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# Effects of Partnership Quality, Talent Management, and Global Mindset on Performance of Offshore IT Service Providers in India

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## ABSTRACT

This paper investigates the effects of partnership quality, talent management and global mindset on the performance of offshore service providers (OSPs) in the information technology sector in India. The findings show that partnership quality has partial and strong mediation effects on the impact of talent management and global mindset on performance of OSPs. We also find that talent management strongly mediates the effects of global mindset on partnership quality. Overall, the results confirm that global mindset, by itself, has limited direct influence on the performance of OSPs and that the full benefits of global mindset can only be enjoyed by OSPs which have well developed talent management and high quality partnerships with their clients. The implications and limitations of the study are also discussed.

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## 1. Introduction

Offshoring involves organizational re-configuration of activities wherein activities which are previously co-located are relocated to offshore destinations (Contractor et al., 2010; Manning et al., 2008). Offshoring usually involves two main agents; namely the client on the demand side and the vendors on the supply side. In information technology (IT) sector, the clients are typically large firms from advanced industrialized countries from USA (37%), Western Europe (35%) and Japan (14%) which account for almost 87% of the IT service outsourcing market (EITO, 2006). On the supply side, the vendors or the offshore service providers (OSPs) are increasingly from emerging and developing economies such as India, China, Malaysia, Russia and the Philippines. Among these countries, India accounts for a dominant share of the global IT offshoring market (Peterson and Gott, 2011; Raman and Chadee, 2011). Most recent research on understanding the performance and behavior of offshoring organizations have so far focused on the client, with increasing, yet still limited attention on OSPs (for literature review see Chadee and Raman, 2009). OSPs are increasingly being recognized as integral strategic partners of their clients because the success or failure of an OSP is intricately linked to the overall competitiveness of the client firms (Feeny et al., 2005).

Organizations involved in offshoring activities usually face additional challenges related to international inter-task interdependency (Kumar et al., 2009), coordination and integration of offshoring activities (Srikanth and Puranam, 2011), and potential complexities arising from the re-configuration of activities (Larsen et al., 2012). Most of the times the tasks performed on site and those offshored are interdependent with more communication and coordination needs (Kumar et al., 2009). The increased communication and coordination needs are the result of differences in terms of geography, time, infrastructure, culture,

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governance, and regulations which offshoring organizations face while relocating work to distant locations. The interdependencies, unless well coordinated and integrated, are likely to adversely impact the performance of OSPs (Srikanth and Puranam, 2011). The re-configuration of activities also increases offshoring complexity consisting of “a combination of configuration and task complexity. While task complexity resides within the actual implementation, configuration complexity occurs as a result of new interdependencies between countries, activities, and people” (Larsen et al., 2012 p.6). Thus, the offshoring of value chain activities poses complex international management and organizational challenges to offshoring organizations. In light of these challenges and complexities, greater understanding of the factors which affect the performance of OSPs is informative given the fact that the fortunes of OSPs and their clients are intricately linked.

This study focuses on OSP perspectives by examining how certain factors – partnership quality, talent management and global mindset of top managers – enhance performance of OSPs in the Indian IT service sector. Recent studies on OSP perspectives on partnership quality (Lahiri and Kedia, 2011; Lahiri et al., 2012), talent management (Chadee and Raman, 2012) and top management social intelligence (Kong et al., 2012) motivate this paper to analyze the interplay between these factors to examine their impact on performance of OSPs.

The Indian IT sector, in general, has experienced phenomenal growth since the late 1990s. The sector's revenue has grown from USD 5 billion in 2000 to over USD 88 billion in 2011, contributes about 6.4% to domestic GDP, directly employs approximately 2.5 million people and accounts indirectly for another 8.3 million jobs (Nasscom, 2009, 2012). The Indian offshoring sector has moved up the value chain from providing mundane, low value end services to knowledge intensive relatively high value services in a relatively short period of time (Niosi and Ted Tschang, 2009). A number of OSPs in India such as Tata Consultancy Services, Wipro Technologies, Infosys Technologies and HCL Technologies have become established global players which provide a comprehensive range of IT and business process services. The Indian IT service sector accounts for more than half of the global market for IT offshoring which has been estimated at approximately US\$ 150 billion a year with an average annual growth rate of 15–20% (Nasscom, 2012; Oshri et al., 2009).

Our study contributes to the literature in three ways. First, the focus on Indian OSPs is timely given the rapid growth of OSPs in India and in developing countries in general. Recent trends indicate that the majority of leading OSPs are from developing countries and a dearth of research exists on the establishment and growth of firms from developing countries in general. Thus, examining OSPs from India can provide insights into understanding the performance of firms from developing countries. Second, research on OSPs remains underdeveloped despite the strategic role of OSPs as they increasingly become integral parts of the value chain of their clients. Finally, the study provides new insights into the mechanism through which performance is impacted by examining the inter play among global mindset, talent management and partnership quality. The focus on these three constructs is important because OSPs are highly globalized business-to-business organizations where close interactions with clients from around the world are critical for their success (Dyer and Singh, 1998). As we will demonstrate, partnership quality is an important mechanism through which both global mindset and talent management influence the performance of OSPs. We argue that the influence of global mindset on the performance of OSPs is jointly mediated by talent management and partnership management.

The remainder of the paper is organized as follows. The next section reviews the literature and develops the research hypotheses. This is followed by a description of the research methods and data used for hypothesis testing. The results are then presented, followed by a discussion of the main findings, conclusion and limitations of the study.

## 2. Conceptual model and hypotheses

To date only a few studies (Chadee et al., 2011; Holzweber et al., 2012; Kong et al., 2012; Lahiri and Kedia, 2009, 2011; Zaheer et al., 2009) have focused specifically on various aspects of OSP behavior and performance. Lahiri and Kedia (2009) investigated the effects of internal resources and capabilities on the performance of OSPs and found that (human) resources and capabilities are important determinants of their performance and that partnership quality has partial-mediating and moderating effects on these relationships. More recently, Lahiri et al. (2012) investigated how internal and relational resources and capabilities of OSPs in India influence their performance. They found that management capabilities positively moderate firm-specific, idiosyncratic resources. Managing clients and developing strategic partnerships with appropriate information sharing and coordination mechanisms is an essential capability OSPs need to have to perform better (Holzweber et al., 2012). Chadee and Raman (2012) found that talent management has strong mediating effects on the association between the external knowledge resources of OSPs and their performances. Also, top management teams' (TMTs') social intelligence plays an important role in acquiring external knowledge which helps OSPs sensing and implementing the required strategic changes (Kong et al., 2012).

In continuation with recent attempts to understand OSP perspectives, the present study reinforces the role of partnership quality and goes a step further by establishing that partnership quality is a key mechanism by which talent management and TMTs' global mindset enhance firm performance. OSPs provide services to their clients from countries and cultures across the globe. Given OSPs' global operations, the global mindset of their top managers arguably is essential for their success. Past research suggests that top management global mindset impacts positively on various aspects of organizational outcomes such as strategic postures and international performance (Harveston et al., 2000; Levy, 2005; Nummela et al., 2004). OSPs are highly globalized firms which operate in multiple countries simultaneously with different social, political, economic and cultural environments. Because of that, top management global mindset is critical for their success (Chadee et al., 2011) Although it is largely agreed that in order to be successful in highly complex business environments, it is critical for firms to possess well developed global mindsets, research on how global mindset impacts OSPs' performance remains underdeveloped.

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