industrial goods*, edited by Håkan Håkansson. The model consists of four variables that describe the interaction between vendor and client. What is also of importance to mention is that the model is only a suggestion as how to analyse a supplier and buyer relationship, it is not the only model that exists. However during extensive literature studies we have come to believe that it is the most suitable one for our approach.⁹²

1. The interaction process
2. The parties involved in the interaction process
3. The environment where the interaction process takes place
4. The atmosphere affecting and affected by the interaction

Figure 2: The Interaction model⁹³



⁹² Håkansson (1982) p. 22

⁹³ Ibid. p. 32

The model shows both the short-term and long-term *interaction process* between client and vendor. The interaction process is influenced by the characteristic the *interacting companies* (circle A and B) and additionally the interaction process takes place in an *environment* which consists of different influences. Finally, the *atmosphere* illustrates the characteristics of the relationships, influenced by the interaction process, firm characteristics and environment.⁹⁴

Many examples of using this model have focused on the relationships between only one buyer and one supplier.⁹⁵ In this paper we have learned the models usefulness and therefore also found it suitable to use in order to analyse the vendor and its strategic approach towards clients in general.

4.4.1 The interaction process

To further explain the interaction model above, the authors distinguish between *short-term episodes* such as a particular order and *longer-term relationships* which all involve exchange. There are four different types of short-term exchange:⁹⁶

1. Product and service exchange
2. Information exchange
3. Financial exchange
4. Social exchange

Product and service exchange is often the core of an exchange. An important aspect is the level of uncertainty revolving around the exchange. For instance, the relationship will vary depending on how easy it is to identify a client need and where the characteristics of a product are easy to identify.⁹⁷

Information exchange involves what kind of information is relevant. For instance, is it technical or organizational? The width and the depth of the information from these groups are also important. Information can be transferred by either personal or impersonal means. Impersonal information is often used to transfer technical and commercial data. Personal

⁹⁴ Håkansson (1982) p. 23

⁹⁵ Ibid.

⁹⁶ Ibid. p. 24

⁹⁷ Ibid. p. 24

channels are more likely to be used for so called 'soft data', for instance the use of a product, conditions of agreements between two parties or general information. The formality of the information exchange is also of importance.⁹⁸

Financial exchange refers to the quantity of the money being exchanged which indicates the importance of the relationship. Also, money transactions between different currencies might be a financial factor that can make the relationship more uncertain, due to the unpredictable development of currencies.⁹⁹

Social exchange is extra important in helping to overcome language or cultural differences. Over a long period of time, social exchange lock parties to one another. A lot of aspects within an agreement are not specified in an agreement or formalized. Instead, trust plays a key role. Trust is built through social interaction and the importance of trust varies depending on the degree of the three other exchanges; product/service, information, and financial exchange. For instance, if there are big exchanges of money, a larger degree of trust might be necessary. It takes time to build trust and it is dependent on the execution of the three other exchanges.¹⁰⁰

The *long-term relationship* between vendor and client may also be influenced by *institutionalizations*, *contract patterns* and *adaptations*. Several episodes, involving exchanges, over a long term contribute to building a long term relationship. When companies interact with each other over a long term, expectations are built. Eventually these expectations become institutionalized, which means that they are not more questioned by either party.¹⁰¹

Over time, communication leads up to the creation of certain roles on both sides, creating so called *contact patterns* where personnel from both parties might have different roles or be the point of contact regarding different issues. These contact patterns interlock the two parties to a greater or lesser extent. This communication can occur without any exchange of product/service or money.¹⁰²

⁹⁸ Håkansson (1982) p. 24

⁹⁹ Ibid. p. 24-25

¹⁰⁰ Ibid. p. 25

¹⁰¹ Ibid. p. 25-26

¹⁰² Ibid. p. 25-26

Another aspect is the *adaptations* in the different sort of exchanges that might be made from the parties in a relationship. For instance, the supplier might adapt its product/service to the customer or the customer might change its informational routines in order to better fit the supplier. Adaptations are usually made because the parties gain from it, for example through revenue gains, cost reduction or higher control over an exchange. On the other hand, it creates dependence between the parties. Some of these adaptations take place unconsciously, but the authors emphasize the importance of the conscious strategy for dealing with adaptations. This might have effect on the seller's pricing, product design or organization. For instance, selling a standard product, that doesn't require much modification for different customers, can be part of a strategy that seeks to avoid dependency to specific parties.¹⁰³

4.4.2 The parties of the interaction process

From the client's perspective, except for the interaction between parties, the characteristics of the firms are also of importance for the shape of the relationship. According to the author's technology, organizational size, structure and strategy are the major factors.¹⁰⁴

The extent to which the *technological systems* of the client and vendor are fitting to each other will affect all parts of the interaction process, for instance the requirements for adaptation, mutual trust and contact patterns. Under this category also falls the difference in level of expertise. If one part has a high level of expertise in comparison to the other part, the relationship will be different to if the level of expertise would be on similar level.¹⁰⁵

Organizational aspects such as size and power of one part in comparison to the other give basic conditions for interaction. A large firm with large amount of resources naturally gets a more dominating position than a smaller firm. Other organizational aspects such as the extent of centralization, formalization and specialization also have an effect on the interaction process. One example is the number and categories of people who are involved in the communication with the other part. Other examples are procedures of the exchange, the communications media used and the formalization of the interaction. In the long term, it is

¹⁰³ Håkansson (1982) p. 25-26

¹⁰⁴ Ibid. p. 26

¹⁰⁵ Ibid. p. 26-27

possible that these organizational features will be modified as a consequence of a relationship to another part.¹⁰⁶

A firm's experience in relationships with other firms has an effect on its ability to determine the importance of a certain relationship. Consequently, the commitment to a specific relationship is affected. There can exist both experiences on an individual level within a company as well as a more generalized level.¹⁰⁷

Commonly, in a vendor-client relationship, several *individuals* within each organization, in different levels in the hierarchy, are part of the interaction between the firms. Over time, these interactions add up to relationships between the individuals. Depending on the personalities, experience and motivations of the individuals the social exchange will be affected in different ways. In the long run, the individual exchanges add up to a relationship. 'Further, the role, level, and function of central persons in the interaction may affect the chances of the future development occurring in the relationship.'¹⁰⁸

4.4.3 The environment

The authors point out that the event of single episodes may affect the attitude towards a client or vendor. Consequently, each individual has an effect on the whole relationship. There are also other factors beside the client and vendor, the authors emphasize, that must be taken into consideration when analyzing the interaction. These aspects are *the market structure, dynamism, internationalization, the position in the manufacturing channel, and the social system*.¹⁰⁹

A *market structure* varies depending on concentration of both client and vendor within that market. This has an impact on how many alternatives a buyer or seller has to turn to. In turn, this affects the need to interact with a certain firm. For instance, if there are many sellers and buyers, it might be less valuable to adapt to individual firms. Also, how fast the market and its players are changing affects the market structure. The need to create relationships in a fast

¹⁰⁶ Håkansson (1982) p. 27

¹⁰⁷ Ibid. p. 27

¹⁰⁸ Ibid. p. 27-28

¹⁰⁹ Ibid. p. 28

changing market might not be as high as in a slower market, since it is uncertain how long time the relationship will last.¹¹⁰

The level of *dynamism* in a market and an individual relationship has two effects on a relationship. Firstly, a dynamic and close relationship increases the level of insight for one party into the business of the other party. Consequently, it becomes easier to make forecasts, given access to information from the other party. On the other hand, a second effect might be that the costs related to a close and dynamic relationship with one firm might exceed the opportunity cost making business with other firms.¹¹¹

Depending on how *international* a market is, it has an effect on a firm's motivation to engage in relationships on an international level. Further, to have a relationship on an international level requires a different organization, for instance, a different general attitude towards international trade and language expertise.¹¹²

A firm must take into account its *position in the manufacturing channel*. If a firm is supplying to a customer who, in turn, is selling to another customer, the relationship between the direct customer and the indirect customer might have an impact on the vendor's relationship to its direct customer. BPO is often situated furthest down in the manufacturing channel.¹¹³

The social system is the wider environment that exists around a relationship. This is particularly important on an international level, where attitudes might exist that makes it difficult to establish a relationship with a firm. One example is the generalized opinion about the reliability of buyers or sellers from a particular country. Furthermore, specific markets or industries can be surrounded by certain social systems. In order for a firm, that is a new actor in that industry or market, to be accepted it must learn the specific language and rules.¹¹⁴

¹¹⁰ Håkansson (1982) p. 28

¹¹¹ Ibid. p. 28

¹¹² Ibid. p. 28

¹¹³ Ibid. p. 28-29

¹¹⁴ Ibid. p. 29

4.4.4 The atmosphere

The power-dependence relationship, the state of conflict or co-operation, overall closeness or distance of the relationship and the firms' mutual expectations constitute the atmosphere. This is not something that can be directly measured, rather something that can be derived from the combination of the environment, company characteristics and interaction process characteristics all together.¹¹⁵

There are different advantages and disadvantages with different sorts of atmospheres. It can be more or less beneficial to have a close or distant relationship. Here the advantages and disadvantages are considered from two dimensions - the economic dimension and the control dimension.¹¹⁶

The economic dimension. Several costs can be cut through a close relationship with another firm. One of these costs is the transaction cost. By close ties to another company, negotiation and administration, among other things, can be handled more smoothly. Another cost that can be reduced is the production cost. For instance, new designs can be made that the customer can develop further. Additionally, better use of each others' competences or facilities can increase revenues.¹¹⁷

The control dimension. A closer relation to a counterpart can contribute to decrease uncertainty associated with an input or output by increased control. Among other things, that increases a firm's ability to make forecasts about the future. The division of power between the involved parties is unclear in the beginning of a relationship. The power of each party will be set in the early episodes, although it can still change later in the relationship. Each party will come to agree on each other's power. Although this is the case, the power relation can change over time.¹¹⁸

Additionally, power between client and vendor will vary depending on the ability to provide the counterpart with a form of exchange, or their access to information or expertise. The power of one firm over another is directly related to the extent of dependency relation:

¹¹⁵ Håkansson (1982) p. 29

¹¹⁶ Ibid. p. 29

¹¹⁷ Ibid. p. 29-30

¹¹⁸ Ibid. p. 30.31

‘The power of organization A over B is directly related to the dependence of B on A’. If there is a dependency structure there is an incentive for the inferior part to avoid a relationship. The opportunity cost of investing in one relationship is the alternative of investing in another relationship.¹¹⁹

The level of dependence affects the level of vulnerability of the firm, for instance if a vendor is largely dependent on one client. In this case, the vendor is very vulnerable to the actions of that client. In many cases, the management of the closeness between a buyer and seller plays a crucial part in strategies for the parties involved.¹²⁰

To Sum up: A critical aspect is to which extent the firm can balance its inter-dependence to other firms, for instance between the ease and cost advantage of a single relationship against the opportunity costs of losing other potential relationships. Summary of everything: There are connections between the different variables. For instance, the two parties can have effect on the interaction process. Another connection is the relation between the characteristics of a product and the exchange of information.¹²¹

4.4.5 Marketing and purchasing management

For marketing management from the interaction, two different groups of problems can be derived - limitation problem and handling problems. The first one concerns a marketing firm's overall limitation of activities in different kinds of relationships. Organization, knowledge, technology etc. have an effect on what kind of relationship it will be. For instance, having customers that demand high quality or customers that demand as cheap a price as possible will require two different types technologies, organization, knowledge et cetera in order to form as good relationship as possible with either part.¹²²

The handling problem is both a long term and short term issue. Short-term, there is a problem to handle the efficiency of the different exchanges (informational, monetary, product and service). Long-term the handling problem concerns controlling the dependence-power structure and the co-operation conflicts of the relation. The short-term affects the long-term

¹¹⁹ Håkansson (1982) p. 30-31

¹²⁰ Ibid. p. 30-31

¹²¹ Ibid. p. 31-33

¹²² Ibid. p. 33

since, for instance, if too much adaptations are being made to make the exchanges more efficient it increases the dependency to that party.¹²³

For purchasing management, two problems can be identified: Firstly, to develop an appropriate structure of suppliers and, secondly, to handle each relationship in an efficient way (same as marketing management). For the first problem, one strategic issue is about finding a balance between internal and external resources. In short term, the key issue is to be able to extract as much resources from the supplying party given one's own resources. Another aspect is that suppliers can be used in different ways. Sometimes it is more desirable to have a supplier that has the ability to develop and design products in a special way, sometimes it is more desirable to use a supplier that produces a standardized product at a low cost.¹²⁴

¹²³ Håkansson (1982) p. 33-34

¹²⁴ Ibid. p. 34

4.5 Nine types of information exchange

Lars-Erik Gadde and Håkan Håkansson (1993) has created a model with different types of information exchange between and buyer and seller, and has identified nine types of information exchange (see figure 3) which can be divided in two categories; *The role (purpose) of communication* and *the nature (content) of the information exchange*.¹²⁵

In buyer/supplier relationships there is a high demand on which type of information exchange that is shared.¹²⁶ This is connected to improved communication which can result in lower consumption of resources and better utilization of existing resources, and can be defined as the *co-ordinating role* of communication. The second role of communication is referred to as the *controlling role* and is related to the party's ability to adapt to each other, which is influenced by communication. The third dimension is the transfer of knowledge between buyer and supplier and is referred to as the *learning role* of communication. Communication regarding resources and their attributes is very important to their utilization and communication is therefore essential in order to increase knowledge.¹²⁷

The nature of the information exchange includes *the technical content* (the product and the problem solution), *the commercial content*, and *the administrative content* (the structure of the transaction). The purpose is to identify typical information needs and relate them to the purpose of communication.¹²⁸

Figure 3: Nine types of information exchange¹²⁹

| Roles of Communication | Nature of Information Exchange | | |
|------------------------|--------------------------------|------------|----------------|
| | Technical | Commercial | Administrative |
| Co-ordinating | 1 | 2 | 3 |
| Controlling | 4 | 5 | 6 |
| Learning | 7 | 8 | 9 |

¹²⁵ Gadde & Håkansson (1993) p. 147-148

¹²⁶ Ibid. p. 149

¹²⁷ Ibid. p. 143-144

¹²⁸ Ibid. p. 147

¹²⁹ Ibid. p. 148

When looking at the **technical nature** of information exchange all three roles of communication are important. The *co-ordinating role (1)* of the technical content is the basic communication for a functioning interaction between buyer and seller. It includes structuring technical activities and utilizing resources. The *controlling role (4)* is important for the same reasons, as it renders possibilities to adapt to the other party and thereby make use of the same benefits mentioned above. The *learning role (7)* also plays an important role in the technical information exchange since the relationships are long-term. The buyer and seller will thereby be able to gather more knowledge about each other and their technical form over time.¹³⁰

In the **commercial nature** of information exchange the *co-ordination (2)* plays the most important role. Information that need to manageable in order to run activities regards to prices, discounts, terms of delivery, and payment. The importance of the controlling and the learning roles of communication are more periodic. The *controlling role (5)* is of importance in situations such as a negotiation between the parties. The *learning role* will be important from time to time when the buyer is in need of information and knowledge due to a changing commercial environment.¹³¹

In the **administrative nature** of information exchange the *co-ordination (3)* once again play the dominant role. Co-ordinating information such as volume, time, means of delivery, formal roles, and routines are of importance. The *controlling role (6)* and the *learning role (9)* is much less important in the administrative nature of information exchange.¹³²

¹³⁰ Gadde & Håkansson (1993) p. 148

¹³¹ Ibid. p. 148-149

¹³² Ibid. p. 149

4.6 Defining the outsourcing relationship

The outsourcing of essential organisational components and services, as BPO often is, develops a close relationship and close cooperation between vendor and client. In order to create a successful long term outsourcing relationship requirements must be met on the macro level as well as the micro level. The macro level includes the supporting of legal and institutional structure. The micro level includes the organizations own activities such as coordination with suppliers and the employees' ability to cooperate with an outside company. Structure and control of an outsourcing relationship therefore involves the implementation of certain management control systems (MCS), such as trust.¹³³

Meer-Kooistra & Vosselman (2000) has created a model to define the outsourcing relationship and identify the management control structure. Relationships can have different patterns where different control mechanisms can be used. The patterns are market based pattern, bureaucracy based pattern and trust based pattern.¹³⁴

The *market based pattern* is dominated by market mechanism. The initial outsourcing phase of finding a suitable vendor is usually characterized by competitive bidding from different vendors. In the contract phase the parties does not focus on writing detailed contracts due to that the market price is directly linked to the output of the vendor. The execution phase may include biddings from other market parties which often results in that the current vendor work effectively. In the market based pattern the control consists of measurements of the quality, quantity and delivery time. The vendor's payment is directly linked to these measurements which mean that other control systems are not necessary.¹³⁵

The *bureaucracy based pattern* is in the same way dominated by a bureaucratic mechanism which specifies norms, standards and rules. The control system usually consists of surveillance, evaluation and direction on information processing. In the initial phase the vendor is chosen on a number of criteria. The contract writing is then detailed with all conditions. The vendor's payment is based on their output or real activities and in the

¹³³ Meer-Kooistra & Vosselman (2000) p. 1-2

¹³⁴ Ibid. p. 8-9

¹³⁵ Ibid. p. 9

execution phase control systems are used to supervise and evaluate the vendor. The quality and quantity of the output will be measured regularly and also the performance of the vendor’s employees.¹³⁶

The *trust based pattern* is dominated by a trust mechanism and the vendor is therefore selected on the basis of trust. The trust can derive from friendship or a previous contractual relationship between the companies as well as the reputation of the vendor. The contract is usually not detailed since the relationship is built on social grounds. The payment is not directly linked to the output and can vary, for instance may a lump sum payment be used. The risks in these kinds of relationships are much higher for both parties. The control mechanism is usually culture based and principles, such as fairness, will identify the relationship. The execution phase will consist of achieving greater trust for each other and the establishing of an open commitment.¹³⁷

A combination of the three management styles can also be used, but one of the three is usually more dominant. Figure 4 is a summary of the model we discussed above and we will now discuss in which situations the different patterns can be expected.

Figure 4: Summary¹³⁸

| | Market based pattern | Bureaucracy based pattern | Trust based pattern |
|-----------------|---|---|---|
| Contact phase | Competitive bidding | Preselection of potential suppliers; bidding procedures; detailed selection criteria | Trust, stemming from friendship, former contractual relationships or reputation |
| Contract phase | No detailed contracting; payment based on standardized activities or output | Detailed and comprehensive contracting; payment based on Real activities or output | International contracting; framework contracts; contractual trust; loose links between payment and activities and outputs |
| Execution phase | Periodical, ex post competitive bidding | Supervision; performance measurement and evaluation; detailed ex post information processing; direct intervention | Personal consultation and coordination; development of competence and goodwill trust; process oriented and culture based control mechanisms |

¹³⁶ Meer-Kooistra & Vosselman (2000) p. 9

¹³⁷ Ibid. p. 9

¹³⁸ Ibid. p. 10

The *market based pattern* often occur when the matter characterized by investments in specific assets which is also why different vendors are active in all phases. Another requirement is that both quantity and quality can be measured. There is low uncertainty about the future and the switching costs are low, so that if the relationship fails the outsourcer can start all over again with competitive bidding. Reputation or experience of the vendor plays a small part and the risk attitude does not matter due to the low uncertainty.¹³⁹

In a *bureaucratic based pattern* the assets can be protected by contractual rules. The quality and quantity is measured according to the contractual rules. The uncertainty is fairly low and competence and contractual trust is necessary for a successful relationship.¹⁴⁰

The *trust based pattern* is identified by high interdependency between the parties. Human assets such as knowledge, skills and experience must be made to fit the other company's need. The future is uncertain and the switching costs are high which means that the relationship success is of great importance. The companies must also have knowledge of cooperation and trustworthiness in advance in order for the relationship to succeed. Control systems are usually informal and the companies are willing to share the risks. When one of the companies has more bargaining power they will not use it in order to create goodwill trust.¹⁴¹

By applying this model and identifying the characteristics of an outsourcing relationship a vendor is able to identify the level of trust that is needed in each stage in order to create a successful relationship.

¹³⁹ Meer-Kooistra & Vosselman (2000) p. 11

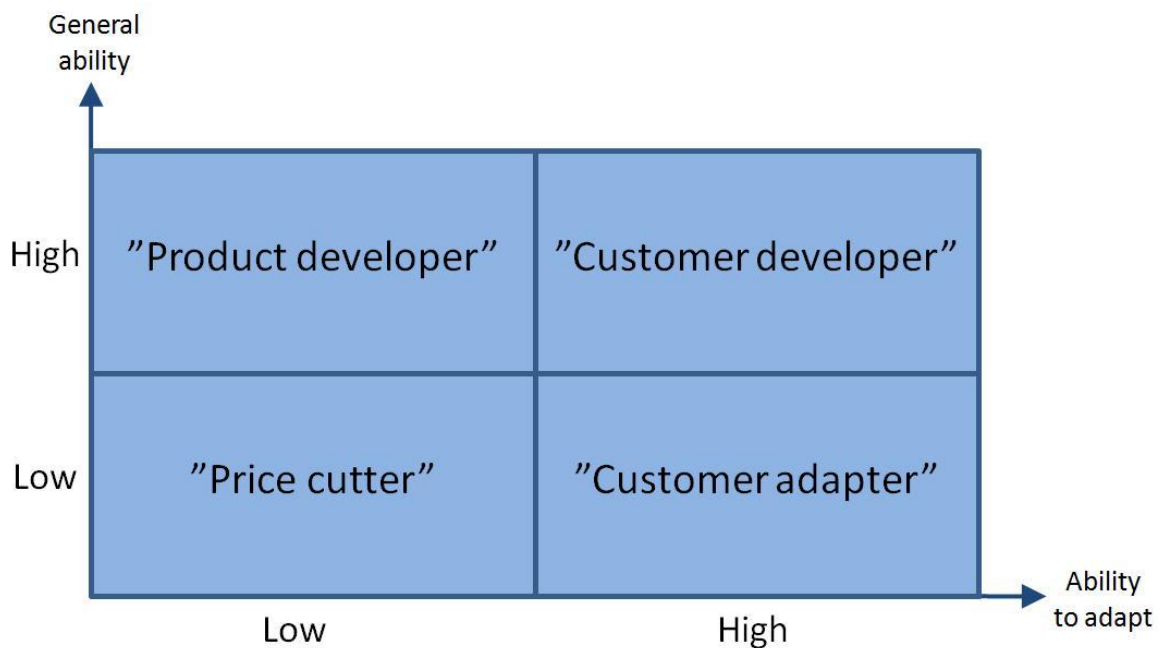
¹⁴⁰ Ibid. p. 11-12

¹⁴¹ Ibid. p. 11

4.7 Strategies in problem solving

From a buyer's point of view a selling company can be better than its competitors in two ways. They can be generally better in aspects such as the products function and ability etc. On the other hand the company can be better at adapting the product or other certain requirements to the buyer. There is therefore one *general dimension* and one *adapting dimension* regarding the selling company's activity, so called *problem solving ability*. Four strategies in problem solving ability are presented below in figure 5.¹⁴²

Figure 5: Strategies in problem solving ability¹⁴³



The *Price cutter strategy* can be identified as the typical customer relationship which is very simple and uncomplicated. It shows low general ability and low ability to adapt, and can be compared to a spontaneous or temporary purchase where price is the deciding factor. A company which practices this strategy successfully need to have lower costs than its competitors.¹⁴⁴

¹⁴² Hammarkvist, Håkansson, Mattsson (1982) p. 30-31

¹⁴³ Ibid. p. 31

¹⁴⁴ Ibid. p. 32

The Product developer strategy involves a more complicated customer relationship in order for the buyer to make use of the supplier's advantages. Focus lie on the exchanges of technical content and the long-term aspect which gives the supplier a high general ability and a low ability to adapt. Supplier's practising this strategy need a high level of customer knowledge in order to develop accurate products or services. It also need an intensive product development, advanced production equipment, highly skilled employees etc. All together, this strategy involves higher costs compared to the price cutter strategy.¹⁴⁵

The Customer adapter strategy enables buyers to receive special products or services that are adapted to their needs. This may include a certain design or specific technical solutions. The relationship requires that departments of both parties interact with each other and that common routines are created in order to handle the adaption. In order for the strategy to become successful, the selling company must be flexible in both technical and organizational aspects. A company with a successful customer adapter strategy therefore has a high ability to adapt and a low general ability.¹⁴⁶

The Customer developer strategy shows a high general ability and a high ability to adapt. This enables the supplier to become a specialist with a readiness to adapt to its customers. A successful strategy requires close relationships with customers which includes extensive and intensive communication between the parties. The communication often includes several functions and departments within both organizations and the supplier must be ready to participate in the customers' developments. Furthermore, the strategy demands a high technical and organizational ability of the supplier. Each customer relationship is resource demanding which makes it very important to choose the "correct" buyer.¹⁴⁷

¹⁴⁵ Hammarkvist et al (1982) p. 32

¹⁴⁶ Ibid. p. 32

¹⁴⁷ Ibid. p. 32-33

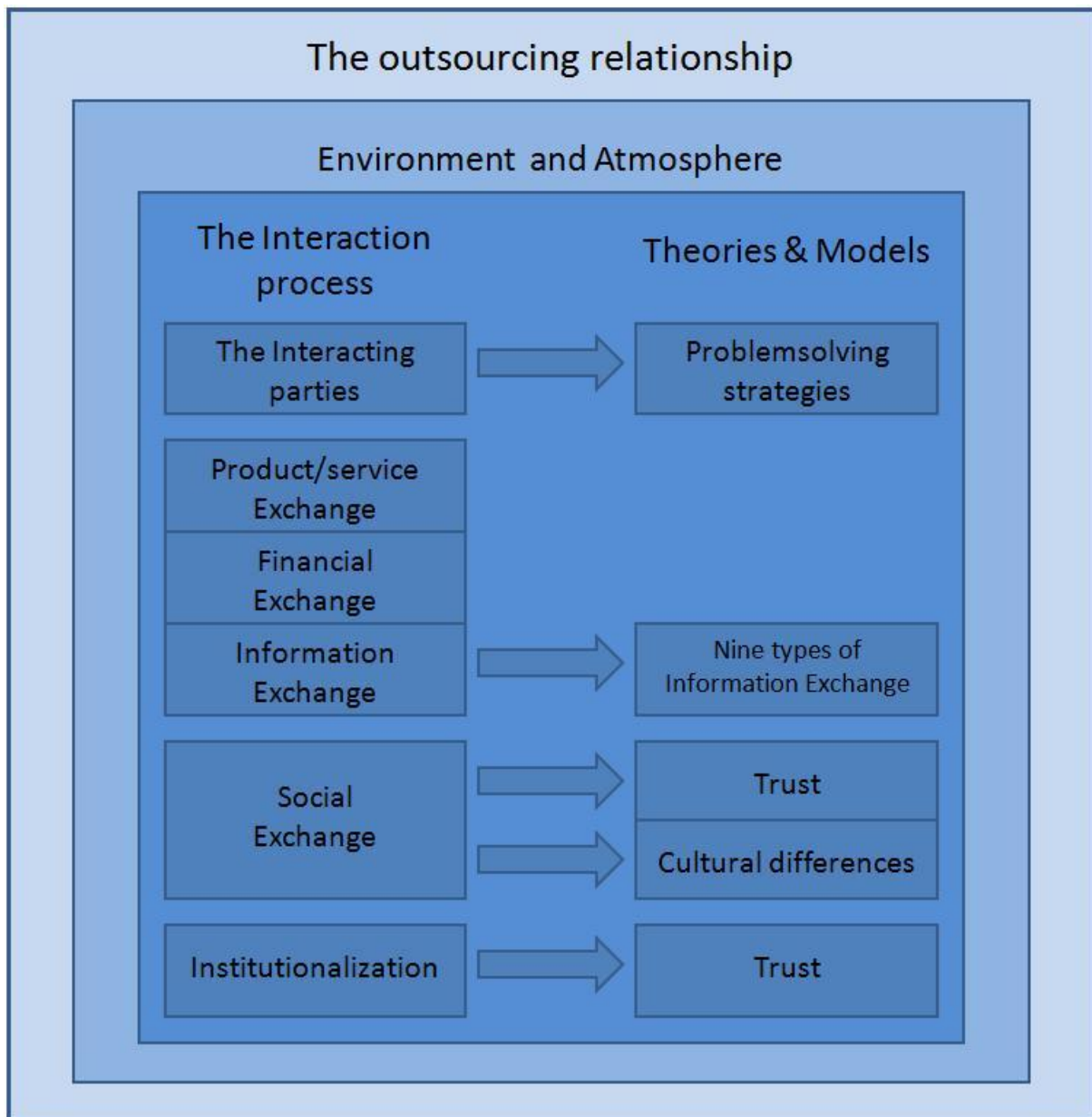
4.8 Theoretical framework for the study

Our theory chapter has been divided into seven major paragraphs which focus on different aspects of an outsourcing relationship. The first chapter, *Outsourcing vendor and client*, includes the basic advantages of outsourcing from both vendor and client point of view. It also includes paragraphs which discuss the clients' selection criteria and the overall risk of outsourcing ventures.

The second major paragraph, *Outsourcing and trust*, is an important paragraph which establishes the importance of trust in order for an outsourcing relationship to become successful. It also establishes how high levels of trust can be built which will be applied to OKS' in our analysis. The third paragraph, *Cultural differences*, focus on the cultural differences between eastern vendors and western clients. Through studied material by G. Hofstede and a survey by A.T Kearny certain differences between eastern and western cultures has been established which will be used in analyzing OKS' current situation.

The fourth paragraph, *The Interaction model*, includes a model which will become the major framework in our attempt to analyze OKS' ability to build high levels of trust and reduce the effects of cultural differences. The framework focuses on the interaction process between vendor and client, the environment where the interaction takes place, and the atmosphere which is affecting and affected by the exchanges between the parties. The paragraphs regarding trust and cultural differences will be integrated with this model in our analysis chapter, together with the theories regarding *Nine types of information exchange* and *Strategies in problem*. Our final paragraph, *Defining the outsourcing relationship*, will mainly be used in order to analyze OKS' trust building efforts in different phases of a relationship as well as to distinguish between different sorts of trusts. The interaction model provides a framework for our analysis. The integration of the other models contributes to make our analysis more in-depth explanatory. Exactly how the theories will be integrated with the interaction model is shown in figure 6 below, which illustrates our theoretical framework for this study.

Figure 6: Theoretical framework for the study



5 Empirical results

The chapter is divided into three major paragraphs; OKS in the value chain, OKS' difficulties to communicate with customer and OKS' communication strategy. The presented information is the result of the authors' understanding of OKS, based on observations, document studies and interviews. As the information has been gathered in a mixed way, sources have not been put, except for quotes from interviewees or information that stems from document studies. The text has been verified by one of the interviewees, John O'Kane.

5.1 OKS in the value chain

5.1.1 OKS before new strategy was implemented

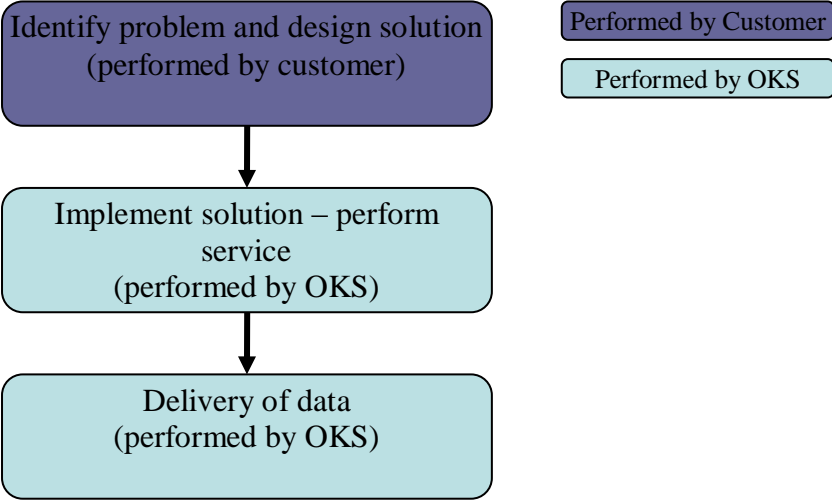
Historically, OKS mainly had two core capabilities: *Delivering high quality at low cost*. Firstly, due to its long experience within the BPO industry, it gained knowledge to create services that keep high quality. Secondly, since production was based mainly in India, labour costs were kept at a fraction compared with, for instance, in USA or Europe.

Services were to a large extent tailor made to each client and in house processes were developed according to each customer's requirements. Therefore, different processes within OKS had none or few synergies. The offerings were directed to a broad and relatively undefined target market. Basically, any type of work that helped to expand OKS' business was welcome.

5.1.2 Value chain before new strategy was implemented

Value was provided to customers when performing services based on the requirements from customers. OKS therefore had little to do with analyzing problems and designing solutions for customers. Below, a simplified version of OKS' position in the value chain is charted. It shows the part of the value chain where OKS interacts with its clients. Before the new strategy was implemented, problem identification and solution design was made by the

clients. OKS was involved in implementing the solution which meant gathering or handling data or both and delivering that data to the client.



Although different services are provided to different markets and to different customers, a similar pattern is followed for all of them:

- First, a problem that a company is facing is identified and a solution to that problem is designed. Historically, before OKS changed strategy, this step was, to a big extent, performed by the customers.
- Secondly, if the solution involves outsourcing to OKS, the service that the solution requires is performed by OKS. Traditionally, since the solutions were designed by the customers, OKS performed its services based on the requirements from the customers.
- In the end, the service is delivered to the client, either in a package or on a continuous basis.

5.1.3 Reason to climb in the value chain

Around 2005, the business model of OKS started to become less and less profitable. With the growth of outsourcing industry in India and various other parts of the world, OKS faced more and more competition. Along with this development, OKS saw the need to differentiate itself. It shared similar competences and services with its competitors. It became necessary to find ways to convince their customers to choose OKS over the next vendor.

Another challenge for OKS was the changes in the market. As for OKS, existing and potential customers in Europe and USA were facing increasing competition. This led to the need of

cost cuts among these companies in order to remain competitive. This has put higher pressure on the outsourcing suppliers, such as OKS, to reduce their prices.

5.1.4 OKS in the value chain – With new strategy

In 2007, in order to maintain competitiveness and growth, a new strategy was sought. OKS decided to climb up the value chain. In the first of a series of decisions that were made was to specialize in certain markets. OKS chose to focus on three vertical markets:

- *The database marketing industry* – Companies within this industry use databases to find out information about customers. The purpose is to personalize communication in order to improve marketing.
- *The publishing industry* – Publishing refers to the process of making information available for the public. The stages include everything from copyediting to graphic design and printing.
- *The directory industry* – Companies in the directory industry gather quantitative information about organizations or individuals. The information is usually general and consists for instance of contact information. One example is the yellow pages in different countries.

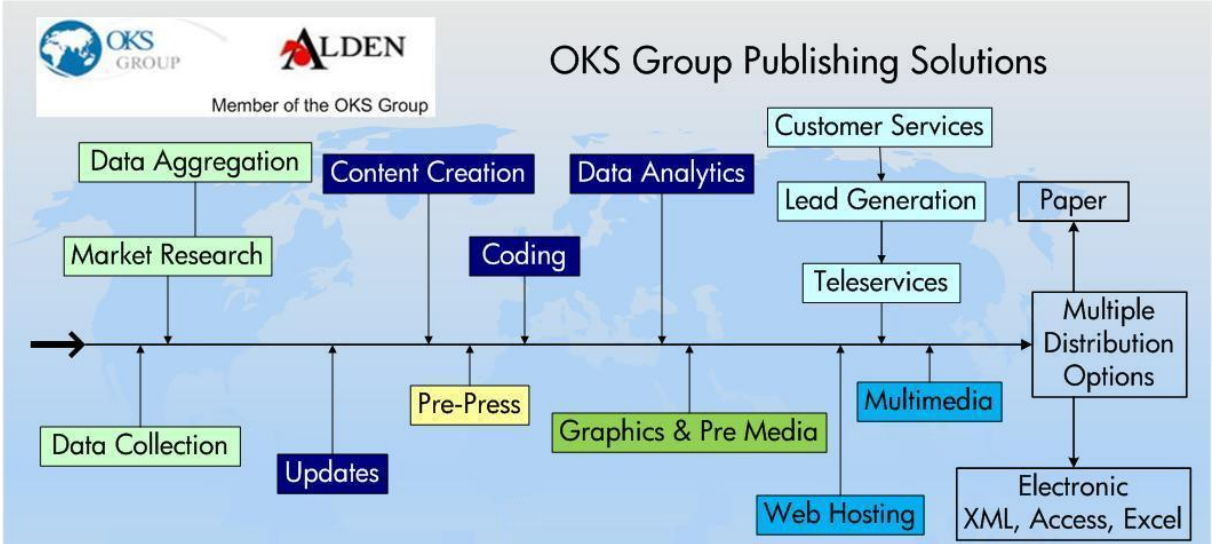
As an outsourcing supplier, OKS started to offer supporting services to companies within these industries.

These markets were chosen according to the existing competences within OKS as well as production synergies between the processes in place for each market. One example of such a synergy was the ability to use graphical technologies that were used in publishing services also when capturing business data for the database marketing industry.

As part of the new strategy, OKS started offering end-to-end scope to these target markets. This meant that all services that could be offered to the clients, from clients' production to sales activities, were offered. Before, when the target market was broader, the end-to-end scope could not be provided since the number of necessary processes was not in place for such a range of different markets.

One of the steps for attaining the end-to-end scope was the acquisition of Alden Pre-Press, a company that at the time had around 500 employees and was specialized in support activities for the publishing industry. Among other things, it provided processes within editorial and graphics production, such as image manipulation, layout for brochures and proof reading of medical articles. Through this acquisition, OKS nearly doubled its size, which reflects magnitude of OKS’ strategic turnaround.

By combining the previous processes of OKS and the processes of Alden Pre-Press, there was sufficient scope in place to support the needs of the chosen vertical markets. The following map is shown for customers within the publishing industry and reflects the end-to-end scope that OKS provides today.



The map shows the end-to-scope of services that OKS has in place of clients within the publishing industry. To the left, services are offered that belong in the beginning of publishing clients’ production chains. From that point, going in the right direction, the map shows services all the way through the production chain, ending up in the distribution clients (clients’ clients of OKS).

With focus on certain target markets as well as the scope to satisfy a range of needs within those markets OKS had a new value configuration: Instead of asking a broad range of customers for more or less any work based on specifications from the customers, OKS could meet the needs of a narrowed target group without having to develop new processes for each customer. One benefit of this is that costs are decreased. Another benefit is that OKS now had the possibility to learn the needs and problems within the chosen target markets and the resources to create solutions for these problems. Thanks to this, the offerings could be

extended. OKS could now go to prospects or existing customers and offer solutions to problems rather than offer whatever services that were required. In a sense, with the new strategy OKS went from being a service provider to a solution provider.

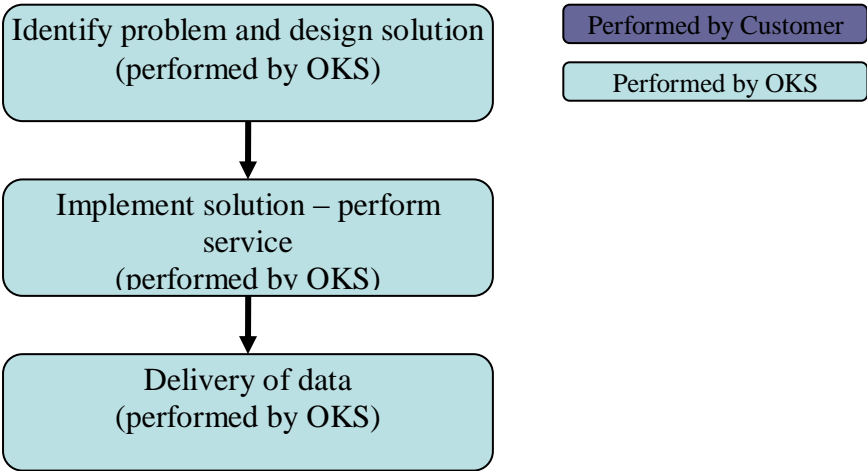
Gowri Shanker, head of OKS’ Indian operations and a key player in developing the new strategy, gives light to OKS’ new approach to clients:

‘Now, we can go to the client and say that you have this problem and we have the processes in place to offer a solution to you’ - Gowri Shanker, Head of production

John O’Kane, head of marketing and also a key player in developing the new strategy, explains his view:

‘Now we are looking at the sustainability of the clients’ end to end processes as before we may only have had a small part of that. Generally, what we had to do before was voice call or web mining and manage to do what we were told. Now we are working with our customers’ marketing plan, looking at the goals of their businesses and finding alternate ways of marketing.’ - John O’Kane, Head of marketing

OKS’ new strategy created a value proposition that was offering higher value to the clients and that therefore was higher up in the value chain. The chart below shows how OKS climbed the value chain by starting to identify problems for its customers and design solutions.



This offered a benefit: OKS now had legitimacy to charge more for its services. One example of how OKS put their new strategy to use is with a customer in UK that is active in the financial industry. Earlier this year, it was about to start selling financial products through the Internet. This requires large quantities of up-to-date information which it was unsure about how to attain. OKS saw its chance to offer its higher value services. John O’Kane explains:

‘The UK client knew it had to expand in the market place fairly rapidly. The only way it could do that was with high quality up-to-date information. Without it, its global marketing concept would not be as successful as their business plan required. Their view was that the only way to collect the data was to buy it and the only way how to maintain that data was to re-buy it every year. However, this is expensive and one doesn’t have control of collection of information and therefore has limited knowledge about the quality of the information. Another alternative in their eyes was to physically start collecting the data themselves. Bare in mind this is a global market place. The client does this in every country in the world. They thought: How do we do it? How can we throw that amount of resources at it, be effective and efficient and run our business at the same time? We just don’t know. OKS gave a proposal of how to gather and maintain the data and yet assure all of it was updated at the frequency the client required. As part of the proposal we will have a database where we will manage all the information. The information will be updated firstly through self-update which we will trigger by sending an email to each business. Secondly, those businesses who don’t respond after our first email will get a reminder. As a last resort we will end up telephoning the businesses which haven’t answered.’ – John O’Kane, Head of marketing

‘One issue is that, in a lot of the countries where we are doing this, the native language is not English. There we are looking to put the forms and the emails out in a multilingual way so it comes to the businesses in their language and they can easily update the data. In short, we have come up with a methodology of how to collect and maintain the data on behalf of the client. They have accepted the proposal and we are at the moment in the process of implementing the solution.’ – John O’Kane, Head of marketing

Instead of simply following requirements from customers – as historically has been the case for OKS - efforts have been put in identifying a problem and designing a solution for the customer. This example therefore reflects how OKS has climbed up one step in the value

chain. Head of Production and who played a key role in developing the new strategy, Gowri Shanker, explains the difference between the old and the new strategy:

'Bottom line is this – what is the difference between simple keywording services (gathering data from a source by typing it down, authors' comment) and knowledge solutions? In one case a person has his head down and is typing, in the other case he is applying his mind, looks at different figures etc. The more the brain motor runs, the more money is made. That is how knowledge solutions work. If the person does keywording we can charge five dollars, if the person does more sophisticated work, much more can be charged.' - Gowri Shanker, Head of production

Vice Chair, Bob Mannarino, who also took part in developing the new strategy, supports his view and brings up how this is related to going up the value chain:

'There are all kinds of things that open up when somebody trusts you and you build a relationship with the clients and you work hard at it. That is part of going up the value chain. If you in essence consult with the client, uncover what its problems are and provide solutions to that client you are much more likely to firstly sell a higher value added service and secondly to get a higher price for it. Then you end up selling services for 20, 30, 40, 50 dollars an hour instead of 6,7,8,9,10 dollars an hour. This is part of going up the value chain.' – Bob Mannarino, Vice chair

As customers were approached in a more consultative fashion prices could be raised. The financial involvement for the clients therefore got greater. The new strategy also had other implications for the customers. More information had to be shared in order for OKS to be able to uncover its customers' problems. For instance, the marketing plans of the customers were being looked upon. With financial stakes raised, as well as higher degree of information being shared, the threshold to outsource to OKS got higher for the customer group. In response to this, OKS' let communication play an increasing role in the new strategy.

5.2 OKS' communication with customers

5.2.1 Implications on communication of climbing the value chain

With the new strategy, communication with customers had to be taken to a new level. John O'Kane explains:

“Historically, clients were dealing directly with production in India... That worked while we were doing smallish, lower level, less frequent projects. As you move up the value chain, that sort of interaction with clients changes immensely.”- John O'Kane, Head of marketing

There are several reasons for this. Firstly, when OKS offers services higher up in the value chain, dialogue tends to occur with people higher up in the hierarchy of the client organizations, often on senior management level, which increases the expectations on a professional approach. Additionally, tasks higher up in the value chain are often more complex. Consequently, the discussions with the client become more complex. As a result of more complex dialogue, with people higher up in the hierarchies of the client organizations and with higher expectations of a professional approach, communication increases in importance higher up in the value chain for OKS.

But OKS has identified a set of major hurdles:

- The geographical distance
- The language barrier
- The cultural differences

Firstly, these hurdles will be explained, then OKS' approach to these hurdles.

5.2.2 Communication difficulty for Indian outsourcing company

As many other outsourcing companies, OKS is mainly based in India whereas the customers are located in Western countries, which makes communication complicated. Below are some key issues to why communication is a difficult issue for an Indian outsourcing company, as perceived by OKS:

The geographical distance - Communication mediums

OKS uses several mediums to communicate with its customers.

| Communication Medium | In place at OKS | Characteristic |
|---|-----------------|-----------------------------|
| Face-to-face | Yes | In person |
| VOIP-phone (internet phone) | Yes | Electronic, from a distance |
| Chat | Yes | Electronic, from a distance |
| Video conference | Yes | Electronic, from a distance |
| Email | Yes | Electronic, from a distance |
| GoToMeeting (two people at different computers can share same computer desktop) | Yes | Electronic, from a distance |

Communication mediums used by OKS

Up until the new strategy was implemented, face-to-face meetings occurred rarely. One strong reason for this was the costs that were involved with face-to-face meetings. The great majority of OKS' staff was located in India, which meant that meetings with customers often involved travel expenses and living expenses at a higher price level than in India which made this way of communicating costly. Only the CEO used to travel to marketplaces to generate sales leads and maintain contact with existing customers. All production related communication – service, day-to-day operational issues etc - occurred through telephone calls, video conferences and e-mail correspondence with the production department in India. Although, cost-efficient, these ways of communicating are inferior to face-to-face meetings in other aspects, according to OKS. John O'Kane points out the importance of face-to-face meetings:

'Having face-to-face meetings is an issue of trust. If you don't meet face-to-face you lose that touch and you don't get the sense of what is really being considered. You ask yourself: Am I being understood? You cannot always tell someone's reactions over the telephone or even over a video conference, whereas when you are in there you can see their eyes, you can see their body language, you can hear the tone of their voice because that you can put that into context with what is happening around them. All that is extremely important. – John O'Kane, Head of marketing

John O'Kane also brings up the importance of meeting face-to-face in order to fully understand the clients' situation:

'A lot of what we need in order to do our work is in the clients' heads. Therefore, it is important for us to get the information out of their heads. In face-to-face meetings this task becomes much easier. For instance, the client can draw something for you. This really has an impact because you can visually see a picture.' – John O'Kane, Head of marketing

The CEO, Vinit Khanna, agrees with the importance of face-to-face meetings, especially when making a pitch.

'When you do sales, a very important part is to create what can be called the Eureka moment. This is the moment when the customer more or less shouts out that he or she has made a discovery – aha! This moment is very critical in order to convince the customer to start giving us work.' – Vinit Khanna, CEO

He says face-to-face meetings are important in order to create the right atmosphere during the sales phase with an existing or potential customer.

Another issue is that when using electronic mediums to communicate, in contrast to being in face-to-face meetings, technological defects often interfere. Among other things, a video conference can be interrupted by internet failure, a long distance telephone call can suffer from bad sound quality and an email can accidentally be sent to the wrong recipient.

Language Barrier

Before the new communication was implemented, communication to customers commonly occurred in English, the official language in India. However, misunderstandings and problems rooted in lacking language skills from both parts often occurred. In OKS' production department, the level of English among the staff varies. A large part of staff is fluent. There is also a certain amount of employees that are less than fluent.

On the customers' side, although OKS is active within the United States and England where the native language is English, there are various dialects of English within these countries, which can be difficult to understand for someone that is not used to that accent.

At the same time, in a majority of the European countries where OKS has customers, such as Sweden or Germany, English is not the native language. Therefore, many of the customers are less than fluent in English as well. Put together, as communication went on between OKS and its customers, before the new strategy was implemented, issues such as instructions were misunderstood, messages were sent to the customers in poor English which failed to be understood etc which contributed to a lacking communication. The following is a sample of an email from OKS' production department to a customer:

Sent: 13 April 2009 10:55

Subject: "Systems *moving slowly*..."

"Everyday the problem *gets on its top* for a period of 1.5 hour starting from 01:00 AM.

Sometimes system *got hanged* for five to ten minutes."

Phrases such as "*moving slowly*" and "*got hanged*" made it difficult for the customer to understand what message the sender was trying to convey.

Different Working Cultures

There are cultural differences between western and Indian working culture. According to John O'Kane, who is born in Scotland and in his line of profession has worked across different cultures, mainly between Indian and western working cultures, the cultural difference that is of most importance is different ways of communicating. One important issue he brings up is the difference in frequency of communication:

'In Europe and North America communication happens regularly, all the time. It is a matter of how people work. They communicate, they talk to each other, they tell people what things that have been done, they bring up problems when problems arise, everything is discussed. In India, they may have done something, but they don't tell you they have done it. It is a very different culture. Their business communication is a lot less frequent than is expected in the west.' – John O'Kane, Head of marketing

John O'Kane also brings up the difference in using the word "yes":

'There is also a big difference in how people will comprehend and acknowledge things. If I don't understand something I will tell you and you will try to find another way of telling me. In India, as a rule, you don't ask questions because that will show that the person giving the information is not doing it properly. What they will tend to say is yes I understand. They do not say the word no because it is often regarded as disrespectful. This is really one of the main cultural issues, because if you say yes to someone in the west, yes means yes. When you don't understand you must say so, otherwise you will come back asking questions that are wrong or you come back with something that is very different from what was requested. Then you run in to problems.' – John O'Kane, Head of marketing

Vice Chair Bob Mannarino explains how this creates problems when interacting with customers:

'It is pretty common for a US, UK and European company that works with an Indian company to be surprised from time to time that something was not done or was not done as they thought, because there is a tendency in India not to ask for instructions or not to want to deliver bad news.' – Bob Mannarino, Vice chair

The following two examples reflect the impact of these cultural differences.

Example One

One European customer of OKS within the publishing industry encountered problems with its previous supplier because incidents with cultural roots of this sort occurred. According to the customer, the previous supplier had at one occasion said that a service was going to be delivered according to schedule. However, closely before delivery date it turned out that the

supplier had several problems and questions to the customer. Because the questions were not asked, the supplier failed to deliver in time and the project was deemed unsuccessful.

Example Two

'At one point, one of the managers from a German business information client came to supervise the development of a new process. Not used to Indian working environment, the visitor, after a few days, became very stressed over the way the project was handled by the OKS staff. Among other things, when he asked for something, they said they would do it, but they never revealed that there were a lot of problems with it, which the German visitor did not understand. The person became very stressed, and the situation threatened to damage the relation with the client.' - Andrea Kaiser, In-country Manager, Germany

Different European Cultures

The cultural differences are accelerated by the fact that on the customer side, OKS is active in several different countries which differ from each other in cultures as well. John O'Kane, who in his role as head of marketing deals with customers in different western cultures on a day-to-day basis, explains his view:

'I can have the same topic of discussion in six or seven European countries, but the way I have to handle it is different in each country. These are cultures that are only one to two hours flying time apart. When you got cultures like in Asia, which are very, very different, understanding how you deal with clients in the west is actually very, very hard.' – John O'Kane, Head of marketing

Sum-up of Communication difficulty for Indian outsourcing company

Earlier, it was sufficient to keep communication on a simple level. The CEO made sales and maintained a certain level of contact with existing customers. Production department could keep contact with customers regarding operational issues. As OKS implemented the new strategy and climbed the value chain, stronger pressure got put on higher quality of communication. Since OKS is mainly located in India whilst its customers are located in western countries, communication is an extra difficult issue due to a geographic gap as well as language and culturally rooted differences.

5.3 OKS' Communication in New Strategy

In order to overcome the hurdles and increase the level of communication, the new strategy contained several communication aspects. OKS divides a relationship with a client into three phases: the sales phase, the pilot phase and the production phase. The sales phase is constituted by convincing potential clients to outsource or offering additional services to already existing customers. The pilot phase is the initial test phase of providing a client a service and often after this phase a client can decide whether it wants to continue cooperate with OKS or not. If a pilot becomes successful, the relationship enters the production phase where production usually runs on a long term basis. Depending on at what stage OKS is with a client, different communication strategies are put to use:

5.3.1 Sales Phase - Building reputation

When services higher up in the value chain are being offered, OKS communicates similar services that are being provided to other clients. This makes prospects more confident in outsourcing to OKS. The CEO, Vinit Khanna, exemplifies this issue with a European client in the publishing industry that was in the pilot phase with OKS:

'It is very important that we do a good job and win this client. They are well known. If we get this, we can show other companies within the industry that we are capable of doing this kind of work. This has a great impact. Then, we can say: Look, we are doing this work for this other company and it's a success. This makes them think: it worked with the other client. It can work for us too.' - Vinit Khanna, CEO

5.3.2 Sales Phase/Pilot Phase - In-country Managers

As part of the new strategy, OKS expanded its presence in the locations of its target markets. Several employees were stationed in various locations in Europe and US, so called In-country Managers. These employees dealt with all communication with customers during the sales phase as well as the pilot phase of each project.

These are people with a high understanding of the markets they are operating in. This contrasts to the previous approach when sales was dealt with mainly by the CEO towards all markets. The CEO has a more general understanding of the outsourcing market, instead of high expertise of specific markets.

The In-country Managers also have extensive experience in working with Indian working culture. The cost of having someone stationed in Europe or the United States, many times exceeds the cost of having someone stationed in India. Despite this, OKS sees the strategic benefits of In-country Managers on a geographical, language and cultural level.

Geographical Gap - Communication Medium

The presence of In-Country Managers allows face-to-face meetings to a bigger extent. An advantage of a face-to-face meeting, in contrast to for instance a telephone call or email, is that it helps to create a personal relation to the customers.

'Look at Andrea Kaiser for instance, our German In-country Manager. If the client has a problem Mrs Kaiser can be there very fast. That means a lot.' - Vinit Khanna, CEO

Further, face-to-face meetings take away technological problems, such as telephone calls with high noise levels or videoconferences that get disrupted due to bad internet connections. Face-to-face meetings therefore increase the degree of understanding between OKS and its customers.

Language Barrier

The In-country Managers are native speakers of the country they are stationed in. For instance, in UK, the In-Country Manager is native British. This means that, for English speaking countries, the In-Country Managers do not have to struggle with understanding the dialect of that country.

For countries that do not have English as native language, the native language of that country is used when the In-country Managers are speaking with customers. For instance, in Germany, the German In-country Manager Andrea Kaiser has dialogues with clients in German instead of English. Through this, many misunderstandings caused by language problems are avoided.

Different Working Cultures

On a cultural level, the In-country Managers are acting as middlemen. On one side they deal with the working culture of the customer, on the other side with the working culture of the Indian production team. Since they are experts in both fields, the risk of running in to culturally rooted problems is decreased. John O’Kane gives an explanation to the difference in understanding a culture between an In-Country and someone coming from a different culture:

‘If you have a business in India and you are talking to a German client, unless you have firsthand experience of living and working in that country, you are going to find it very difficult to understand the requirements of a German business. There are vast differences. However, if you are German and you are dealing with German clients you understand the German culture.’ - John O’Kane, Head of marketing

Bob Mannarino emphasizes that the In-country Managers contribute to improve communication and building trust with clients in the sales and pilot phase:

‘The approach of the In-Country Managers helps to build trust up front. Our people understand what the clients want and they will be able to translate that and make it understandable for the production team which will result in the work being done properly.’ – Bob Mannarino, Vice chair

5.3.3 Pilot Phase/Production Phase - Partnership Service Team

Communicating to clients the success of cooperation with other clients and the presence of the In-country Managers helps to build an initial trust. However, in the eyes of OKS, building trust is also a long term process:

‘In the long run, what needs to happen is that we get the work, we execute the work and we do it on time. Then the real trust is built.’ - Bob Mannarino, Vice Chair

Head of production, Gowri Shanker, shares this opinion and says that in order to offer higher value services OKS must start lower down and build trust step by step:

'Trust is built through experience. Our approach to clients when it comes to attaining higher value work is that we first crawl, then we walk, then we run. When companies outsource they don't start with giving away the most complicated processes. Basically we start off crawling by doing the lower end of the work. The client looks at us and says: hey this company can deliver. When this happens you build a relationship with the client and trust is slowly built. Then you get the next process and then the next process – you walk and then run.' - Gowri Shanker, Head of production

One important strategic action that contributes to build trust is the initiation of the so called Partnership Service Team. Before the new strategy was implemented, OKS' Indian based production department was handling all projects as soon as they entered the pilot phase. As part of the new strategy, the Partnership Service Team supervises all the projects that are in the pilot phase as well as all projects that are encountering problems in the production phase. In-country managers, production managers and IT managers are all part of this team.

The main focus for the team is to ensure that, for projects that are in the pilot phase or the production phase, communication to the customers keeps a high quality. The team meets regularly on a weekly basis to monitor and discuss communication aspects. One example of this is when a project work flow is not fully understood by OKS. The topic is discussed within the team, and actions are decided regarding how to approach the customer. For example, at one point a deadline for a project had to be rejected or accepted by OKS. During the Partnership Service Team meeting the person in charge of production for this project was asked questions by the other members of the team. It was revealed that the person did not have full understanding of the work flow and the team decided to ask the customer additional questions in order to increase the understanding of the project.

5.3.4 Example of new communication approach

In May 2009, a European publishing company chose OKS and three competing suppliers to be part of a pilot project. After a six month trial, two of the suppliers would be selected. The publishing company is large sized and has subsidiaries in various locations in Europe. The six subsidiaries involved in the project were spread out across Europe: Belgium, Holland (two subsidiaries in Holland), UK, Germany and Sweden.

The service that was to be provided was mainly so called pre-press work for books. This task consists of graphically preparing books before they are sent to print, mainly be designing the books, either after instructions from the client or after OKS' own capacity.

All competitors are more established publishing services suppliers and are financially stronger than OKS. However, with the new communication strategy in place, OKS focused on building competitive advantage through maintaining high level of communication with the customer.

In-country Managers

With In-country managers stationed in each country where the subsidiaries are located to handle all communication, OKS could offer communication in the native language of each subsidiary of the customer. Also, OKS could meet the customer face-to-face (except in Sweden, where the country manager was located in India). In addition, communication through the In-country Managers meant that the customer was having contact with someone with similar working culture.

For communication with the group company of the customer, the head of Pre Press was handling communication. He is stationed in India together with the production team, but is native English speaker and with high expertise within the publishing industry.

Partnership Service Team

Since many people from several different countries and different departments hierarchical levels were involved from OKS' side, the monitoring and the communication becomes difficult. The Partnership Service Team holds fortnightly meetings solely for this project, where the current status and issues are discussed.

At the time of this study, the project is still in the pilot phase. According to a report from the customer, OKS is at the moment ranked among the top two companies to be selected after the pilot phase. One major reason for this that is given by the customer is the high quality of communication. Special emphasis is put on the presence of In-country Managers.

This example shows how the new communication strategy was implemented and how it was used as a way to build competitive advantage. The customer's appreciation of this reflects the value that the strategy provided.

Sum-up

In short, as OKS has climbed the value chain and approached clients in a more consultative fashion, communication was needed to be taken to a new level in order to increase the level of trust amongst the clients. However, the issue of communication is complicated due to the three hurdles: The geographical distance, the language barrier and the cultural differences.

A number of communication actions have been taken by OKS: Building reputation through communicating the success cooperation with well know companies, In-country Managers have been stationed in the countries where OKS has clients and the Partnership Service Team has been initiated to handle communication regarding operational issues. Through OKS' increased level of communication, trust is built to customers both on a short and long term basis.

6 Analysis

In this chapter our empirical material will be analyzed through our chosen theoretical framework. The chapter is therefore structured according to the variables of the interaction model, which is our main framework.

The case company of this study, the outsourcing vendor OKS, started in 2007 to offer services higher up in the value chain. When doing so, communication with customers had to be taken to a new level. However, communication with customers is complicated by the fact that OKS is located far away from its clients. The gap results in three hurdles: The geographical distance, the language barrier and the cultural differences. OKS' new strategy included several communication aspects:

- *In order to have a more trustworthy approach to customers, OKS started emphasizing its cooperation with well known companies*

- *In the countries where OKS had customers, so called In-country Managers were stationed to overcome the geographical distance, the language barrier and the cultural differences.*

- *The so called Partnership Service Team was initiated, which focused on assuring qualitative communication with clients regarding operational issues.*

In our analysis we will aim to identify how OKS' new strategy formed trust in order to reduce risk, using the interaction model as framework. The interaction model, as presented in paragraph 4.4, helps to analyze relationships in order to show how different factors in relationships affect each other. In this chapter, the interaction model is applied on OKS' relationships with its customers, as a tool to analyze the interaction process in an outsourcing relationship.

The interaction model uses four different variables: *parties of the interaction model, the interaction process, the interaction environment, and the atmosphere*. The first three variables influence the possibilities of obstacles to the interaction between vendor and client, whereas the fourth, the atmosphere, describes the result of the previous interactions and relates the other variables to each other.

6.1 Parties of the interaction model - OKS' strategic approach

Although the interaction model often in research is used to analyze relationships between specific organizations, in this thesis the model serves to shed light on the general approach OKS has to several clients. Of most importance is OKS' change of strategy. By comparing the strategies to each other, the effects of the new strategy can be better understood. The model created by Hammarkvist, Håkansson, Mattsson (1982) that focuses on problem solving ability will be used in order to bring out a number of key factors that have impact on the strategy change.

Before OKS implemented its new strategy, it adapted production to its customers in an ad hoc manner and developed new processes for each customer project. Substantial costs were related to this sort of adaptation. OKS' strategy can be described as a *customer adapter strategy* with a high ability to adapt both technically and organizationally, but a low general ability to perform according to a large group of companies' needs. There are also some characteristics of the product developer strategy. OKS adapted to requirements set by its customers but had little to do with analyzing problems and designing solutions itself.

With the new strategy, OKS succeeded in focusing on smaller segments of customers with the processes already in place and avoids having to reinvent the wheel each time. OKS more or less only needs to allocate its resources when attaining new clients. For instance, it does not need to develop much new information systems or infrastructure for each customer. It still adapted to its customers and offered tailor made solutions, but raised its general ability. In other words, OKS started aiming at a *customer developer strategy*. OKS' strategic change helped to deal with the increasing price pressures from potential and existing customers of OKS - the previous strategy was more costly.

6.2 The Environment

According to the Interaction model, the environment that surrounds two parties affects the relationship between the parties. In this analysis, three parts of the environment are relevant: *market structure*, *the social systems* and *degree of internationalization*. In the environment, the reasons for OKS' change of strategy and approach to clients can be found.

Market structure

The markets in which OKS are active make out a part of the environment. The outsourcing industry was characterized by increasing competition both on the supplier and buyer side. For OKS, this development meant increasing price pressures from clients and higher competition from other outsourcing suppliers. It therefore became necessary to find new ways to develop competitive advantages to fight competition and maintain profitability. For OKS, the solution became to start offer services higher up in the value chain.

OKS is geographically distanced from its markets. It is mainly based in India, whereas the customers are based in various locations in Europe and USA. Before the change of strategy, communication with customers was to a large extent done through different electronic mediums. This brought defects in the quality of the communication, such as telephone calls with poor sound quality. In other words, the market structure obstructed communication with customers. Therefore, a central part of OKS' new strategy was to get geographically closer to the customers.

Social systems and Internationalization

The social systems in which OKS is active had an impact on the shaping of the new strategy. Social systems concern the wider environment of a relationship. It can be constituted by different attitudes between buyer and seller, regulations that create obstacles when establishing a relationship or more narrow industry specific issues. Social systems become extra relevant on an international level since different countries and regions have different attitudes, perceptions and cultures. As an outsourcing vendor based mainly in India with customers in various European countries and USA, OKS is to a high degree internationalized.

In this analysis, the social systems focus on working cultures and languages in different countries.

On a language level, many among the OKS staff lack fluency in English. Also, many customers are located in countries where English is not the native language. This creates a language barrier between OKS and its customers. On a cultural level, the differences in working cultures between India and Western countries also add to the difficulties with communication.

As a result, OKS is active within many different social systems and in a complex social environment. The language barriers as well as the cultural differences are reasons to why OKS put high efforts in communication in its new strategy.

6.3 The interaction process

This part of the interaction model consists of the variables *product/service exchange*, *information exchange*, *financial exchange*, and *social exchange* which are all considered to be the core functions in a vendor/client relationship. These variables may be seen as building blocks for the overall relationship and focuses on short-term transactions. The second part consists of *institutionalization* and *adaptation* which complement the four short-term exchanges by focusing on long-term activities around and between the transactions.

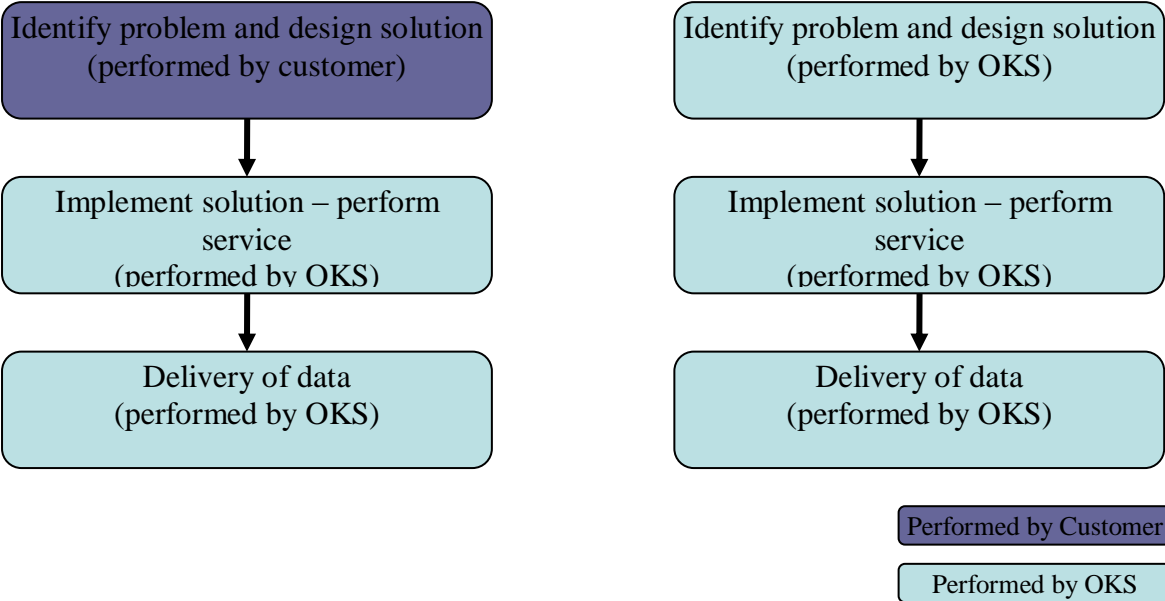
6.3.1 The product/service exchange

The product/service exchange, a supplier's delivery of service or product to a customer, is in this study constituted by OKS' delivery of services to its customers. Before the change of strategy, the range of OKS' services was broad. Its services varied depending on the customers' requirements. With the new strategy, OKS' offering of services changed in two ways. Firstly, as the market group was narrowed, services were offered only to these markets. The services consist of supporting functions for companies within these industries. For instance, for publishing companies, OKS offers services such as graphic design. Secondly, offer of services higher up in the value chain increased the level of service exchange.

It can be exemplified by the approach to a UK client that is active within the financial industry. Instead of following requirement specifications from clients, OKS used its market expertise to identify the problems of the client and come up with a solution. This approach was more advanced than following mere instructions, which increased the complexity of the service. Also, the problem identification and solution offered a higher value to the client. The factors together contributed to a higher level of service exchange.

Before the New Strategy was Implemented

After the New Strategy was Implemented



The left figure shows how clients used to identify problems and design solutions. When the new strategy was implemented, OKS started to identify problems and design solutions, which is illustrated in the second figure. This offering was higher up in the value chain and therefore increased the level of service exchange. The new state of a complex product/service exchange called for an increased level of information exchange.

6.3.2 The information exchange

The information exchange refers to the type of information being requested and provided as well as the frequency of the exchange, the scope and depth, and the level of formality.

As OKS started to offer services higher up in the value chain and the complexity of the product/service exchange increased, the level of information exchanged was raised in several ways. In the early strategy, OKS to a large extent followed the customers' requirements when performing services. When OKS itself started to identify problems and implement solutions it needed to understand more about the industry and the customers' businesses in order to find problems and develop suitable solutions. One example is that OKS, with the new strategy, started looking at the marketing plans of its customers. In other words, OKS needed to learn from the customers. Looking at the Gadde & Håkansson's (1993) model about the nature of information exchange, understanding the customers' market plans is *commercial learning*. There was also an increased need to understand the operational aspects amongst the customers, which falls under the category *technical learning*. For OKS, this learning was central in order to be able to understand the customers and create solutions. For the customers, by sharing information about their businesses on a deeper level, they exposed themselves to OKS. Therefore, when OKS approached its customers in a more consultative fashion, it increased the so called opportunistic risk for the customers, meaning that it has a higher possibility to misuse the information from the customer.

With the new approach, the information exchange also became more complex. OKS had to figure out what information that was needed by extracting the information "out of the clients' heads" as head of marketing, John O'Kane, expressed it. Instead of following instructions, OKS now had to interact with customers on a higher level to get the needed information. Before the new strategy was in place, OKS relied heavily on electronic mediums for communication with customers. The new strategy raised the demands on communication to a whole new level. Communication became a tool to climb the value chain.

6.3.3 The financial Exchange

The financial exchange refers to the quantity of money exchanged. Historically, OKS has had a rather low financial exchange, when looking at price per unit. However, with the increase of product/service exchange through OKS' new strategy, the price per unit could be raised. This does not necessarily mean the total financial exchange with a customer is increased, but for the same amount of units (the same amount of hours) it is.

It can be argued that the higher price per unit increased the risk for the customers to outsource. If a project where the price per unit is higher fails, more has been lost than if the same project with lower price per unit fails. The risk can therefore be regarded as greater if the price per unit is higher.

6.3.4 The social exchange (cultural differences)

The social exchange plays a key role for OKS in building trust and reducing risk. This is done through communicating credibility, assuring a high quality in the communication and overcoming the three hurdles - the geographical distance, the language barrier and the cultural differences. Since the social exchange involves both reducing the effects of cultural differences as well as building trust, the cultural difference index model presented by Ramingwong & Sajeev (2008) and the trust model by Langfield-Smith & Smith (2003) are integrated when analyzing OKS' social exchange.

Communicating Credibility – Known companies

Firstly, OKS put efforts into building reputation by having clients that are well known within its markets. The CEO, Vinit Khanna, gave the example of a known European publisher which, if it would become a client of OKS, would help make other prospects within the same market more confident in outsourcing to OKS. This can be seen as communicating credibility within a market.

Communicating Quality – The Partnership Service Team

The Partnership Service Team is involved in assuring quality of communication with clients. For instance, the team assures that services are being delivered in time and that doubts regarding production related issues are being brought up with the customer. Consequently,

customers can be more confident in OKS' performance. The team therefore contributes to building so called competence trust, which refers to the kind of trust that is based on customers' perceptions of vendors' capabilities.

Communication between the different social systems in which OKS is active is essential to achieving trust and to reduce conflicts, which is what will be analyzed in the following section.

Bridging gaps – In-country Managers

Geographical problems

Before OKS stationed the In-country Managers in the same countries as the customers, contact was carried out with electronic mediums, except for sales and social visits by the CEO. With the In-country Managers in place, face-to-face meetings started occurring more frequently. No longer was only the CEO meeting the customers for social visits. For each customer, someone was located in the same country and could attend a meeting faster and more easily. Also, the In-Country Managers could spend more time with each respective customer than the CEO. As has been pointed out by OKS, face-to-face meetings are superior to electronic communication in several ways. For instance, technical problems are avoided. Also, more subtle issues, such as reading the reactions of the clients in their eyes, are easier during a meeting in person.

Another benefit of face-to-face meetings is that it helps to give more of a personal touch compared to for instance email conversations. CEO Vinit Khanna described how personal meetings helped to create the so called "Eureka" moment, referring to the point in a sales meeting where a customer gets convinced to outsource to OKS. This can be seen as that the personal touch makes OKS more trustworthy – a customer is more confident in outsourcing to someone in person than to someone that is only accessible through an electronic medium.

Another trust aspect is that meeting in person with clients to a higher extent indicates a level commitment. It helps to build so called goodwill trust, the sort of trust that is about showing good intentions.

Language barriers

The In-country Managers also play an important role for more obvious cultural differences such as language barriers. As a result of their presence, any problems caused by language barriers will arise internally within OKS, rather than between OKS and its clients. Therefore, problems related to language barriers are separated from the interaction process between vendor and client and consequently does not longer contribute to add risk to the relation.

Power distance index and individualism

A cultural difference problem that is identified by OKS, and coincides with the differences in power distance index (presented in paragraph 4.3) between India and western clients, is that employees in India, generally speaking, are less likely to express opinions or admit mistakes to their customers than employees in Western countries. It can be perceived as impolite since it can cause someone to lose face. In the eyes of OKS, such difference in attitudes can create situations that negatively affect the relations between OKS and its clients.

The In-country Managers reduce the problem of power distance between OKS and its customers. Because of their high level of understanding for the clients' cultures, problems or misunderstandings of these sorts are avoided. Similar to In-country Managers' effect on language barriers, the problem of power distance will occur within OKS, between the In-country Managers and the production department. Problems caused by cultural differences are therefore shifted from the interaction with the clients and therefore do not harm the relationship. Furthermore, the In-country Managers, due to their experience in working with India, are aware and can coordinate with the production department in such a way that problems of this sort are decreased.

However, the In-country Managers can be seen as having some negative impacts on the social exchange as well. This is related to their role as middlemen. In the sales and pilot phase, information that is to be passed along between production department and customers goes through the In-country Managers. This has a delaying effect, since the information must pass through one extra step before reaching its destination. If the communication would run directly between the production department and customers, information would travel faster.

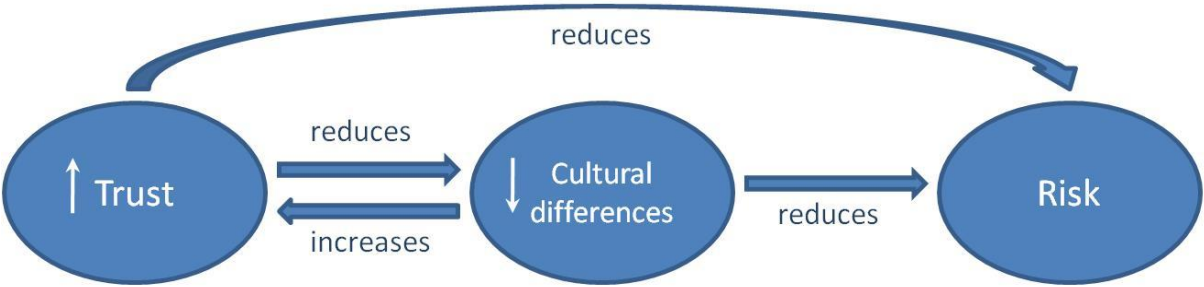
Also, since the In-country Managers are not directly working with production related issues, information that passes through them runs the risk of being misinterpreted. From this

perspective, the In-country Managers increase the risk of a relation, both because they delay communication and might misinterpret information.

6.3.5 The social exchange (building trust)

Trust, cultural differences and risk affect each other in the following way: decreased cultural differences increase trust and increased trust decreases cultural differences. Finally, both variables affect risk. Increased trust or reduced cultural differences both reduce risk. The relationship between trust, cultural differences and risk is once again illustrated in figure 1.

Figure 1: The relationship between trust, cultural differences and risk



We have established that OKS’ new strategy resulted in a more complex product/service exchange which has raised the level of information exchange between OKS and its customers. It also results in higher financial commitment and more sensitive information being exchanged which increase the risk for customers that outsource.

OKS put efforts in social exchanges to decrease this risk. OKS started communicating its relationships with well known companies to other prospects and customers. This increased the level of credibility. The Partnership Service Team increased the quality of the communication. Through the In-country Managers, the geographical closeness to the customers increased the frequency of face-to-face meetings which improved communication and showed commitment to clients. All these factors increase trust and therefore, following the trust-risk model, reduce risk. The In-country Managers also contributed to reducing risk in another way. By having people that shared the language and the working cultures of the customers, the risk related to language barriers and cultural differences was reduced.

Sales, Pilot and Production Phase

Van der Meer-Kooistra & Vosselman's division of a relationship into three phases – the contact phase, the contract phase and the execution phase – is similar to OKS' division: *the sales phase, the pilot phase and the production phase*. The trust building efforts vary depending on in what phase OKS is with a client.

Sales Phase

In the sales phase OKS puts efforts into communicating credibility by emphasizing, to prospects and existing customers within an industry, its relationships with other well known customers in the same industry. Secondly, In-country Managers are handling communication with customers during this phase. Since the In-country Managers are stationed in Western countries, the investments related to them are higher than having employees performing their tasks stationed in India. Therefore, building trust through In-country Managers in this phase creates a cost that is higher than handling communication from India.

Pilot Phase

The In-country Managers keep having contact with the customers in the pilot phase and the related costs continue to be high. Also, when a pilot project is initiated, the Partnership Service Team is involved in assuring quality of communication with customers. The team meets frequently to discuss projects, which adds to the costs of building trust.

Production Phase

In the production phase, high level communication efforts are reduced. Communication with customers is handled by the production department in India and the In-country Managers are inactive. The Partnership Service Team only intervenes in case of problems. Trust is only *maintained* during this phase. Consequently, time OKS invests in the social exchange with customers decreases. Therefore, also the costs related to building trust are decreased. However, longer period of time this phase plays a critical part in increasing the level of trust. As vice chair Bob Mannarino pointed out, long run trust is based on continuously delivering services in a timely and qualitative manner. Therefore, the main way of building long term trust focuses more on delivering high quality in the services rather than having high level of communication.

Figure 7: Trust-building Efforts in different Phases

| | <i>Main ways of building trust</i> | <i>Cost related to building trust</i> |
|-------------------------|------------------------------------|---------------------------------------|
| <i>Sales phase</i> | Credibility, Communication | High |
| <i>Pilot phase</i> | Communication | High |
| <i>Production phase</i> | Qualitative delivery | Low |

As a relationship to a customer proceed in to the production phase, the trust-building efforts change from credibility and communication to quality of delivery. As a result, the costs related to trust-building efforts decrease over time.

In the production phase, when OKS has showed that they can “crawl”, as Head of Production Gowri Shanker expressed it, OKS can come with new offerings to customers. Through this, OKS can slowly extend the services to customers. The phases can therefore be seen as working in a cyclical way - after a period of production, a new service can be offered which will first go through the sales phase, thereafter the pilot phase and finally the production phase. Since the phases work cyclically, the trust built in the production phase can be used to extend offerings with clients – to start “walking” and “running”. An interesting observation is therefore that it is easier to build trust to existing clients than to new clients since there are more ways to build trust.

6.3.6 Institutionalization

When conducted over a longer period of time, the short term exchanges create a long-term relationship between OKS and its customers. Together, the exchanges result in certain rules, customs, and procedures that characterize the relationships – the relationships become institutionalized. With OKS' new strategy, most trust building efforts are in the beginning of a relation, during the sales and pilot phase. The initial efforts *build* trust. With time, as a project goes over to the production phase, the relationship becomes more institutionalized, which is reflected by that the communication efforts change: In-country Managers decrease their communication with the customers and instead the production team in India slowly takes over this task. The Partnership Service Team also decreases its activeness during the production phase. The costs of having electronic contact and using someone stationed in India is smaller than keeping contact through In-country Managers plus that the cost related to the Partnership Service Team is reduced. Financially, OKS lower costs related to trust-building over time.

That relationships become institutionalized might shed light to why trust building efforts can be decreased after some time. Rules, customs, and procedures start to take form and make the customers more confident in their outsourcing partner. Institutionalization might in other words reduce the risk of relationships which decreases the need of trust building efforts.

6.4 The atmosphere

All the factors in the interaction model add up to the atmosphere of a relationship. The efforts put into influencing different factors therefore contribute to changing the atmosphere. Looking at the atmosphere, the benefits and losses of OKS' new strategy can be brought to light. Different aspects of the atmosphere can be analyzed through firstly the *economic dimension* and secondly the *control dimension*.

Looking at OKS before the new strategy was implemented from an economic dimension, it created new processes for individual clients to a high extent. This contributed to a high level of dependency to clients because engaging with a client came with a high financial involvement.

As OKS implemented its new strategy, it started focusing on particular markets. For these markets, end-to-end processes were put in place. The end-to-end processes meant a higher degree of adjustment to certain market groups. One advantage of this was that already existing processes could be used to serve new clients, which generated cost cuts and higher margins. It also reduced the problem of dependency since attaining new customers did not involve as high financial involvement as before.

From a control dimension, OKS in its early strategy was lacking market expertise. As a result, requirement specifications from customers were followed to a large extent. OKS was therefore dependent on the information from customers in order to perform services. With the new strategy, the dependency relation changed. With market focus, expertise was built within the markets which meant that OKS could to design processes based on its own knowledge. This is reflected by the UK customer in the financial businesses that needed help regarding *how* to gather market information. The customer did not know how to appropriately gather the information and, instead, turned to OKS for advice.

7 Conclusions

In this chapter we present the final conclusions of our study. We begin the chapter with a summary. We then present our recommendations and finally reflect on our study and give suggestions for future research

7.1 Summary

This study shows how the Indian outsourcing supplier OKS has climbed the value chain and used trust building efforts in order to do so.

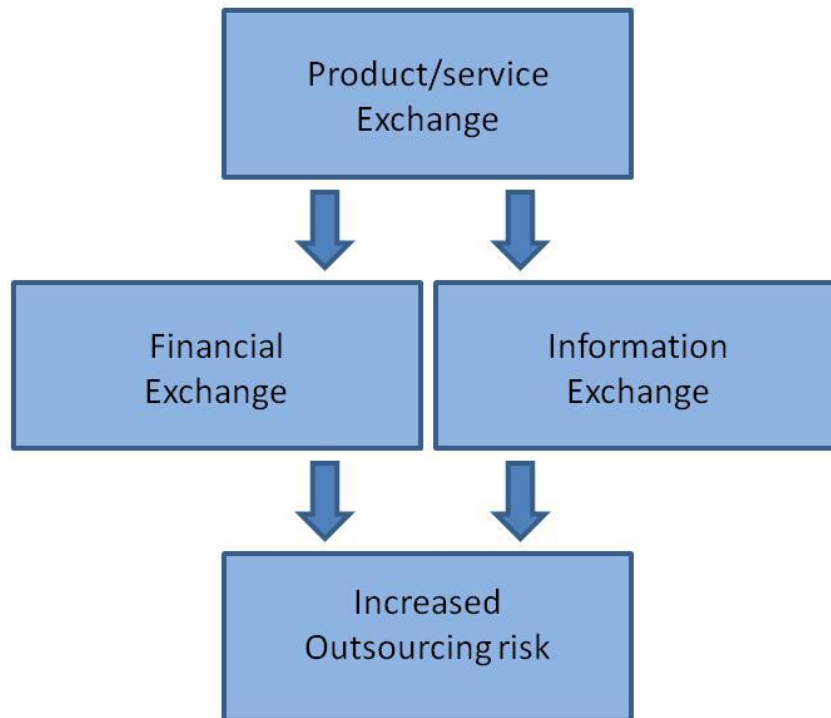
The pre-conditions for the strategy are found in OKS' environment. Increasing competition created a need to reshape the strategy in order to maintain profitability. The complexity of the environment, especially due to OKS' presence in a multitude of countries, sheds light to the importance and challenge of communication.

The first step in OKS' newly formed strategy was to modify its infrastructure in such a way that it suited the needs of a narrower range of markets. Using the model of Hammarkvist, Håkansson, Mattsson (1982), a so called customer developer strategy can be identified, where OKS' processes became more generalized instead of developing processes for projects ad hoc. This contributed to lowering the costs of attaining new customers.

A key aspect in the new strategy was to offer services higher up in the value chain by coming up with own solutions to customers rather than following instructions – a more consultative approach. This raised the level of product/service exchange. In turn, a need was created to learn from the customers, both commercially and technically, which increased the level of information exchange. For the customers this created a higher risk of so called opportunistic behaviour from OKS since they exposed themselves to a higher extent.

Through the increase of product/service exchange, the financial exchange was increased as well. The increase of financial commitment increased the risk for the customers since the stake was raised. The way the risk was increased is illustrated in figure 8.

Figure 8: The way risk was increased

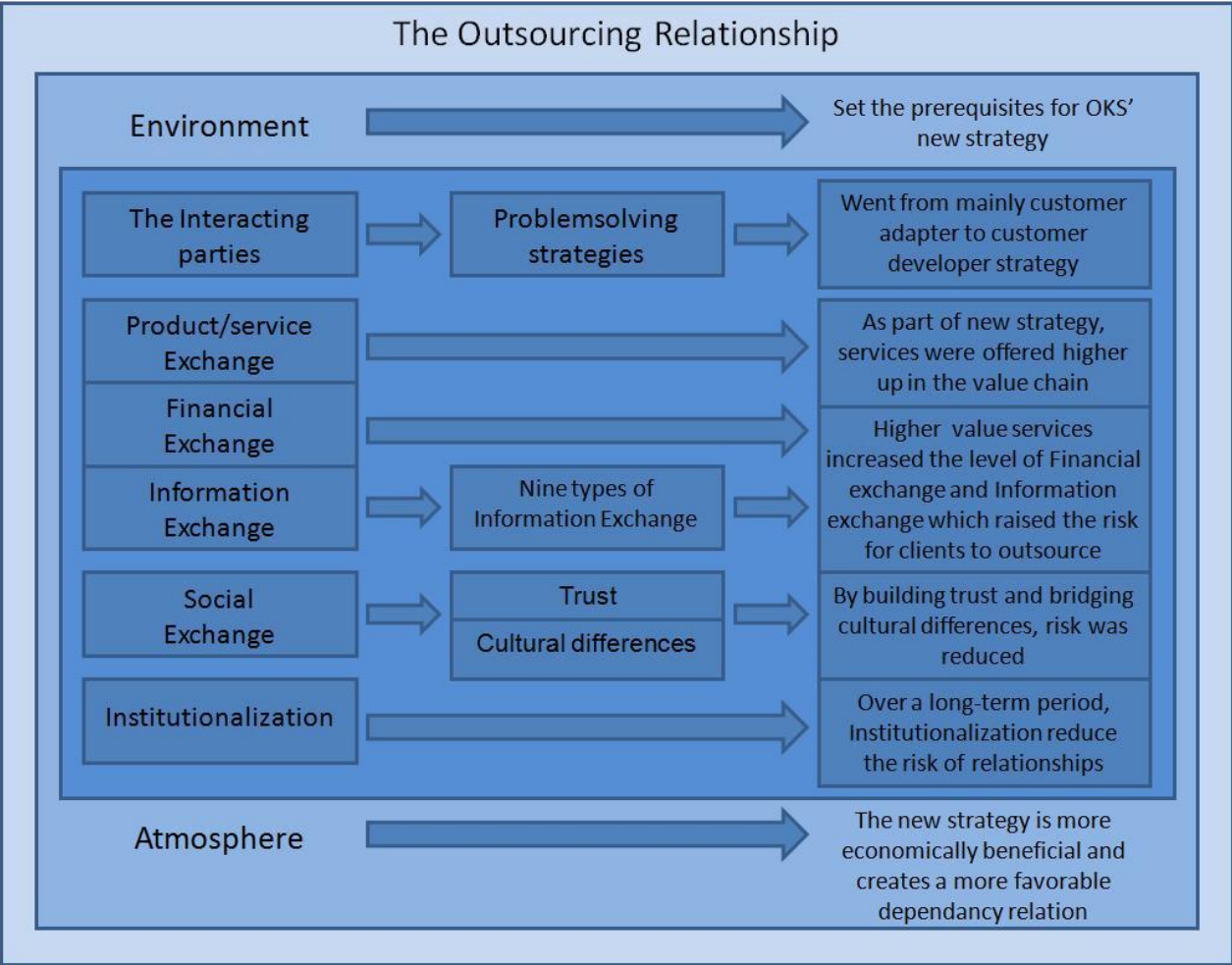


As a solution to the increased risk, trust building and cultural difference reducing efforts were taken. By using the interaction model, it is shown that the strategic actions taken by OKS are different sorts of *social exchanges*. The trust-risk model provides the proper tool to describe how these efforts contribute to decrease the risk that the clients are facing. In short, the actions taken improved the level of communication in various ways, which built trust amongst the clients. The In-country Managers played a key role. Through their presence, the frequency of personal meetings could be increased which raised the quality of the communication and showed a commitment to customers. Another effect was that the risk related to language barriers and cultural differences seized to be a part of the interaction with the clients and instead became part of OKS' internal communication between the In-country Managers and the Indian production department.

The trust building efforts vary depending on in which stage of a relationship OKS is with a particular client. The efforts are biggest in the beginning of a relationship, in the sales and pilot phase. When the relationship goes over to the *production phase*, the efforts are lowered. This can be interpreted as that in this phase the relationship has been institutionalized, which lowers the risk of the relationship and consequently also the need of trust building efforts. As a result, for OKS the costs related to building trust are largest in the beginning of a project with a customer.

By looking at the atmosphere of OKS' interaction with clients, the benefits of the new strategy become visible. By lowering the costs related to attaining new customers, the economic dependency to individual customers was decreased and developing the ability to create own solutions lowered the need to rely on information from customers in order to perform services. The summary of the analysis is illustrated in figure 9 below.

Figure 9: Summary of analysis



Above, the findings of this thesis are charted in regards to the theoretical models that have been used. The environment sheds light to why a new strategy was needed and why communication played a key role. The problem solving strategies-matrix brings out the essence of OKS change of strategy: It went from mainly a customer adapter strategy to a customer developer strategy. The new strategy increased the level of the product/service exchange which increased the financial exchange and the information exchange. In turn, the risk for the customers was increased. In order to decrease the risk, the level of social exchange was raised in order to build trust and bridge cultural differences. The institutionalization of relationships decreases the risk and therefore the costs related to building trust over a longer period. The new strategy changed the overall atmosphere of OKS' relationships to clients to a more lucrative and favorable dependency relation.

7.2 Recommendations

In-country Managers – A Costly Approach

A central part of OKS new strategy is having In-country Managers near customers in order to build trust and bridge cultural and geographical gaps. There are a few aspects on which OKS would benefit to be extra observant. The In-country Managers consist of a few individuals that are spread out in the countries where OKS has customers. OKS is therefore highly dependent on a small number of individuals to handle communication with customers. The cost of employing someone in a Western country, compared to in India, is high. Therefore the, the ability to hire new In-country Managers and, in turn, the potential to generate new customers is limited.

Future possibility – In-country Managers through Partnerships

As a possible way to expand in the market places faster, OKS could engage in partnerships with companies that are well known in the local markets, and assign them the task of generating customers. The profit of customers would be divided between OKS and its partners. Since the cost of having partners is variable the numbers of partners can be increased without any investment costs. This creates to possibility to increase the scale of customer generation.

Also, in contrast to OKS, local companies with an already established foothold in their markets are more credible than OKS in the eyes of the customers. With this in mind, OKS can use the credibility of the partners to gain trust amongst customers.

Through this approach the information exchange and the social exchange to the customers would be done by the partners. However, OKS' approach could still reap the benefits of offers higher up in the value chain. It could still use its market expertise to identify problems and create solutions for the customers, based on the information from the partners. And a partner approach does not exclude the possibility of having once own customers and a in-country manager setup in the same market.

7.3 Reflections

Theoretical contribution

Overall, our thesis' theoretical contribution consists of greater understanding of how an offshore outsourcing vendor can build trust and reduce the effects of cultural differences in order to reduce the outsourcing risk. The uncommon perspective of an Eastern outsourcing vendor can hopefully provide useful insights and help to fill the knowledge gap regarding vendors in the outsourcing literature.

Future Research

The interaction model helps to identify how different factors within a relationship affect each other. For instance, the new strategy increased the product/service exchange, which increased the financial exchange and the information exchange, which in turn resulted in that the social exchange needed to be increased. The interaction model has therefore been quite useful to provide the necessary overview of how OKS interact with its clients. For future research within relationships between buyers and sellers in the outsourcing industry, this model is recommended as a framework.

In future research, it would be of value to investigate how outsourcing suppliers' trust-building efforts are perceived by their customers, by looking at an outsourcing relationship from the customers' perspective. An interesting topic would for instance be which trust building efforts that have the strongest effects. This sort of research would add to the knowledge of how outsourcing suppliers effectively can build trust amongst its customers.

Outsourcing Supplier's Climb in Value Chain – Is the Outsourcing Market Developing?

Since the outsourcing industry is rapidly expanding, especially in India, the case study of OKS might indicate the development of Indian outsourcing vendors in general. One reflection is that, if other outsourcing vendors specialize to a higher extent in certain markets and, similar to OKS, make substantial efforts to build trust to customers, buyers of outsourcing services face a decreased risk when outsourcing. This speaks in favour of an increased popularity amongst Western companies to outsource in the future.

Also, if other outsourcing vendors, similar to OKS, climb the value, the market structure might change. Who knows, maybe the In-country Managers are just the pioneers of the Eastern establishment in the West?

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Appendix 1 – Abbreviations

| | |
|-----|---|
| BPO | <i>Business Process Outsourcing</i> |
| CIS | <i>Customer Interaction Services, one of two outsourcing categories that OKS Group focuses on</i> |
| CSF | <i>Critical Success Factor</i> |
| DIS | <i>Data Interaction Services, one of two outsourcing categories that OKS Group focuses on</i> |
| IDV | <i>Individualism, the degree of societal interpersonal relationship (Hofstede model, 1983)</i> |
| IS | <i>Information Systems</i> |
| IT | <i>Information Technology</i> |
| LTO | <i>Long term orientation, shows a cultures perceived value of long term commitment and tradition (Hofstede model, 1983)</i> |
| MAS | <i>Masculinity, measure that indicates the social gender roles (Hofstede model, 1983)</i> |
| OKS | <i>OKS Group, our case company</i> |
| PDI | <i>Power Distance Index, a measure of societal inequality (Hofstede model, 1983)</i> |
| UAI | <i>Uncertainty avoidance, measure of tolerance of uncertainty and ambiguity in the society (Hofstede model, 1983)</i> |