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# Conflict handling, trust and commitment in outsourcing relationship: A Chinese and Indian study

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## ABSTRACT

This paper presents a theoretical and empirical model that identifies conflict handling typologies which affect trust and commitment in B2B outsourcing relationship. Three typologies of conflict handling namely integrating, accommodating and compromising were examined for their effects on trust and commitment of Chinese and Indian human resource (HR) outsourcing service providers. The paper also considered the moderating effect of culture in the relationship. Data was collected from Chinese and Indian firms providing HR outsourcing services and analyzed using factor and hierarchical multiple regression analyses. We found both similarities and dissimilarities in the outcomes of the study. Specifically, conflict handling styles are significantly associated with trust and commitment. Trust mediates in the association of conflict handling styles with commitment. The impact of compromising conflict handling on trust and commitment is moderated by culture – significantly higher for the Chinese service providers compared to the Indians. Culture has also a direct impact on commitment but not on trust. Theoretical, cultural and managerial implications of the findings are presented.

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## 1. Introduction

The term human resource (HR) outsourcing in this paper refers to the action of allowing external vendors to perform an entire HR activity (such as training, payroll, etc) for an organization (Lilly, Gray, & Virick, 2005). An increasing number of organizations are outsourcing their HR operations. According to the Bureau of National Affairs (2004), two-thirds of HR executives surveyed say their HR departments outsource at least one HR activity. Past studies have documented the benefits and downside of outsourcing (Jensen & Meckling, 1976; Linder, 2004; Society for Human Resources Management, 2004). SHRM (2004) found that in some cases HR outsourcing led to a decrease in customer service. Another downside of outsourcing in general is the agency theory-based questions of whether the agent will represent the principal well (Jensen & Meckling, 1976), especially if s/he holds contrasting or conflicting values as the principal. Can the principal trust the agent to represent it well especially when little or no supervision is involved or when the agent has full autonomy? From the agent's perspective are the following questions: Can the agent trust the principal to provide full and accurate information? Will the agent not be held accountable for genuine mistakes? Can the principal willingly seek to resolve conflicts in a fair manner? These concerns and issues can bring problems in the outsourcing relationship, and could lead to the determination of the

contract in extreme circumstances or diminished trust and/or commitment in others. How organizations handle conflict can affect the strength and future of the outsourcing relationship. Yet there is a serious shortage of research on conflict handling in B2B outsourcing relationship and its consequences.

Moreover, research is even more sparse on how (outsourcing) conflict handling styles compare or contrast between Asian cultures (especially between Chinese and Indians – two most important and fastest growing Asian economies), where outsourcing has increased tremendously over the past decade. Prior studies (e.g. Malhotra, Ugaldo, Agarwal & Baalbaki, 1994; Venkatesh, Morris, Davis, & Davis, 2003) have recognized the serious dearth of research on the role of culture in several domains. Malhotra et al. (1994) urge that researchers should consider the implications of culture as it would help to better understand how cultural values shape these phenomena. Venkatesh et al. (2003) believe that an understanding of culture will help in developing appropriate interventions for different markets. In this paper, we model conflict management styles as antecedents to trust and commitment in B2B outsourcing relationship which is moderated by culture. Specifically, we examine the influence of conflict handling styles (namely integrating, accommodating and compromising conflict handling) on trust and commitment, as well as differences in these relationships between Chinese and Indian outsourcing service providers. The next section reviews various theories applied in outsourcing study. This is followed by hypothesis development and review of extant literature. The research methodology, results, limitations and future research, implications, and conclusions are presented in order.

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## 2. Literature review

In many studies on outsourcing, cost benefits appear to be a compelling argument for contracting out services previously performed internally (Greer, Youngblood, & Gray, 1999; Kakabadse & Kakabadse, 2002; Lever, 1997). Other factors include vendor expertise, customer and employee satisfaction (Barthélemy, 2003; Greer et al., 1999), loss of strategic advantage (Lever, 1997), ethical values/norms of vendors (Satkunasingam & Ndubisi, 2006), risk, trust, relative proficiency, strategic capabilities, and flexibility (Adler, 2003). Outsourcing has been viewed from a number of perspectives, namely the institutional theory, network theory, systems theory, resource/knowledge based view of the firm, transaction costs theory, agency theory, strategic choice theory, and critical theory. Table 1 provides a summary of these theories and their key insights for outsourcing.

Some of the theoretical bases summarized in Table 1 may be complementary and others contradictory, so we have carefully selected and discussed later the theories underpinning the study. The resource dependency theory, the agency theory, and the relational view help to explain our model. The *resource dependency theory* argues that the key to the survival of an organization is the acquisition and maintenance of resources (Pfeffer & Salancik, 1978), and firms who lack resources will seek to establish relationships with others to obtain needed resources (Shook, Adams, Ketchen, & Craihead, 2009). The decision to outsource or source internally should be based on the importance of the activity to the firm and the concentration of the resource control. By outsourcing, the firm is purchasing a supplier (Casciaro & Piskorsky, 2005) or appointing an agent to represent it.

From the *agency theory perspective*, a firm outsourcing a function is the principal (outsourcer) and the supplier is the agent (outsourcing service provider) (Eisenhardt, 1989). The principal–agent relationship usually requires monitoring to ensure that there is no opportunistic or unethical behaviours by the parties. Thus, the transaction costs include the actual outsourcing cost, as well as the monitoring and control costs (Shook et al., 2009). Monitoring costs are any costs incurred by the principal to ensure that the agent is not engaging in activities

detrimental to the principal, as well as ensuring the principal is meeting the basic terms and conditions of the outsourcing contract. Deviation from or violation of these terms and conditions can result in conflicts, and may have negative implications for trust and commitment. Even the exploitation of resource dependencies may have long-term negative effects on trust (Shook et al., 2009) and commitment. In the event of any conflict between the outsourcer and the service provider, how the conflict is handled can lead to erosion or enhancement of trust and relationship commitment.

The *relational view* develops and explains how firms gain and sustain competitive advantage within inter-organizational relationships (McIvor, 2005). The relational view has been used to explain how firms choose their future outsourcing partners and preferred type of the relationship (Barthélemy, 2003; Perunović & Pedersen, 2007; Samaddar and Kadiyala, 2006). It has been also utilized in studying the transition, managing relationship and reconsideration phases (Perunovic, Christoffersen, & Williams, 2006). This makes the relational view to be the only theory that has been applied in the research of all the outsourcing process' phases (Perunović & Pedersen, 2007). Some of the important relational constructs examined in this paper are trust (Naude & Buttle, 2000; Samaddar & Kadiyala, 2006) and commitment (Naude & Buttle, 2000). The paper therefore argues for the facilitating role of conflict handling styles namely, integrating, accommodating and compromising conflict handling on trust and relationship commitment.

## 3. Hypothesis development

Studies seem to concentrate on the reasons organizations outsource, how to outsource, the impact of outsourcing on the organization and its employees (Lilly et al., 2005), the impact of outsourcing on organizational performance (Leiblein, Reuer, & Dalsace, 2002), and cost benefits of outsourcing (Kakabadse & Kakabadse, 2002). Limited attention has been paid to conflicts in outsourcing relationship, especially how conflicts are managed, and the effects of different conflict handling styles on outsourcing relationship quality namely trust and commitment. Even more limited is the attention to how outsourcers' conflict

**Table 1**  
Theoretical perspectives applied to outsourcing.

Theoretical perspective	Authors	Key premise	Key insights for outsourcing
Institutional theory	March and Olsen (1984), Scott (1995)	External forces pressure firms to behave in certain ways and not behave in others.	Firms should outsource only if the approach fits the firm's strategy, not just because the approach is in or fashionable.
Resource dependence theory	Boyd (1990), Casciaro and Piskorsky (2005), Pfeffer and Salancik (1978)	Firms seek to acquire and maintain needed resources, minimize dependence on others for resources, but increase others' dependence on them.	Firms that lack resources should seek to establish relationship with others to obtain them.
Network theory	Gulati et al. (2000), Thorelli (1986), Turnbull et al. (1996)	Inter-organizational relationships is central to success and should be well managed.	Outsource to firms that are central to the outsourcer's network
Systems theory	Combs and Crook (2007), von Bertalanffy (1951)	An organization is a system with interconnected parts.	By outsourcing, the firm is externalizing one or more parts of the organization, thus efforts (e.g. through coordination, communication, etc) must be made to keep the externalized part connected to the system.
Resource/knowledge-based views of the firm	Barney (1991), Wernerfelt (1984)	Unique assets and capabilities are the source of enduring competitive advantages	Firms should not outsource capabilities, functions or activities that create competitive advantage
Transaction cost economics	Bajari and Tadelis (2001), Rubin (1990)	Firms should make decisions on "make or buy" to minimize costs	Outsource when transaction costs are less than production costs.
Agency theory	Eisenhardt (1989), Jensen and Meckling (1976), Barthélemy (2003)	When one firm (the principal) delegates responsibility to another (the agent), the principal should monitor to ensure good representation.	Outsource when an agent is deemed more efficient than the firm to handle the activity and the principal will be well represented or trusted. Manage outsourcing relationship through trust and contract.
Strategic choice theory	Child (1972), Doty et al (1993)	The decisions managers make about strategic issues should align with the environment.	Decision to outsource should be driven by a firm's strategy.
Critical theory	Benson (1977), Orlikowski and Baroudi (1991)	Elimination of social domination resulting from economic and other considerations.	Decision to outsource should consider how best it can contribute to improving the society.
Relational view	Barthélemy (2003), Samaddar and Kadiyala (2006), Satkunasingam and Ndubisi (2006)	A paradigm shift from transactional exchanges to relationship-based approaches.	Factors determining success from outsourcer and vendor perspectives include among others, the quality of relationship, trustworthiness commitment, and technical competence

handling strategies affect outsourcing service providers' trust and commitment. Examining the attitudinal and behavioural responses of service providers, to outsourcers' conflict situation behaviours fills an important gap in the literature whose focus has been on management of service providers' behaviours in conflict situations, and how to ensure that the principal is well represented by the agent. In this paper, we demonstrate how HR outsourcing service providers' trust in and commitment to the outsourcing relationship can be affected by the outsourcers' conflict handling styles. The role of culture was also investigated by looking at the differences in these relationships between Chinese and Indian service providers (Fig. 1). In the next section we discuss the research model and derive the hypotheses.

### 3.1. Trust and commitment

The model indicates that commitment and trust in an outsourcing relationship is determined by conflict handling styles, and could differ between Chinese and Indian OSPs. *Trust* is a fundamental relationship model building block and is included in most relationship models (Wilson, 1995). The degree of trust between the outsourcer and the service provider will determine the strength of the business relationship. Trust has been defined in a number of ways, mostly drawing from Rotter's (1967) notion of the term as a generalised expectancy held by an individual that the word of another can be relied upon. In an outsourcing sense, it includes reliance on the promises of the outsourcer or the service provider to the other party. For example, based on Rotter's (1967), Moorman, Zaltman, and Deshpande (1992) define trust as a willingness to rely on an exchange partner in whom one has confidence. Trust has also been looked at as the belief that a partner's word or promise is reliable and a party will fulfil his/her obligations in a relationship (Schurr & Ozanne, 1985). These definitions of trust bring to the fore, the concept of confidence and its importance to the trusting partner.

Other definitions focus on the consequences of trust. For example, Anderson and Narus (1984) define trust as a partner's belief that the other partner will perform actions that will result in positive outcomes, as well as not take unexpected actions that would result in negative results. The presence of trust in outsourcing relationships can reduce the probability of strained relationships, which in other contexts can discourage unscrupulous behaviour (Longenecker, Moore, Petty, Palich, & McKinney, 2006). Trust building has positive outcomes for an organization (Brashear, Boles, Bellenger, & Brooks, 2003) and it is an important construct in a relational exchange because relationships characterized by trust are so highly valued that parties will desire to commit themselves to such relationships (Hrebiniak, 1974).

*Commitment* is one of the important variables for understanding the strength of a marketing relationship, and it is a useful construct for

measuring the likelihood of loyalty, as well as for predicting future purchase frequency (Gundlach, Achrol & Mentzer, 1995; Morgan & Hunt 1994). Moorman et al. (1992) define commitment as an enduring desire to maintain a valued relationship. This implies a higher level of obligation to make a relationship succeed, and to make it mutually satisfying and beneficial (Gundlach et al., 1995; Morgan & Hunt 1994). Based on Kumar, Scheer, and Steenkamp (1995), we argue that as interdependence between the outsourcer and the service provider increases, the need for better management of conflicts increases, which in turn leads to greater trust and commitment.

In the context of this research, commitment is future oriented and is based on the Confucian dynamism and long-term orientation. In fact, the concept of relationship commitment is similar to the concept of long-term orientation that comprises the desire and utility of a buyer to have an enduring relationship with a seller (Anderson & Weitz, 1989). We reason that a vendor's relationship commitment is preceded by trust in the outsourcer which is shaped in turn by good conflict handling.

### 3.2. Conflict handling

Conflict handling can lead to constructive or destructive outcomes (Song, Dyer, & Thieme, 2006). Both constructive and destructive conflict handling draw from the contingency perspective (Rahim, 2000), which argues that appropriate conflict management is best determined by considering the situational realities (Van de Vliert, Aukje, Ellen, & Onne, 1999). In the realm of constructive, conflict handling strategies aim to minimize negative consequences and maximize positive outcomes. Conflict handling has been defined as the supplier's ability to minimize the negative consequences of manifest and potential conflicts (Dwyer, Schurr, & Oh, 1987). How organizations handle conflicts can determine the level of trust and commitment of business partners.

#### 3.2.1. Typologies of conflict handling

There are four major models of behavioural conflict-handling strategies: (1) two-style model (Deutsch, 1990); (2) three-style model (Putnam & Wilson, 1982); (3) four-style model (Pruitt, 1983); and (4) five-style model (Blake & Mouton, 1964; Cornelius & Faire, 1989; Rahim, 1983; Rahim, Buntzman, & White, 1999). Cornelius and Faire (1989) and McKenna and Richardson (1995) identify five possible reactions to circumstances of conflict namely, win/win, win/lose, compromise, suppression, and withdrawal.

Thomas and Kilmann (1974) provide a well known approach to understanding the different ways people deal with conflict. Thomas and Kilmann's (1974) taxonomy of conflict handling styles (see also McKenna & Richardson, 1995) include:

- "two heads are better than one" (collaborating);
- "kill your enemies with kindness" (accommodating);
- "split the difference" (compromising);
- "leave well enough alone" (avoiding);
- "might makes fight" (competing).

The effectiveness of these conflict handling modes according to the proponents depends on the requirement of the specific conflict situation and the skill with which they are used (Thomas & Kilmann, 1974).

Rahim's (1983; 2000) contingency view suggests that in managing conflicts effectively, one behavioural conflict handling strategy may be more effective than another depending on the conflict situation. Rahim's (1983) five conflict handling strategies are integrating, accommodating, compromising, forcing and avoiding. These typologies are based on the degree of concern for self and for others in a relationship. Since relationships, trust and commitment are built based on self-sacrifice rather than on self indulgence, in this study, we adopt the three typologies of conflict handling that are based on moderate to high concern for others (i.e. integrating, accommodating and compromising) and drop the two that are low in concern for

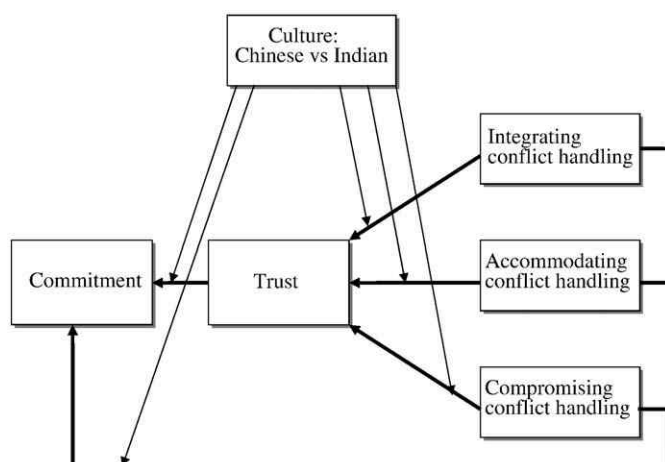


Fig. 1. Hypothesized relationships.

others (i.e. forcing and avoiding). Integrating conflict handling (ICH) emphasizes a high concern for both self and for others, accommodating conflict handling (ACH) deals with a low concern for self and a high concern for others, and compromising conflict handling (CCH) deals with a moderate concern for self and for others (Rahim, 1983). To build trust and commitment in outsourcing relationship, integrating, accommodating and compromising strategies can be instrumental. We therefore propose as follows:

- H1.** *There is a significant relationship between ICH, ACH, CCH and trust.*
- H2.** *There is a significant relationship between ICH, ACH, CCH and commitment.*
- H3.** *There is a significant relationship between trust and commitment.*
- H4.** *Trust mediates in the relationship between ICH, ACH, CCH and commitment.*

### 3.3. Culture (Chinese versus Indians)

Chinese has an extensive and unique six thousand years of history, numerous territories, seventy four dialects, fifty six nationalities, and an entire range of human personality differences (Huang, Andrusis, & Chen, 1994). The Chinese business culture is a blend of the moral values of Confucianism and other beliefs, comprising elements which relate to long-term business relationship including strong personal connection (guanxi) and interpersonal harmony (renji hexie). Personal connection (guanxi) is the mutually beneficial relationship between two or more individuals that provide an ongoing association. It involves the provision of assistance and the practice of reciprocity that extends mutual benefits to the members in the “guanxi” network known as the “Bamboo Network” (Hutchings, 2002). Interpersonal harmony “renji hexie” is related to the teachings of Confucianism and often refers to being in unity or agreement with others (Pek & Ndubisi, 2006). The Chinese society has been strongly influenced by the Confucian principles of harmony and hierarchy (Ting-Toomey, 1994).

India is also home to a large and diverse population that has added to its vibrant character since ages. There are about 3000 communities in India. Indians believe in the concept of ‘fatalism’ which stems from one of the most characteristic traits of Indian culture – spirituality. The notion of ‘Karma’ and that everything happens for a reason is still significant in the decision making process of many Indians. It also influences the concept of time in India and as a consequence, business negotiations may take longer and are never rushed (Gorrill, 2007). India’s strong sense of community and group defined orientation means a lot for Indian business practices which places an additional importance on interpersonal contacts, avoidance of conflict and a more indirect approach to communication.

### 3.4. Cross-cultural research and conflict handling styles

Schein (1985) defined culture as belief systems that shape individuals’ schemas about the world around them. Culture plays a subtle, yet powerful role in influencing people’s social behaviours (Leidner & Kayworth, 2006). Culture has received considerable research attention in the past two decades (Kappos & Rivard, 2008) and has been studied at various levels of analysis including national, organizational, subunit, and individual. Cultural diversity creates challenges for individuals and organizations. For instance, a large body of research shows the challenges of cultural diversity for multinational work teams (Earley & Gibson, 2002; Gurung & Prater, 2006), global leaders (van Dyne & Ang, 2006), and those in overseas work assignments (Bhaskar-Shrinivas, Harrison, Shaffer, & Luk, 2005). Given the importance of this issue, practitioners seek to understand cultural differences so as to tackle the challenges resulting from such differences, while researchers seek to

understand the cultural differences so as to advance theory building, such as enhancing the generalisability of the theory in different cultural settings (e.g., Almutairi, 2007). Research in management has examined how national culture plays a role in conflict management (Gelfand, 2008; Lueng & Fan, 1996; Pruitt & Carnevale, 1993; Smith, Dugan, Peterson, & Leung, 1998).

To date, the most popular conceptualization of national culture has been Hofstede’s taxonomy that includes 5 dimensions: uncertainty avoidance, power distance, long-term orientation, individualism/collectivism and masculinity/femininity, (Hofstede, 1980; Hofstede & Bond, 1988). Among the 5 dimensions, China and India are different along the dimension of long-term orientation that reflects the preference for perseverance (Hofstede, 1980). Chinese score high in long-term orientation at 118 while India has a moderate score at 61. Table 2 presents a comparison of the two cultures – China and India.

High long-term orientation cultures place greater value on perseverance and commitment over quick results. Individuals are less likely to forgo long standing trusty relationships for new and uncertain ones, hence there is a tendency to cherish tested and trusted relationships and to avoid conflicts and act in ways that are acceptable to parties in the relationship. Individuals in these cultures, see personal adaptability as important. These individuals are more likely to adapt to ways that are acceptable to parties in the relationship regardless of their own personal behavioural preferences. Thus, societies marked by high LTO are more likely to place greater importance to trust and commitment, and are more likely to pursue trust and commitment through integrating CH, accommodating CH and compromising CH than low-moderate LTO societies. Taken together, integrating CH, accommodating CH and compromising CH will have a greater impact on trust and commitment among the Chinese sample than the Indians. The following hypotheses are proposed:

- H5.** *There is a significant direct relationship between culture and trust.*
- H6.** *There is a significant difference in the impact of ICH, ACH, and CCH on trust between the Chinese and Indian samples.*
- H7.** *There is a significant direct relationship between culture and commitment.*
- H8.** *There is a significant difference in the impact of ICH, ACH, CCH and Trust on commitment between the Chinese and Indian samples.*

## 4. Methodology

### 4.1. Sampling and instrumentation

Chinese and Indian HR outsourcing services companies were surveyed. The lists of service providers were obtained from the respective registrars of companies. The combined list consisted of 510 companies, of which 240 were HR outsourcing service providers (the rest provide services other than HR). Voluntary participation of the companies was sought. All 240 firms were invited to participate in the study and were sent the survey forms. A total of 122 usable responses were received after

**Table 2**  
Hofstede’s dimension scores for China and India.

	Individualism- collectivism*	Power distance	Uncertainty avoidance	Masculinity- femininity**	Long-term orientation
China	20	80	30	66	118
India	48	77	40	56	61

Notes:

- \* Higher value indicates greater individualism.
  - \*\* Higher value indicates greater masculinity.
- Shaded areas indicate the scores are fairly close.

three reminders, which translates to 51% response rate comprising approximately 47% Chinese and 53% Indian firms. The firms were represented by their client services manager. The key informant method was used and only client services managers of the organizations were requested to respond to the questions. Key informants are viewed as appropriate respondents (on outsourcing relationship phenomenon) if appropriate selection procedures are used (John & Reve, 1982). Thus, using guidelines on selecting key respondents from previous research (Campbell, 1955) key informants were screened and chosen on the basis of their knowledge of the research issues, their formal role in the organization and willingness to respond. Since the demographic variables have been used as control variables, non-response bias in terms of the demographic variables is not an issue in this study.

Scale items were adapted from prior studies. The issue of content validity was tackled from the beginning of the study during the development of measurement items and instrument as recommended by Sonquist and Dunkelberg (1977). In the literature review measurement scales were identified and modified to suit the research purpose of the study and the local context (Gu, Hung, & Tse, 2008). This was supplemented with interviews with a few managers. Additionally, the questionnaire was pilot tested in the field and modifications were made. Trust items were adapted from Corsten and Kumar (2005) and Eisingerich and Bell (2008). Commitment items were adapted from Morgan and Hunt (1994). Conflict handling items were adapted from Song et al. (2006). All items were measured on a seven-point scale ranging from strongly disagree (1) to strongly agree (7).

#### 4.2. Data analysis

Factor, Reliability and Hierarchical Multiple Regression analyses were conducted. Factor analysis was used for the purpose of identifying the underlying dimensions of the data while Reliability analysis was used to assess the degree of consistency between the multiple measurements of the variables. The Hierarchical Multiple Regression Model was employed to predict relationships.

The mediating effect of trust in the association of conflict handling styles and commitment was assessed based on Baron and Kenney (1986). According to Baron and Kenney (1986), a variable functions as a mediator when it meets the following conditions: (a) variations in levels of the independent variable significantly account for variations in the presumed mediator; (b) variations in the mediator significantly account for variations in the dependent variable, and (c) when a and b are controlled, a previously significant relation between the independent and dependent variables is no longer significant or it is significantly decreased. If Z = dependent variable, X = independent variable, and Y = intervening variable:

$$\begin{array}{ll} Z = f(X) = a + bX; & Y = f(X) = c + dX \\ Z = f(Y) = e + fY; & Z = f(X, Y) = g + hX + jY \\ \text{Full effect :} & \text{Partial effect :} \\ *b \neq 0 & *b \neq 0 \\ *d \neq 0 & *d \neq 0 \\ *f \neq 0 \text{ also } j \neq 0 & *f \neq 0 \text{ also } j \neq 0 \\ *h = 0 & *h \neq 0 \text{ but } h < b \end{array}$$

To estimate the moderating effect of culture, four-tier multiple regression was employed in line with Jaccard, Turrisi, and Wan (1990). The regression has the following equations:

$$Y = b_0 + b_1X_1 + E \quad (1)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + E \quad (2)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_1X_2 + E \quad (3)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_1X_2 + b_4X_3 + E \quad (4)$$

Where Y represent commitment

$b_0$	constant
$b_1$	strength of the independent variables
$X_1$	independent variables
$b_2$	strength of the moderator
$X_2$	dummy for moderator
$b_3$	strength of the interaction term
$X_1X_2$	interaction term
$b_4$	strength of the potential confounding factors (i.e. demographics and firm size)
$X_3$	potential confounding factors
E	error term

Before introducing the moderator and the demographic control variables into the regression model, dummy variables were created (Hair, Anderson, Tatham, & Black, 1998).

## 5. Results

The distribution of the key demographic variables shows that 47% of the respondents were Chinese and 53% were Indians; 56% of the respondents were females; 38% had secondary education or equivalent certificates; 54% had high school certificate, diplomas, or other professional qualifications; 19% had graduate degrees. A slight majority of the respondents were below 45 years and were medium income earners. Outsourcing career in Asia is at the moment attracting young and energetic sector of the labour force; who are willing to embark on the extensive travelling the field sometimes demands.

Factor analysis was adopted to revalidate the measures in this study. We started out with 22 items for 5 constructs – trust (5 items), commitment (5 items), integrating conflict handling (4 items), accommodating conflict handling (4 items), and compromising conflict handling (4 items). After the first factor analysis three conflict handling items were dropped due to high cross-loadings, and another one item for trust was dropped for the same reason after the second factor analysis (see Table 3 for details). In the final factor analysis, a total of 18 items loaded well on five constructs – trust (4 items), commitment (5 items), integrating conflict handling (3 items), accommodating conflict handling (3 items) and compromising conflict handling (3 items). Total variance was 78%.

### 5.1. Reliability and validity

For each construct, composite reliability was computed. These were: trust – .70, commitment – .93, integrating conflict handling – .85, accommodating conflict handling – .90 and compromising conflict handling – .91. The results show that all the composite reliabilities are above the .70 lower limit of acceptability recommended by Hair et al. (1998). Convergent validity was established by ensuring that item loadings were equal to or above the recommended cut-off level of 0.50 (Hair et al., 1998). All items had loadings above .60 level and all factor loadings were statistically significant at  $p < .05$ . Communalities estimates were high. Of the 18 items in the measurement model, 4 items had loading between .60 and .69, 6 items between .70 and .79, 5 items between .80 and .89, and 3 items above .90. Thus, overall convergent validity was established.

### 5.2. Direct effects

The direct effects of the three conflict handling typologies on trust and commitment were examined. The results summarized in Table 4 show that overall, ICH, ACC and CCH contribute significantly ( $F = 32.92$ ;  $p\text{-value} < .001$ ) and account for 46% of the variations in trust. Further observations made from the results include: a significant association

**Table 3**  
Factor loadings and construct reliability.

Key dimensions and items	Loadings	Communalities	Cronbach's alpha
F1 – trust			.70
TR1: The outsourcer usually keeps the promises it makes to our company.	.87	.867	
TR2: The outsourcer can be relied upon on matters of importance to our company.	.99	.965	
TR3: The outsourcer maintains our confidence under all circumstances.	.70	.729	
TR4: The outsourcer cares for the well-being of our company.	.60	.714	
*The outsourcer can be counted to do what is right for our company.			
F2 – commitment			.93
CM1: Our firm is committed to the relationship with the outsourcer.	.76	.793	
CM2: Our firm intends to maintain the relationship with the outsourcer indefinitely.	.60	.697	
CM3: Our firm puts maximum effort to maintain the relationship with the outsourcer.	.85	.864	
CM4: Our firm is interested in a long-term relationship with the outsourcer.	.93	.820	
CM5: Our firm is committed to maintaining a good relationship with the outsourcer.	.80	.712	
F2 – integrated conflict handling			.85
ICH1: The outsourcer encourages our company to express our feelings and views fully.	.63	.748	
ICH2: The outsourcer works hard to thoroughly, jointly learn about issues.	.74	.708	
ICH3: The outsourcer openly shares their concerns and issues about our business with our company.	.64	.646	
* The outsourcer tries to bring all issues into the open in order to resolve them in the best way.			
F3 – accommodating conflict handling			.90
ACH1: The outsourcer helps us not to 'lose face' when there is a disagreement.	.73	.687	
ACH2: The outsourcer goes the 'extra mile' to get along with our company.	.90	.811	
ACH3: The outsourcer tries to accommodate our company's schedules whenever possible.	.86	.807	
** The outsourcer tries to satisfy our expectations.			
F4 – compromising conflict handling			.91
CCH1: The outsourcer looks for middle ground to resolve conflicts.	-.84	.856	
CCH2: The outsourcer tries to arrive at compromises that are acceptable to both parties.	-.71	.854	
CCH3: The outsourcer often proposes compromises in order to end deadlocks.	-.73	.797	
* The outsourcer tries to investigate an issue to find a solution that is agreeable to both parties.			

Total variance (%) = 78.21.  
KMO = .939.  
Approx. chi square = 2610.55.  
df = 153.  
Sig. = .000.  
\*Items dropped after the 1st factor analysis.  
\*\*Items dropped after the 2nd factor analysis.

between ICH ( $\beta = .298$ ;  $p$ -value = .010) and trust; a significant association between ACH ( $\beta = .257$ ;  $p$ -value = .018) and trust; and a marginal association between CCH ( $\beta = .192$ ;  $p$ -value = .064) and trust.

The three conflict handling types contribute significantly ( $F = 97.62$ ;  $p$ -value < .001) and account for 71% of the variations in commitment. There is a direct significant relationship between ICH ( $\beta = .244$ ;  $p$ -value = .004), ACH ( $\beta = .217$ ;  $p$ -value = .006), CCH ( $\beta = .470$ ;  $p$ -value = .000) and commitment. All three conflict handling typologies are directly associated with commitment at 1% significance level. These findings support hypotheses H1 and H2.

5.3. Indirect effects

Next we examine the mediating effect of trust in the association of conflict handling with commitment. This examination is based on Baron and Kenney's (1986) recommendation. According to Baron and Kenney (1986), a variable functions as a mediator when it meets the following conditions: (a) variations in levels of the independent variable significantly account for variations in the presumed mediator, (b) variations in the mediator significantly account for variations in the dependent variable, and (c) when a and b are controlled, a previously significant relation between the independent and dependent variables is no longer significant or it is significantly decreased.

To test for the mediating effect of trust, ICH, ACH and CCH were introduced in the regression model in stage 1 and trust in stage 2, with commitment as the dependent dimension. Table 5 shows the results of this analysis.

Trust mediates in the association of ICH, ACH and CCH with commitment. From Table 5, it is observed that there is an increase in the coefficient of determination ( $R^2$ ) from stage 1 to stage 2 of the regression model. Furthermore, the beta coefficients have decreased from stage 1 to stage 2 for all three conflict handling typologies. Such increase in  $R^2$  and decrease in beta coefficients explain the mediation effect of commitment. Thus, there is an indirect relationship between integrating, accommodating and compromising conflict handling with commitment (via trust). The results in Table 5 provide support for hypotheses H3 and H4.

5.4. Moderating effects

The independent and moderating variables contribute significantly ( $F = 16.65$ ;  $p < .001$ ) and explain 54% of the variations in trust (Table 6). Culture moderates the impact of CCH on trust. The results show that the impact of CCH on trust is significantly higher for the Chinese sample (uncoded group) than for the Indian sample (coded group) at 5% significance level. In other words, the impact of compromising conflict handling technique on trust is stronger among the Chinese outsourcing services providers compared to their Indian counterparts. Culture does not moderate the relationship of integrating and accommodating conflict handling with trust. It also has no direct effect on trust. Thus, hypothesis H6 is only partially supported, whereas hypothesis H5 is not supported.

Cultural differences in the impact of ICH, ACH, CCH and trust on commitment were examined next. It is observed that the independent and moderating variables contribute significantly ( $F = 32.67$ ;  $p < .001$ ) and explain 74% of the variations in commitment. Culture moderates the effect of trust and CCH on commitment at 5% significance level (a partial support for hypothesis H8). The impact of compromising conflict handling on commitment is significantly higher for the Chinese sample compared to the Indian sample. The impact of trust on commitment is significantly higher for the Indian group than for the Chinese. Commitment is positively related with trust, but more so for the Indian outsourcing service providers than for the Chinese. Commitment is also driven by compromising conflict handling but more for the Chinese group than the Indians. It seems that the compromise strategy is more important in gaining the commitment of the Chinese service providers than their Indian counterparts. Culture has a direct effect on commitment (hypothesis H7), with the Chinese

**Table 4**  
Direct relationships.

Variables	Trust	Commitment
	$\beta$ (p-value) (.000)	$\beta$ (p-value) (.000)
Constant		
Integrating conflict handling (ICF)	.298 (.010)	.244 (.004)
Accommodating conflict handling (ACH)	.257 (.018)	.217 (.006)
Compromising conflict handling (CCH)	.192 (.064)	.470 (.000)
R	.675	.844
R <sup>2</sup>	.456	.713
AR <sup>2</sup>	.442	.706
F (Sig.)	32.917 (.000)	97.624 (.000)

more likely to be committed to the outsourcer than the Indian outsourcing service providers ( $p < .001$ ).

**6. Limitations and future research**

One important limitation of this study is the relatively small sample size. HR is one of the latest organizational functions to be outsourced; as a result, this sub-sector has so far not attracted as many service providers as other sub-sectors such as accounting, auditing, and logistics. The small population of HR outsourcing firms may explain the small sample size achieved in this study. Although, the study's sample size of 122 compares well with the less than 100 sample size commonly used in cross-country business studies (Johnson, 2008), there is a need for improvement. Future research in the area should try to overcome this limitation.

This study focuses on relatively similar Asian cultures in keeping with the scope of this special issue of IMM, nonetheless, it is necessary to compare cultures of total opposites. By studying countries high and low in power distance, and uncertainty avoidance, collectivistic versus individualistic, masculine versus feminine, long versus short-term oriented cultures, a richer understanding of how culture plays out in building trust and commitment in B2B outsourcing relationship can be gained. Future research can take up this challenge.

**7. Implications**

This research shows that integrating conflict handling, accommodating conflict handling and compromising conflict handling are directly related to trust and commitment. They are also indirectly (through trust) related to commitment. This implies that conflict handling techniques applied by outsourcers can lead directly to enhanced service provider commitment, as well as indirectly through its positive effect on trust. This finding builds on the work of Thomas and Kilmann (1974), Rahim (1983), Rahim et al. (1999), Lilly et al. (2005) and Song et al. (2006). Some of the past studies have looked at how conflict handling affect organizational performance {for example Song et al. (2006) considered innovation performance, whereas Lilly et al. (2005) considered human resource performance}, others focused on the stages of moral development and conflict management styles (e.g. Rahim et al., 1999), and on developing and testing

**Table 5**  
Mediating effect of trust.

Independent variables	Stage 1 regression without trust $\beta$ (p-value)	Stage 2 regression with trust $\beta$ (p-value)
Constant	(.000)	(.065)
ICH	.245 (.004)	.170 (.034)
ACH	.216 (.007)	.149 (.046)
CCH	.470 (.000)	.395 (.000)
Trust	–	.283 (.000)
	R <sup>2</sup> = .713	R <sup>2</sup> = .754

R<sup>2</sup> change = .041; F change = 19.58 Sig. = .000.

**Table 6**  
Moderating effect of culture – trust and commitment as dependent variables.

Variables	Trust		Commitment	
	t-value	Sig.	t-value	Sig.
Constant	5.054	.000	4.065	.000
Dummy for culture (dmc)	1.954	.053	–3.652	.000
ICH*dmc	–.204	.838	.853	.395
ACH*dmc	1.932	.056	–.039	.969
CCH*dmc	–2.717	.008	–2.455	.016
Trust*dmc	n/a		5.557	.000
R	.736		.862	
R <sup>2</sup>	.541		.743	
AR <sup>2</sup>	.509		.720	
F (Sig.)	16.651 (.000)		32.669 (.000)	

Note: Coding: Chinese (0), Indian (1).

measures of conflict handling (Rahim, 1983; Thomas & Kilmann, 1974). The present study pushes back the frontier of knowledge in the field by examining conflict handling styles and their effects on trust and commitment in B2B outsourcing relationship in two Asian cultures – China and India. It thus provides some insights on how conflict management techniques can be used to build trust and commitment in the two markets. Also, by examining service providers' perceptions of outsourcers' conflict handling styles and their effects (instead of the other way around), the study departs from the norm in most outsourcing research and uses a different and rare lens to advance our knowledge.

From the outcome of the study, it is understood that integrating conflict handling, accommodating conflict handling and compromising conflict handling are conflict management strategies that outsourcers who desire to build trust and commitment among service providers may pursue. Since service providers who have trust in the outsourcer tended to be committed to the relationship between the dyad, outsourcers should strive to build trust. From the study, outsourcers can also decide whether to apply these strategies differentially between the Chinese and Indian service providers. Since there is no significant difference in the impact of integrating and accommodating conflict handling on trust and commitment between the two groups, the outsourcer may apply these strategies uniformly when dealing with both Chinese and Indian service providers. Integrating conflict handling (ICH) does not differ in its influence on trust and commitment between the Chinese and Indian samples. Outsourcers practicing ICH encourages their service providers to express their feelings and views fully, encourages working hard to thoroughly and jointly learn about issues, and openly sharing concerns and issues about their customers' business. Accommodating conflict handling (ACH) promotes “face saving” for the business associate, going an extra mile to get along with partners and being cooperative and compliant. These attributes are generally common in Asia and plausibly explains the lack of significant difference in the influence of ICH and ACH on trust and commitment between the Indian and Chinese service providers.

Compromising strategy is more influential on trust and commitment among the Chinese service providers than it is with their Indian counterparts, hence outsourcers may choose to apply a greater measure of compromise with the Chinese group than with the Indian sample. This makes sense as the Chinese are generally known to be more willing to compromise on issues than the Indians who are known to be more argumentative and dramatic (Sen, 2006). According to Cornelius and Faire (1989), an individual (or group) who compromises in dealing with conflict attempts to maintain the friendship, tries to discover what is fair, divides the prize equally, avoids pulling ranks or being authoritarian, gives something to preserve the relationship. These characteristics of give and take are similar to the tenets of the “guanxi” form of relationship in the

Chinese business landscape. The give and take which marks the Chinese over specific issues needs to be carefully considered (Atkin & Rinehart, 2006).

CCH items include, investigating an issue to find a solution that is agreeable to both the CSO and the customer, looking for middle ground to resolve conflicts with customers, arriving at compromises that are acceptable to them and their customers, and proposing compromises in order to end deadlocks. As indicated, Chinese higher long-term orientation compared with Indian's moderate LTO could further explain why compromising conflict handling is considered to be more important and useful strategy for building trust and commitment. Also the Chinese society has been strongly influenced by the principle of harmony (Ting-Toomey, 1994). Interpersonal harmony or "renji hexie" is related to the teachings of Confucianism. The desire to achieve interpersonal harmony could also provide an explanation as to why compromise is an important strategy, and why Chinese outsourcing service providers would develop trust and commitment through compromising conflict handling strategy.

The concept of guanxi is deeply rooted in the Chinese society and there are arguments it is a guiding principle of economic and social organization (Fei, 1992) and almost always involves reciprocal obligation (Bian & Ang, 1997). Other researchers suggest it can be a set of interpersonal connections that involve the exchange of favours between people on a "dyadic basis" (Hwang, 1987). Guanxi and its 'give and take' characteristic is a very important part of Chinese culture and way of life with implications of continual exchange of favours" (Wong, 1998). It is believed that the continual favour exchanges develop trust among the members of the guanxi network, thus it is not surprising that the Chinese outsourcing service providers exhibited a stronger relationship between compromising conflict handling and trust and commitment than their Indian counterparts. As such, outsourcers engaging Chinese service providers may need to make more compromises than may be necessary for the Indian group in order to gain their trust and commitment. For example an outsourcer who does not hold a service provider totally culpable for inadvertent unfavourable outcomes or who is willing to make compromises in order to resolve a problem would earn greater trust and commitment from Chinese service providers.

## 8. Conclusions

The focus of outsourcing research till now has remained on understanding ways to improve the principal's (outsourcer) trust in the agent (outsourcing service provider). Hardly any effort has gone into understanding how to enhance the service provider's trust in outsourcers. Yet a quality outsourcer–service provider relationship is not achievable without mutual trust. Hardly anything is known about how the conflict management styles of the outsourcer will affect the trust and commitment of the service provider, due to dearth of research in the area. To better understand how a principal's conflict management style can affect the trust and commitment of the service provider is one of the impetuses for this research. This is a new dimension to the outsourcing research that traditionally focuses on how the outsourcer (principal) perceives the behaviour of the vendor (agent) and the quality of their services and representations. The study further compares two Asian cultures – Chinese and Indians, to unveil any differences in the impact of conflict handling styles on trust and commitment between the two. It thus adds value to the present knowledge in the field.

In sum, trust is very important in outsourcing relationship. Chinese and Indian service providers have shown that good conflict handling strategies by the outsourcer can be key drivers of trust and commitment. The three conflict handling typologies were also examined and found to account for a considerable amount of variance in trust and commitment. Whereas the integrating and accommodating conflict handling styles do not differ significantly in their impacts on trust and commitment

between Chinese and Indian HR outsourcing service providers, the influence of compromising conflict handling on trust and commitment does significantly differ between the two groups. There are enough reasons to suggest that culture and nature of market should not be ignored in trying to understand and model the facilitators or drivers of trust and commitment in B2B outsourcing relationship through good conflict management. These findings are important contributions to theory and practice of outsourcing in cross-cultural contexts.

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