

Markus Biehl and Nisha Kulangara

9 A triadic perspective on the risks of IS outsourcing in a Software as a Service (SaaS) context

9.1 Introduction

In today's networked environment, organizations depend on their suppliers for much of the value added to their products or services. While standardized items (e.g., nuts and bolts) or services (e.g., cleaning or maintenance) can simply be purchased, the acquisition of high-value resources often requires organizations to collaborate with their suppliers (Tsay et al., 2018). This is particularly true if the organization seeks to access resources that are valuable, rare, inimitable and non-substitutable – the conditions for generating a competitive advantage (Barney, 1991). In such setups, organizations must collaborate and share information, which can expose the buyer and supplier to risks particularly when geographically removed or culturally different from one another, due to bounded rationality and the increased potential for opportunistic behavior (Williamson, 1975). As a result, many firms have more recently explored the “reshoring” of outsourced operations (Gray et al., 2013).

What happens when such a setup suddenly becomes even more complex – when organizations must engage in *triadic* outsourcing, where they need to engage with two service providers whose services to the buyer/client depend on each other (see Figure 9.1). Such complexity has recently come to the forefront with the development of Software-as-a-Service (SaaS) offerings. Instead of hosting software on the buyer's servers (“on-premise”), software is now frequently a subscription-based service, that is hosted on remote servers, i.e., in the “cloud.” Cloud-based software platforms cannot be customized to suit the needs of a particular buyer as they serve a larger number of subscribers. To make this software work for the client, a configuration layer is introduced that “translates” between the cloud product and the client's interfaces to it. With enterprise-level systems, this configuration is not typically undertaken by the client as this task is oftentimes too complex. Neither is it offered by the software provider, as the software provider only provides access to the software platform and documentation, all of which is available to all its subscribers. Instead, a number of

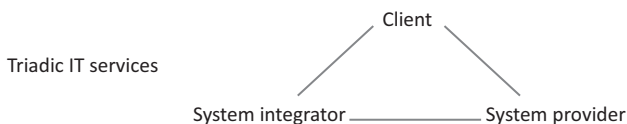


Figure 9.1: Structure of a Triadic Partnership.

consulting firms, known as “system integrators” have filled this service gap. System integrators are responsible for investigating the client’s needs in terms of inputs, processes, and outputs, and then configuring access to the software platform in such a way that the client’s individual needs are largely met.

For the client, this now presents an unusual proposition, where two services – those of the systems integrator and the SaaS provider – interact with each other in a context in which the actions of the provider (e.g., in the form of updates to existing or the introduction of new functionality) and the work of the integrator both impact the client’s outcomes. In other words, each partner is directly impacted by the two others and can influence, and be influenced by, the others’ actions (Karatzas et al., 2017). In addition, the client’s choices along the implementation timeline determine how difficult it is for the integrator to achieve their mission. In short, what used to be a dyadic process for the buyer and supplier is now an ever-moving target whose outcome depends on several actors.

Unfortunately, research on the topic of triadic IS outsourcing is in its infancy. While social network analytic approaches are useful for structurally examining triads, questions of how to best manage such setups via legal (control) and social (coordination) methods are still lacking (Bastl et al., 2019). In addition, the investigation of performance impacts of triadic designs (ex-ante) and governance (ex-post) approaches is also needed (Broekhuis and Scholten, 2018; Perdikaki et al., 2015). Partnerships that involve three organizations are particularly difficult to manage as the coordination patterns are more complex (Vlachos and Dyra, 2020).

The absence of research on outsourcing triads is a significant problem as investments for such systems by medium-sized or large firms run in the millions to tens of millions of dollars each, and firms depend on the reliability of such systems and configurations for basic operations. Meanwhile, such systems are becoming pervasive in industry, Gartner predicts that by 2023, 80% of service-based firms will have a cloud-based ERP in a total market worth US\$ 44 bn (Gartner, 2019). Yet, very little information is available that could guide buyers with their large financial investments, beyond the use of Service Level Agreements (SLAs).

The aim of this chapter is hence to survey which risks exist in a triadic partnership, including sociopolitical risks in cases where one or two partners stem from differing cultures or geographical regions. We also derive recommendations on how to manage those risks. We conclude with findings on how such risks may interact.

9.2 Framework

Literature on dyadic sourcing provides a good overview of the principles that also apply to triadic exchanges. Transaction Cost Theory (Williamson, 1975) and the Resource Based View (Barney, 1991, Cannon and Perreault Jr., 1999) propose a number

of external determinants as well as key relationship connectors that influence project outcomes. The external determinants include market and situational conditions, whereas the relationship connectors address how the triad is governed. These determinants and connectors are summarized in Figure 9.2.

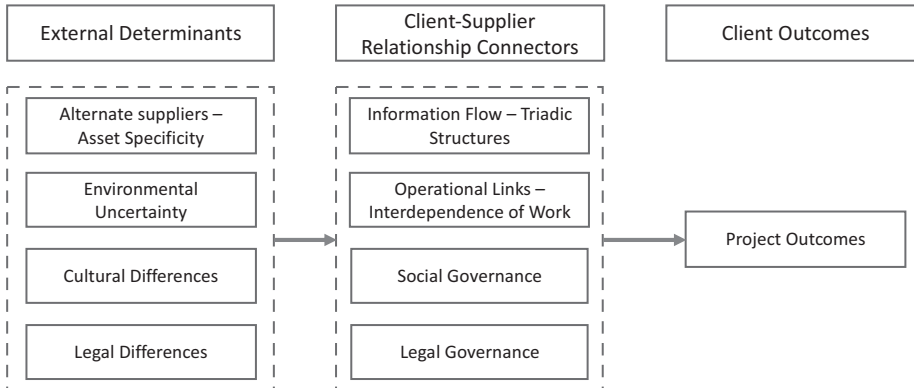


Figure 9.2: Overview of Key Determinants and Relationship Connectors (based on Cannon and Perreault Jr., 1999, 442).

The external determinants influence the client's degree of freedom with regards to the relationship. For example, if there are very few alternate suppliers or, similarly, the client must rely on assets that are highly specific to this triad, then the client's power in the relationship is low and its best approach is to look towards the full range of connectors to make the partnership work. A high degree of environmental uncertainty necessitates a different mix of relationship connectors, with some legal safeguards complemented by social governance mechanisms. Cultural differences can significantly impact how partners interpret each other's messages and behaviours, thus increasing risk as well (Hofstede, 1994). Lastly, the enforceability of (service level) contracts have implications on how the triad is governed, as a decrease in enforcing a contract prompts an increase in non-legal (relational) governance approaches.

The relationship connectors influence how the partners interact. This interaction is influenced by how the triad is structured with strong or weak communication channels, how interdependent the three partners' work is, how much the partners work toward a common goal, and a mix of legal and social governance mechanism that help set and manage expectations and ongoing issues.

We will start by discussing these relationship connectors, before showing how external determinants impact these connectors.

9.3 Buyer-supplier relationship connectors

In this section we investigate the dimensions that influence how the triadic partners interact. To discuss how information is exchanged, we first take a structural view of the triad using a network analytic approach. Second, we view the operational linkages through the lens of the interdependence of the partners' work as interdependence is an important and complex topic in a triad that also includes a discussion of the role of adaptations by partners. To address cooperative norms, we discuss the concept of social governance within a triad, including the question of goal congruence. Finally, we briefly expose the interaction between legal and social governance.

9.3.1 Triadic structures

Li and Choi (2009) investigate service triads from a network analytic view (see Liu et al., 2017) for a great overview of social network theory). As shown in Figure 9.1, a service triad has connections between each of the three actors. That is, not only does the client interact directly with the system integrator (SI) and software provider (SP), but the SI and SP also interact with each other. All parties are part of a bidirectional information flow, where all three parties supply significant inputs in the service co-production (Bastl et al., 2019). The direct interaction among all partners is a characteristic that differentiates service triads from manufacturing triads (Li and Choi, 2009).

If any of the three links are cut, a structural hole opens in the triad. A structural hole between the SI and SP, for example, would put the client into a bridge (coordination) position and make it easier for it to control the information flow (and agenda), but would also inhibit coordination and knowledge transfer between the SP and SI, ultimately challenging the completion of the project's implementation on time and budget. This is a scenario that is unlikely to occur in a SaaS environment. The same argument can be made for any other missing link in the triad, with slightly different balances of "benefits" (e.g., control) and risks. Note that structural holes may also exist for other reasons that inhibit information flow, especially if at least one of the partners is located in a different cultural or geopolitical area.

Risk #1: Disrupted or politically controlled information flow due to structural holes in the triad

Bridging functions may also decay naturally over time as the other non-bridging partners can start improving connections, thus annulling the bridging function (Li and Choi, 2009). For example, as a SaaS implementation progresses, the client

could establish a stronger connection with the SP, thus slowly taking over the bridging function from the SI.

Each of these scenarios has benefits and risks associated with them, depending on the role each partner plays, as outlined in more detail in the following sections. The least concerning structural hole in a SaaS environment is that between the client and SP, as long as the SI is competent and reliable; the most dangerous one is between the client and SI as it has an immediate and significant impact on project success.

As this risk overlaps with risk #3, we will examine potential mitigation strategies in the next section.

9.3.2 Interdependence of work

As alluded to above, all three partners need to be able to partake in the exchange of information and be part of service delivery, which makes the relationship interdependent (Bastl et al., 2019). In a SaaS environment, the SP must document the system's ability and the interfaces provided through its application programming interfaces (APIs – the interfaces that allows clients to retrieve or input data), along with system security and performance measures. As well, the SP will continuously improve and further develop the functionality of the system.

The client must document its own requirements – ideally after a broad consultation with its own internal or external clients in order to document existing inputs, processes, and outputs – and evaluate the potential for simplification (Gunasekaran and Nath, 1997). As is known from examples of unsuccessful ERP implementations, the attempt to make information systems fit cumbersome processes is not only time consuming and expensive, but also likely to lead to failure (Garg and Agarwal, 2014; Garg and Khurana, 2017). This is particularly true as very onerous requirements increase not only the project's complexity and the SI's work, but also the likeliness that the client's requirements cannot be satisfied with the SP's service. In short, it is important that the client adapt its requirements if its process capabilities have not already been optimized.

Finally, the SI's task is to fully understand the software platform's design and capabilities and keep up-to-date with regards to upcoming changes. This knowledge will inform the guidance it provides to the client as the latter investigates, documents, and communicates its requirements. During a fit-gap analysis, the client and SI will assess how well the platform can meet the client's needs, and how the client's inputs, outputs and processes can be simplified to narrow the gap between the software's capabilities and the client's needs. As the SI typically has the benefit of deep expertise in the client's industry through having provided the same or similar service to other clients, the SI's role in this partnership is pivotal as it bridges the client's needs and the platform's capabilities. At the same time, the SI

needs to be able to recognize which idiosyncratic processes are important to the client's performance and find ways of adapting to them.

What are the risks in SaaS triads from a perspective that takes into account that the partners' work is interdependent? While the SP has a stake in the project's success, the main interaction occurs between the client and SI. While either the SI or the client may be in a more pivotal role (i.e., occupy the bridge function), some arrangements are very risky. In particular, a client whose processes or organizational change capabilities need significant support from the SI is typically best served by allowing the SI to take on the bridge function in the triad. This is even more important if the implementation represents a significant change in the way the client thinks about and interacts with the software, e.g., when moving away from legacy systems (see Figure 9.3). That is, in order to reduce the interdependency of work, the client would thus exhibit adaptability and allow the SI to occupy the bridge function. The client exerting too much power would challenge the project's success as it would make it more difficult for the SI to match up the client's processes with the platform's capabilities. Stepping back would allow the client to take advantage of the SI's experience with the SP and industry to help it align its processes and, due to the significant changes that are to be implemented, the organizational change process.

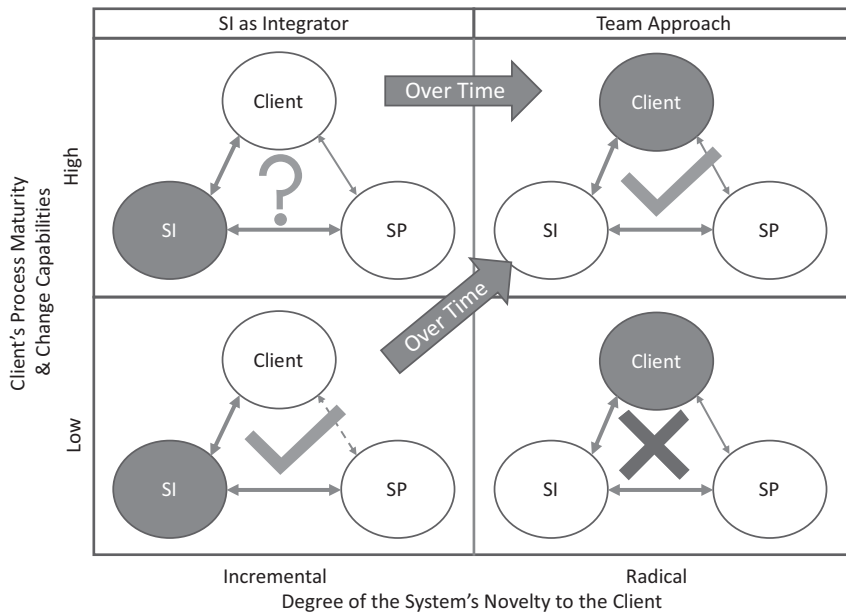


Figure 9.3: Triadic configurations (adapted from Ateş et al., 2015).

In contrast, if a client possesses simple and linear processes that serve its business outcomes, plus the ability to bring along its community through a change management process, the client may occupy the bridge function instead. While maintaining a very strong connection with the SI, the client should then also maintain a connection to the SP, to further familiarize itself with the platform's capabilities and interfaces. Note that this scenario may naturally occur over time, thus slowly shifting the bridge function from the SI to the client. According to Li et al. (2009), the bridge function naturally decays over time as the SI has no effective way to prevent repeated contact between the buyer and SaaS firm. After implementation, the SP would be in a position of leverage and, thus, the bridge would have transferred to the software supplier, making the client more dependent on the SP (Li and Choi, 2009).

Figure 9.3 shows that a third scenario is possible, with the SI occupying the bridge function even though the client possesses a high level of process maturity and change capabilities. This allows the client to enjoy the SI's experience and the onboarding of the new platform, while minimizing the risk that naturally occurs with the implementation of a new enterprise platform. In this scenario the volume of adaptations is much lower than in the other scenarios and distributed between the SI and client.

Risk #2: Client's process maturity or change management capabilities

Risk #3: SI's ability to match the client's needs with the software's capabilities

What does this mean in terms of risk? As the partners' success at delivering the service depends on what the two other partners do, the risk to successfully completing the project is very high. The risk emanating from the client and SI stand out, due to their positions in the triad. The risks can be divided into those during the implementation and steady-state phases. During implementation, for the client, managing its requirements and constantly supporting and updating and benefiting from the SI's experience will be the main goals. For the SI, retaining an up-to-date and in-depth knowledge of the platform's capabilities, properly understanding the client's needs, and its ability to find ways to configure the software and advising the client to match needs and capabilities will be critical. According to Ateş et al. (2015, 1517), "deciding on each party's level of autonomy is one of the most critical issues" in innovation projects, particularly when the project "requires a high degree of creativity on the part of the supplier." Striking a balance between control and autonomy is not always easy, however, as too much autonomy may also reduce goal congruence (see next section) and encourage opportunistic behaviour and the leakage of technical knowledge (Ateş et al., 2015).

After the implementation, the importance of the SI will diminish and, thus, the risks caused by it, meaning that most risks will come from the client side. By the time the project reaches production, the client should have developed a very good link

with the SP and knowledge of the software's capabilities such that any further developments of capabilities and other changes to the platform can be managed either by the client or with occasional the help of the SI.

9.3.3 Goal congruence and social governance

Whereas the previous section investigated the triad with a view towards the interdependence of the work completed by the actors, a related topic treated in this section is the relationship complexity. In a triad, the three partners have overlapping but different goals. The client is mostly focused on its ability to service its internal and external users while containing cost and time. The SP is interested in expanding the platform's capability or improve its interfaces to better serve existing and attract new clients. The SI ultimately wants to be perceived by both the client and the SP as a capable partner as this reputation makes it easier to attract new clients. Still, the goals also overlap. First, the client wants to end up with a well-functioning information system so it can serve its customers and justify its monetary and temporal effort to its managers or other stakeholders. The SI wants the client to be satisfied with its services to increase the likeliness that the client will retain them as a trusted partner during steady-state and recommend them to other potential clients. The SP will find it easier to attract additional clients to its platform if clients and SIs use and recommend it.

A lack of goal congruence is a significant risk factor in large-scale projects. Social Capital Theory (Tsai and Ghoshal, 1998) investigates this issue and refers to goal congruence as "shared goals," and shows that they are directly linked to the outcomes of strategic purchasing initiatives (Villena et al., 2011).

Risk # 4: Lack of goal congruence between the partners

Two basic governance mechanisms exist for ensuring that a low goal congruence does not lead to an increase in the effort required to successfully complete a project. First, the three partners typically enter contractual relationships with each other, which, in the realm of information systems, includes service-level agreements and may also include three-way non-disclosure agreements. Contracts typically set out the terms of the sale, warranties and timelines, frequently also dispute resolution mechanisms and occasionally stipulations for penalties in the case of non-performance. Williamson (1975, 2002) and many others recognize, however, that contracts are rarely complete, i.e., they cannot possibly fully capture complex situations. Contract enforcement can also be expensive, time consuming (please see the section on external determinants), and damage the social structure of a relationship.

This is a major reason why, as of late, literature has investigated mechanisms based on social capital theory (Tsai and Ghoshal, 1998). Within a contracting context, social capital rests on three pillars: the patterns of connections between the parties (structural capital), shared goals and values (cognitive capital) and trust, respect and friendship (relational capital) (Nahapiet and Ghoshal, 1998). As a powerful complement to contracts, social connections can keep complex triads stable and operating “in an effortful, cooperative manner with actors overcoming any conflicting interests by developing triad-specific collaborative routines” (Vlachos and Dyra, 2020, 287).

The cognitive capital dimension captures goal congruence while the other dimensions provide mechanisms for preventing or rectifying difficulties within the triad. Social connections between the partners facilitate the socialization process between the partners, which may be formal and more traditional (i.e., task focused interactions) or informal or even personal (e.g., over a meal or a round of golf) (Cousins et al., 2006). While formal socialization occurs primarily at the day-to-day, or operational, level and is focused on contractual or partnership-level information, informal socialization often relays tacit, confidential or even personal information (Kulangara et al., 2016). Both types of socialization are effective in addressing problems and establishing or reinforcing shared values (Kulangara et al., 2015) and can be used to strengthen goal congruence. Socialization also affects relational capital, and trust in particular. Kulangara et al. (2015) showed that informal (but not formal) socialization builds trust, and that trust has a positive effect on performance, including cost and time. In contrast, formal socialization drove innovative capabilities, a dimension that is important in an SaaS implementation setting, both directly and through an improved goal congruence.

In short, both formal and informal socialization are important, albeit for different purposes. In a SaaS project, partners need to not only exchange texts and emails but also get together to hash out any problems and review what has gone well at the operational, tactical, and strategic levels.

9.3.4 The interaction between social and legal governance

Supporting the importance of social linkages, Karatzas et al. (2016) investigated a number of permutations through which legal (“formal”) and social (“informal”) mechanisms could effectively help govern innovative projects. According to the literature, these “different types of control are appropriate under different conditions” (Ateş et al. 2015, 1516), with uncertainty and asset specificity being the main driver for the choice. Both uncertainty and asset specificity limit the enforceability of contracts.

The customary basic legal agreement in an information systems (including SaaS) environment is the service level agreement (SLA) struck between each pair of the partners, sometimes as a more detailed document within the framework of a master service agreement (Rosencrance et al., 2021). The SLA broadly addressing the agreement's objectives, scope of services, the responsibilities of the involved parties, performance metrics and dispute resolution mechanisms and penalties (see Rosencrance et al. (2021) for more detail; Wazir et al. (2016) compare the effectiveness of different SLA structures for SaaS).

Karatzas et al. (2016), however, found that in many cases adaptations to the relationship were necessary to make it work – as discussed above. Williamson (1975) already observed the need for such adaptations may not be captured in contracts but evolves over time as the client assesses its needs – in the case of SaaS likely with the help of the SI either from the beginning or starting partly into the project. In situations with this degree of complexity it is key that, rather than resort to contractual mechanisms, partners learn about the factors that drive the need for adaptations (Madhok, 2002). Such reflective activities are not easy but a necessary skill in the context of triads that execute complex projects. In line with Karatzas et al. (2016), contract support played a positive role, while legal bonds were of minor relevance, particularly in long-term relationships.

9.4 External determinants

Referring back to Figure 9.2, this section investigates the market and situational determinants that impact triadic projects within a SaaS environment. We focus first on asset specificity and environmental uncertainty as important components that may limit the client's choice of governance activities. We will then discuss sociopolitical dimensions to address cultural and legal differences between partners.

9.4.1 Asset specificity in SaaS triads

Recall that the SaaS approach differs from a traditional software purchase in that all adjustments are made in the configuration layer. For implementing large-scale systems, most clients elect to have an SI who has deep knowledge of the platform and experience in the client's industry. This setup creates two dependencies for the client: first, on the SI's expertise and knowledge of the platform and the client's needs and processes and, second, on the platform itself as the configuration layer is, to a large degree, not usable for other platforms. That is, it would be a significant effort to switch either to a different SI during the implementation process or to a

different SaaS at any point of time. Thus, both the work with the SI and the configuration layer represent investments in specific assets.

Risk # 5: Asset specific investment in the SI's knowledge of the client

Risk # 6: Asset specific investment in the platform's configuration layer

Even though the concept of asset specificity is not new, literature has not investigated it in the context of sourcing in general or software implementation in particular. In a manufacturing context, asset specificity may lead to positive outcomes such as manufacturing competitiveness (Wacker et al., 2016), organizational performance, cooperative innovation on projects, and manufacturer's innovation performance (Delbufalo, 2017). Within a SaaS context, this would mean that asset specificity could strengthen the bond particularly between the client and SI, thus deepening their cooperation and willingness to adapt, giving them the opportunity to use asset specificity to their advantage. At the same time, asset specificity is also associated with increased project performance, even though the causal links and temporal sequence are not clear at this time.

On the flipside, when asset specificity is high, the project's transactional risk increases (Dyer, 1996; Williamson, 1985). Relationship-specific investments can lead to opportunism (shirking and poaching) in outsourcing relationships (Handley and Benton, 2012), such as the SP not responding to legitimate requests from the SI or client, or the client (SI) ignoring relevant input from the SI (client). Such investments can also result in governance misalignment which, as discussed above, can negatively impact outsourcing performance (Handley, 2017). For example, a lack of shared goals could lead to the SI recommending unnecessary or perform incomplete work for the client, thus provoking suboptimal outcomes. Similarly, the client could block process adaptations in the hope that the SI would influence the SP or find other ways to accommodate the client.

How can the risks emanating from asset specificity be managed? It is advisable to refrain from becoming complacent and too comfortable with each other (Villena et al., 2011) and lean on social governance mechanisms (formal and informal socialization, information sharing) that are suited for establishing and strengthening shared goals and trust through both formal and informal socialization (Kulangara et al., 2015; Poppo and Zenger, 2002; Villena et al., 2015). This is because intuitive agreement on issues as well as professional and personal bonds make it more difficult for one of the parties to turn their back on the other and exploit the power they have gained through asset specific investments. In short, an increased amount and depth of communication – driven by both tasks and social ties – will benefit the SaaS project and its outcomes.

9.4.2 Environmental uncertainty

Environmental uncertainty deals with external risks such as market volatility and competition. It refers to unexpected, unforeseen changes in a transaction (Noordeweir et al., 1990) and is prevalent in the IS offshoring context where triads also deal with geographical, cultural, and legal differences (to be discussed further in the next sections). In the case of new projects, triadic players mainly deal with “task uncertainty.” Task uncertainty refers to “the difference between the amount of information required to perform the task and the amount of information already possessed by the organization” (Galbraith, 1977, 36). In triadic situations, the number of organizations and people involved can add complexity to task identification and coordination.

Risk #7: Environmental uncertainty due to unforeseen political, social or legal events

Researchers have also proposed that, in dyads, higher levels of environmental uncertainty require higher levels of communication and coordination strategies (Gulati et al., 2012; Xu and Beamon, 2006) and deeper investments in relationship-specific assets such as mutual respect, trust, and commitment (Bastl et al., 2012; Handley and Benton, 2012). This should also hold for triads.

The partners should strive for clarity about how information will flow and who the boundary spanners will be within the network. As well, uncertainty can be reduced for the client by having the SI occupy the bridge function to coordinate the information flow (Handley and Benton, 2012). The client could protect itself from any opportunism from the SI or SP by having contractual safeguards (i.e., well-written master agreements and SLAs) in place at the beginning of the project. Finally, the client can lean on the synergistic impact of both relational embeddedness and contractual bonds (Poppo and Zenger, 2002) to safeguard itself from the risks of environmental uncertainty caused by market turbulence, information uncertainty within the triad, task uncertainty, and external competition.

9.4.3 Cultural differences

In a globalized environment, it is common for IS outsourcing projects to consist of virtual teams with partners residing in different social and cultural realms. (National) culture can be defined as “shared collective values that make diverse (national) human communities different or similar, and to the reasons underlying these differences” (López-Duarte et al., 2016, 397). Significant differences in culture, referred to as “cultural distance,” can result in project failures. For example, some cultures are blunt and direct, which can be perceived as impolite by a team member

from another culture, resulting in misunderstandings and negative team dynamics. In some cultures, it is considered unprofessional to be tardy for meetings or project deliverables while others expect it. A partnership must account for these differences. Therefore, when working in a triadic context across national borders, the client must factor in sociopolitical aspects, including differences in social (cultural) and organizational value systems, all of which can drive (or help avoid) uncertainty.

Hofstede (Hofstede, 1994) identified six unique social dimensions (power distance, individualism, masculinity, uncertainty avoidance, long term orientation, indulgence) that differentiate national cultures, the first four of which are frequently used in management. Due to these differences, the type and range of measures employed in interacting with one's partners may have to differ. As an example, using a subset of the cultural dimensions, Hofstede (1985) classified countries and regions based on their scores along uncertainty avoidance and power distance, as shown in Figure 9.4. These differences in approaches can result in very different communication patterns, interaction styles and organizational customs. For example, a client in the Well-oiled Machine category may not be comfortable with the degree of uncertainty or ambiguity its supplier from the Family category is tolerating. Similarly, the communication norms the supplier employs may be quite different from those the client is accustomed to. In the context of SaaS implementations, a Family-type SI would be more comfortable moving forward with incomplete specifications and attempt to figure those out as the project progresses, and then communicate those to their Machine-type client in a more top-down fashion. This (not uncommon) scenario increases the risk of misunderstandings and fallouts between the client and SI, thus severely challenging project success.

Risk #8: Social (cultural) differences amongst triadic partners

How can the differences in information flow among different cultures be handled? In IS outsourcing dyads, Poppo and Zenger (2002) found that customized contracts and relational governance (trust, respect, commitment, see above) play a complementary role instead of a substitutionary role. The project teams will have to examine the conditions (social, political, cultural context) under which it would be beneficial to have a formal or informal approach in triads, particularly when cultural and geopolitical differences between triadic players become more pronounced (Hofstede, 1994), with some partners feeling more comfortable with codified contractual bonds, others with relational bonds.

In a first step, partners should adapt contracts to mitigate some of the risks associated with socio-political or cultural differences (Poppo and Zenger, 2002). This is partly because the line of communication between the SP and client is minimal at

Uncertainty Avoidance Index	Low	<i>Village Market</i> E.g., Denmark, Norway, Sweden, USA	<i>Family</i> E.g., India, Singapore, Philippines
	High	<i>Well-oiled Machine</i> E.g., Finland, Germany, Israel	<i>Pyramid of People</i> E.g., Belgium, Mexico, Portugal, Spain
		Low	High
		Power Distance Index	

Figure 9.4: Different Cultural Approaches (adapted from Hofstede, 1985).

the beginning stages of the project, with the SI filling the communication gap. The SI would be in more frequent communication with the client and adapt an appropriate complementary approach to tilt it towards formal or informal socialization, depending on what is more effective in the cultural mix. That is, it is crucial that the SI in particular (but also the client) understand cultural differences and adapt communication styles and coordination mechanisms for smooth information flow based on the partners' socio-political norms. In such cases, having managers with relevant global exposure and prior international business experience can be a tremendous asset. Partners should also strive to maximize the compatibility between teams as compatibility is hugely dependent on the national culture of team players (Gurung and Prater, 2006).

9.4.4 Legal differences

In addition to cultural differences, a global context also requires attention to legal differences. Laws are based on differing cultural, economic, political, and social conditions (Santolaya et al., 2012). For example, a legal framework could stem from a common law tradition as in England and many Commonwealth countries, a civil law tradition as in many other European countries, or a consuetudinary law tradition, as practiced by many indigenous nations (Santolaya et al., 2012). In comparison, Chinese law, while having strong historical roots, was abolished in the 1950s and re-established slowly starting in the late 1970s. While judges in the Western hemisphere are viewed as interpreting law and are sometimes elected by the population (e.g., in the United States of America), Chinese judges are considered a supervisory part of the state (Gao, 2010).

Such differences are relevant not only for legal proceedings and the enforceability of contracts but also the ability to successfully arbitrate. As national culture influences a country's legal framework and vice versa (Varner and Varner, 2014), companies must consider differences like uncertainty avoidance, communication patterns, employee rights, privacy rights or intellectual property rights (Gurung and Prater, 2006) when developing legal contracts with global partners.

Risk #9: Legal differences amongst countries in which triadic partners reside

While the details concerning the structure and enforceability of laws and contracts goes well beyond this chapter, various organizations provide indicators or advice on this subject (e.g., The World Bank, 2020; United Nations, 2011). For example, the World Bank (2020) provides scores that rank both enforceability and the cost of enforcing contracts. When contracts need to be drawn up or detailed questions arise, however, the help of internationally versed consultants or lawyers becomes advisable.

9.5 Conclusions

Triadic partnerships present numerous complexities to managers. The risks in triadic projects are multiplied as compared to those in dyadic projects since three, rather than two, partners, must set common goals, coordinate, adapt and align their resources to make the project successful.

This chapter investigates the main risks in triads within the context of Software as a Service. Risks can be divided into external and relationship-specific risks. External determinants influence relationship structures and execution, which in turn impact project outcomes.

While any commercial relationship needs to rest on a good legal agreement, two factors simplify the management of triads in a SaaS relationship. First, in a SaaS context, the main interaction occurs between the client and the software integrator (SI). While the client's initial decision is often based on proposals submitted jointly by the SI and software provider (SP), the bulk of the interaction is between the client and the SI. Thus, from a structural perspective, this somewhat reduces the risk within the triad, as compared to a team of three equally important partners. Please note that this insight is not generalizable to other types of triads.

Second, while there is a relatively large number of external and relationship-specific factors, all of them can be managed through three categories of activities: social and cultural aptitude, socialization, and legal bonds, with all three interacting with each other (see Figure 9.5). If all partners stem from the same culture, only two categories apply.

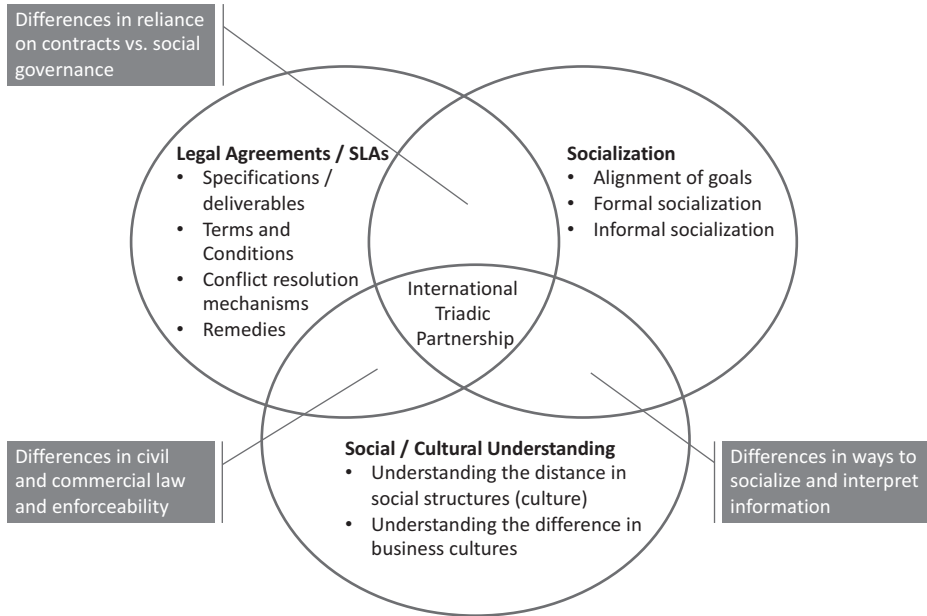


Figure 9.5: Managing an International Triadic Partnership.

How do legal and social mechanisms interact? When the triadic partners share the same culture, they need to strike a balance between contractual and social governance. Contracts, particularly service level agreements, are very important for capturing a basic understanding of the sides' obligations and potential conflict resolution mechanisms and addressing potential environmental uncertainties (Poppo and Zenger, 2002). As not everything can be captured in or foreseen for a legal agreement, however, agreements need to be complemented with social governance mechanisms. Long-term relationships in particular rely mostly on social governance (Karatzas et al., 2016), with formal governance addressing day-to-day issues and informal governance building up close relationships and building trust (Kulangara et al., 2016). Both formal and informal socialization also further the establishment of shared goals and values, which we suspect help partners resolve issues and decide who needs to adapt how much, to reach those goals, avoid negative potential impacts due to asset specificity between the client and SI. The partners thus need to find a good balance between legal and social mechanisms. New relationships may rely on fuller contracts, long-term relationships less so.

Management of a triadic partnership becomes more complicated in a cross-cultural context. Here, legal frameworks and agreements and social mechanisms must be viewed within the context of differing cultural and social norms, as the latter influence laws and their enforceability as well as the expectation for and interpretation of social interactions. If contracts are difficult to enforce, partners should shift

the balance in terms of governance towards socialization, again while keeping the partners' social norms in mind. As well, the meaning of socialization and the way different cultures expect to socialize may vary depending on power distance, individualism, uncertainty avoidance or masculinity. Therefore, social mechanisms need to be considered within the framework of the partner's social system rather than one's own, and adaptations will be necessary beyond the project's specifications. Depending on the social context, a reconsideration of the weight given to legal versus social mechanisms may also be required. From a managerial perspective, the boundary spanners, i.e., the outsourcing managers who is the point of contact between triads should have considerable amount of international experience and an understanding of cultural norms influencing legal frameworks. Outsourcing managers with higher cultural IQ will contribute toward greater outsourcing success in IS offshoring triadic projects.

As many organizations now embark on the journey of changing their information systems from legacy or site-hosted to new-generation cloud hosted systems, the scenario of Software as a Service will more and more frequently emerge. This chapter will hopefully guide organizations that have to rely on two partners simultaneously for the implementation of their new systems, and perhaps use SPs or SIs located outside their own countries.

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