

# Chapter VII

## The Progression of Client–Vendor Relationships in Offshored Applications Development

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### **ABSTRACT**

*This chapter presents an evolutionary framework for the establishment and progression of client-vendor relationships in the context of offshored applications development. It is argued that such a relationship typically begins as a cost-reduction exercise, with the client contracting out simple, structured applications to one or more offshore vendors. Over time, the client assigns increasingly complex applications to selected vendors, and cultivates loose, trust-based, network-like relationships with them. As offshored applications continue to evolve and become business-critical, the client may seek to regain control by establishing a command-based hierarchy. This may be achieved through part- or full-ownership of a vendor organization, or by starting a captive offshore subsidiary. Thus, the initial client objective of cost reduction is ultimately displaced by one pertaining to risk control. Pertinent prior research is used to justify the proposed framework. This is followed by a case study that describes how a specialty telecommunications company is pursuing just such an evolutionary path.*

### **INTRODUCTION**

Strategic-level managers, such as CEOs, CIOs, and CTOs, have lately been under great pressure to seek out fresh approaches to control infor-

mation technology (IT) costs and demonstrate higher returns on technology investments. A recent International Data Corporation (IDC) study on vertical market IT spending concluded that end users worldwide spent \$1.16 trillion on

information technology in 2006, and estimated this figure to grow to \$1.48 trillion by 2010 (Lu, Koch, Folco, Dillon, Maceska, & Gibin, 2007). Of this projected statistic, software and services were expected to cost about 62% (more than \$900 million), the remainder attributed to hardware costs. One increasingly popular response from decision makers to the high costs of IT has been offshoring; the shift of development, maintenance, operations, or call center work to low-wage offshore locations.

This chapter focuses specifically on offshored applications development, and how its attributes shape the evolution of relationships between clients and vendors. Many organizations have recently intensified efforts to offshore their development work, citing growth strategy, speed to market, and productivity as major reasons, using captive/subsidiary units, independent offshore providers, or hybrid approaches as common business models (The Software & Information Industry Association, 2006). Assertions in the practitioner literature regarding the relative merits and demerits of these models are often mutually contradictory. Academic research has provided some valuable lessons on the management of IT outsourcing, with advocates of various approaches employing transaction cost economics, resource dependency, strategic choice, stakeholder theory, organizational learning, and institutional theory to propound their arguments and test their assertions (Barringer & Harrison, 2000). However, these management prescriptions have been neither formulated nor tested in the specific context of offshored applications development. The implicit assumption underlying this omission appears to be that valid arguments for the general IT outsourcing/offshoring context must also apply to applications development, regardless of task attributes. Most theories also embody static views of client-vendor relationships. They advocate either partnerships/alliances, a network-oriented, trust-based perspective (e.g., Oza, Hall, Rainer, & Grey, 2006; Willcocks & Choi, 1995), contracts

and transactions, a market-oriented, enforcement-based perspective (e.g., Barthélemy & Quélin, 2006; Richmond & Seidmann, 1993), or a mix of both (e.g., Koh, Ang, & Straub, 2004; Sabherwal, 1999). The inherent problem with static perspectives is that they do not acknowledge the potential need for relationships to change and evolve flexibly in dynamic business environments (Tan & Sia, 2006). Some studies that have explored the evolutionary nature of outsourcing have nonetheless confined themselves to specific, narrow aspects of relationships such as duration (Goo, Kishore, Nam, Rao, & Song, 2007), discontinuation (Whitten & Leidner, 2006), and the growth of social relationships within projects (Cata & Raghavan, 2006). A maturity model delineating the likely stages of growth for client-vendor relationships has been proposed elsewhere (Gottschalk & Solli-Sæther, 2006). However, its exclusive focus on fulfilled objectives in each stage as pivotal end points for an opportunity-centric transition to the next stage precludes a deeper discussion that needs to address imperatives, including potential risks of opting not to undertake each such transition.

This chapter contends that for offshored applications development, the ostensible choices of management approaches represent not only progressive but also imperative stages for the client in the evolution of its relationships with one or more vendors. The process by which clients and vendors coordinate with each other changes dynamically, depending on shared experiences, organizational learning achieved, mutually adjusted expectations, shifting needs, and, significantly, impediments in continuing with past relationship modes. While several alternative evolutionary paths for this relationship may be feasible, each with its own set of antecedents, process dynamics, and consequences, the discussion here makes the case for one likely path. In this path, a given client organization successively evolves through specific offshoring stages, not all necessarily with the same application development vendor.

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