TRUST AS AN ORGANIZING PRINCIPLE IN OFFSHORING INTERCULTURAL RELATIONSHIPS

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TRUST AS AN ORGANIZING PRINCIPLE IN OFFSHORING INTERCULTURAL RELATIONSHIPS

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Abstract

In this paper, we propose to investigate the role played by trust in structuring and shaping offshoring processes and to explore how cultural differences interfere within this interfirm relationship. We have built upon the conception of trust as an organizing principle to address the two levels: the individual level and the organizational level. A case study has been conducted within a European Information Services Provider, its Tunisian offshore unit, and some European clients. Our findings indicate that trust is perceived as an influencing factor when it is situated at the interorganizational level and not at the interpersonal level. The role of culture has not been perceived in the same way by the two offshoring partners. While cultural differences are identified as an enabling factor in shaping and enhancing the inter-firm relationship by individuals belonging to the offshore unit (Tunisian culture), it has been considered as a constraining factor by the global vendor and the clients (European culture).

Keywords: IT offshoring relationships, trust, organizing principle, culture.
INTRODUCTION

In recent years, offshoring (inter-country outsourcing) has mended an increasing interest among IS practitioners and scholars. This phenomenon has been defined as a practice through which an organization (client) subcontracts all or part of its IS operations to one or more external service providers (vendors) outside its own country (King and Torzadeh, 2008). Offshoring has appeared as a challenging decision that gives rise to difficulties related to differences in culture, language, business methods, politics, etc. These issues are not yet fully understood and studied (Zaheer & Zaheer, 2006) and require in-depth theoretical and empirical investigations (King and Torzadeh, 2008).

Following the tradition started by outsourcing studies, offshoring can be examined through an economic lens as a means to reduce costs (Williamson 1985, 1993). We argue in this paper that this view provides a restrictive perspective which underestimates the complex inter-firm relationships that are developed within the boundaries of offshoring contracts.

Our aim in this paper is to provide insights into the offshoring phenomenon by focusing specifically on the role of trust in the structuring and shaping of offshoring processes and also by exploring how cultural differences interfere within offshoring dyads. Numerous researchers in information systems and organization science have provided evidence about the role of trust in strengthening and stabilizing business relationships (Marandon, 2003; Ring & Van de Ven, 1994). It has been demonstrated indeed that trust allows firms to reduce transaction costs (Zaheer et al., 1998; Dyer & Chu, 2003; Simon, 2007) and to deal with conflicts and social complexity (Luhmann, 2006; Giddens, 1994; Arrow, 1974). We have noticed however that even though trust is a popular research area, the linkage between trust, culture and interorganizational relationships (and more accurately offshoring relationships) is not extensively addressed from a theoretical, nor an empirical point of view.

Following Delerue & Berard (2007); Dyer (1997); McEvily & al. (2003); Charreaux (1998); Thuderoz (1999), we propose to conceptualize trust as an organizing principle in order to describe and analyze the offshoring interrelationships. In this paper, we will discuss this theoretical choice and will display how we have applied it in studying the case of an Information Services Provider group headquartered in Paris (B&D group) and comprising several offshoring subunits in other countries. We will particularly focus on the perceived relationships between B&D group, its Tunisian offshoring subunit (B&D Tunis) and their clients.

Our paper is organized as follows: we first present our theoretical foundations articulated around three key concepts: trust, culture and outsourcing. We then display our theoretical model adopted from Zaheer et al. (1998) framework of the effects of interorganizational and interpersonal trust on performance and the conception of trust as an organizing principle developed by McEvily et al. (2003). This is followed by a description of our research methodology and our major findings. The paper concludes with a discussion of the limitations of this study and its implications for practice and research.

1 THEORETICAL FOUNDATIONS

1.1 Defining trust

There is an abundant literature on trust covering a large range of conceptual perspectives, depending on the research discipline (Simon, 2007; Mangematin & Thuderoz, 2003; Adler, 2001; Holland, 1998).

For instance, trust is defined by some researchers as the willingness to put oneself in a vulnerable situation with regards to others and other business actions (Mayer & al., 1995; Chiles & McMackin, 1996; Barney & Hansen, 1994). Trust has also been defined in terms of expectations towards a person or a group of persons (Deutsch, 1958; Neveu, 2004; Fukuyama, 1995; Zucker, 1986; Zaheer & al., 1998).

Trust can thus be approached through different perspectives summarized in Table 1 hereafter. The various definitions quoted have no pretension to exhaustivity.

<table>
<thead>
<tr>
<th>Definitions from various authors</th>
<th>in terms of vulnerability</th>
<th>as an expectation</th>
<th>as a belief</th>
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<tbody>
<tr>
<td>- Lorenz (1988) defines trust as « the acceptance of being in a situation of vulnerability towards a stranger. »</td>
<td>- «Trust is the willingness of a party (the trustor) to be vulnerable to the actions of another party (the trustee), based on the expectation that the trustee will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party. » (Mayer &amp; al., 1995, p.712).</td>
<td>- «Trust is a set of expectations shared by all those involved in an exchange» (Zucker, 1986, p.54).</td>
<td>- «Trust is a belief in a person’s competence to perform a specific task under specific circumstances. » (Sitkin &amp; Roth, 1993, p.373)</td>
</tr>
<tr>
<td>- Trust is « an increase of someone’s vulnerability facing the increase of the risk of an opportunistic behaviour. » (Chiles &amp; McMackin, 1996, p.85).</td>
<td>- Trust is defined as an “expectation about another’s intentions or behaviours. “It includes an element of calculated expectation [and] also encompasses a non calculative component.” (McEvily et al., 2003, p.93)</td>
<td>- Trust is « an expectation that concerns a « particular relationship with the other […] and which is developing according to several lines (cognitive and affective) and to other party’s characteristics (competency, honesty, reliability etc.).” (Neveu, 2004, p.13).</td>
<td>- “Trust is not faith on person’s or system’s reliability. It derives from this faith. Trust is exactly the link between faith and passive security feeling». (Giddens, 1994, p.40).</td>
</tr>
<tr>
<td>- Trust represents « an expectation that arises, within a community, of regular honest and cooperative behaviour, based on commonly shared norms, on the part of other members of that community” (Fukuyama, 1995, p.26)</td>
<td>- Trust is « a set of beliefs on individual’s intentions which can be seen from a positive or a negative point of view. » (Rouchier, 2003, p. 139).</td>
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Table 1 : Typology of Trust Definitions

For the purposes of this study, we define trust as the belief that a person (or a group): “(1) makes a good-faith effort to behave in accordance with any commitments both explicit or implicit; (2) is honest in whatever negotiations preceded such commitments and (3) does not take advantage of another even when the opportunity is available” (Cummings and Bromiley 1996, p.303). We have adopted this definition, because it emphasizes both the cognitive and the affective dimensions of trust (McAllister, 1995). It goes also beyond calculative views of trust which consider only expectations of behaviour based on extended self-interest (Williamson, 1993; Carson et al., 2003).

Now because it is trust in the case of inter firms relationships that is considered here, it would be logical to adopt an inter organizational approach of the concept of trust. We will therefore argue that it is important to extend an inherently individual-level phenomenon to the organizational level of
analysis. As explained by Zaheer et al. (1998), “trust has its basis in individuals, although individuals in an organization may share an orientation toward another organization. From this perspective, interorganizational trust describes the extent to which organizational members have a collectively-held trust orientation toward the partner firm, which is quite different from saying that organizations trust each other. In contrast, we view interpersonal trust as also made up of three elements – reliability, predictability, and fairness – but with an individual as both the referent and the origin of trust” (p. 143)

We must also underline that interorganizational and interpersonal trust are not opposite concepts, and that there is a mutual positive impact between the two phenomena: (1) Interpersonal trust which is built between individuals and depends on personal characteristics; (2) Interorganizational trust defined as “the extent of trust placed in the partner organization by the members of a focal organization.” (Zaheer et al., 1998, p.142). According to McEvily et al. (2003) and Stewart (2003), this form of trust is built thanks to a transfer process which allows trust to shift from one level of analysis to another.

Considering trust concurrently at these two levels of analysis is legitimate if we consider following Zaheer et al. (1998): “the creation and recreation of trust structures and actions at the interpersonal and interorganizational levels is akin to Gidden’s (1979) concept of structuration. In sum, the foregoing arguments imply that interorganizational trust and interpersonal trust exert a positive influence on each other” (p. 144).

1.2 Trust as an organizing principle

As Ouchi (1980) discusses, goals attainment, as a fundamental issue for organizations, can be made more difficult due to interdependence and uncertainty, these are of a tremendous importance within interfirm collaborative relationships. Organizing principles represent a way of solving the problem of interdependence and uncertainty. “An organizing principle is the logic by which work is coordinated and information is gathered, disseminated and processed within and between organizations” (Zander & Kogut, 1995). Referred organizing principles are for example authority, price and norms (Adler, 2001). Ouchi (1980) has proposed another typology of organizing principles including market, hierarchy and clan. Following McEvily et al. (2003), we consider trust as most closely related to the clan organizing principle and propose to conceptualize the relationship between the identified actors within an offshoring relationship.

McEvily & al. (2003) have specifically defined the causal pathways that determine how trust affects organizing. They have identified two broad roles played by trust: a structuring role and a mobilizing role.

* The structuring role of trust is defined as “the development, maintenance and modification of a system of relative positions and links among actors situated in a social space.” (McEvily, 2003, p.94). For instance, trust models the social structure of the organization by influencing four categories of variables, which are:
  - **Transferability and density**: trust transfer is a process, which allows a given individual to refer to a source of trust, which can be a person or an entity and then, to develop trust in a person or an entity, with which he does not have direct contacts. This transfer hence can be considered as a mean to strengthen the density of the relationships between different entities.
  - **Generative capacity and multiplexity**: trust as a source to generate or produce stronger and more complex relationships between individuals. By this means, trust does not involve other actors (new trustees/trustors) among the trust relationship but makes the already established trust relationship stronger.
  - **Delayed reciprocity and stability**: trust enhances the stability of the relationship and influences positively its durability, by reducing mutual controls.
  - **Role specialization and non redundancy**: the trust-based relationship allows the involved entities to “rely on a particular individual [a member of a unit or an organization] to act on behalf of a unit or an organization” (McEvily & al., 2003, p.96). This can avoid creating redundancy in the dyad relationship by eliminating a double specialization in organizational roles.
* The mobilizing role of trust: Trust affects the process of sharing and using the resources held jointly by the interdependent actors in order to achieve the organizational goals. McEvily & al. (2003) have identified three mobilizing impacts of trust within an interfirm relationship:

- **Disclosing, screening and knowledge sharing:** trust allows individuals to reveal information, in order to reach a greater knowledge sharing. This can decrease the screening of knowledge received from other actors and finally leads to higher levels of efficiency.

- **Identifying and committing:** Trust strengthens identity and help in intensifying the the in-group commitment by shaping expectations about the behaviours and intentions of the group members (Social Identity Theory, Tajfel & Turner, 1979).

- **Suspending judgement and safeguarding:** trust encourages actors to less systematically use protection mechanisms, adopted to guard against opportunistic attitudes. As a consequence, this could help reduce the monitoring systems which are costly and time consuming.

### National culture and trust

Culture is a polymorphous concept that has been studied from a wide range of perspectives rooted in numerous disciplines including anthropology, sociology and organizational science. A plurality of definitions (Schein, 2003; Hofstede, 1994; Triandis, 1994; Chevrier, 2003) and dimensions (Hall, 1984; Hofstede, 1994; Leidner & Kayworth, 2006) of this concept have been proposed. For the purpose of this study, we adopt the definition and the dimensions of culture developed by Hofstede (1994). For instance, this researcher has defined culture as “the collective programming of the mind which distinguishes the members of one human group from another”.

He conceptualized culture as an onion, whose layers are composed of symbols, heroes, rites and values. It is important to notice here that even though we consider that an individual is a cultural being, who builds up his/her identity according, at the same time, to national, ethnic, religious, linguistic cultural specificities, etc. (Straub & al., 2002; Walsh & Kefi, 2008), we will only consider within this paper the role of national culture in trust modelling.

Accordingly, we have adopted Hofstede’s (1994) national culture’s conception defined as "a kind of average of faiths and values around which are situated individuals who live in the [considered] country", and composed of five main dimensions: power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and finally long term orientation.

Based on this conceptualization of national culture, Hofstede (1994) has argued that the development of trust is different between a collectivist and an individualistic society. In fact, in a collectivist society, it is important to build a trustworthy relationship prior to any business transaction. This variance of trust is close to what we have defined following Zaheer et al. (1998) as interpersonal trust. At the opposite side, for the members of an individualistic society, interpersonal relationships are generally considered as less important for the development of trust in business exchanges.

Many other researches have focused on the cultural effects of culture on trust. They have showed that trust differs from one culture to another and this difference appears in several aspects: meanings, degrees and modes of production of trust (Zaheer & Zaheer, 2006; Dyer & Chu, 2003; McEvily & al., 2003; Huff & Kelley, 2003).

Huff & Kelley (2003) have demonstrated that the propensity to develop trust differs from one nation to another. For instance, an individualistic culture predisposes the individual to develop a trustworthy relationship more than a collectivist culture would.

Ueltschy et al. (2007) have adopted the national culture dimensions developed by Hall (1976) and have brought evidence that trust is considered as more important for individuals belonging to “high-context” cultures than it is in “low-context” ones.

Ting Toomey (1999) supports the idea, according to which the terms “trust” and “trustworthiness” are two terms whose definitions differ from one nation to another. She particularly focused on the American conception of trust and has showed that it is intimately tied to two other concepts which are networking and timing. Hence a “Trust, Networking and Timing” (TNT) relationship.
3 RESEARCH MODEL AND METHODOLOGY

Offshore outsourcing is a partnership constructed beyond the country’s borders. The literature has made considerable advances in understanding the mechanisms of interfirm trust and has brought evidence about how trust can behave as an organizing mechanism susceptible to outperform other organizing mechanisms, such as price-based mechanisms. Our aim in this study is to investigate how the offshoring partners perceive the role played by trust, with regard to their respective cultural specificities.

We have built upon the conception of trust as an organizing principle developed by McEvily et al. (2003) to address a bi-dimensional role of trust: the mobilizing and the structuring roles. Our study is also aimed at explaining how trust operates at both individual and organizational levels of analysis, and particularly how cultural specificities interfere at these two levels.

We have for these purposes adapted the Zaheer et al. (1998) model of Interorganizational and Interpersonal Trust. The integration of culture as a mediating variable within this model is an original contribution of our study.

3.1 Research Model Presentation

It is important to notice here that our model (see figure 1) has also been built with regard to the characteristics of the offshoring relationship we undertook to study. Within this relationship three partners are involved: the client, the vendor: an Information Services Provider company headquartered in Paris, France (B&D group) and one of its offshore vendor unit: a subunit of the Information Services Provider located in Tunis, Tunisia in North Africa (B&D Tunis).

![Figure 1: Interpersonal versus interorganizational trust and the role of culture](image)

Consistent with the theoretical framework we have developed above, we will operationalize our model by measuring the national culture effect and particularly the collectivist versus individualistic dimension (Hofstede, 1994). Based on this point of view and on our theoretical framework, we present our research propositions:

P1: In an offshoring relationship, trust is perceived at two levels: interpersonal and interorganizational levels.
P2: National culture affects trust conception and development within the offshoring relationship.
P2a: In a collectivistic culture, interpersonal trust is perceived as playing a dominant role
P2b: In an individualistic culture, interorganizational trust is perceived as playing a dominant role.
P3: In an offshoring relationship, trust plays a structuring role
P4: In an offshoring relationship, trust plays a mobilizing role

3.2 Methodology

We have conducted our case study within B&D group, its Tunisian offshore subunit and some of their clients. The research propositions explicit above have been used as an investigation canvas through which we have explored the role played by trust in shaping the offshoring relationship established between three entities: the client, B&D group and B&D Tunis, with regard to their respective national cultures. We have therefore adopted an interpretative rather than a positivist epistemological approach (Wacheux, 2007).

Data has been gathered using semi-structured interviews conducted within representatives of the offshoring partners: the vendor (the global and the offshore units), and the clients (French and international). This research perspective could fill a gap in the offshoring literature in which according to King & Torzadeh (2008), it is the point of view of the client which is the most frequently investigated in empirical studies.

We have conducted 12 semi-structured interviews with different actors using the same interview guide structured in order to handle our major investigations themes (see table 2). Data analyses have been performed using content analysis techniques (NVIVO Software).

<table>
<thead>
<tr>
<th>Theme</th>
<th>Investigated variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshoring relationship specificities (interorganizational level)</td>
<td>-Contracting conditions (at the beginning of the relationship)</td>
</tr>
<tr>
<td></td>
<td>-Control conditions, power, coordination</td>
</tr>
<tr>
<td>Interpersonal relationships</td>
<td>-roles within the negotiation process</td>
</tr>
<tr>
<td></td>
<td>-Conflict management</td>
</tr>
<tr>
<td></td>
<td>-Shared/divergent values</td>
</tr>
<tr>
<td>National culture</td>
<td>How does the interviewee identify him or her self with regard to Hofstede’s national dimension: collectivist versus individualistic.</td>
</tr>
<tr>
<td>Trust effects</td>
<td>-Interviewee’s definition of trust (images, expressions)</td>
</tr>
<tr>
<td></td>
<td>-The role of national culture</td>
</tr>
<tr>
<td></td>
<td>-The role of organizational culture (see if it is identified)</td>
</tr>
<tr>
<td>Context</td>
<td>-Perceived local/global market structure</td>
</tr>
<tr>
<td></td>
<td>-Perceived Offshoring key success factors</td>
</tr>
</tbody>
</table>

Table 2: Investigated themes

4 FINDINGS DISCUSSION

Interorganizational versus Interpersonal Trust. One of our major findings has been the emergence of the inter organisational level of trust as the dominant influencing factor on offshoring processes, for all our interviewees regardless of their national culture. This is consistent with Zaheer et al. (1998) empirical study who concluded as follows: “The pattern of results suggests that institutionalized practices and routines for dealing with a partner, as captured by interorganizational trust, transcend the influence of the individual boundary spanner. In considering the role of trust in relational exchange, we argue that firms must recognize the impersonal (Shapiro, 1987) structures, processes and routines that create a stable context in which interpersonal trust can develop and persist” (p. 156).
**Trust Conception.** Another important result concerns the perceived trust representation. The interviewees from B&D group (French/European national culture) define trust as a “human relationship”, consistent with the relational and emotional dimensions of trust developed by McAllister (1995), while a majority of the Tunisian B&D offshore unit relate trust to functional and operational competencies. For this category of offshoring partners, the client develops trustworthiness if the vendor provides good quality services, independently of any affective considerations.

**Structuring and Mobilizing roles of Trust.** These two levels of impact of trust have been confirmed in our study. Concerning the structuring role, trust has been identified as a stabilizing and reinforcing factor of the interfirm relationship. For instance:

- Trust positively affects transferability and density. More specifically, trust strengthens the ties between individuals via knowledge transfer. This process has been explicitly mentioned by B&D clients.

- Trust also positively affects the multiplexity of the ties between individuals by strengthening their relationships. This point has more clearly emerged through B&D France interviews, where human relations considerations were the most evoked.

- Trust enhances the stability and the continuity of the relationship between partners.

- Trust plays a role in specialization and non-redundancy since the majority of actors prefer having only one negotiator in the partner company to dealing with several persons. This implies reducing redundancies. The latter two points have been identified by the three categories of actors in the offshoring relationship.

Our findings also support the hypothesized mobilizing role of trust. From the client and the vendors (Global and offshore) points of view, trust is recognized reinforcing cooperation between the partners and lessening the controls, making the coordination mechanisms easier and less costly. The offshore unit actors’ identification to an in-group (the global information services provider entity) has notably been recognized as a facilitating factor in running the coordination mechanisms with the clients. This finding is consistent with previous research studies; Carson et al. (2003) have brought evidence that trust plays a role as a “social lubricant that reduces the friction costs of existing trade and/or serves to increase the scope of trade” (p. 45).

**Trust and National Culture.** Throughout our analysis, dissimilarities have been identified in the perceived role of culture. In the offshore unit, the Tunisian culture has been considered as a comparative advantage that leads especially French and European clients to offshore their IT services to Tunisia rather than to other countries, like India or China. This is notably because Tunisia is a French speaking country (French is the second language for a great majority of Tunisian people). Tunisia is also geographically much closer to Europe than other competing offshore localizations. From the global vendor point of view, national culture is to the contrary considered as a constraining factor, particularly during the negotiating process with the client, for whom the offshoring entity of the vendor (B&D group) should remain “transparent” during the relationship. It has also been reported that trust according to the offshore entity results in fact from a transfer process from the global vendor entity to its offshore unit. In other terms, when the client trusts the vendor, he is also willing to trust the offshore unit of that vendor. However, we notice here that the global vendor and the client belong to approaching or similar national cultures (France, Europe), the national culture effect is therefore not any more a pertinent affecting factor, and the offshoring relationship is conversely a simple (domestic) outsourcing relationship.

Finally, our study did not provide support to Hofstede’s (1994) assumption that individuals who belong to a collectivist society need interpersonal ties to develop a trust-based relationship whereas for those who belong to an individualistic society, business connections are the most important. Our findings have pointed out that for both national cultures - the Tunisian culture reputed to be collectivist (as many south Mediterranean countries) and the French/European culture considered as individualistic- only interorganizational trust has been identified as an influencing factor in offshoring relationships.
5 CONCLUSION

The aim of this paper has been to provide insights into the role of trust, conceptualized as an organizing principle, in shaping offshoring relationships and to investigate how the offshoring partners perceive the role played by trust, with regard to their respective cultural specificities.

Our findings indicate that trust is perceived as an influencing factor on offshoring relationships when it is situated at the interorganizational level. The interpersonal trust has not emerged as significant. Our findings also provide support to the conception of trust as an organizing principle: the two affecting roles of trust (structuring and mobilizing mechanisms) have clearly been identified. It has also been pointed out that culture plays a significant role. Indeed, this role is not perceived in the same way by the offshoring partners. While cultural considerations are identified as an enabling factor in shaping and enhancing the interfirm relationship by individuals belonging to the offshore unit (Tunisian culture), it has been considered as a constraining factor by the global vendor and the clients (European culture).

The limitations of this study are probably due to the methodology adopted (case study) which makes the generalization of the results delicate and also to the restricted number of the interviews conducted.

This research has provided a contribution to the body of work on offshoring by applying a framework which investigates the linkages between offshoring, trust and culture. Theoretical and empirical studies that focus on these three concepts and their linkages are rare within the literature and still require deeper investigations using qualitative and quantitative methodologies. Moreover, while the majority of studies focus on trust as a positive factor, it would be interesting to investigate the “downside of trust”, that means the negative effects of trust on interfirm relationships.

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