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GOVERNANCE MECHNISMS IN IS OUTSOURCING PROJECTS IN TRANSITION ECONMIES

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Abstract

Previous IS outsourcing research studies failed to provide evidences on how IT client-vendor relationships should be governed to ensure project success and relational continuity. More importantly, it is even challenging for companies to achieve outsourcing success in transition economies facing an environment characterized by institutional instability. This article draws from theories of institutions and organizations to develop a model examining outsourcing relationship governance mechanisms which would affect outsourcing success in state-owned and non-state-owned Chinese companies. Results of 72 state-owned and 54 non-state-owned outsourcing projects show that the positive relationship between contractual governance and outsourcing success is stronger in state-owned firms than in non-state-owned firms. On the other hand, non-state-owned firms have stronger effects on the relationships between relational governance and outsourcing success, and between outsourcing success and relational continuity.

1 INTRODUCTION

With the development of information systems (IS) outsourcing, the domain of the client-vendor relationship receives much attention recently. A number of researchers have listed the client-vendor relationship as a key element of successful IS outsourcing (e.g., Grover and Cheon and Teng 1996, Klepper 1995). Given the importance of relationship governance on outsourcing vendors, literature reveals the relationship can be viewed as a contractual transaction (Wang 2002) or as a long-term partnership emphasizing trust and mutual benefits (e.g., Lee and Kim 1999). These two perspectives of mechanisms, namely contractual governance and relational governance, are mostly examined governing mechanisms of interfirm relationships (e.g., Heide 1994, Popper and Zenger 2002).

Researchers have found that organizations simultaneously operate distinct governance mechanisms for the same function (Bradach and Eccles 1989). Prior literatures identified direct relationship or combined relationship between contractual/relational governance and its outcomes, such as opportunism (e.g., Cavusgil and Deligonul and Zhang 2004), or exchange performance (e.g., Ferguson and Paulin and Bergeron 2005). However, the relative effectiveness of contractual and relational mechanisms in enhancing outsourcing success and ensuring future relationship has yet to be addressed.

Furthermore, institutional frameworks suggest that any analyses of firm behaviour, must take into account of the nature of the institutional framework (Peng and Heath 1996). However, little previous studies touch on the institutional issues which may have crucial influence on the relationship governance mechanisms. Previous literature in this area are mainly limited to outsourcing projects in Western developed markets with relatively stable institutional environments. Yet little is known about how the decisions of governance mechanisms are related to outsourcing success in transition economies that are experiencing significant institutional changes in moving from central planning to market competition (Li and Zhang 2007).

Therefore, the purpose of this study is to advance the understanding of the consequences of contractual and relational governance mechanisms in China's transition economy.

2　THEORY AND HYPOTHESES

2.1　Governance mechanisms and their consequences

We refer governance mechanisms in the outsourcing relationships to the process and rules governing actions by the outsourcer firm in a manner that promotes desirable outsourcee behaviours (e.g., Choudlhury and Sabherwal 2003). Among research investigating the interfirm relationships, two mechanisms are most often examined: contractual and relational governance (Sobrero and Schrader 1998). Contractual governance emphasizes the use of formalized, equally-binding agreement, or a contract to govern the interfirm partnership. On the other hand, relational governance is an endogenous mechanism that can enhance exchange performance by embedding private and public information flows in a matrix of social ties rather than by resorting to contract or its enforcement by a third party (Uzzi 1999).

The two outcome variables examined are outsourcing success and relational continuity expectation. Outsourcing success refers to the overall organizational advantage obtained from IS outsourcing. Previous studies assess outsourcing success in terms of attainment of strategic, economic, and technological benefits (e.g., Grover et al. 1996). While relational continuity expectation is defined as the exchange parties' perspective of the long-term viability of the relationship (Jap and Anderson 2003). When the participant parties expect that the relationship will continue into the future, they will engage in processes and make investments to enhance the relationship into the long run (e.g., Jap and Anderson 2003).

Prior literatures identified direct relationship or combined relationship between contractual/relational governance and its outcomes. Researchers argue that well-specified contracts may structure expectations and obligations, reduce future risk and uncertainty (Cannon and Achrol and Gundlach 2000), and provide legal protections to both parties (Cannon and Perreault 1999). Furthermore, formal contracts can serve as a foundation for the successful relationship and promote cooperative, long-term, trusting exchange relationship (e.g., Ferguson et al. 2005).

Previous studies found relational governance is positively associated with exchange performance (Artz 1999). The benefits of relational governance include shared goals, and other social patterns (Black 1998), mitigation of opportunistic behavior (Achrol and Gundlach 1999), net reduction of transaction cost (Artz 1999), improved information and service exchange (Vasylchenko 2005). On the other hand, Heide and Miner (1992) highlighted the close relationship between expectations of future interaction and cooperative behaviour. If the parties do not perceive that they will receive worthwhile benefits from the relationship, they are likely to quit. Therefore the collaborative relationship, based on trust and long-term commitment, could enhance the relational continuity expectation.

In sum, we believe that both governance mechanisms will have a positive relationship with outsourcing success and relational continuity. However, since above relationships are not the main focus of this study, we will not hypothesize on these relationships.

2.2   Outsourcing Success and Relational Continuity Expectation

We also expect that there will be a positive relationship between the outsourcing success and future relational continuity. Ring and Van de Ven (1994) proposed that a decision to continue an interorganizational relationship is based on an assessment of economic efficiency and fairness of past transactions. They proposed that if the commitments of exchanging parties are executed in an efficient and equitable manner, they will continue with or expand their mutual commitments. Fornell (1994) found that companies are highly dependent on customer satisfaction for repeated business in those industries where switching barriers are less powerful. Accordingly, literature stressed the importance of current project success, which can be an important determinant of decisions of future collaboration. Again, since the relationship is not the focus of this study, we will not hypothesize on the relationship

2.3   Institutional framework and governance mechanisms

Researchers stressed the importance influence of institutional framework towards organizations (e.g., Scott 1987, North 1990). According to North (1990), the institutional framework is made up of both formal and informal constraints around individual and organizational behavior. Formal constraints include political (and judicial) rules, economic rules, and contracts. Informal constraints, on the other hand, include codes of conduct, norms of behavior, and convention. Studies find in situations where formal constraints fail, informal constraints will come into play (e.g., Scott 1987).

Researchers point out that firms are embedded in institutional contexts and may not have the same values for all firms. A hallmark of transition economies is the coexistence of state-owned and non-state-owned firms, which differ in their behaviors and performance (e.g., Peng and Luo 2000). Researchers propose two kinds of relationship ties, namely relationships with government and relationship with other firms (Peng and Luo 2000). They advocate that SOEs and non-SOEs have different initial relationships and thus their incentives to further build the relationship is different (Table 1). SOEs naturally have legitimacy and receive support or even protection from the government agencies that have founded them. In contrast, non-SOEs initially suffer from a lack of legitimacy as new organizations (Aldrich and Fiol 1994), and they are in a relatively weak position in the institutional environment (Nee 1992). Thus, top executives at non-SOEs may have a stronger urge to improve their relationship to compensate for their liability of newness.

		SOEs	Non-SOEs
Informal Constraints	Incentives to build the relationships with government officials	Low	High
	Incentives to build the relationships with other firms	Medium	High
Formal Constraints	Level of institutional support	Strong	Weak
	Confidence on formal contracts	Strong	Low

Table 1. Institutional Influences on SOEs and Non-SOEs (Adopted from Peng and Luo 2000)

As contractual governance relies on the legitimacy to take effect, non-SOEs will not expect too much on the contracts to provide protection. Managers in these firms have more incentives to build relationships as a substitute for their weak institutional support (e.g., Xin and Pearce 1996). SOEs firms have easier access to government support, and they will have more confidence on the formal contracts. We propose that:

H1: The positive relationship between contractual governance and outsourcing success will be stronger in SOEs than in non-SOEs.

H2: The positive relationship between relational governance and outsourcing success will be stronger in non-SOEs than in SOEs.

We expect the same pattern will occur between governance mechanisms and relational continuity. According to above analysis, formal contracts specify the role and obligations of both parties, which could be served as a basis for future collaboration. We also learn that SOEs, compared to non-SOEs, have advantages in fulfilling the effectiveness of formal contracts. The advantages may lead to higher future collaboration expectation. Similarly, non-SOEs have more incentives to seek relational mechanisms to counteract the weak formal constraints in the institutional environment, which will lead them to higher relational continuity expectation. Therefore, we propose that:

H3: The positive relationship between contractual governance and relational continuity will be stronger in SOEs than in non-SOEs.

H4: The positive relationship between relational governance and relational continuity will be stronger in non-SOEs than in SOEs.

We predict that the relationship between outsourcing success and relational continuity expectation will also be different according to the ownership types. Non-SOEs are found to have strong incentives to improve interpersonal connections to compensate for their liability of newness. Top managers at these firms may have a strong urge to search for better performance, and their incentive structures tend to link with performance better. They may not easily give up a cooperative relationship, especially a successful one. On the other hand, top executives at SOEs, which may still likely to be appointed by the state, may be less constrained by budgets, and their incentive structures are not directly aligned with performance (e.g., Peng and Luo 1998). Therefore, we proposed that the performance driven attitude of non-SOEs will lead to a stronger relationship between outsourcing success and relational continuity than the SOEs.

H5: The positive relationship between outsourcing success and relational continuity will be stronger in non-SOEs than in SOEs.

2.4 Control variables

We examined several control variables that could influence outsourcing success and relational continuity expectation. Two project characteristics that are often thought to influence outsourcing success, project type and project size was controlled. We also controlled three firm level characteristics that may affect relational continuity expectation: relationship age, firm size and industry.

3 RESEARCH METHODOLOGY

3.1 Research Design

A survey method was chosen for this study to allow for easy replication and for the findings to be reconfirmed or disconfirmed. One questionnaire was designed for data collection. IS outsourcing project was used as the unit of analysis in this study. Followed previous studies in IS and strategic management studies (e.g., Koh and Ang and Straub 2004, Popper and Zenger 2002), participants in this study are required to be the top IT executives. Only in situations where multiple projects from a client firm were surveyed, project managers were assigned by top IT executives to fill in the questionnaires. If this is the case, we also asked top IT executives to make sure that no two projects are with the same vendor.

Due to the difficulty of deriving probability samples of that are representative for all of China (Roy et al. 2001), we collected data in three areas: Shandong Province, Sichuan Province and Shanghai. We collaborated with three universities in the three areas for data collection. Colleagues and students in the three universities helped to distribute questionnaires to the local firms with IS outsourcing experiences. Around 150 questionnaires are distributed in each area. 178 questionnaires are collected, the response rate is around 39.6%. Among them, 126 are usable. The 126 outsourcing projects are from 109 firms. The demography of the sample is shown in Table 2. Industry and firm size are based on firms, relationship age and project amount are based on outsourcing projects. There are 60 SOEs (72 projects) and 49 non-SOEs (54 projects).

Industry	Percentage	Relationship Age (months)	Percentage
Banking	3.2	<12	19.0
Manufacturing	19.8	12-24	19.8
Service	40.4	24-60	49.2
Others	36.5	>60	11.9
Firm Size (Employees)	Percentage	AMOUNT (1000 US$)	Percentage
<100	13.5	<10	62.8
100-500	42.1	10-100	31.9
500-1000	12.7	>100	5.3
>1000	31.7		

Table 2. Demography data of the sample

One of the potential sources of bias that needs to be properly addressed in survey studies is non-response bias (Fowler 1993). Early and late respondents were compared to evaluate this potential bias. Early respondents were defined as those who had completed and returned the questionnaire within the initial three-week period, while late respondents were defined as those who returned the questionnaire after this period. Around 49.2% (62 out of 126) of the responses were from early respondents. Four demographic characteristics (number of employees, firm ownership property, and relationship age and project amount) were used to verify the non-response bias. No significant differences were found at the 1% level. Therefore, it was decided that non-response bias would not be a problem.

3.2 Measures

Multi-item scales were used to operationalize the variables except for the control variables. We obtained these items largely from past research, fine tuning some of them to suit this study's context. All perceptual items were measured by seven-point Likert scales ranging from 'strongly disagree' to 'strongly agree'. Sample measurements and the references of our main constructs are listed in Table 3.

Constructs	Items	Sample Measurements	Reference
Contractual Governance	3	Our relationship with the vendor is governed primarily by rules and regulations of contracts. We have formal agreements that detail the obligations of both parties. We would find satisfactory solution to disagreement, whether it is based on agreement or not. (R)[a]	Cannon et al. (2000); Ferguson et al. (2005).
Relational Governance	3	We have an extremely collaborative relationship with the vendor. We share long- and short-term goals and plans with the vendor. We can rely on the vendor to keep promises.	(Poppo and Zenger 2002).
Outsourcing Success	9	We have …been able to refocus on core business. …enhanced economies of scale in human resources. ... reduced the risk of technological obsolescence.	Grover et al. (1996); Lee and Kim (1999).
Expectation of Relational Continuity	3	Our relationship with the vendor will last far into future. We and the vendor expect to continue working with each other on a long-term basis. We and the vendor would welcome the possibility of additional collaboration in the future.	Jap (2001); Jap and Anderson (2003).

[a] (R) Item is reversely coded.

Table 3. Constructs Measurements.

All five control variables use single-item measures. Followed Koh et al. (2004), only two types of outsourcing project were classified (0=non-systems-development projects, 1= systems-development projects). Project size was measured by the contract amount. Relationship age was measured by the number of months that the exchanging parties have been collaborated. The number of employees was used as the measure of firm size. Industry was measure using categories from 1-5 (1= Banking, 2= Manufacturing, 3= Service, 4= others).

4   DATA ANALYSIS AND RESULTS

Because of our sample size and the number of parameters estimated, we use procedures recommended by Gainey and Klaas (2003) to reduce the number of parameters in our overall measurement model. Since outsourcing success has nine indicators, we followed Williams and Anderson (1994) and created single-item indicators for the three aspects (strategic, economic and technological benefits) of outsourcing success. This process allowed us to use all of the survey items in each measure, but to also restrict the indicator variables to a reasonable number.

We used partial least squares (PLS) to analyze the data. Frequently used in MIS research, PLS uses a nonparametric approach to evaluate relationships within, and variance explained by, a structural equation model (e.g., Gefen and Straub and Marie-Claude 2000). PLS is particularly useful for our study because it is robust to relatively small sample sizes and non-normal distribution of the data (Chin 1998).

Since all data were perceptual and collected from a single source at the same time, we realized that common method bias might be a threat to the validity of our research. To test the possible common method bias, we used the Harman's one-factor test on the questionnaire measurement items (Podsakoff and Organ 1986). The resulting principal components factor analysis yielded multiple factors with eigenvalues greater than 1.0 and the first factor accounts for 30.9% the total variance. We also followed the recommendation of Padsakoff, MacKenzie, Lee and Podsakoff (2003) and the procedure used by Liang, Saraf, Hu and Xin (2007), we added a common method factor to the PLS model. The indicators of all constructs were associated reflectively with method factor. Then, we calculated each indicator's variance explained by the principle constructs and by the method factor. The results demonstrate that the average substantively explained variance for the indicators is 0.64, while the

common method variance is only 0.027. The above evidence suggests that the common method bias is not a significant issue in this study.

4.1 The measurement model

The measurement model was assessed separately for each subgroup. All constructs in the model of two groups satisfied requirements for reliability (composite reliability greater than .70) and discriminant validity (average variance extracted greater than .50). We also examined the discriminant and convergent validity of each indicator (Chin 1998). In Table 4, the diagonal elements represent the square root of AVE, providing a measure of the variance shared between a construct and its indicators. A rule for assessing discriminant validity requires that the square root of AVE be larger than the correlations between constructs; that is, the off-diagonal elements (Barclay and Thompson and Higgins 1995). All constructs in the current study also met the requirements. Thus, the constructs in the model displayed adequate discriminant validity.

Subgourp and Construct	Composite Reliability	Correlations of Constructs[a]			
SOEs		1	2	3	4
1. Contractual Governance	0.885	**0.849**			
2. Relational Governance	0.939	0.569	**0.914**		
3. Outsourcing Success[b]	0.923	0.594	0.655	**0.866**	
4. Relational Continuity Expectation	0.931	0.568	0.723	0.542	**0.933**
Non-SOEs		1	2	3	4
1. Contractual Governance	0.903	**0.870**			
2. Relational Governance	0.901	0.574	**0.867**		
3. Outsourcing Success[b]	0.922	0.41	0.701	**0.865**	
4. Relational Continuity Expectation	0.935	0.562	0.681	0.699	**0.936**

[a] Diagonal elements in the "correlation of constructs" matrix are the square root of AVE.

[b] For measurements of outsourcing success, the three-item scale after indicator reduction procedures was used.

Table 4. Composite Reliability, Inter-correlations and AVEs.

Further, there were several inter-construct correlations in Table 4 that were over the 0.60 criteria. This indicated that multicollinearity may be a potential problem for this research. Generally, the common rule of thumb for the presence of multicollinearity is that variance inflation factors (VIFs) are higher than 10 or Tolerance values are less than 0.1 (Mason and Perreault 1991). Our results show that the highest VIF was 1.87, and that the lowest tolerance value was 0.58. Thus, multicollinearity did not appear to be a significant problem for our dataset.

4.2 The structural model

The structural models were tested for both SOE and non-SOE groups. Bootstrap analyses were performed with 500 subsamples, with sample sizes set equal to the sample sizes (n=72/n=54). Figure 1 shows the standardized path coefficients and the explained constructs variances. To test our hypothesis associated with different ownership firms, we compared the coefficients of individual paths between the two structural models. It is necessary to first assess whether the latent variables were perceived in a similar fashion between SOE and Non-SOE groups (Carte and Ressel 2003). We applied multigroup measurement invariance analysis (e.g., Steenkamp and Baumgartner 1998).

We performed configural and metric invariance analyses to evaluate the measurement invariance across SOE and Non-SOE groups using AMOS 7.0. Due to our sample size and model complexity

constraints, we used the three indicator measurements for the constructs of outsourcing success. Configural invariance analysis revealed the pattern of item loadings to be congeneric across the two groups. The change in CFI between two nested (configural and metric) models is 0.007, which is below than the threshold of 0.01(Cheung and Rensvold 2002), providing support for the metric invariance. In sum, the measurement invariance is supported in our study.

Thus, hypotheses on the group differences (H1-H5) could be tested by statistically comparing corresponding path coefficients in the structural models. This comparison was carried out followed Chin et al. (1996) and Keil et al. (2000)'s procedure[+]. T-statistics was calculated to evaluate the differences in path coefficients across models.

Results show that the effectiveness of governance mechanisms on outsourcing success and relational outcome are significantly different among SOE and non-SOEs firms in three out of the five comparisons, three out of the five hypotheses are supported (Table 5). Contractual governance is significantly related to outsourcing success in SOEs, while in non-SOEs the relationship is nonsignificant. The result confirms the Hypothesis 1, indicating SOEs have more confidence in the formal contracts than non-SOEs. Relational governance is significantly linked to outsourcing success in both groups, even though the non-SOEs group has stronger impact. The difference is marginally significant. Therefore, Hypothesis 2 is supported.

Both governance mechanisms have significant relationships with relational continuity in both SOEs and non-SOEs. Contrary to our expected, the relationships between the two mechanisms and relational continuity are not influenced by the firm ownership types. Thus, Hypothesis 3 and 4 are not supported.

We found that outsourcing success will lead to expectation of future collaboration in non-SOEs but not in SOEs. The results identify a significant different relationship between outsourcing success and relational continuity in SOE and non-SOE groups, indicating the support of Hypothesis 5.

We also found two significant control variables in non-SOE groups. Project type is significantly related to outsourcing success, and industry is significantly linked to relational continuity. While in SOE group, relationship age is found to relate to relational continuity. Non-significant control variables (project size and firm size) are not shown in Figure 1.

Hypothesis and Path	SOEs	Non-SOEs	T-stat	Hypothesis Supported or Not
H1: CG → OS	0.358(0.102)*	0.004(0.097) N.S.	2.192*	Supported
H2: RG → OS	0.458(0.113)***	0.711(0.108)***	- 1.598[+]	Supported
H3: CG → RC	0.179(0.115)*	0.273(0.132) *	- 0.540 (N.S.)	Not Supported
H4: RG → RC	0.609(0.100)***	0.601(0.112)***	0.053 (N.S.)	Not Supported
H5: OS → RC	0.007(0.186)N.S.	0.522(0.115) ***	-2.189	Supported

Path coefficient is significant at: [+]$p<0.1$, *$p<0.05$, **$p<0.01$, ***$p<0.001$; N.S.: Path coefficient (or comparison) is not significant.

a. CG=contractual governance; RG=relational governance; OS=outsourcing success; RC=relational continuity.

b. One-tailed tests were performed as the direction difference was hypothesized.

Table 5. Path Comparison.

[+] The equation is : $t= (PC1 – PC2) / \{sqrt [(N1 – 1) / (N1 + N2 +2) \cdot SE12 + (N2 – 1) / (N1 + N2 +2) \cdot SE22] \cdot sqrt(1/N1+ 1/N2)\}$, where T = t-statistic with N1 + N2 +2 degrees of freedom, Ni = sample size of dataset for SOE or Non-SOE group, SEi = standard error of path in structural model for SOE or Non-SOE group, PCi = path coefficient in structural model for SOE or Non-SOE group.
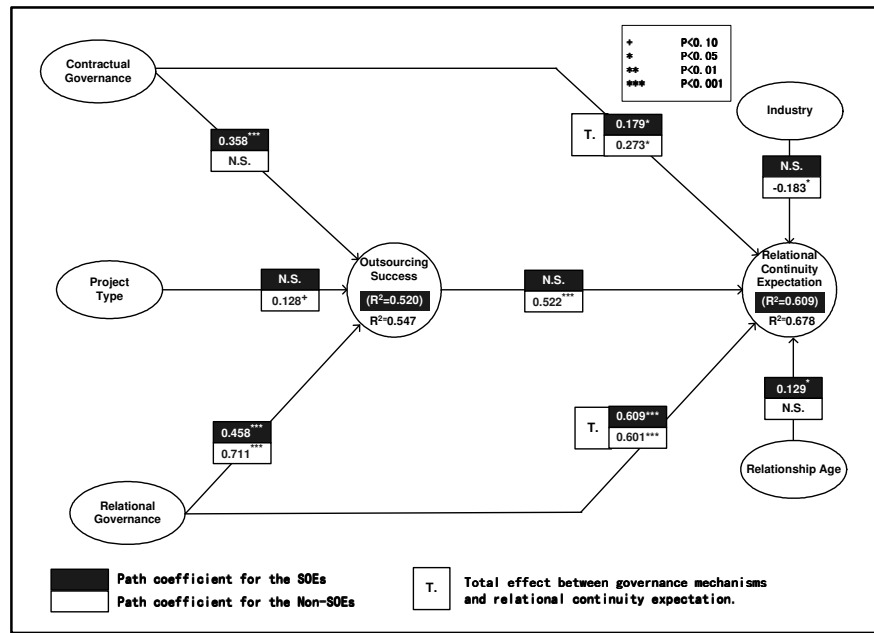
Figure 1. The structural model

5 DISCUSSION AND CONCLUSION

5.1 Summary

This study confirms the import influence of institutional contexts on the firm behaviour. It is shown that the effectiveness of governance mechanisms on outsourcing success will change with the type of the ownership. SOEs firms, which are closely connected with government, have relatively more institutional support and confidences in the contracts they signed. On the other hand, non-SOEs have to rely on relational governance as a substitute for the weak institutional supports.

The contingent relationship between outsourcing success and relational continuity expectation can also be attributed to the characteristics of transition economies. We found that the success of outsourcing projects in non-SOEs will lead to a better chance of future collaboration than that of SOEs. The results are consistent with previous studies that non-SOEs are more performance driven than SOEs. Another plausible reason could be that SOEs, as the more established firms, may have more collaborative relationships than the non-SOEs, which may reduce their dependence on current relationships.

On the contrary, the relationships between the two mechanisms and relational continuity are not influenced by the firm ownership types. There will be several possible explanations. Firstly, it may because that the expectation of future continuity is not a performance outcome. This may indicate that the influence of institutional contexts may be more salient in moderating the relationships with firm performance or behaviour. Secondly, it may because the effectiveness of the governance mechanisms on performance is different with that on expectation. For example, the contract has no effect on the non-SOEs' outsourcing outcome, but significantly influence their expectation, this reduce the differences between the SOEs and non-SOEs.

5.2 Implications for theory and practice

The findings of this study have several contributions to our knowledge of governance mechanisms in outsourcing relationships in transition economies.

Firstly, while governance mechanisms' role in client-vendor relationships has long been highlighted in the literature, most previous studies have focused on firms in the western countries with mature market economies. Literature fails to provide evidence on how to govern the outsourcing relationships in transition economies. This study contributes to this line of research by empirically demonstrate how and under what conditions the governance mechanisms are linked with the outsourcing success and the relational continuity. The findings are in line with previous studies that stress both the mechanisms are important in enhancing the relationship performance and the commitment.

Secondly, the findings can contribute to the literature on firms in transition economies. So far, most studies in this area have focused on managerial ties (e.g., Xin and Pearce 1996) or political networking (Li and Zhang 2007), which are on the perspective of informal constrains. However, we have adopted a boarder view by examining both formal and informal constraints in transition economies in this study. It is found that the type of the firm ownership will be a moderator of the effectiveness of the contractual governance which is a kind of formal constraints. This study may provide evidences on the solidness and completeness of institutional theory.

Thirdly, the findings of the present study provide evidences on explaining the controversial observations of the effects of governance mechanisms. For example, previous studies have controversial conclusion on the mechanisms of contractual governance towards relationship performance. Some researchers proposed that formal contracts are rather unimportant in the exchange agreements (Larson 1992) or even 'get in the way of creating good exchange relationships between business units.' (Macaulay 1963: 64). While others held that a well negotiated contract can reduce risk and uncertainty and serve as a foundation for a successful relationship (e.g., Cannon et al. 2000). One possible explanation could lie in the various contingency contexts: researches which identify the effectiveness of formal contracts on opportunism and relational outcome could be different with the change of uncertainty (Carson and Madhok and Wu 2006), and the legal environment hostility (Cavusgil and Deligonul and Zhang 2004). The study added to the literature by indicating that the types of ownership could also be a contingency variable that moderates the relationship between governance mechanisms and outsourcing performance.

Finally, this study extends previous knowledge of success on a continued basis by examining outsourcing relationship in the transition economies. The study shows that the success of current projects will not always lead to the continuity of future relationship. Previous studies argued that loyalty is caused by a combination of satisfaction and switching barriers. This study identifies that there may be other factors that can affect the future relational continuity. The study finds that for firms that are not performance driven, the success of current projects may not necessarily lead to future collaboration.

The study has also provided implications for practice. It is confirmed in this study that both contractual and relational governance are important mechanisms for enhancing success and future collaboration. Managers should pay attention to both mechanisms to achieve success and develop cooperative relationships. The Study suggested that SOEs may have different relationship management strategies compared to non-SOEs. It has been pointed out that when cooperate with SOEs, IT vendors should be aware that only maintaining Guan Xi is not enough. Standardized and formal procedures will be necessary. On the other hand, for non-SOEs, contractual governance should be neglected. Since even it is not effective on enhancing project performance, it will be beneficial to future relationship development. Last but not least, in the transition economies, relationship is always important for all firms.

6 LIMITATIONS AND FUTURE RESEARCH

This study has several limitations: (1) as a group comparison study, the sample size of this study was small. Due to the difficulty of data collection in China, only three areas were chosen in the sample framework. Future studies that incorporate a broader and larger sampling frame may provide

additional validity and empirical support for the theoretical studies in this area. (2) Relational continuity expectation is not a performance outcome, and the study is cross sectional. This limitation determinates that we could not explain if the governance mechanisms will have different impacts on the short-term and the long-term outcomes, which can be an interesting research topic. Future research which adopts long-term relationship performance of longitudinal studies will be beneficial.

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