Effects of initial and ongoing trust in IT outsourcing: A bilateral perspective

Jae-Nam Lee [a,1], Byounggu Choi [b,*]

[a] Korea University Business School, Anam-Dong, Seongbuk-Gu, Seoul 136-701, Republic of Korea
[b] College of Business Administration, Kookmin University, 861-1, Jeungreung-Dong, Seongbuk-Gu, Seoul 136-702, Republic of Korea

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ABSTRACT

Much has been written about the need for trust in outsourcing relationships, but the literature has produced only a few theoretical models that explain the process that helps it evolve. We proposed a theoretical model by distinguishing ongoing beliefs, such as ongoing trust and distrust, from initial perceptions, such as initial trust and distrust, in the context of IT outsourcing, and then explored empirically how these interacted with one another the knowledge sharing experience between the participants, thus leading to a successful experience from both the outsourcer and the service provider. The model and its hypotheses were tested using two-stage survey data collected from IT outsourcing projects. Our results showed that the ongoing trust and distrust between the receiver and provider were crucial in attaining benefits and that the outcome was also affected by the perceptions of the participants at the initial stage of the outsourcing process. We also found that knowledge-sharing experience between the parties moderated the impact of initial trust or distrust on the ongoing trust or distrust in different ways: the change in the service provider's initial perceptions were apparently more visible and positive than those of the service receiver's, although both initial perceptions tended to be cognitively consistent. These results helped us understand how trust evolves over time in an outsourcing relationship, and enabled us to explore the different viewpoints of the service provider and receiver.

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1. Introduction

Outsourcing has been heavily discussed in the past two decades. According to an IDC report, the global outsourcing market reached US$340 billion in 2007, and it is expected to increase to US$509 billion by 2012, with an annual growth rate of 8.4%. Given such growth, IT outsourcing warrants attention. However, there have been few reports about its successful ROI. Thus, the major issue facing both service providers and client organizations is the pressure to exhibit its value. Therefore, the best way to meet this challenge is to further improve the quality of the relationship of the service providers and the client organizations based on trust [1].

Because today's outsourcing contracts are often very complex, it is difficult to include all rules and agreements in the contract. Furthermore, interactions between the participants often go beyond rules and exceptions: they depend on intangible factors that cannot be easily captured in a contract, such as trust, commitment, and interdependency. As increasing attention has been focused on building a flexible relationship between the participants; thus trust has become a core need for successful outsourcing.

Trust is important from the start to the final stages of outsourcing. But though interest in trust has been noted, the outsourcing literature has produced only a few theoretical models to support our understanding of the evolution of trust, the role of trust, and the consequence of trust in the relationship. Also, prior studies generally used cross-sectional surveys when studying the change in trust over time; these do not show trust evolves. Moreover, only limited research has addressed the outsourcing relationship from the perspectives of both participants. However, an understanding of both parties is important because a successful outcome is determined by *both* organizations [17].

We built a theoretical model about the change of trust over time in an outsourcing relationship, suggesting four major concepts: initial trust, initial distrust, ongoing trust, and ongoing distrust in the context of IT outsourcing; we constructed the model by synthesizing material discussed in the body of the literature on inter-organizational relation management, organizational learning, and outsourcing. The proposed model and its hypotheses were tested using two-stage survey data collected from service providers and receivers at the beginning and middle of outsourcing projects in Korea.

2. Theoretical development

Trust determines the nature of many buyer–seller relationships, especially in establishing partnerships and strategic alliances [3]. There are always trust-related elements that are

* Corresponding author. Tel.: +82 2 910 4551; fax: +82 2 910 4519.
E-mail addresses: isjnlee@korea.ac.kr (J.-N. Lee), h2choi@kookmin.ac.kr
(B. Choi).
[1] Tel.: +82 2 3290 2812; fax: +82 2 922 7220.

intangible and not well defined in any contract. Relationships based on a formal contract and rooted in trust strengthen the bond between clients and their service providers. There is also evidence showing that outsourcing projects in the 1990s shifted from contractual to trust-based relationships. Thus, forming effective trust-based relationships has been perceived as a key predictor of outsourcing success [10].

However, a trust-based relationship does not always generate the best outsourcing relationships: we believed that trust was necessary but not sufficient to ensure success. Nevertheless, a better understanding of trust is crucial for the success of the project. For this reason, we explored the change in trust in outsourcing relationships over time and its impact on outsourcing success.

A number of studies have tried to explain trust in outsourcing through correlation analysis among trust-related variables or between trust-related variables and outsourcing success. However, these studies have not conceptualized and defined the evolving process of trust over time, presumably because the results have small business implications [18]. Part of the problem in these studies was that they did not distinguish trust from other similar constructs such as cooperation and confidence. Despite the various theories pertinent to trust, such as *social exchange theory* and *social network theory*, there are few integrative ideas that have provided an in-depth analysis of the change of trust, which requires a differentiation among factors contributing to trust and its outcomes.

With these motivations, our study started by proposing an outsourcing relationship trust model to provide a better understanding of how trust evolves over time and its impact on outsourcing benefits as shown in Fig. 1.

2.1. Distinction between initial belief and ongoing belief

Trust is a widely studied constructs in the social exchange literature. It plays a critical role in the development of long-term relationships as well as in facilitating exchange relationships. This is perceived as a dynamic process since the parties mutually demonstrate their trustworthiness through specific sequential interaction. Thus it should be considered as process-oriented rather than an outcome- or input-oriented concept. This dynamic nature of trust is the key premise for the distinction between initial trust and ongoing trust [11].

Trust can be considered as having two parts, relational vs. dispositional. *Relational trust* pertains to the relationships in the dyad [21], while dispositional trust refers to an individual trait that reflects one partner's expectation about the actions of the other [6]. Thus relational trust is probably based on experience and interaction rather than an individual trait. Another important implication is that inter-organizational trust describes the extent to which organizational members have a collectively held trust orientation towards their partner. This collective held trust helps explain how inter-organizational trust can prevail despite the continuous turnover of different personnel in the firms. Moreover, a collectively held trust makes it possible to analyze trust at the organizational level.

According to Krishnan et al., inter-organizational trust is relational and collectively oriented. Such a form of trust is probably based on experience and interaction with a partner who has been influenced by an organizational culture. Hence, it is dynamic, due to the time factor and historical element involved. However, there are obviously dynamic effects that occur at the first meeting of both parties. These are not drawn from experience or a prior history of interaction.

Thus we decided to add a construct termed *initial trust*. Because trust is a set of expectations shared by a group in the organization, we posited that initial trust involves the willingness to trust others without prior knowledge of their background [14]. Thus it is not based on any prior experience but on an assumption that being a member of the organization is enough to assess the trustworthiness of an individual; i.e., it is *one party's positive belief that the other party would perform actions that will result in beneficial outcomes without any firsthand information and experience of the other party*.

However, unlike initial trust, *ongoing trust* is dynamic whether it is in a new or ongoing relationship; i.e., it is likely to be modified over time due to experiences and interactions with partners. Thus, ongoing trust is the *positive belief of a party in an exchange relationship about a partner's reliability and integrity; they result from observing actual interactions*.

2.2. Trust and distrust

Though many researchers have described trust as crucial to inter-organizational relationships, few have considered the effects of distrust [13]. Distrust can be viewed as negative expectations towards other partners [20]. Initial distrust refers to the unwillingness of one party to trust other parties. Similarly, ongoing distrust is the belief that the other party's actions will lead to unacceptable outcomes. In the context of our study,
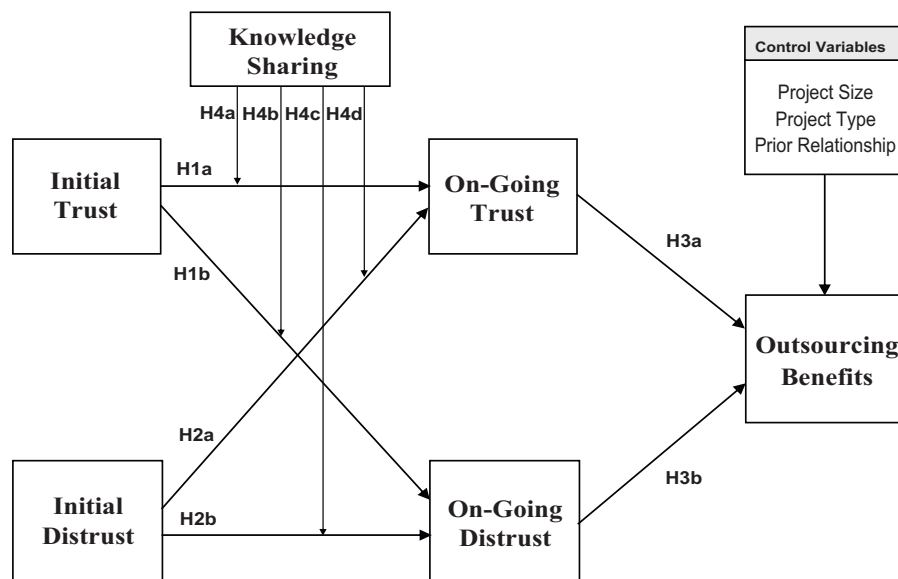
Fig. 1. The research model of the change of outsourcing relationship trust.