

The ability of SMEs to use trust in
managing offshore activities

2014



Franz Josef Gellert, Hugo Velthuisen

PUB-14-01

The ability of SMEs to use trust in
managing offshore activities

Franz Josef Gellert, Hugo Velthuijsen

Lectoraat New Business & ICT

Instituut voor Communicatie, Media en IT

Kenniscentrum Ondernemerschap

Book Chapter in:
J. Devos, et al. (eds.) Information Systems for Small
and Medium Enterprises, Progress in IS, Springer
Verlag Berlin Heidelberg, 2014

PUB-14-01

2014

The Ability of SMEs to Use Trust in Managing Offshore Activities

Franz Josef Gellert and Hugo Velthuisen

1 Introduction

Business models and business processes are undergoing tremendous changes because markets are changing, competition becomes stronger and consumer behavior is changing too (Miles et al. 2010). The chance for small and middle-sized enterprises (SMEs) to survive in rapidly growing dynamic market environments is a challenge (Business Week 2011; Willcocks and Craig 2010). Therefore, SMEs perceive a need to search for new business opportunities by thinking about networking and building alliances or outsourcing/offshoring of their business processes.

Outsourcing/offshoring is currently mostly related to IT processes that can be managed cheaper and more effectively outside the own company and the domestic market. SMEs are running a higher risk than bigger companies do when they outsource/offshore their business processes (Devos et al. 2009). Research and practice in the area of outsourcing/offshoring has been biased by experiences of large firms. But, as pointed out by Devos et al. (2009), a SME is not a scale model of a large firm and, therefore, generic research results and best practices do not necessarily offer the best advice to SMEs. Thus, it is relevant to look more specifically into how SMEs can manage the outsource and offshore activities properly to reduce costs, make processes more effective, retain market competitiveness and make use of expertise that is innovative although hard to get.

In our paper we concentrate on SMEs offshore activities because when leaving the home location and going abroad, the firm is faced with cultural differences of

F. J. Gellert (✉)

Hanze University of Applied Sciences, Groningen, International Business School,
Zernikeplein 7, 9747 AS Groningen, The Netherlands
e-mail: f.j.gellert@pl.hanze.nl

H. Velthuisen

Hanze University of Applied Sciences, Groningen, School of ICT and Business
Development, Zernikeplein 11, 9747 AS Groningen, The Netherlands
e-mail: h.velthuisen@pl.hanze.nl

people involved. Therefore, we use the offshore definition of Contractor et al. (2010) who outlined that offshoring is restructuring the firm geographically away from the home location to a location abroad. Bearing this in mind we look at two theories: Cultural diversity theory and agency theory. From cultural diversity theory (Minkov and Hofstede 2011), we know that getting in contact with partners in foreign countries is a sensitive part that either fosters or hinders a good relationship. Therefore, the first contact with “others” is a crucial point for business partners in the offshoring process. Rottman (2008) found that a good relationship quality is important because almost 50 % of enterprises failed to offshore successfully due to weak relationship ties. Furthermore, we know that companies experienced contradicting results with regard to the relationship quality level between partners and formality of working methods when they offshore their processes (Rottman 2008; Devos et al. 2009).

Additionally, we know from agency theory that formal work is preferred by Anglo-Saxon companies in contrast to informal work approaches with a partner-based relationship practiced by Northern European companies (Adams et al. 2010; Mathrani et al. 2007). Also, SMEs appear to be more inclined towards informal working methods than large companies (Devos et al. 2009). Partner-based approaches are associated with relationships that are specifically defined by the trust level that is developed over time between human beings. The development of trust goes through different levels or stages of a process. As a starting point, trust can be built on positive experience, personal engagement, openness, honesty and integrity, sharing benefits and risks, commitment and patience (Stel 2011).

Although SMEs seem to be hesitant to offshore, they show increasing interest in networking, cooperation as well as sharing knowledge, resources and working tools. In this context, cooperation can be seen as a pre-step in the offshore process because, according to Stel (2011), cooperation requires the willingness to accept counterparts as they are and not as others perceive they should be. The initiative for cooperation lies in building a partnership. “A partnership works on the basis of trust and commitment or not at all” (Stel 2011). Starting a partnership opens the door for the development of offshore activities. Partnership in its origin is similar to cooperation, alliances or collaboration.

In this research we are particularly interested in how SMEs are at an advantage or disadvantage in managing trust in intercultural relationships/in being successful in offshoring compared to “regular companies”. Therefore, our overarching aim in this paper is to position the current developments in SMEs whether they are willing to become effective players in offshore business while considering trust as an important relationship component.

Our paper is outlined as follows. Firstly, we start with reviewing appropriate literature on SMEs’ outsourcing/offshoring activities and the factor trust. We continue with positioning offshore activities in relation to trust. The chapter is followed by the methodology and the results. We continue with the discussion and finalize the paper with our conclusions, theoretical and practical implications and future research.

2 Position of Outsourcing/Offshoring in SMEs

Research on outsourcing/offshoring has been quite extensively pursued over decades (Hätönen and Eriksson 2009; Contractor et al. 2010). The researchers highlighted that with regard to outsourcing/offshoring, a switch from purely cost reduction to optimizing resources, and thus from procurement to cooperation has taken place over years. This is also strongly related to a partner-based approach as outlined by Child et al. (2005). These researchers highlighted that trust is an essential part of cooperation since cooperation with a partner outside the company—and maybe in a foreign country—is expected to be challenging. Challenges lie in the development of a relationship among people from different cultural backgrounds because their thinking, beliefs and attitudes might be different and result in dimensions such as power distance, individualism or gender according to Minkov and Hofstede (2011). In this context, and taking into account the aforementioned dimensional aspects, the implementation of offshoring relationships becomes relevant. Dibbern et al. (2004) outlined that according to the stage model of IS outsourcing, the “how” question needs to be answered in the implementation phase. How to implement offshore activities refers to people involved (besides the technologies and methods to be used) and how their trustful relationship contributes to successful outcomes. We know from relationship theories that social and economic exchange is the root of successful interactions and that they lead to trust among partners (Dibbern et al. 2004). In this context Subherwal (1999) pointed out that two components appear when it comes to building and structuring relationships: (a) formal contract and (b) psychological contract. For us the psychological contract is even more important because individuals in a multi-cultural setting need to manage their differences in attitudes and behavior. According to Dibbern et al. (2004) “the belief of trustworthiness of a vendor might lead to the attitude of trust regarding the vendor”. Therefore, trust may be defined as “the belief that others upon whom one depends, yet has little control over, will not take advantage of the situation by behaving in an opportunistic manner” (Devos et al. 2009). For an SME owner/manager, considered as an individual who represents his own business, it is vital at the beginning of a relationship to start working on the process that the counterpart trust him and that he can trust the other.

The relationship process might start with considering the competence of each other as outlined by Ibrahim and Ribbers (2009). The owner/manager is dependent on the first impressions of his partner in order to continue building a relationship (Dunning et al. 2011; Fetchenhauer and Dunning 2009). Additionally, following Duncan et al. (2009), the owner/manager’s expertise, attitudes and behavior play a key role in defining the direction and condition of the SME.

The question might arise whether there is a difference in the way an SME goes about building a relationship as compared to the way a large company proceeds in this area. We know from studies (Perrini et al. 2007; Russo and Perrini 2009) that this must be not necessarily the case. The difference may lie in a company’s needs, flexibility, purchasing power, financial and human resources (Perrini et al. 2007).

Additionally, as pointed out by Dibbern and Heinzl (2009), offshoring activities of SMEs might be selective and in SMEs the degree of offshore activities varies so that SMEs can be considered to be more individualistic than bigger companies. Furthermore, Dibbern et al. (2004) outlined that, referring to relationship theory, SMEs are more inclined to use trust as the basis for their relationship and therefore they are better at managing offshore activities. Thus, trust is a key for SMEs to successfully offshore and that “the establishment of a trustful relationship with foreign partners positively affects the success of participating companies” (Fink and Kraus 2007).

Bearing the aforementioned consideration in mind, we hypothesize the following:

- SMEs are intrinsically better qualified for building trustful relationships than large companies.
- SMEs are at an advantage to build multi-cultural relationships because of their informality.

The aforementioned hypotheses help us to structure our thinking and help us to point out what the crucial elements are when companies offshore. In this research, the trust levels between partners are divided into initial trust (pre-contract phase) and mutual trust (post-contract phase) as outlined in Fig. 1.

When establishing trust (pre-contract phase) and maintaining mutual trust (post-contract phase) among partners, an understanding of cultural differences develops over time. As shown in the graph the cornerstones (circles) are related (arrows) to each other and will be briefly described below.

Interpersonal relationships and interpersonal trust can be seen as a starting point for a trustful relationship which means that partners should be able to have a good level of communication with each other so that they also understand the essentials of cultural differences. Communication in this context means to observe others behavior, listen what others say and match the outcome with the own interest.

Additionally, being transparent helps to build a trustful relationship. Transparency in an offshore content means that the existing knowledge will be shared and that none of the partners hide things that are important for business.

With regard to HR involvement, the hiring process of staff is very sensitive and allows partners to test their trustful relationship. The partner abroad has to be involved in the recruitment process and which is even more important, needs to understand needs, wishes and desires of people hired. Additionally, the involved partner is more aware of requirements staff members have to fulfil and what the country specific rules and regulations are.

The fourth cornerstone is informal working methods. Informal working methods require a specific kind of mind set as well as an understanding of the cultural differences with the offshore partner. Business life can be easier when using informal methods but partners must mutually understand each other how informal is defined.

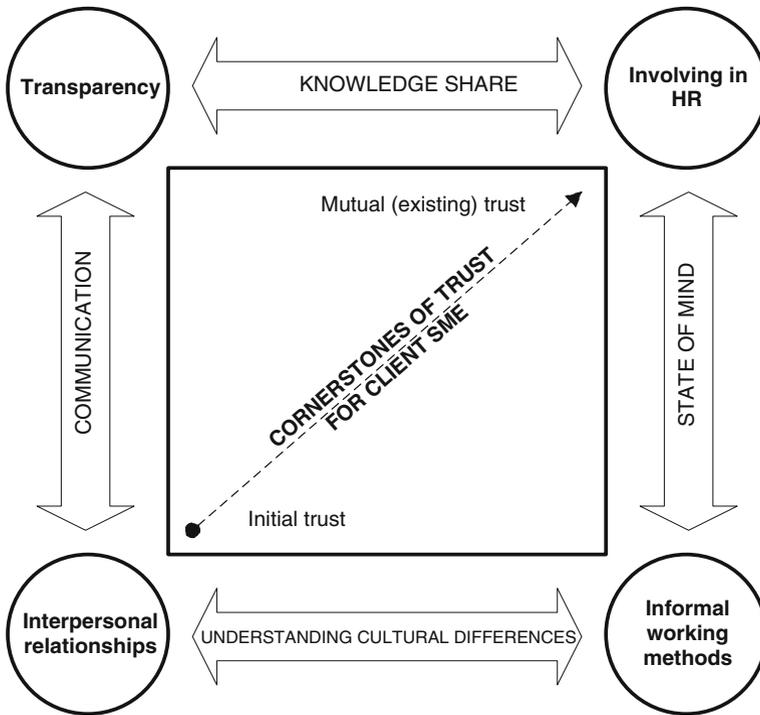


Fig. 1 Initial trust and mutual trust in an offshore development process

2.1 The Term “Trust”

Trust is something that we all need when we want to live and work together with other human beings. It does not appear on command. Trust develops over time and is a key in relationships, either in private life or in business. From a social science point of view, trust is something that is related to liking and disliking (Baumeister and Bushman 2010) and is also dependent on our first mutual impressions of each other (Fetchenhauer and Duning 2009). Stel (2011) laid out that trust can be defined as an emotional expression or as a rational consideration. However, we found various definitions and considerations of trust and based on this we take the variance as a starting point to bring the definitions down to initial trust and mutual trust.

Dividing trust in line with the contract life cycle (pre-contract and post-contract phase) clarifies the timeline of building trust from initial trust to mutual (existing) trust. The division into these two parts is drawn from the findings of an exploratory study of Bharadwa et al. (2010). With this particular division, the whole contract life cycle can be covered in a clear way. As Brown and Wilson (2009) state, “Offshoring can be viewed as a cycle, beginning with the decision-making process, followed by managing the contract, then evaluating the results and finally re-examining the offshoring contract”.

2.2 Pre-contract Phase

During the pre-contract phase, organizations have to consider several important choices and decisions before starting actual offshoring relationship. These choices and decisions can include selecting the right supplier, agreeing on the content of the contract with the supplier, or defining the length of the contract of (Bharadwa et al. 2010). Moreover, SMEs have to look for smaller and therefore lesser known partners. This is a hard search since the process of finding acceptable partners is currently an underdeveloped issue. In the pre-contract phase one of the key factors involving these searches and decisions is the development, and at the end the existence, of the initial trust between the client and the supplier (Bharadwa et al. 2010).

2.3 Initial Trust

Lee and Huynh (2005) draw their findings from previous studies which show the beginning of inter-organizational relationships is the most critical time for building successful inter-organizational relationships. Initial trust plays a key role here: it creates the basis for the mutual, existing trust of the partners, and therefore highly affects the success of the partnership. The interview questions about initial trust were therefore formed from questions related to cognition-based initial trust and calculation-based initial trust (Lee et al. 2008).

The basis of cognition-based initial trust is cognitive reasoning (McAllister 1995). Cognition-based trust can be developed for example if the client is impressed and convinced by a supplier's experience and previous successful business relationships. It is reasonable to ask questions regarding cognition-based initial trust for gaining insights about the client's cognitive reasoning towards the service provider's earlier achievements.

2.4 Initial Distrust

When measuring initial trust in relationships between business partners, it is also important to take the effects of initial distrust into consideration. Lee et al. (2008) state that trust can be seen as confident positive expectations from one partner towards the other. Lewicki and Bunker (1995) define the meaning of distrust as the opposite of trust; it can be seen as confident negative expectations toward the other partner: "distrust evokes fear and actions to buffer oneself from the harmful conduct of the other party". Initial distrust can be divided further into psychology-based distrust and economic-based distrust. Lee et al. (2008) draw this division from the findings of McKnight et al. (1998). The interview questions about psychology-based distrust were built to get a client's initial view about how negative perceptions they had about the partner, regarding for example its honesty towards the client.

2.5 Post-contract Phase

In this paper, the post-contract phase covers the time period starting from the early stage of the business relationship when initial trust already exists, until the very end of the business relationship. The post-contract phase includes decisions such as should the contract be extended or not, or should a change of the supplier be taken into consideration. Also continuous performance monitoring of the supplier is done during the post-contract phase (Bharadwa et al. 2010). In this phase the level and existence of mutual trust is vital as is a good level of knowledge sharing.

2.6 Mutual (Existing) Trust

Mutual trust, or in other words the existing trust between the business partners, is an important factor in interactions between a customer and a service provider. According to Lee et al. (2008), these interactions can go beyond the rules, agreements and expectations specified in legal contracts because of the commitment and contributions of the partners in the relationship, and these commitments and contributions can go beyond what was defined in the contract.

Lee et al. (2008) state that projects involving new knowledge creation requires knowledge sharing. However, to have successful knowledge sharing, there must exist also a strong level of mutual trust between partners. Also, Inkpen and Tsang (2005) state that in regard to knowledge sharing, it is important to have sufficient trust so that the partners do not view each other as competitors. If the customer (client) identifies the existence of distinctive knowledge sharing factors, such as sharing business reports or sharing know-how, it indicates the existence of mutual trust.

2.7 Mutual Distrust

If both partners distrust each other, the relationship comes to an end. Distrust appears via negative experience, negative impressions or negative word-of-mouth promotion. Notwithstanding the trust level between two human beings, there is a neoclassical economics tendency to consider distrust in others—strangers—as something that should be avoided at all costs (Dunning et al. 2011). However, a relationship can still continue between partners because of business-related constraints.

3 Methodology

In our research we have chosen a qualitative inductive research strategy to get deeper into the elements of trustful relationship qualities and to ensure that we can develop practical recommendations for SMEs based on our findings. Therefore, we decided to conduct semi-structured interviews with owner/managers of SMEs in five selected European countries. According to Stel (2011), interview results need to be transformed, reduced and analyzed by identifying common patterns.

3.1 Sample

Our sample consists of 16 SMEs in five selected countries bearing in mind that one country (UK) is Anglo-Saxon oriented and four countries are Northern European countries (G, NL, D, SW). We followed the purposive sampling method (Yin 2011) by selecting the companies that have met the criteria: being international, a small or middle-sized company, have tried to offshore their business or are currently in an offshore relationship either in the IT business field or outside this field. The 16 selected companies, therefore represent an appropriate sample because the observed treatment effect in our study is causal (Judd and Kenny 2006).

With regard to a company's size, we followed the SME definition (turnover, employees, balance sheet total) of the European Commission (European Commission 2012). In Table 1, the 16 SMEs are listed with the type of business as well as with the number of employees.

3.2 Instrument

The semi-structured interviews consisted of questions drawn from the research of Lee et al. (2008) about trust between partners in offshore business. Those questions were associated with Bharadwaj et al. (2010)'s division of contract life cycle in outsourcing. Interviews were conducted with either a founder, director, or manager applying a semi-structure so that interviewees could express their feelings and emotions additionally. By following the framework of trust, the details of the interviews were structured by starting with a company overview and ending with an interview conclusion that illuminates the current company's thinking on offshoring and their related activities. The questions that were asked are listed at the end of the paper in Appendix 1.

Table 1 Summary of conducted interviews

Reference	Industry	Employees
<i>Germany</i>		
GC1	Telecommunication	75
GC2	Satellite-communication	35
GC3	Health supplements	2
GC4	Management Consulting	1
<i>The Netherlands</i>		
NC1	Foreign exchange (FOREX)	1
NC2	(Medical) care communication	1
NC3	Application development	15
NC4	Service desk, infrastructure management	800
NC5	Software development	65
NC6	Software development	<250
<i>United Kingdom</i>		
UC1	Software development	<250
<i>Denmark</i>		
DC1	Audio devices	25
DC2	Management consulting	<250
<i>Sweden</i>		
SC1	Biogas technology	<250
SC2	Communication	22
SC3	Management consulting	Up to 1500 employees placed all over the world

3.3 Analysis

Eleven interviews were recorded and notes were taken for five interviews. Afterwards, the content of the taped interviews was transcribed and results of the notes were inserted into an excel sheet with the purpose to find common patterns and to draw appropriate conclusions from that.

4 Results

In the following paragraph, we summarize the most interesting outcomes of the interviews in each selected country. Quotes from the original interview text were specifically marked. Finally we give an overview of results in Table 2 that reflects country specific outcome and themes they have in common.

Table 2 Overview of country-specific outcome and common themes

Country	Outcome	Common theme
Germany	Communication	Cultural knowledge
	Language	Trust
	Character of partners	
Netherlands	Trust	Cultural knowledge
	Quality of partners	Trust
United Kingdom	Work attitudes	Cultural knowledge
	Level of education	
Denmark	Cultural differences	Cultural knowledge
	Infrastructure	Trust
Sweden	Communication	Cultural knowledge
	Language	Trust

4.1 Germany

The interviewees state that they prefer to offshore/outsource to partners that have a close proximity. Also, geographically close partners have a better understanding of regulations important to the outsourcing/offshoring company.

All of the interviewed German companies have experienced the interaction with different cultures in their businesses. The companies stated that communication, and especially language, is one of their main concerns when interacting with different countries and cultures. Furthermore, characteristics and traits of partners of a different cultural background pose potential for misunderstandings that lead to difficulties.

To deal with difficulties, the interviewees argue that adequate and thorough preparation before starting a relationship is necessary and vital. It is important to understand the respective culture and adapting to it accordingly.

Quotes:

It is explained that a certain understanding of the partner's mentality is needed and that it must be known that different countries do have different work attitudes. It is especially important that partners find a common middle ground in order to avoid disappointments.

Prior to actually engaging in new partnerships abroad, preparation time takes about one to one and a half years.

4.2 The Netherlands

The interviewees name cost factors and a lack of competences as the reason for offshoring.

The relationships of all Dutch companies are to some extent affected by cultural differences. Eastern states such as Belarus and Estonia, as well as Cyprus are mentioned as important business partners. The companies stated that trust and

quality is important when engaging in offshoring/outsourcing partnerships. One must rely on the partner and his promises to deliver according to quality expectations. Improving the quality of communication was a key to bridge cultural differences complemented by knowledge sharing. The interviewees felt that interpersonal trust is a strong base for inter-organizational trust, and that especially from the SME's point of view, interpersonal trust is something very crucial for working with a partner outside the company. Furthermore, it was stated that a trustful relationship is easier to build with a smaller company than with a larger one, but that it is also easier to quit the relationship if necessary.

Quotes:

We think that the right way to build trust is by giving everybody the possibility to be trusted in the beginning. And to believe that we can trust each other until something else has been proven that it is not the case. (Relationship with Indian SME)

There is a honest relationship, but I don't think they tell us everything. I think they are honest if I ask, then they will tell everything. But again, it is more a cultural thing. If it is not asked, why should they say. (relationship with Eastern Europe SME)

4.3 United Kingdom

Flexibility, lower costs and the possibility to obtain higher quality are the main reasons to offshore/outsource for British SMEs.

Different expectations of work attitudes (e.g. with Russia) have led to misunderstandings and disappointments. A high educational level is perceived as important for mutual understanding. Business objectives should always be clearly understood, too, because this is a good point for trust development. Within the company cultural diversity exists and the knowledge how to handle cultural differences is apparent and can be brought into place when talking about outsourcing/offshoring activities.

Quotes:

It is important that offshore partners possess a high educational level as this allows them to think laterally. Further, the strategic business objective should be understood well.

A high educational level is important for mutual understanding and business objectives should always be understood.

4.4 Denmark

Main reasons to offshore/outsource for the interviewees were cost factors and tapping increased competences from offshoring/outsourcing partners. Given its size, Denmark and its companies do have global business ties. The interviewees referred to the offshoring/outsourcing activities to countries such as China or Ukraine. Also, outsourcing within Denmark happens frequently.

The expert had experienced that one of the main problems in outsourcing is the non-alignment of decisions with corporate strategy. Inadequate preparation and a certain naivety to do and expect the same abroad as from the home market is prevailing. Companies underestimate cultural differences because they think they can't affect them. Not only do they have self-imposed constraints but also limitations coming from the country's infrastructure.

Trust and preparation are important things to consider when deciding to offshore/outsource. Especially the latter implies the integration of corporate strategy with outsourcing/offshoring decisions.

Quotes:

The interviewee claims that along the chain from product invention to product launch, the Chinese production poses the biggest challenge.

Preparation and adequate integration of offshore decisions into corporate strategy is crucial for ensuring offshore success. Adaption to different cultures and the adjustment of own habits are similarly important.

4.5 Sweden

Reasons for offshoring were specified as the lack of own competences and an increased flexibility. Limited resources and budget constraints were mentioned as well. Further, outsourcing is used to address a lack of competences.

The main problems with offshoring are related to communication and language issues. Moreover, flexibility and cultural knowledge as well as mutual understanding are considered as important. Interviewees stated that an open mind is required too and that partners should act honestly and transparent. All in all a good preparation is required when getting in contact with partners from different cultural backgrounds.

Quotes:

Again, through mutual understanding, learning experiences, and the usage of a local partner network that has awareness about local norms, the company realized its success.

The representative considers language skills to be most important when interacting with different countries. It must be avoided that meanings are misinterpreted and therefore, parties involved should use the same level of language skills.

4.6 Summary of the Results

The aforementioned interviews revealed that the selected companies positively consider offshore activities when trust has been developed and when a good preparation in terms of taking into account cultural differences on an individual as well as on company level with other partners takes place. SMEs' offshore activities are aiming at closing the gap of lacking competences in the own company. Language plays a significant role in this context.

Furthermore, the results suggest that trust building between parties involved in a relationship is of high importance. SMEs do not benefit from being very formal with partners. Informalities helps an SME to build and to maintain a trustful relationship with the other SME. In this context it becomes of importance to relate the own cultural background to the target culture of people involved as well as to take a company's history into account. Additionally, no opportunistic behavior was highlighted and could be found.

5 Discussion

Our intention was to find out whether SMEs can bridge cultural differences by using trust in their offshore activities. Our findings revealed that SMEs across the five selected countries consider trustful relationships as an important key for their offshore activities. Interesting that we could not find differences with regard to trust among SMEs with an Anglo-Saxon company culture or SMEs with a Northern-European company culture.

According to Child et al. (2005), trust is a complex phenomenon that can be examined through cost-benefit relationships, mutual understanding and development of friendship. Furthermore, trust can be perceived on three levels: calculative trust, understanding and personal identification. Calculative trust is trust on the level of expectations about costs and benefits whereas understanding is related to knowledge-based trust based on perceived similarities between partners. The personal identification is a social aspect that develops over time and is based on cultural affinity by people involved (Child et al. 2005). Fink and Kraus (2007) pointed out that mutual trustful relationships between SMEs can not only affect the outcome positively but also build up a starting point for sustainable—long term—business relations or trust-based cooperation. Thus our hypothesis that *SMEs are intrinsically better qualified for building trust than big companies* is confirmed.

Since offshoring decisions and experiences of SMEs in Germany, the Netherlands, United Kingdom, Denmark and Sweden are generally influenced by cultural differences, our research illuminated that a good preparation for a partnership influences offshoring activities too. A good preparation in this context means to be aware of different cultures and having the appropriate language skills. According to Devos et al. (2009), in a relationship between a vendor and a principal it might occur that three factors have additional influence on the relationship quality: goal differences, risk behavior differences and information asymmetry.

It was also found that misunderstandings and missing respect for cultural differences can lead to increased costs and disappointments. According to Winkler et al. (2008), cultural differences are a complex element to be managed and critically affect relationships when lacking a clear role definition, strong leadership and an active management of cultural differences. Devos et al. (2009) laid out that also knowledge retention and sustainable competitive advantage are not

necessarily achieved when the relationship exists. Returns or promises (money, contract) that are not achieved can negatively influence a trustful relationship and are important criteria in the decision to offshore and for the selection process of potential partners. It is also important to take into account that trust can have different levels in different contexts as outlined by Janowicz and Noorderhaven (2006).

Beside the trust factor, flexibility was also mentioned as being important which is in-line with what Hätönen and Eriksson (2009) found. Thus, informality in working methods is a plus. Flexibility in the offshoring process allows for choosing the most suitable partners for a particular activity which seems to be easier for SMEs due to close connection to business and partners involved. According to Chell (2008), a SME owner/manager can more easily build up a good relationship with business partners than a manager of a large company when it comes to the relationship quality and its core element trust because of judgemental decisions he takes. Judgemental decisions are defined as “non-routine behavior by publishing private information and a subjective assessment of risks and investments” (Chell 2008). An owner/manager and his counterpart abroad start the relationship in a formal way but switch immediately to informal methods when both perceive that they can trust each other.

Taking into account that we have some snap shots based on 16 interviews, our hypothesis that *SMEs are at an advantage to build multi-cultural relationships because of their informality* is confirmed.

6 Conclusions

Although much research has been done on trust in offshoring activities, there has been little on specifics in the behavior of North West European SMEs with Anglo-Saxon SMEs when they start offshoring activities and in the resulting performance. With our study we extend the knowledge of trust in relationships among SMEs with different governance and cultural backgrounds. The development of trust and therefore the relationship quality level requires commitment of partners involved. The opportunity of offshoring activities for SMEs is a chance to stay competitive in the market and to sustain existing businesses. On the other hand, SMEs need to be aware of the risks (misunderstandings, disappointments, money, plagiarism) they take in the offshoring processes. Thus, a good preparation is a must in this context. Furthermore, we can conclude that, although SMEs under consideration might have different governance approaches, all SMEs highlighted the importance of trust in a relationship with regard to their offshoring activities.

There are some limitations associated with our research. First, the 16 interviews gave us only a snap shot about the complex phenomenon of trust in offshore activities and are not generalizable. One can argue whether the number of interviews is enough. However, according to Baker (2012) we found that using the

purposive sampling method allows us to draw conclusions from the 16 interviews that can be considered as internally valid.

Additionally, the majority of selected companies was from the Northern European area. Another limitation was to find companies outside the IT world who are offshoring or who had done those activities and could refer to experience. Our study was a cross sectional study and therefore, a replication of the study is needed to see companies' development and to draw further conclusions from those findings.

7 Theoretical/Practical Implications/Future Research

With our research we extend the theory about offshore activities of SMEs and how much trust is involved in multi-cultural relationships. Furthermore we pointed out that SMEs with regard to relationship theory, are more individualistically driven by their owner/manager's beliefs, attitudes, and behavior than big companies are and therefore we contribute to know more about the influence factors.

In a broader sense we contributed to communication theory because as part of bridging cultural differences in offshore activities, partners have to search for a common ground of communication. Partners should consider verbal and non-verbal communication, as well as the interpretation of meaning and adequacy of words. Partners with different native languages need to agree on a common language that fits for communication and understanding. If the chosen language is not the native language for at least one party, make an assessment (language test) if the language is sufficiently mastered and whether a translator might be a solution. The process begins before contracting the offshoring partner and continues during the relationship.

7.1 Practical Implications

Partners need to ensure that the risks of offshoring, including the quality of the offshoring partner and its activities, are under control. All potential internal and external risks of offshoring activities and their consequences such as increased costs, lower quality, and added time should be compared to the magnitude of the benefit the offshore company seeks.

SMEs should choose the offshoring partner that promises the most benefits while posing the least risks. That includes educational standards, laws and regulations, cost efficiency, production speed, quality and expertise. This must be done in the initial stage and facilitates the decision whether or not to offshore.

7.2 *Future Research*

This paper is a starting point for further research on the element of trust in relationships in which cultural differences need to be bridged. In this regard, the influence of culture can be subject to a more in-depth investigation with different countries. The countries under investigation can be analyzed separately and with a larger sample size.

The research explored the ideas, thoughts and experiences of companies' representatives and measured qualitative data. Therefore, future research may take an approach that takes more quantitative data into consideration to complement qualitative outcomes. Additionally, organizational culture may play an important role too in the relationship development when companies with an Anglo-Saxon and a Northern-European approach are under investigation. In the entire context of trust and relationships, one might think about how to measure trust. Of course one can ask people about trust or one can measure trust by a so-called trust game or investment game (Fetchenhauer and Dunning 2009). However, in business settings with different cultural backgrounds, it is even more interesting to measure trust at an objective level.

Finally, the study how relationships are managed best by either SMEs or large firms and if there are significant differences would require more data that includes comparative experience and insights gained by larger firms.

Acknowledgments We thank very much Ari Oksanen and Björn Ziemer for data collection and their contribution to this article.

Appendix 1

Pre-questions

- What is your position/role in the company?
- Could you describe briefly your organization, core businesses etc.?
- What kind of services/business functions are offshore outsourced in your company?
- In what extent have you done outsourcing?
 - When have you started offshore outsourcing?
 - How many contracts?
 - What have been the lengths of the contracts?
- What kind of service providers (vendors) you have had?
 - Size?
 - Location?

Pre-contract Phase

Cognition-based initial trust

Before working together with this service provider:

- We had a good impression of this service provider
- We heard of its good reputation
- We heard of its good ethical standard
- We knew that it treated its clients fairly

Calculative-based initial trust

Before working together with this service provider

- We heard that it usually acts in the interest of its clients
- We knew that it willingly provides assistance to its clients
- We heard that it usually tries to keep to its promises

Psychological initial distrust

Before working together with this service provider:

- We didn't think it is usually honest with its clients
- We didn't think it is usually benevolent to its clients
- We didn't think its employees are usually competent
- We didn't think its actions are usually predictable

Economical initial distrust

Before working together:

- We heard that it does not usually act in the interest of its clients
- We knew that it unwillingly provides assistance to its clients
- We heard that it does not always try to keep to its promises

Post-contract Phase

Customer's mutual trust

After working together with this service provider, we realize:

- It makes beneficial decisions to us under any circumstances
- It is willing to provide assistance to us without exception
- It reliably provides pre-specified support in a contract
- It is honest
- It cares about us
- It is sincere at all times

Explicit knowledge sharing

With this service provider, we share:

- Business proposals and reports
- Business manuals, models and methodologies
- Each other's success and failure stories
- Business knowledge obtained from newspapers, magazines, journals and television

Implicit knowledge sharing

With this service provider, we share:

- Know-how from work experience
- Each other's know-where and know-whom
- Expertise obtained from education and training

Outsourcing success

- We have been able to refocus on core business
- We have enhanced our IT competency
- We have increased access to skilled personnel
- We have enhanced economies of scale in human resources
- We have enhanced economies of scale in technological resources
- We have increased control of IS expenses
- We have reduced the risk of technological obsolescence
- We have increased access to key information technologies
- We are satisfied with our overall benefits from outsourcing

Additional open questions:

- Do you think that the central role of owner/manager of SME is crucial for creating trustful relationship with the service provider?
- Do you feel that you have experienced opportunistic behaviour from your service provider?
- If yes, how have you reacted to this opportunistic behaviour?
- How do you see the division of interorganizational trust and interpersonal trust from your organizations point of view?
- Do you think that the creation of interpersonal trust plays more important role than interorganizational trust in successful outsourcing relationship?
- Do you initially feel that building a trustful relationship is easier with a SME service provider than large service provider (or vice versa)?
- In which ways and with which tools you feel trust could be improved in your relationships with the service provider?

References

- Adams, B. D., Flear, C., Taylor, T. E., Hall, C. D., & Karthaus, C. (2010). Review of Interorganizational Trust Models. *Human systems Incorporated*, DRDC Toronto CR 2010, p. 143.
- Baker, S. E. (2012). *How many qualitative interviews is enough? Expert voices and early career reflections on sampling and cases in qualitative research*. National Center for Research Methods Review Paper, Middlesex University, UK.
- Bharadwaj, S. S., Bhushan, K., Saxena, C., & Halemane, M. D. (2010). Building a successful relationship in business process outsourcing: an exploratory study. *European Journal of Information Systems*, 19, 168–180.
- Baumeister, R. F., & Bushman, B. J. (2010). *Social psychology and human nature* (2nd ed.). Belmont: Wadsworth.
- Brown, D., & Wilson, S. (2009). *The Black book of outsourcing: how to manage the changes, challenges, and opportunities*. New Jersey: Wiley.
- Business Week Magazine. (2011). *The mortgage of the future*. <http://www.businessweek.com/magazine/the-mortgage-of-the-future-11102011.html>. Accessed: 15th November 2011.
- Child, J., Faulkner, D., & Tallman, S. (2005). Trust in cooperative strategies. In J. Child, D. Faulkner, & S. Tallman (Eds.), *Cooperative strategy: Managing alliances, networks, and joint ventures* (2nd ed., pp. 50–70). New York: Oxford University Press.
- Chell, E. (2008). *The entrepreneurial personality. A social construction* (2nd ed.). New York: Routledge.
- Contractor, F. J., Kumar, V., Kundu, S. K., & Pedersen, T. (2010). Reconceptualizing the firm in a world of outsourcing and offshoring: The organizational and geographical relocation of high-value company functions. *Journal of Management Studies*, 47, 1417–1433.
- Devos, J., Van Landeghem, H., & Deschoolmeester, D. (2009). IT governance in SMEs: Trust or control? *Information Systems*, 30(1), 135–149.
- Dibbern, J., Goles, T., Hirschheim, R., & Jayatilaka, B. (2004). Information systems outsourcing: A survey and analysis of the literature. *The DATA BASE of Advances for Information Systems*, 35, 6–102.
- Dibbern, J., & Heinzl, A. (2009). Outsourcing of information systems functions in small and medium sized enterprises: A test of a multi-theoretical model. *Business & Information Systems Engineering*, 1, 1–10.
- Duncan, P., Wright, J., Duncan, D., & Wiggins, A. (2009). Strategic IS/IM in context. In K. Grant, R. Hackney, & D. Edgar (Eds.), *Strategic information systems management: priorities, procedures & policy*. London: Thomson/Cengage Learning.
- Dunning, D., Fetchenhauer, D., & Schlösser, T. M. (2011). Trust as a social and emotional act: Noneconomic considerations in trust behavior. *Journal of Economic Psychology*, 33, 1–9.
- European Commission. (2012). *Small and medium-sized enterprises (SMEs) What is an SME?* http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm. Accessed July 12 2012.
- Fetchenhauer, D., & Dunning, D. (2009). Do people trust too much or too little? *Journal of Economic Psychology*, 30, 263.
- Fink, M., & Kraus, S. (2007). Mutual trust as a key to internationalization of SMEs. *Management Research News*, 30, 674–688.
- Hätönen, J., & Eriksson, T. (2009). 30+ years of research and practice of outsourcing—Exploring the past and anticipating the future. *Journal of International Management*, 15, 142–155.
- Ibrahim, M., & Ribbers, P. M. (2009). The impacts of competence trust and openness trust on interorganizations systems. *European Journal of Information Systems*, 18, 223–234.
- Inkpen, A. C., & Tsang, E. W. K. (2005). Social capital, networks, and knowledge transfer. *Academy of Management Review*, 30, 146–165.

- Janowicz, M., & Noorderhaven, N. (2006). Levels of inter-organizational trust: Conceptualization and measurement. In R. Bachmann & A. Zaheer (Eds.), *Handbook of trust research* (pp. 264–279). Cheltenham: Edward Elgar Publishing Limited.
- Judd, C. M., & Kenny, D. A. (2006). Research design and research validity. In D. Vaus (Ed.), *Research design* (Vol. 1). UK: Sage Publications.
- Lee, J., & Huynh, M. (2005). *An integrative model of trust on IT Outsourcing: From the service Receiver's Perspective: Proceedings of the 9th Pacific Asia conference*, paxis-net.org.
- Lee, J., Huynh, M., & Hirschheim, R. (2008). An integrative model of trust on IT outsourcing: Examining a bilateral perspective. *Inf Syst Front*, *10*, 145–163.
- Lewicki, R. J., & Bunker, B. B. (1995). *Conflict, cooperation and justice*. Trust in relationships: A model of trust development and decline. Jossey-Bass, San Francisco.
- Mathrani, A., Goel, G., & Parsons, D. (2007). *Building trust across virtual social spaces: The software vendors perspectives [online]*. Available at: <http://aisel.aisnet.org/acis2007/17>. Accessed: July 19 2012.
- McAllister, D. J. (1995). Affect and cognition-based trust as foundations for interpersonal cooperation in organizations. *Academy of Management Journal*, *38*, 24–59.
- McKnight, D. H., Cummings, L. L., & Chervany, N. L. (1998). Initial trustformation in new organizational relationships. *Academy of Management Review*, *23*, 473–490.
- Miles, L. K., Nind, L. K., & Macrae, C. N. (2010). Moving through time. *Psychological Science*, *21*, 222–223.
- Minkov, M., & Hofstede, G. (2011). The evolution of Hofstede's doctrine. *Cross Cultural Management: An International Journal*, *18*, 10–20.
- Perrini, F., Russo, A., & Tencati, A. (2007). CSR strategies of SMEs and large firms. Evidence from Italy. *Journal of Business Ethics*, *74*, 285–300.
- Rottman, J. W. (2008). Successful knowledge transfer within offshore supplier networks: a case study exploring social capital in strategic alliances. *Journal of Information Technology*, *23*, 31–43.
- Russo, A., & Perrini, F. (2009). Investigating Stakeholder theory and social capital: CSR in large firms and SMEs. *Journal of Business Ethics*, *91*, 207–221.
- Sabherwal, R. (1999). The role of trust in outsourced IS development projects. *Communications of the ACM*, *42*, 2.
- Stel, F. (2011). *Improving the performance of co-innovation alliances*. Tilburg: Tilburg University.
- Willcocks, L., & Craig, A. (2010). *The outsourcing enterprise outsourcing in difficult times: releasing cost but maintaining control*. www.logica.com. Accessed April 2011.
- Winkler, J. K., Dibbern, J., & Heinzl, A. (2008). The impact of cultural differences in offshore outsourcing-Case study results from German–Indian application development projects. *Information System Frontier*, *10*, 243–258.
- Yin, R. K. (2011). *Qualitative research from start to finish*. New York: The Guilford Press.



Hanze Kenniscentra
University of Applied Sciences

Ondernemerschap

Contact
Kenniscentrum Ondernemerschap
Zernikeplein 7
9747 AS Groningen
050 595 2070
kenniscentrumondernemerschap@org.hanze.nl