Chapter 2.8
Client–Vendor Relationships in Offshore Applications Development:
An Evolutionary Framework

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ABSTRACT

This article presents an evolutionary framework for the establishment and progression of client-vendor relationships in the context of offshore 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, networklike relationships with them. As offshore 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 ultimately is 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 lately have been under great pressure to seek out fresh approaches to control information technology (IT) costs and to demonstrate higher returns on technology investments. One increasingly popular response from decision makers is offshoring, or the shift of IT work to low-wage, offshore locations. Some offshore work tends to be project-oriented with specific completion criteria that were entailed in the design and development of applications. Other work comprises ongoing

operations such as technology maintenance, or help desk support conducted out of call centers. This article focuses on the offshoring of applications development and how its attributes shape the evolution of relationships between client and vendor organizations.

Much has been written about the management of IT outsourcing and offshoring. Proponents of various approaches have based their arguments on literature ranging from transaction cost economics to resource dependency, strategic choice, stakeholder theory, organizational learning, and institutional theory (Barringer & Harrison, 2000). Some of these suggested approaches also have been tested empirically. However, these management prescriptions neither have been presented nor tested in the specific context of offshore applications development. The implicit assumption underlying this omission appears to be that valid arguments in the general IT outsourcing or offshoring context also must apply to application development, regardless of task attributes. Most theories also embody static views of vendor-client relationships. They emphasize either vendor partnerships/alliances (a network-oriented, trust-based perspective) (Lander, Purvis, & McCray, 2004; Willcocks & Choi, 1995), contracts and transactions (a market-oriented, enforcement-based perspective) (Aubert, Rivard, & Patry, 2004; Richmond & Seidmann, 1993), or a mix of both (Koh, Ang, & Straub, 2004; Sabherwal, 1999). The few that offer evolutionary offshoring perspectives are focused either on client drivers and general industry trends (Carmel & Agarwal, 2002) or on vendor points of view (Rajkumar & Mani, 2001).

It is the contention of this article that for offshore application development, these ostensibly disparate management approaches in fact may represent progressive stages for the client in the evolution of its relationships with one or more vendors. While several alternative evolutionary paths 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 evolves through successive offshoring stages, not all necessarily with the same application development vendor.

Specifically, a client's experimentation with offshoring begins with reduced development costs as the desired goal. Over time, interplay between the intrinsic task characteristics of application development and the unique attributes of offshoring broaden and evolve the client's goals. These evolving goals, in turn, successively alter the nature of the vendor-client relationship in distinct stages. The rationale for this path is supported with logical argument, evidence from the published literature, and an original case study for illustration.

STAGES IN OFFSHORE APPLICATIONS DEVELOPMENT

Like all buyers and suppliers, offshore vendors and clients essentially interact in one of two ways: transactional/market exchanges or relational exchanges. A transactional exchange is usually a short-term contract characterized by free market price mechanisms and the need for enforcement. A relational exchange implies a longer-term relationship with ongoing interactions. Relational options include long-term contracts, networks, and hierarchies. Long-term contracts resemble the short-term variety, except that they address many more contingencies and consequences. Networks emphasize interorganizational trust, association, and solidarity. Hierarchies refer to rather rigid structural relationships based on formal authority and command, usually stemming from ownership of one organization by another.

As mentioned earlier, the published literature has focused almost exclusively on contracts and networks as mutually exclusive types of client-vendor relationships in the offshoring/outsourcing context. This article will show that applications