Offshore Outsourcing Success : An Integrated Framework

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Abstract

As the digital economy goes global, firms are trying to find suppliers that can address their managerial goals and strategies. The alternatives are not confined to domestic firms. Firms have been trying to connect to foreign partners worldwide. Although offshore outsourcing grants firms various benefits, they present big cultural challenges. However, there is little research on the impact of cultural or country factors on outsourcing. The goal of this paper is to synthesize the outsourcing success literature and develop propositions for outsourcing success in the context of offshore outsourcing. This paper proposes that cultural effects should be included in evaluating the success of offshore outsourcing. Knowledge sharing and the scope of outsourcing are adopted in the base outsourcing success model from previous literature. In the extended model partnership quality is included as a mediator and organizational capability and outsourcing relationship type are also included as moderator. Finally, the integrated framework of offshore outsourcing success includes cultural factors as moderators of the relationships between outsourcing success antecedents and the success of offshore outsourcing. Reasoning for propositions, managerial implications, and future research directions are discussed.

Keywords : Offshore Outsourcing, Cultural Factors, Success Model, Conceptual Model, Knowledge Sharing, Scope Of Outsourcing, Partnership Quality, Organizational Capability, Outsourcing Relationship Type

1. Introduction and Motivation

When Eastman Kodak turned over the bulk of its information technology (IT) operations to three outsourcing partners in 1989, outsourcing was a $4 billion a year business [Lacity et al., 1996]. According to Forrester Research, at least 3.3 million white-collar jobs and $136 billion in wages are expected to shift overseas by 2015 [Ferguson et al., 2004]. Another report estimates nearly 1 million IT-related jobs will move offshore in the next 15 years. The trends confirms that IT outsourcing has become so pervasive that it can no longer be ignored.

Outsourcing is defined as "the contracting of various information systems functions such as managing of data centers, operations, hardware support, software maintenance, network, and even application development to outside service providers [Chaudhury et al., 1995]." IT outsourcing is the practice of contracting out or selling the organization's IT assets, people and/or activities to a third party supplier for monetary payments over an agreed time period [Gurbaxani, 1996; Hirschheim and Lacity, 2000; Lacity and Hirschheim, 1993; Loh and Venkatraman, 1992]. The first motivation for IT outsourcing is the production cost advantages offered by vendors [Ang and Straub, 1998].

Offshore outsourcing is the transference of an IT function, from a client company to a supplier organization located outside the borders of the client company's country [Jennex and Adelakun, 2003]. According to Gartner Group, 40% of the companies currently have moved at least part of the services provided by their IT departments offshore [King, 2003; Ribeiro, 2005; Vijayan, 2003].

The increasing prevalence of offshore outsourcing becomes a major trend in IT industry [Carmel and Agarwal, 2002; Koh et al., 2004]. Better connectivity, the availability of high quality staff, and much lower costs in other countries are shifting sourcing markets and expanding sourcing possibilities for companies [Smith and McKeen, 2004].

Management decisions regarding IT offshore outsourcing have major impacts on companies, their IT departments and IT professionals. The re-location of IT jobs to countries such as India and China has become a concern as offshore outsourcing continues to ramp up [Pawlowski and Nenov, 2004]. Moreover an increase in the pace of technological change increases outsourcing because it allows firms to use services based on leading edge technologies without incurring the sunk costs of adopting these new technologies. In addition, firms using more IT-intensive technologies face lower outsourcing costs of IT-based services generating a positive correlation between the IT level of the user and its outsourcing share of IT-based services [Bartel, Lach, and Sicherman, 2005].

These developments in the outsourcing arena have created the need to shed more light on the phenomenon of offshore outsourcing success. The goal of this paper is, thus, to develop an integrated model of offshore outsourcing success that combines both the outsourcing success models from prior literature as well as the factors that are directly relevant to offshore outsourcing and capture differences between outsourcing and offshore outsourcing. In the following sections, we first discuss the theoretical foundations of the outsourcing success constructs

and then develop and discuss an integrated model of offshore outsourcing success. We conclude the paper with a discussion of the contributions of this paper and some future research directions.

2. Theoretical Foundations

Since offshore outsourcing is a special case of outsourcing, its success factors can be drawn from results of outsourcing literature. This paper categorizes the previous literature on outsourcing into outsourcing success models and outsourcing relationship models in order to develop an integrated model of offshore outsourcing success. These two research areas have already developed important findings that are useful for research on offshore outsourcing. Nevertheless, the success factor of offshore outsourcing should include additional aspects as cultural factors come to play an important role in outsourcing relationships. In this paper, we include cultural factors in an integrated model of offshore outsourcing success. Thus, this study synthesizes literature in three research areas : outsourcing success models, outsourcing relationship models, and cultural factors in order to propose a comprehensive model that explains the offshore outsourcing success.

2.1 Outsourcing Success Models

Most previous outsourcing literature mainly focused on the contribution of factors to outsourcing success. The scope of outsourcing of two functions, such as system operations and telecommunications is related to outsourcing success. Both service quality of the vendor and elements of partnership such as trust, cooperation, and communication are important for outsourcing success [Grover et al., 1996]. Partnership quality is found to be positively influenced by factors such as participation, communications, information sharing, and top management support, and is negatively affected by age of relationship and mutual dependency. It is recommended that participants strengthen outsourcing partnership by increasing participation toward a cooperative relationship, strengthening communication, sharing information, and building participants' confidence [Lee and Kim, 1999].

Knowledge sharing is also a critical factor. The higher the degree of knowledge sharing, the greater the accomplishment of the strategic, economic, and technological benefits of IS outsourcing [Lee, 2001]. Partnership quality significantly reduces the relationship strength between knowledge sharing and outsourcing success. The quality of the supporting tools and application software is another important factor for successful outsourcing [Tas and Sunder, 2004.

Factor related to management and governance ensures that the successful transitioning and operation of business processes offshore. The maturity of e-commerce assets that are the focus of a sourcing decision plays any role in sourcing decision. When the strategic intent of an e-commerce project is more business focused during the growth phase, hybrid governance, such as minority equity arrangements, is preferred over hierarchical governance for sourcing of e-commerce assets. Hierarchical governance is preferred during the growth phase, when task complexity is high [Kishore et al., 2004-5].

⟨Table 1⟩ Outsourcing Success Models

Citation	Success factors	Methodology	Results	Implications
Grover et al. [1996]	Scope of outsourcing; Service quality; Partnership	Empirical testing (base/moderator/ mediator models)	System operations, telecommunications, service quality, partnership are success factors	Need to examine outsourcing components; Vendors enhance the chance of success by increasing service quality
Lee and Kim [1999]	Partnership quality	Factor analysis; Regression	Partnership quality influence outsourcing success	Cooperative relationship, communication, information sharing, confidence
Lee [2001]	Knowledge sharing; Organizational capability; Partnership quality	Empirical testing (base/moderator/ mediator models)	Knowledge sharing is a success factor; No moderating effect of organizational capability; Mediating effect of partnership quality	Knowledge sharing and partnership quality are success factors on IS outsourcing
Levina and Ross [2003]	Vendor's competence and complementarity	Case study	Actual benefit will depend on the vendor's competencies and their complementarities.	Vendors must recognize the competencies that constitute a compelling value proposition.
Tas and Sunder [2004]	Financial services outsourcing	Case study; Descriptive	Quality of supporting tools and application software; Management and governance	Early adopters and proactive managers will potentially benefit
Kishore et al. [2004]	Asset maturity : growth vs. mature market	Content analysis	Growth phase : high task complexity, hybrid governance preferred: Mature phase : hierarchical or hybrid governance preferred	Manager should consider governance mode of e-commerce projects in the view of market maturity and task complexity.
Mirani [2007]	Interdependence between onshore and offshore teams	Case study	Under conditions of high task interdependence and complexity, communication mechanism plays the critical role	Mutual adjustment and communication alleviate problems significantly.
Miranda and Kim [2006]	Moderation effect of institutional context	Hierarchical regression	Institutional effects moderate the effect of human frailty conditions and of frequency more than fundamental situational conditions. Institutional effects moderate the effect of transaction frequency on outsourcing.	Institutional contexts underlying decision making can explain boundary decisions. The effects of human frailty conditions and of transaction frequency are contingent on the institutional context.

Successful offshore outsourcing can be ensured when the project is large enough to amortize the fixed costs, that requirements and design are clear and succinct, and there is frequent and effective communication [Ferguson et al., 2004]. Integrative communication mechanisms play the critical role in binding globally dispersed teams. Under conditions of high task interdependence and complexity, such teams can only be effective if their communication mechanisms keep up, both in terms of interactions as well as their richness and level of decision processes [Mirani, 2007]. The institutional context is more important in moderating the effects of human frailty conditions (i.e., opportunism and bounded rationality) and of frequency, than of fundamental situational conditions (i.e., asset specificity and uncertainty). The institutional context also significantly moderated the effect of transaction frequency on outsourcing [Miranda and Kim, 2006].

This past research on outsourcing drivers and success makes important contributions and provides important ideas for developing an offshore outsourcing success model, developed later in this paper.

2.2 Outsourcing Relationship Models

Outsourcing relationships between clients and vendors are diverse and complex. There are several dimensions that explain the outsourcing decision from the organizational, environmental, and economic perspectives. The extent of substitution by vendors and the strategic impact of IS applications can be two of them. Using those two dimensions, four types of outsourcing rela-

tionships, such as reliance, alliance, support, and alignment are proposed [Nam et al., 1996]. Incompleteness of contracts and IT organizational contexts and processes may be equally important for client firms' decisions to outsource. In order to continue the existing relationships, vendors should be trustworthy as well as technically competent.

Communication and coordination mechanisms in offshore development reduce project uncertainty and improve performance. Three project performance measures, such as effort, elapsed time, and rework are proposed [Gopal et al., 2002]. Using the performance measures, it is discovered that as rework increases, both elapsed time and project effort increase, that elapsed time increase with total effort, and that quality processes and technical processes affect all three performance measures.

Selecting the right IT supplier on the right terms is an ongoing challenge. The difficulty frequently lies in choosing the evaluation criteria that satisfy the client organization's objectives for outsourcing in the first place. Strategic intent and technical ability can be criteria to select the right suppliers [Kern et al., 2002]. There is no consistent understanding of the actual operational characteristics of these IT outsourcing relationships. The interaction approach can be a guiding conceptual framework to describing dyadic client-supplier relationships [Kern and Willcocks, 2002], and provides a comprehensive, consistent, holistic set of constructs to guide analysis.

Competencies and monitoring mechanisms required for effective management classify client-vendor relationships into four types [Kishore et

al., 2003]. The movement of client-vendor relationships shows the changes of relationship between clients and vendors. Firms should consider the costs and difficulties in moving from one type to another, while determining the direction of movement, that firms can consider multiple movements from one type to other types in the matrix through selective outsourcing, and that outsourcing should be considered more as a management of relationship with service providers rather than as a simple subcontract for IS commodities. In addition, firms must have a clear plan for their future movement within the four outsourcing relationship types.

IT vendors have the opportunity to develop a set of core competencies that generate significant benefits and are established through their complementarities. This does not mean that firms necessarily will generate benefits from outsourcing. Actual benefits will depend on the ability of the firm making sourcing decisions to determine the consistency between its own needs and the competencies available in the market place, the selection of the vendor and management of the relationship, and the vendor's competencies and their complementarities [Levina and Ross, 2003].

With telecommunications and technology-intensive platforms for sharing data and for prompting the actions of the vendor's personnel, many operational risks are reduced. Recent changes in telecommunications and other forms of technology have improved the risk side of the risk-reward trade-off associated with outsourcing, and this reduction in risk is the principal driver behind the increase in offshore business process outsourcing [Aron, Clemons, and Reddi, 2005].

The optimal distribution of software intellectual property rights is dependent on the environment such as ownership structure and cannibalization [Walden, 2005].

The above studies also provide important findings and insights that are relevant to offshore outsourcing success and are used to develop the outsourcing success model discussed later.

2.3 Cultural Factors

Although many of the issues and managerial problems associated with offshore outsourcing are similar to those of outsourcing, there are subtle differences between them. Offshore outsourcing usually involves higher complexity due to the need to control the project remotely and to interact cross-culturally [Carmel and Agarwal, 2002; Koh et al., 2004]. Culture is a construct that is inferable from verbal statements and other behaviors and is useful in predicting other verbal and nonverbal behaviors. The role of culture in human development is to transfer ideals and norms to new generations [Rokeach, 1973]. National culture is the collective mindset that distinguishes members of one nation from another [Hofstede, 1980]. According to Fishbein and Ajzen's *Theory of Reasoned Action* [Fishbein and Ajzen, 1975], a person's specific behavior is determined by his or her intention to perform a behavior, and behavioral intention is jointly determined by a person's attitude and norm concerning the behavior in question. The notion of culture is considered as one of the most influential factors contributing to the formation of individual and social norms in regions across the globe.

⟨Table 2⟩ Outsourcing Relationship Models

Citation	Research topic	Methodology	Results	Implications
Nam et al. [1996]	Outsourcing relationships between clients and vendors	Factor analysis; Regression; Logistic regression	Two dimensions(extent of substitution; strategic impact) and four types(reliance, alliance, support, and alignment)	Incompleteness of contracts and IT organizational contexts and processes; Trustworthy and technically competent
Kern et al. [2002]	Winner's curse in IT outsourcing	Reasoning; Case	Strategic intent and capability in IT outsourcing identifying relationships	Relational trauma can similar occur in new configurations
Gopal et al. [2002]	Role of software processes and communication in offshore software development	Seemingly unrelated regression(SUR)	Triangular relationship between effort, elapsed time, and rework	Assess the impact of software processes on three performance measures : effort, rework, and elapsed time
Kern et al. [2002]	Approach to IT outsourcing relationship	Case study	Propose Interaction approach	Provide a comprehensive, consistent constructs
Kishore et al. [2003]	Relationship on IT outsourcing	Case study	Two dimensions; Four types; Three types of movements	Better understanding dynamic outsourcing relationships
Levina and Ross [2003]	Vendor's competence and complementarity	Case study	Actual benefit will depend on the selection of the vendor and management of the relationship.	Clients give their vendors some freedom to apply their competencies for effective outsourcing.
Koh et al. [2004]]	Customer-supplier relationship	Interviews, content analysis and a field study	Customer-supplier obligations in IT outsourcing relationship	IT outsourcing relationship from a psychological contract perspective
Aron et al. [2005]	Managing risk in IT outsourcing	Conceptual framework; case study	Strategic chunkification : redesigning work flows, dividing work among multiple vendors, and increasing the range of tasks	Strategic chunkification would guide correct decision on outsourcing.
Walden[2002]	Intellectual property rights in IT outsourcing contracts	Analytical modeling	Environmental factors, such as ownership structures and cannibalization can lead to the optimal contracts of IT outsourcing differently.	The best contractual structure depends on the environment on IT outsourcing.

Individualism-collectivism as one dipolar dimension is a cultural dimension emerging in many cross-cultural studies. An individualistic culture is one where ties between people are weak and their understanding of self is independently derived from what others think. In contrast, a collectivistic culture consists of strong cohesive groups and the concept of the self is related to the reactions of others around them [Earley, 1994]. Individualism and collectivism have been used to explain why groups in some countries are more willing to adhere to group norms than groups in other countries. Since group norms make it possible to the majority to exercise normative influence on the minority during decision making, individualism/collectivism is considered a substantial factor in the development of the group gestalt. Members of collectivist cultures tend to show great concern for the welfare of members of their own in-group but relative indifference to the needs of outsiders [Schwartz and Bilsky, 1990]. Shin et al. [2004] used cultural factors for their research on software piracy from this theory. These studies are also used to develop the proposed model of offshore outsourcing success, discussed next.

3. An Integrated Model of Offshore Outsourcing Success

This study proposes an integrated model of offshore outsourcing success as illustrated in <Figure 1> and discuss the individual relationships in the following paragraphs.

In this integrated model, two offshore outsourcing success antecedents are considered: knowledge sharing and scope of outsourcing.

Knowledge sharing has been shown to be a success factor in outsourcing [Lee, 2001]. Part-
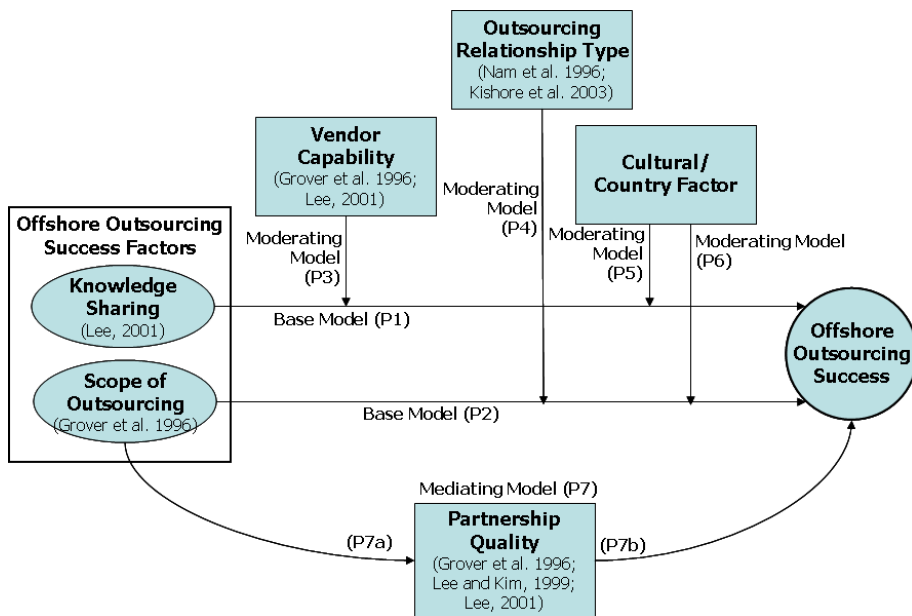
<Figure 1> An Integrated Model of Offshore Outsourcing Success

nerships can create a competitive advantage through the strategic sharing of organizations' key information and knowledge [Konsynski and McFarlan, 1990]. Closer relationships result from more frequent and more relevant information and knowledge exchanges among high performance partners [Lam, 1997]. By sharing knowledge between the service receiver and provider, they are able to sustain a more effective outsourcing relationship over time [Lee, 2001]. This relationship can also be also adopted for offshore outsourcing. Explicit and implicit knowledge are considered except for tacit knowledge, because tacit knowledge is hard to formalize and communicate [Lee, 2001].

In a case of Biotech, a Fortune 500 company, before committing to one supplier, Biotech would have two of the large Indian suppliers do small pieces of the conversion. Biotech experienced much better project leadership from one of the suppliers in terms of onsite coordination, project status reporting, technical fit with Biotech, and superior daily communications. Biotech selected this supplier to complete the entire conversion. Three months later, when Biotech went live with SAP, the Indian supplier was granted an ongoing maintenance contract. The overall project was rated a great success [Rottman and Lacity, 2004].

Thus, as seen in outsourcing literature, knowledge sharing is one of the critical factors on outsourcing success. Knowledge sharing assists suppliers to get much information on client companies, as the result, it helps in better understanding on the client's situation and its expectations on the project. It leads to result in better results from outsourcing project. In the case of offshore outsourcing, knowledge sharing plays the same role in success.

Proposition 1 : *The (implicit, explicit) knowledge sharing will have a positive effect on offshore outsourcing success.*

As indicated by Loh and Venkatraman [1992], outsourcing can no longer be considered as a simple dichotomous decision. The scope of outsourcing which can be measured by a continuous measure is a superior interpretation of the concept. IS functions have been classified into three categories : systems development, systems operations, and systems management [Borovits, 1984; Olson and Chervany, 1981; Tavakolian, 1989] Two functions, telecommunications and end-user support are considered as well [Grover, et al., 1996]. A measurement using these five functions is considered to measure the scope of outsourcing. That means that if outsourcing is undertaken with conscious economic, technological, or strategic considerations, the relationship between outsourcing and success will be positive and significant [Grover et al., 1996].

For example, Abz, an insurance company, was expected to provide more than standardized claims processing. It was expected to also host and manage individual insurer applications and data. This demand was certainly beyond the scope of Abz's in-house IT capabilities at the time. Even more troubling, the demand was beyond the capabilities of Abz's IT suppliers. Abz became increasingly frustrated with its service firms because they were not keeping Abz abreast of innovations or responding to customer demands

for full-service Internet applications and support [Kern et al., 2002].

The scope of outsourcing defines the boundaries of outsourcing project. Limited scope of outsourcing gains limited benefit from outsourcing just like reducing maintenance costs. When more functions are involved in the outsourcing project, management of client can have more alternatives to gain benefits from the outsourcing. The same rationale can be applied to the cases of offshore outsourcing.

Proposition 2 : *The scope of outsourcing(application development, systems operations, telecommunications and networks management, end-user support, and system planning and management) will have a positive effect on offshore outsourcing success.*

Organizational capability in knowledge sharing is dependent on the ability of an organization to acquire or create, integrate, and leverage knowledge. The service receiver's absorptive ability to recognize and assimilate the service provider's knowledge may lead to a successful outsourcing outcome, regardless of the degree of knowledge sharing between the service receiver and provider. Organizational capability is expected to influence the relationship between the degree of knowledge sharing and outsourcing success. While the degree of implicit and explicit knowledge sharing may or may not have a significant relationship with outsourcing success, the relationship would be stronger under a higher level of organizational capability [Lee, 2001].

For instance, Biotech initially assigned small,

eight-week pieces of work to two Indian suppliers, one large and one small. To further reduce risk, Biotech required delivery of milestones every two weeks. While the large Indian supplier performed well, the small supplier did not. The small supplier missed deadlines and failed to communicate the project status in a timely manner. Biotech selected the large Indian supplier to complete the system [Rottman and Lacity, 2004].

The vendor capability determines the coverage of an outsourcing. When a vendor has capability large enough to satisfy the client's demands and expectations, the outsourcing can get better performance. Nevertheless, vendor capability cannot influence the outsourcing success directly, because higher capability means only large potential. Vendor capability can affect the relationship between the direct influential factors between outsourcing success positively. Thus vendor capability has a moderation effect on the relationship between knowledge sharing and outsourcing success. For the offshore outsourcing the same relationship exits.

Proposition 3 : *The association between(implicit and explicit) knowledge sharing and offshore outsourcing success is moderated by the level of organizational capability.*

Nam et al. [1996] classify four outsourcing relationship types into reliance, support, alliance, and alignment using the extent of substitution by vendor's and the strategic impact of IS applications. The fitness of outsourcing type with the scope of outsourcing is critical. By the scope of outsourcing, the relationship type should

be adjusted, because it is necessary to have strong relationship between vendor and client, as the scope of outsourcing is larger.

It is evident that longer-term relationships were more successful than short-term relationships. Firms desiring cost efficiency in their outsourcing relationships may best be served by arm's-length relationships. Those wishing to derive strategic competence or technology catalysis may need to develop network-type relationships with their providers [Lee et al., 2004].

In a case involving Merrill Lynch, the relationship between Merrill and Thomson is tight and relational. Thomson employees and other contractors work onsite with Merrill employees under the guidance of a management team with members from both firms. Also in a case of Qatar Airways, relationship management focused on service control via the service level agreements (SLAs). The business processes were well documented and the means to train teams to resolve operational issues were well defined. So Qatar's oversight of the process could be arms' length.

In the case of an insurance company, the contract stated that the transferring staff's employment conditions would be no less than their conditions at the insurance company and they would be with the provider for at least two years. The two parties agreed on a plan to win the 'hearts and minds' of the staff before announcing the deal. The supplier would make presentations to the staff and conduct site visits at its operations center. These activities were so successful that all the staff transferred enthusiastically [Cullen et al., 2005].

Also in the case of Abz, it envisaged a solution

that would give it flexibility, a means to stay abreast of innovations, and access to new and ongoing application developments. But not all this could be achieved without significant capital investment in IT. Abz found the application service provision (ASP) business model to be a good fit with its requirements and finally Abz decided on an ASP-driven solution [Kern et al., 2002].

Thus the type of outsourcing relationship does not affect the outsourcing success directly, but influence it through the moderation effect on the relationship between the scope of outsourcing and the outsourcing success. That means that the fitness between the type of outsourcing relationship and the scope of outsourcing can affect the outsourcing success. This moderation effect by the type of outsourcing relationship can be applied to the case of offshore outsourcing.

Proposition 4 : *The association between scope of outsourcing (applications development and maintenance; systems operations; telecommunications and networks management; end-user support; and systems planning and management) and offshore outsourcing success is moderated by the type of outsourcing relationship.*

The critically different aspect between onshore outsourcing and offshore outsourcing is that the cultural or country factor should be included in the consideration of offshore outsourcing. Intrinsic cultural differences are one of the most commonly overlooked and misunderstood barriers to effective offshore outsourcing. Aside from the commonplace and more immediately understood challenges of language differences

and work schedules, cultural factors can be very subtle and insidious. There can be very different attitudes and approaches to work and work relationships in different countries and regions around the world [Noble, 2005; Overby, 2003].

One step to manage offshore outsourcing supplier is to go through an exhaustive due-diligence process and examine every possible contingency of the offshore deal and nail down all terms before an outsourcing contract is signed, and thus be absolutely certain that the different legal standards and cultural norms are understood [Foote, 2004]. The regulatory environment is becoming stricter in response to the growing risks faced by the offshore outsourcing [Logica CMG, 2004]. A.T. Kearney has published "Offshore Location Attractive Index" every year. The annual index is a tool to compare the factors that make countries attractive as potential locations for offshore services. It measures the viability of countries as offshore destinations based on their financial structure, people skills and availability, and business environment [ATKearney, 2004].

In the case of a financial company, the company would need to increase interaction with a supplier both onsite and offshore in order to make the commitment to outsourcing and to gain more value. The financial company's management determined that understanding the supplier's corporate and ethnic culture would improve team performance [Kaiser and Hawk, 2004]. In a success story of Infosys, one of key success factors is that the employees accept personal sacrifices to be part of the success of this global corporation of Infosys [Carmel, 2006].

Thus, it is essential to consider the cultural factors in the process of decision-making of offshore outsourcing. The cultural factors will moderate the relationship between influential factors on offshore outsourcing, such as knowledge sharing and the scope of outsourcing, and the success of offshore outsourcing.

Proposition 5 : *The association between(implicit and explicit) knowledge sharing and offshore outsourcing success is moderated by the cultural factor.*

Proposition 6 : *The association between scope of outsourcing(applications development and maintenance; systems operations; telecommunications and networks management; end-user support; and systems planning and management) and offshore outsourcing success is moderated by the cultural factor.*

Partnership quality is considered a critical success factor of IS outsourcing [Lee and Kim, 1999]. However, since the quality of the partnership is a process-oriented variable and not an outcome-oriented variable, they consider it as a mediating one [Lee, 2001]. That means that the partnership quality is an intervening variable between the degree of knowledge sharing and outsourcing success as well as between the scope of outsourcing and outsourcing success.

In the case of Merrill Lynch, it tested competing vendor capabilities before selecting Thomson Financial as its lead "partner." Thomson Financial coordinates a variety of sub-contractors, including Dell, HP, ATandT, and others [Mani et al., 2006]. In a state agency case, management

opted for a staged open tender rather than a direct closed tender, which had been the original plan. The winning bid ended up being from an organization it would not have invited. Management recognized the value of the SLA schedule in the contract and the need to develop KPIs (Key Performance Indicators) [Cullen et al., 2005]. In a case of BAE Systems, Xchanging, a supplier, proposed that BAE Systems and Xchanging form a fifty-fifty jointly owned enterprise. The enterprise would operate as a strategic business unit within Xchanging, giving Xchanging the responsibility and accountability for implementation and subsequent operations [Lacity et al., 2003].

As we have seen in the previous cases, partnership quality is a critical factor that influences the offshore outsourcing success. The relationship between vendor and client helps in identifying the problems regarding outsourcing project, discovering several alternatives they can choose, and making an appropriate decision on the current situation.

Also the relationship between vendor and client could be changed by the scope of outsourcing. As a project is related with the larger scope, the relationship between vendor and client is stronger. Thus, partnership quality plays a mediator between the scope of outsourcing and the offshore outsourcing success.

Proposition 7 : *The association between scope of outsourcing (applications development and maintenance; systems operations; telecommunications and networks management; end-user support; and systems planning and manage-*

ment) and offshore outsourcing success is mediated by the quality of the partnership.

Proposition 7a : *The scope of outsourcing (applications development and maintenance; systems operations; telecommunications and networks management; end-user support; and systems planning and management) has a positive impact on the partnership quality of offshore outsourcing.*

Proposition 7b : *The partnership quality of offshore outsourcing has a positive impact on the offshore outsourcing success.*

4. Contributions and Future Research Directions

As most industries which are related with IT globalizes, the market competition has been fierce. As the result, companies have tried to find better partners which can provide necessary functions in the world, not domestically. Thus, the success factors of offshore outsourcing should be considered in a way which includes the specific aspects the offshore outsourcing projects have.

This paper proposes a conceptual framework to explain the success of offshore outsourcing. The framework is based on the previous outsourcing literature and revised to add the perspective of offshore outsourcing, such as cultural factor.

The relationships between success factors have been re-scrutinized. In this framework, the knowledge sharing and the scope of outsourcing are proposed to have the main effects. Vendor

capabilities and outsourcing relationship type are proposed to have moderation effects on the relationship of knowledge sharing and scope of outsourcing to the offshore outsourcing success respectively. The cultural factors are proposed to have the moderation effects on the relationship of both knowledge sharing and scope of outsourcing to the offshore outsourcing success. Partnership quality is proposed to have a mediation effect on the relationship between the scope of outsourcing and the offshore outsourcing success.

The major contribution of this paper is the development of an integrated model of offshore outsourcing success based on a synthesis of extant literature in three research area: outsourcing success, outsourcing relationships, and cultural factors. Further, there has been little research about the moderating roles of vendor capability, outsourcing relationship type, and cultural factors. The mediation effect of partnership quality was still open area to explore. This paper sheds some new light on these relationships among success factors of offshore outsourcing.

The immediate future task will be to empirically test the research model developed in this paper and to examine the relative strength and significance of the various relationships in the proposed model. A significant challenge to this would be to measure the country effects. Some elaborated methodologies to operationalize the cultural effects construct in the context of offshore outsourcing are needed. Previous studies from sociology or psychology would be useful in this area. Finally, offshore outsourcing success will also depend upon the type, structure, length, and extensiveness of the contract between the vendor and the buyer as well as the governance mechanisms that the two parties utilize in managing their outsourcing project, and these constructs will also need to be included in the integrated framework in future studies.

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