

## Relational Risk Mitigation: The Relationship Approach to Mitigating Risks in Business Process Outsourcing

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### Abstract

*Managing risks in outsourcing has been widely researched but is still not fully understood by either academics or practitioners. Recent research on IS outsourcing relationships has addressed the relationship between formal and relational governance, but has not revealed how individual relational factors affect outsourcing risk. Surveying 335 business process outsourcing initiatives, our data supports the separation of an operational, performance-driven approach and an embedded, financial-driven one in order to mitigate risks through relational factors. Our findings show that relationship processes, particularly conflict resolution, are the most important for controlling performance risk, while inherent relationship attributes, such as trust, are the most suitable and promising for managing financial risk. Overall, our findings recommend a more integrated, specific study of contractual and relational governance mechanisms on individual risk and benefit measures.*

### 1. Introduction

Risk management is a key concept in business and IT venture governance (see e.g. [22, 65]). It is of special importance when external service providers are involved [4, 19]. On the one hand, it seems to be a wise strategy to achieve efficiency and cost improvements through contracting an external vendor who is eager to generate new revenues and gain market shares. Assuming rational decision-makers and the existence of ‘complete’ contracts, the benefits should be easily attainable without any risks. Unfortunately, both practice [e.g. 21] and research [e.g. 23] reveal a different picture. The growth in significance, size, and complexity of outsourcing arrangements in recent decades has become a challenge for outsourcing adopters and led to a rising concern with

the actual management of the outsourcing venture [19], especially with regard to the ‘twin issues’ of risk and relationship management [36]. Both have emerged as interwoven, substantial yet particularly difficult issues for the successful management of outsourcing ventures [4, 47]. In fact, studies have revealed that the relationship dimension is not only vital to outsourcing success [36, 47], but can also be regarded as a main factor in risk mitigation and keeping the contract alive and mutually beneficial [1, 40, 69]. Several researchers have emphasized the importance of relationship management [39, 47, 48] as well as of risk mitigation [4, 19] in studying outsourcing ventures. However, as yet their interplay has been little analyzed or understood [36]. In particular, Willcocks et al. [68] recognized that there are all too few systematic studies which provide a comprehensive analysis of salient risks and relational risk mitigation approaches. More research is needed to understand the interplay of risk and relational factors that allow the formation and sustaining of a good client-vendor relationship while providing the outsourcer with an effective outsourcing governance instrument. In particular there is little detailed research on which of the variety of relationship factors are most significant in mitigating certain risk facets in an outsourcing venture.

This paper therefore aims to analyze the interplay of outsourcing risks and relationship elements. In doing so we view relational factors as mitigating factors on risk. We study Business Process Outsourcing (BPO) deals in order to acknowledge and incorporate the complexity of today’s outsourcing arrangements, where writing ‘complete’ contracts seems to be impossible due to external contingencies, multi-faceted outsourcing objects, multiple suppliers, as well as both long- and short-term duration of contracts. In such settings we suppose that relational mechanisms are a suitable means for mitigating risks, which will eventually result in the success of BPO, i.e. satisfaction. Hence, we pose the following overall research question:

- ▶ What is the impact of relational factors on Business Process Outsourcing risks?

In order to approach this question, we will review extant literature on relationship factors, outsourcing risks, and outsourcing satisfaction and then develop a relational-risk oriented causal model. We will analyze the model with the Partial Least Squares (PLS) method and data from 335 outsourced business processes in 215 German banks. The paper concludes with a discussion of the contributions and limitations of our research and recommendations for further research.

## 2. Related literature

The following section will introduce the main concepts of relationship management, outsourcing risks, and outsourcing satisfaction. As BPO arrangements are the focus of our research, it is also necessary to define the characteristics and peculiarities of BPO.

BPO has attracted researchers and practitioners just recently and is acknowledged to be one of the largest areas of growth in the outsourcing market [21]. For the purpose of this paper, BPO is defined as the delegation of one or more entire business processes to third party providers, including the arrangements for software and hardware that support those processes [29]. A business process is defined as a “set of logically related tasks performed to achieve a defined business outcome” [18].

### 2.1 Outsourcing risks

Several researchers have pointed out the relevance of outsourcing risk research [4, 19, 68]. In the following paper [67] we adopt a broad definition of risk: risk is understood as the potential for a negative outcome due to uncertainty about future developments, that has a known or estimated probability of occurrence. To realize how senior managers reach decisions for risky choices (i.e. decisions with a high degree of uncertainty), it is important to understand how they cognitively form their perception of risk. Empirical studies (e.g. [51]) have shown that managers react to their own expectations about undesirable outcomes, ignoring the actual probability of those outcomes. It has also been recognized that outsourcing risk is hard to quantify [6]. We therefore use a qualitative definition of risk by analyzing both the individual negative outcomes a person subjectively associates with the consequences of a decision, and its impact on the intention to close a transaction – in our case the decision to outsource a business process. This approach is similar to several outsourcing studies which have used Perceived Risk Theory (PRT) [10] as the underlying theoretical concept [23, 72].

Although risk has been heavily researched in information systems studies, Willcocks and Lacity [68]

point out that very few of these studies conducted a detailed analysis of risks in outsourcing ventures and even less of how to mitigate such risks. A review of outsourcing literature reveals that most research on outsourcing risk mitigation is done by analyzing the outsourcing contract (see eg.g. [5]). However, according to incomplete contract theory, contractual elements cannot reduce all outsourcing risks [24, 30]. If measurement problems exist [6, 8] or asset specificity is high [59], a good vendor-relationship might resolve the necessity of writing a ‘complete’ contract [3, 50, 58, 63].

Surprisingly, there are no studies which consider the relationship dimension to reveal the impact of relational factors on certain risk drivers and/or risk consequences, even though the relationship dimension has been recognized as the primary vehicle for mitigating risks in outsourcing and “keeping the contract fresh and mutually useful” [36]. As risks often occur at the post-contract management stage due to e.g. a lack of flexibility in the face of unexpected business and technical change, this is where relationship management takes over and contract management loses importance [54]. Thus, we put emphasis on relational rather than on formal contract management.

### 2.2 Relationship management

Relationships in IT outsourcing have received even less conceptual and empirical research attention to date than risks [36], although many researchers emphasize the vital importance of the relationship dimension for the success of an outsourcing venture [26, 34, 42, 47]. This relationship dimension becomes even more critical when managing a business process outsourcing initiative. Far more than in traditional information technology outsourcing, where the focus is solely on IT operations, the ability and opportunity to leverage and gain knowledge potentials in cross-organizational relationships is much larger once whole functions or business processes that incorporate IT are outsourced [66].

For the purpose of this paper we follow the definition of Goles and Chin [26] who combine the general definition of outsourcing with the understanding of an inter-organizational relationship and then characterize an outsourcing relationship as “an ongoing long-term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive IT activities, processes, or services with the understanding that the benefits attained by each firm are at least in part dependent on the other.”

IS outsourcing relationships are a multi-faceted and complex phenomenon. The literature thus reveals the many relationship factors that determine an outsourcing relationship [25, 26, 34]. To gain a systematic overview of this vast variety of elements several authors have grouped relationship factors into two distinct categories:

inherent, sustainable characteristics that underlie a relationship; on-going, operational factors that affect the daily routines of the relationship [26, 31]. For the purpose of this paper we will adopt the distinction of Goles and Chin [26] who present a systematic conceptualization of those factors, distinguishing between *attributes* of an outsourcing relationship and *processes*. In this context, attributes can be described as the inherent characteristics or key properties that establish the relationship and contribute to its sustainability and functionality, while processes are understood as ongoing actions that affect the operational performance of the partnership and also form the attributes. Processes which focus on the operational aspects of an outsourcing relationship can thus be regarded as the “key factors that create the day-to-day working relationship” [31].

Since the exclusively economic view pursued in general management and transaction cost theories falls far short of a comprehensive understanding of an outsourcing relationship, we adopt social and relational exchange theory as being most appropriate to explain inter-organizational behavior [11]. It focuses on dyadic exchange relations involving the transfer of resources for the mutual benefit of the actors, based on the notion that the exchanging parties are in mutual agreement that the outcomes resulting from the exchange are better than those that could be attained through other forms of exchange [26]. In this context, social contract theory serves as another theoretical building block for understanding relationships in IS outsourcing. It proposes revamping classical contract theory so that it caters for prior and future actions of individuals participating in exchange relations [49]. Macneil argues that the traditional view of contract law does not adequately address the empirical realities of relational norms. Our paper builds upon these theories in order to understand relational exchange as an instrument to manage an outsourcing venture using relationship processes and attributes, and thus mitigate evolving risks associated with this venture.

While quite a few studies have been published on the interplay of relationship factors and outsourcing success [e.g. 38, e.g. 47], the interplay of relationship and the counterpart of success – i.e. risk – has rarely been studied. Very few research articles have been published on the relation between outsourcing risk and relationship management [36] although both have been found to be prevailing concerns in an ongoing, long-term outsourcing venture. Even more, research so far has neglected to examine in detail which of the variety of relationship factors are most appropriate to mitigate certain risk facets in an outsourcing venture. We therefore examine the role of relational factors as suitable means for managing and mitigating BPO risks.

## 2.3 Client satisfaction

According to Dibbern et al. [19], outsourcing success can be viewed either as satisfaction, the realization of objectives, or the performance of the processes/operations outsourced. All three approaches depend on individual factors that drive satisfaction, objective realization, or performance. As the focus of this research is to analyze the impacts of relational factors on outsourcing risk, we rely on simple but well defined [see e.g. 28, see e.g. 47] measures. Thus, we use the satisfaction of the outsourcer with the outsourced process to measure success [56, 64].

## 3. Research Model, Hypotheses, and Construct Development

In the following section, we develop our research model and discuss the literature our hypotheses are based on. As the model is tested in an empirical survey design, we provide information on our data sample and outline how our constructs are measured.

### 3.1 Hypotheses and research model

Outsourcing is considered to be a risky undertaking [6] and empirical evidence shows that all too many outsourcing ventures have to be interrupted, renegotiated, or even prematurely terminated [35, 44, 46]. However, as outsourcing has been demonstrated to be just as risky as many other business ventures [6], we can assume that decision makers carefully analyze the pros and cons associated with the potential outsourcing of a business function and act responsibly in order to maximize satisfaction and achieve the expected benefits. As this responsibility is supposed to increase the awareness of BPO risks and the associated perceived outcome of the venture, we hypothesize that the perception of risks, i.e. the potential losses in the pursuit of the desired outcomes of outsourcing business processes, negatively influences the outsourcer’s satisfaction. Of the various motivations for engaging in an outsourcing venture, financial and operational (quality related) issues have been found to be the most effective drivers for outsourcers [8, 35]. Although Gewald et al. [23] also identified strategic risk as a prevailing risk facet, this study focuses on risk mitigation that is achieved by fostering a good relationship to the vendor. Strategic risk focuses on an inside issue of the outsourcer’s processes and can hardly be influenced by external, inter-organizational relational factors between the outsourcer and the vendor. Therefore it is explicitly excluded from our analysis.

Various researchers have alluded to the importance of the relationship dimension in an outsourcing venture for mitigating risks [36]. To embrace the multidimensionality of relationship factors, we use the conceptual distinction

of Goles and Chin [26] to distinguish between *relationship attributes* such as trust, and *relationship processes* such as conflict resolution, communication, or co-operation. Though large in number, outsourcing relationship literature to date has failed to include a pivotal aspect: There are hardly any studies which investigate the impact of individual relationship factors on different risk facets although this seems to be an obvious approach to relational risk mitigation. Take the example of trust or communication, both of which have been identified as different aspects of a relationship (trust can be considered an attribute, communication a process) [26]: Applied to performance debasement or a cost increase, it seems reasonable that trust will have an impact on financial risk, as covert actions which result in unexpected service costs seem unlikely. On the other hand, good communication should resolve performance issues as misunderstandings are less probable. To date, studies have not distinguished between such relationship factors but have treated as a job lot which positively influences such things as the overall relationship quality, risks, or satisfaction [25]. However, in this paper we call for a more distinctive analysis of which elements of a relationship impact on which risk facets in an outsourcing venture. We argue that relationship processes strongly influence performance risk, while attributes have strong impact on financial risk.

Performance risk deals with the possibility of not performing a process as expected and therefore failing to deliver the desired quality levels. It focuses on the *ongoing* aspect of carrying out a process and might thus be managed best through *ongoing* actions such as continuous relationship processes. Among these relationship processes, communication, conflict resolution, and co-operation have been emphasized as the most important processes [26, 47]. In particular, communication focuses on the proactive formal and informal sharing or exchange of meaningful and timely information between firms [2]. It includes permanent information exchange between partners. Information is shared, resulting in transparency of process characteristics and specificities. They provide more detailed agreements on quality levels and more precise rules of behavior [26]. Similarly, conflict resolution aims at settling disagreements to reach an agreement of mutual benefit [20] and can be understood as “the extent to which [...] disagreements are replaced by agreement and consensus” [61]. If performance levels are not met, partners are tempted to blame each other. In these cases, the decision-makers of both parties have to sort out the problem and come to an agreement to avoid future recurrences. However, resolution in the sense of finding mutually acceptable solutions does not entail escalation. Co-operation can be defined as the “spirit of working together by firms on complementary activities with the objective of achieving mutual benefits” [2]. The concept of co-

operation has been analyzed by several researchers as the acknowledgement of and agreement on planning and performance activities that are interdependent [20, 26]. All these relationship processes focus on the day-to-day running of an outsourcing relationship and are set in place to solve difficulties in ongoing daily activity and behaviors. We therefore hypothesize that communication, conflict resolution and co-operation reduce performance risk. By doing this, we explicitly propose that relational processes help to avoid risks stemming from transaction related contingencies, i.e. Transaction Cost Economies (TCE). Asset specificity, uncertainty and infrequency drive performance risks [8] and can only be mitigated by continuous discussions and actions to have a mutual understanding of the challenges and the appropriate course of action.

Relationship processes foster the transparency and programmability of the outsourced business process and regulate daily actions. As outlined by Lacity and Willcocks [43] most benefits and risks inevitably result in cost considerations. We therefore follow the argumentation that performance risk serves as mediator for relationship processes that indirectly impact on cost escalations, i.e. financial risks. Although this might not always be the case, we argue that these processes must take place and impact on operational issues *before* losses occur.

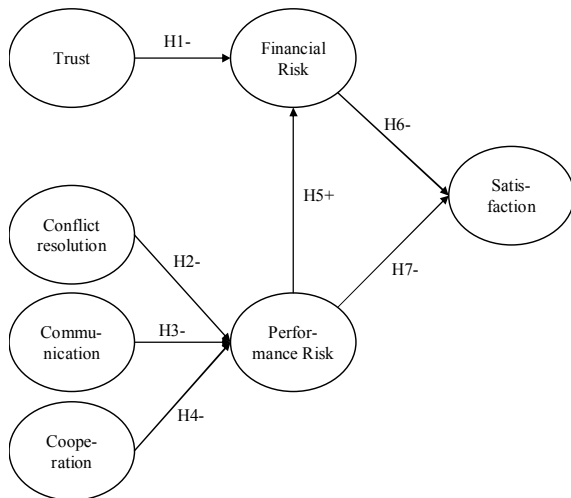
Considering financial risk, it becomes evident that not all unexpected costs arise from operational problems. Several researchers have noticed that the service provider might show opportunistic behavior and exploit hidden costs [8, 72]. Opportunistic behavior cannot be resolved through concurrent meetings where co-operation or communication should develop. It is, rather, a constitutive and “embedded” element the outsourcer is always exposed to. Goals and objectives of outsourcing partners are often divergent [33] and have an inherent adversarial nature [44]. This contradicts the idea of sharing risks and rewards by amicable arrangements. Thus, financial risk is also an underlying constitutive element of the venture which can best be approached by similarly underlying constitutive elements of a relationship, i.e. relationship attributes. Among the various attributes generally ascribed to relationships, trust is the most common [12, 17, 37, 55, 63, 71, 73]. It is the expectation that “a party will act predictably, will fulfill its obligations, and will behave fairly even when the possibility for opportunism is present” [73]. From a relationship perspective, trust has long-term benefit since it allows a focus on long-term objectives, with less worry about day-to-day issues; it suppresses opportunism and enables risk-taking [39].

Table 1 summarizes the research hypotheses.

No.	Description of hypothesis
H1	Trust negatively influences (i.e. diminishes) the financial risk of the outsourcing venture.
H2	Conflict resolution negatively influences the performance risk of the outsourcing venture.

No.	Description of hypothesis
H3	Communication negatively influences the performance risk of the outsourcing venture.
H4	Co-operation negatively influences the performance risk of the outsourcing venture.
H5	Performance Risk positively influences the financial risk of the outsourcing venture.
H6	Financial risk negatively influences the outsourcer's satisfaction.
H7	Performance risk negatively influences the outsourcer's satisfaction.

**Table 1: Research hypotheses**



**Figure 1: Research model**

### 3.2 Construct development

The following table depicts the operationalization of the constructs used in the model.

Construct	Item	Question / Indicator
Communication [2, 27, 47]	a223	Our vendor and we provide each other with sufficient information to perform the process.
	a224	Our vendor and we effectively exchange information with each other.
	a225	Our vendor and we communicate well with each other and discuss at eye level.
Conflict Resolution [52, 61]	a232	Our vendor and we are able to reach agreement on most issues.
	a233	Our vendor and we discuss critical issues open-mindedly and solution-focused.
	a234	Our vendor and we solve disagreements to the advantage of both sides.
Co-operation [13, 60]	a241	Our vendor and we co-ordinate activities well with each other.
	a242	Our vendor and we co-operate well and are willing to help each other out.
	a243	Our vendor and we meet regularly to synchronize expected and achieved service delivery.
Trust [27, 47]	a238	Trust is a crucial part of our business relationship.
	a239	We can trust our vendor to behave fairly.
	a240	Our vendor does not take advantage of the

Construct	Item	Question / Indicator
Financial Risk [6, 23]	a186	How do you estimate the risk that there will be unforeseen costs in the future?
	a187	How do you estimate the risk that the expected cost savings will not be achieved in the future?
	a188	How do you estimate the risk that you will pay more to your vendor than expected?
Performance Risk [6, 9, 23]	a189	How do you estimate the risk that the process will not be performed to the requested quality (short process cycle and low error rates)?
	a190	How do you estimate the risk that the vendor will not deliver as expected?
	a191	How do you estimate the risk that the Service Level Agreements (SLAs) will be violated in the future?
Satisfaction [28, 47]	a315	Overall, we are satisfied with our outsourcing project.
	a316	Our SLAs have been fulfilled.
	a317	The benefits of outsourcing outweighed the associated costs.

**Table 2: Operationalization of constructs**

### 3.3 Data collection

The theoretical framework in Figure 1 has been operationalized and transferred into a structural equation model. Each construct is represented by a set of indicators, i.e. questions in a questionnaire. These questions were measured on a 7-point Likert scale ranging from “very high” to “very low” risk for risk related questions and from “strongly agree” to “strongly disagree” for all other questions. Whenever possible, existing measures from previous studies were adopted and adapted to the context of this research. The questionnaire was discussed intensively within our research institute and pre-tested independently with three managers from banks which were not included in the sample. Based on the insights thus acquired the questionnaire was modified.

Four banking back-office processes were selected as units of analysis: settlement of securities, consumer credits, credit cards and domestic payments. These processes are generally not regarded as areas of core competence for banks [45]. In 2006, our mail based questionnaire was sent to managers responsible for one of the four back-office business processes in Germany's top 500 banks. All banks were contacted upfront by phone to personally identify the managers responsible for the business processes mentioned above. Since some banks do not operate all four processes, only 1,931 questionnaires were sent out. The questionnaire was designed for BPO adopters only, i.e. only for those processes which are externally provided. Thus, managers were asked to fill out the questionnaire if their process was outsourced. If the process was not outsourced, they were asked to inform us via email and not to answer the questionnaire. We received information that 761 processes were outsourced and 904 processes were not

outsourced. The outsourcing status of 266 processes remained ‘unknown’.

Overall, 335 usable questionnaires from 215 banks were returned. Assuming that ‘unknown’ processes are outsourced, this equals a response rate of 32.6% (335 out of 761+266) among processes and 48.8% among banks. The cumulated assets of the responses accounted for more than 90% of the total cumulated German banking balance sheet. This is only a rough estimate, as the questionnaire asked for the sum of assets on an interval scale to ensure anonymity. Non-respondents did not participate primarily due to lack of time or interest; hence we expect to have no systematic non-response bias.

## 4. Survey Results

### 4.1 Structural Model Analysis

This section presents the results of the model test, including the test of the measurement model as well as the structural model. All PLS-calculations were carried out with PLS-Graph Version 3.0 Build 1126. Settings were left to default except the number of bootstrap samples which was increased to 500.

The research model was operationalized and transferred into a structural equation model (SEM) to be analyzed with the PLS approach [14, 70]. PLS is suitable if a more explorative analysis based on the empirical data is preferred. To our knowledge, there is as yet no strong theoretical foundation or even empirical evidence for the interplay of relational factors and outsourcing risks, rendering an explorative approach most appropriate.

#### 4.1.1 Measurement Model

The quality of the measurement model is determined by (1) convergent validity, (2) construct reliability and (3) discriminant validity [57].

*Convergent validity* is analyzed by indicator reliability and construct reliability [57]. Indicator reliability was examined by looking at the construct loadings. In the model tested, all loadings are significant at the 0.01 level and above the recommended 0.7 parameter value except item a243 from construct co-operation (significance tests were conducted using the bootstrap routine). Newly developed constructs may have relatively low indicator loadings but should not be excluded when the loadings are above 0.4 [32]. As the two indicators have loadings above this threshold, the items are not eliminated. *Construct reliability* was tested using two indices: (1) the composite reliability (CR) and (2) the average variance extracted (AVE). Estimated indices were above the threshold of 0.6 for CR [7] and 0.5 for AVE [14] (see appendix).

*Discriminant validity* of the construct items can be analyzed by looking at the cross-loadings. As depicted in the appendix, the loading of each indicator is higher for the respective construct than for any other construct.

Therefore, the indicators of different constructs are not related to each other and discriminant validity is shown.

#### 4.1.2 Structural Model

The reliability of the indicators in the measurement model enables one to evaluate the explanatory power of the entire model as well as the predictive power of the independent variables. The *explanatory power* is examined by looking at the squared multiple correlations ( $R^2$ ) of the dependent variables. Figure 2 shows that all dependent variables are moderately explained by their independent variables and thus pass critical examination.

*Predictive power* is tested by examining the magnitude of the standardized parameter estimates between constructs together with the corresponding level of significance. Only two path coefficients do not exceed the recommended 0.2 level [14]: communication and co-operation. Boot-strapping revealed strong significance (at the 0.01 level) of all dependent variables except for communication (moderate significance at 0.05 level) and co-operation (n.s.). Analysis of the overall effect size  $f^2$  [14, 16] reveals that communication has at least a moderate effect on performance risk. Weak impact has been shown for the effect of co-operation on performance risk.

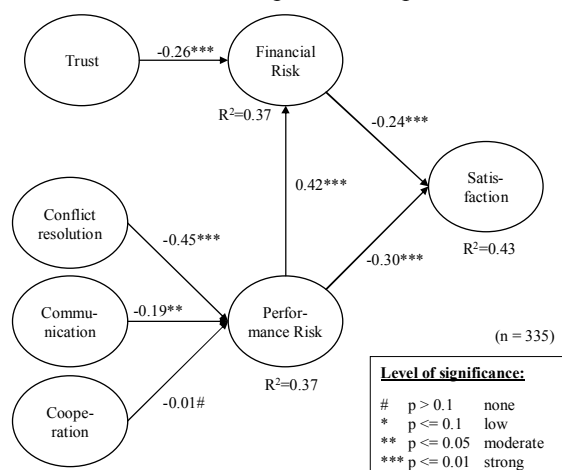


Figure 2: Structural Model Findings

#### 4.2 Control Variables

In order to control for the influence of distinctive characteristics within the sample, the type of process was analyzed. The validity threat arising from multi-group behavior was analyzed by running bootstrap re-samplings for the various groups and treating the standard error estimates from each re-sampling in a parametric sense via t-tests [15]. The results of these operations (see appendix) reveal that several path loadings are considerably different between groups. However, after applying a Bonferroni correction [53] these values are also non-significant.

## 5. Key findings

In the following section, the results of our model are discussed. As our survey was conducted under certain conditions, we also provide important limitations that have to be considered when interpreting our results. Finally, some ideas for further research are given.

### 5.1 Overall Model

Our data reveals that performance and financial risk strongly impact on satisfaction. In particular, risk seems to be a re-occurring concept that calls for management attention in all outsourcing stages after the decision is made: as our model is based on data from respondents with various outsourcing experiences ranging from early adopters in 1960s to late adopters in 2006 we contradict the view that there will not be any challenges at some stage during an outsourcing venture. Thus, managers should always invest in risk resolution activities and be aware of the formation of risk and its severity.

We show that risk is not only mitigated by contractual design, but particularly through relationship elements. We built upon and expanded recent relationship literature [esp. 25, 26] by applying the conceptual distinction between relationship attributes and processes to different risk facets. As a contribution we found definite correlations between types of risk and relationship elements so that the relationship cannot be seen as a single risk mitigation item capable of resolving all risk facets. Moreover, relationship elements should not be treated as having the same influence on outcome measures such as outsourcing success, satisfaction, or risk, as relationship studies typically suggest [cf. 47]. More specifically, it has been shown that relationship attributes and processes do have an impact on the two most prevalent risks, i.e. performance and financial risk. The distinction in constitutive, embedded (attributes) and ongoing, working (processes) relationship elements was shown to be successfully transferable to the concepts of financial and performance risks. In particular, the idea of the indirect impact of relationship processes on financial risk has been supported.

Interestingly, conflict resolution is the most important factor for countering performance risk, but co-operation does not have a significant effect. As explained earlier co-operation is more of an antecedent factor that – if neglected – leads to conflicts that have to be resolved. It is generally supposed that activities within an outsourcing venture are difficult to plan due to uncertain future contingencies, and that managers mostly react once the problem arises rather than proactively engaging in anticipatory management activities.

Trust has been found to have a major impact on financial risk. The predominant influence of trust on risk

is also in accordance with [34, 47] who found trust to be a pivotal characteristic of successfully outsourced IS.

### 5.2 Limitations

As these findings are of particular interest, we must also discuss several limitations. Our data is limited as we have been able to analyze the causes and consequences of relational elements or relational governance at one point of time only. This does not necessarily reflect the long-term situation as the arrangements and the embedded relationship elements are usually dynamic in nature [27] and their impacts might take some time to become effective. In addition, the data is limited to the perspective of the outsourcer. More information should be gathered from the vendor's perspective.

### 5.3 Further research

Our findings provide a snapshot of the impact of certain relationship factors on outsourcing risk. Data from longitudinal studies are necessary to see how the relational processes and attributes are developed and whether this is caused by risk awareness. Furthermore, the understanding of relationships would be enriched by a consideration of the concept of psychological contracts [see e.g. 41, 62], including the dimension of commitments and their fulfillment that should make relationship factors more effective in risk mitigation.

## 6. Conclusion

The primary contribution of this research is an advancement of existing governance knowledge on how risks can effectively be managed using elements or attributes of the client-vendor relationship. Our findings drawn from data of 335 BPO ventures support the applicability of a relational risk mitigation perspective in a BPO context. As most studies on risk mitigation focus on contract design we contribute by identifying the impact of relationship factors on the two most prevalent risk facets, performance (quality) and financial risk. We discover that relationship does not function as one single item that prevents all types of undesirable outcomes. Rather, we show how the distinction between ongoing activities and constitutive attributes help to identify proper relational instruments to effectively counter specific risks.

Encouraged by the results and by recent discussions on the topic with academics and practitioners alike, we believe that a more detailed study of management instruments is needed: which risk facets and which benefit types are best controlled by which contractual or relational governance mechanism. Further research should specifically illuminate the joint impact of both

governance mechanisms on outsourcing risks and benefits.

*Acknowledgements*

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**7. Appendix**

Construct	CR	AVE	Item	Loading
Communication	0.95	0.87	a223	0.93
			a224	0.96
			a225	0.91
Conflict resolution	0.95	0.85	a232	0.92
			a233	0.91
			a234	0.94
Co=operation	0.86	0.69	a241	0.91
			a242	0.94
			a243	0.60
Trust	0.94	0.84	a238	0.84
			a239	0.95
			a240	0.93
Financial Risk	0.93	0.81	a186	0.88
			a187	0.91
			a188	0.91
Performance Risk	0.96	0.89	a189	0.94
			a190	0.95
			a191	0.93
Satisfaction	0.92	0.79	a315	0.92
			a316	0.90
			a317	0.85

All loadings significant at level 0.01.

**Table 3: Indicator and Construct Reliability**

	Communication	Conflict	Trust	Cooperation	Financial risk	Performance risk => satisfaction	Performance risk => financial risk	df
Secur. vs. Payments	0.48	0.37	1.16	-1.08	1.14	-1.87	-0.03	220
Secur. vs. credits	-2.27	2.78	0.45	-0.15	-1.34	-2.01	0.87	127
Secur. vs. credit cards	1.07	0.04	-0.93	-0.96	-0.20	-1.20	-0.93	200
Payments vs. credits	-2.14	1.67	-0.11	0.45	-2.21	-0.85	0.87	135
Payments vs. credit cards	0.49	-0.29	-2.05	0.27	-1.33	0.44	-0.86	208
Credits vs. credit cards	2.91	-2.20	-0.90	-0.42	1.24	0.96	-1.33	115

N.B.: t-values marked red are significant at level 0.1; t-values marked yellow are significant at level 0.05; t-values marked green are significant at level 0.01.

**Table 4: Control variable calculation**

Item	Construct						
	FinRisk	PerfRisk	Comm	ConflRes	Trust	Coop	Satisf
a186	0.88	0.49	-0.42	-0.48	-0.42	-0.45	-0.49
a187	0.91	0.52	-0.50	-0.49	-0.46	-0.48	-0.53
a188	0.91	0.52	-0.41	-0.49	-0.43	-0.49	-0.49
a189	0.54	0.94	-0.46	-0.53	-0.49	-0.42	-0.53
a190	0.53	0.95	-0.51	-0.55	-0.50	-0.48	-0.60
a191	0.51	0.93	-0.50	-0.59	-0.51	-0.49	-0.56
a223	-0.44	-0.46	0.93	0.63	0.54	0.69	0.54
a224	-0.46	-0.49	0.96	0.69	0.57	0.72	0.61
a225	-0.47	-0.50	0.91	0.73	0.60	0.73	0.66
a232	-0.54	-0.62	0.67	0.92	0.65	0.73	0.66
a233	-0.44	-0.48	0.65	0.91	0.59	0.65	0.59
a234	-0.52	-0.52	0.71	0.94	0.65	0.72	0.65
a238	-0.32	-0.42	0.46	0.49	0.84	0.51	0.50
a239	-0.49	-0.57	0.63	0.70	0.95	0.69	0.70
a240	-0.48	-0.45	0.55	0.63	0.93	0.65	0.67
a241	-0.49	-0.39	0.66	0.62	0.55	0.91	0.56
a242	-0.52	-0.54	0.75	0.77	0.73	0.94	0.70
a243	-0.18	-0.16	0.43	0.43	0.31	0.59	0.33
a315	-0.54	-0.57	0.63	0.66	0.69	0.64	0.92
a316	-0.48	-0.58	0.62	0.64	0.64	0.66	0.90
a317	-0.48	-0.43	0.46	0.53	0.52	0.51	0.85

**Table 5: Cross-loadings**

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