

Understanding the Role of Power Distance in Global Outsourcing Relationships

Alaka N. Rao

*Department of Organization & Management
College of Business, San José State University, San José, CA, USA*

[Abstract] A theoretical framework for understanding the influence of power on the effectiveness of global outsourcing relationships is presented in this article. Following a review of the research on inter-organizational relationships and the literature on Hofstede's cultural measure of power distance, I propose that the differences in the levels of power distance create particular intra-organizational dynamics by influencing trust, status competition, and role ambiguity within the organization. These variables are subsequently argued to impact the inter-organizational relationship by acting as a mediating mechanism between power distance across levels of analysis and outsourcing effectiveness. Lastly, the moderating role of the type of knowledge outsourced is considered. The relationship between power and inter-organizational effectiveness is argued to be weaker when tacit knowledge is outsourced than when knowledge is explicit. The implications of this model to research on cultural values and the effective management of global outsourcing relationships are discussed.

[Keywords] cultural values; power distance; global outsourcing relationships

Introduction

In the last two decades, a number of environmental shifts have led to new opportunities for inter-firm cooperation. The globalization of markets and rapid shifts in technologies has fostered greater trade and collaboration between organizations around the globe (Gulati, 1995). Indeed, researchers across varied disciplines from economics to information systems have described a global economy where knowledge and information are seamlessly transferred between organizations, and individuals openly collaborate across geographic distance and national borders. However, researchers in organizational behavior and theory have recently questioned this idea by pointing to structural and cultural factors that can limit the effectiveness of inter-organizational collaborations. In this article, I theoretically address this issue, which is central to an understanding of globalization, by asking whether differences in status and authority are impediments to cross-cultural collaborations between individuals and organizations.

I particularly focus on outsourcing – a form of collaboration that has been argued by researchers, such as Lacity and Willcocks (2001), to be prevalent in the heightened level of globalization in today's economy. The outsourcing of products and services to developing countries, like India and China, has led to significant cost-savings (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004), spurring even greater collaboration of knowledge and services across the globe. I propose that the effectiveness of these outsourcing relationships is largely impacted by the culturally influenced distribution of status and authority within organizations, and examine its manifestation as the cultural dimension of power distance.

To study the influence of power distance on the effectiveness of outsourcing relationships, I first review the relevant literature on outsourcing relationships, as well as the research on Hofstede's (1980) cultural dimension. I then propose that the interaction between levels of power distance impacts intra-organizational dynamics by influencing trust, status competition, and role ambiguity within the organization. These variables are subsequently argued to influence the inter-organizational relationship by acting as a mediating mechanism between power distance (at proximal and distal levels) and outsourcing effectiveness. Lastly, I examine the moderating role of the type of knowledge outsourced on the relationship between power distance and inter-organizational effectiveness. Through these propositions, I consider how cultural differences in authority and status limit cross-cultural collaborations and the process of globalization.

Outsourcing

Outsourcing has been the focus of considerable research in the strategic management literature. Researchers have examined this phenomenon from a variety of perspectives, including the decision of whether to make or buy products or services, the costs and benefits associated with these decisions, and the governance of outsourcing relationships. Below, I review the conceptualizations of outsourcing in the literature, and discuss the definition employed in this article. I then review the research on governing outsourcing relationships and examine how trust, cultural similarity and the intra-organizational dynamics within the firm influence the effectiveness of outsourcing relationships.

Conceptualizations of Outsourcing

Researchers in strategic management literature have defined outsourcing in a number of different ways. Researchers, such as Dibbern, Goles, Hirschheim, and Jayatilaka (2004), have indeed acknowledged that there is considerable confusion in the management literature about what is meant by the term “outsourcing.” Some have considered the phenomenon as the externalization of an internal activity to a third party (Lacity and Hirschheim, 1993), while others have argued that outsourcing is an organizational decision to buy a good or service from an external vendor which is a procurement decision. For example, in their study of information technology (IT) outsourcing, Loh and Venkatraman (1992) conceptualized outsourcing as “the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organization” (p. 9).

Alternatively, others have defined outsourcing as “products supplied to the multinational firms by independent suppliers from around the world” (Kotabe, 1992, p. 103), and a “reliance on external sources for manufacturing components and other value-adding activities” (Lei & Hitt, 1995, p. 836). Across these studies, outsourcing has been conceptualized so broadly that it includes virtually any good or service that an organization procures from outside firms. However, outsourcing is not simply a purchasing decision; all firms purchase elements to support their operations. Defining outsourcing in terms of procurement activities does not capture the strategic nature of the phenomenon, which some researchers such as Gilley and Rasheed (2000) have argued is central to its conceptualization. Indeed, the authors suggest that outsourcing represents the fundamental decision to reject the internalization of an activity.

This can arise in one of two ways, either by substitution of internal activities with external purchases, or by acquiring goods and services from an external source when internalization of the activity is within the firm’s capabilities. I draw on this definition from the information systems literature rather than others, because it identifies outsourcing as more than procurement, and allows a focus on outsourcing core competencies of the organization, rather than just routine activities. Thus, outsourcing is conceptualized as the use of an external organization to perform one or more activities that was, or could have been provided internally by the firm, such that the activity is within the firm’s existing capacity (Lacity & Hirschheim, 1993; Gilley & Rasheed, 2000). Drawing upon this definition of outsourcing, I review the existing research on governing outsourcing relationships to understand how the internal dynamics of the firm influence outsourcing effectiveness.

Governance of Outsourcing Relationships

Early literature on governing outsourcing relationships has focused on the use of control mechanisms, such as contracts to influence outsourcing performance (Das & Teng, 1998; Gulati, 1995; Poppo & Zenger, 2002). More recently, research has centered on characteristics of interpersonal relationships that can influence the coordination between the outsourcing vendor and client, and consequently performance. This literature is reviewed below with a detailed discussion of how specific characteristics of the relationship such as trust, cultural similarity, and the intra-organizational dynamics fostering coordination impact the governance of outsourcing relationships, and their performance.

Much of the early literature on outsourcing centers was on the importance of personal relationships in facilitating communication and shared understanding in globally distributed projects. In collocated projects, communication is relatively easy, since outsourced and organizational employees can frequently share and disseminate project knowledge, fostering greater understanding between team members

(Sengupta, Chandra, & Sinha, 2006). However, in distributed projects, information flows between members are often irregular, resulting in frequent misalignment and need for adjustment. Studies (Kraut, Steinfield, Chan, Butler & Hoag, 1999; Anderson, Davis-Blake & Parker, 2004) have concluded that increased communication between a firm and its suppliers through personal relationships not only improves coordination of these inter-organizational relationships, but also customer satisfaction, quality, and efficiency. Building on this research, this article considers how characteristics of relationships, such as trust and cultural similarity, can be particularly important to the governance of global outsourcing relationships and impact their performance.

Trust. Central to relationship development is the creation of trust in global outsourcing relationships. Trust has generally been defined in the organizational behavior literature as the expectation held by one party that another would not exploit its vulnerabilities when faced with the opportunity to do so (Mayer, Davis, & Schoorman, 1995). Several factors, such as shared social norms, repeated interactions, and shared experiences have been suggested to facilitate the development of trust (Bradach & Eccles, 1989; Mayer, et al., 1995; Lewis & Weigert, 1985). Research has further demonstrated that trust increases the exchange of information (Earley, 1986), and the ability to engage in risky activities that cannot be controlled or monitored (Luhmann, 1988).

Recent research has argued that building trust is fundamental to the success of globally distributed teams (Jarvenpaa & Leidner, 1999). O'Hara-Devereaux and Johansen (1994) noted that trust can prevent geographical and organizational distances of global projects from becoming psychological distances whereby dispersed employees feel alienated from one another. Those studying outsourcing relationships have found that trust facilitates coordination by reducing transaction costs in a number of ways, including lowering the need for monitoring, reducing opportunistic behavior and the negotiation of protective governance mechanisms, such as detailed contracts (Das & Teng, 1998; Gulati, 1995; Poppo & Zenger, 2002). Furthermore, trust reduces the high levels of uncertainty endemic to the global and technologically based environment (Jarvenpaa & Leidner, 1999), and facilitates adaptive responses. Trust has been empirically demonstrated to improve the performance of inter-organizational exchanges in regard to goal fulfillment, quality, timeliness and flexibility (Zaheer & Venkatraman, 1995; Zaheer, McEvily, & Perrone, 1998). Those solely investigating IT outsourcing relationships have found that trust is associated with a number of positive outcomes, including greater coordination, effective communication between partners, participation, and overall outsourcing success, measured in terms of overall business performance of the client (Lee & Kim, 1999). Building on these findings, I examine how the type of trust, specifically within the organization influences the performance of global outsourcing projects.

Cultural Similarity. A global outsourcing relationship often implies that a firm has to cooperate with employees and organizations from different cultural backgrounds. Researchers have considered culture in terms of Hofstede's (2001) framework, which defines culture as "...the collective programming of the mind which distinguishes the members of one human group from another" (Hofstede, 2001, p. 43). Drawing on Hofstede's classification of culture, researchers have argued that similarity between the dimensions of national culture is beneficial to the performance of firms and inter-organizational relationships. Cultural dissimilarity, on the other hand creates greater goal incongruence, conflict and distrust in the relationship, exacerbating the effects of coordination, control and communication difficulties arising from physical separation (Abbott, 2007; Jarvenpaa & Leidner, 1999; Bhagat, Kedia, Harveston, & Triandis, 2002). Empirical studies have tested these arguments, by first, drawing on Kogut and Singh's (1988) cultural distance index. These studies have demonstrated mixed results. Barkema and Vermeulen (1997) found that overall cultural distance (based on Hofstede's country scores) negatively influenced the survival of international joint venture, while others found that cultural distance did not affect alliance performance (Glaister & Buckley, 1999) or firm performance (Gomez-Mejia & Palich, 1997).

In the outsourcing literature, the influence of cultural distance on the performance of outsourcing relationships has similarly been inconclusive. While some have found that cultural distance decreases the success of outsourcing relationships (Abbott, 2007; Nicholson & Sahay (2001), research by Lee and Kim (1999) failed to show any relationship between cultural similarity and the quality of the outsourcing

relationship, or its success. Researchers such as Shenkar (2001) and Kirkman, Lowe, and Gibson (2006) have attributed these conflicting findings regarding cultural distance to the measure itself, which combines all of Hofstede's complex cultural values into one construct. Thus, examining specific cultural values separately and testing their effect on outsourcing performance might clarify these mixed findings, as I contend in this article.

Qualitative research provides some evidence that individual cultural values, and particularly power distance influence the functioning of outsourcing relationships. Based on several case studies of outsourcing projects, Dibbern, Winkler, and Heinzl (2006) argued that a high level of power-distance difference between Germany and India was reflected in greater conformity to the rules established by the German clients, as well as obedience of Indian outsourcing-vendor employees to their clients' decisions. These findings highlight how differences in the cultural value of power distance can impact the internal dynamics of the outsourcing relationship. The important role of power distance in governing global outsourcing relationships and influencing outsourcing effectiveness is examined through a detailed examination of this cultural dimension below.

Intra-Organizational Dynamics. Building on the literature on trust and cultural similarity, researchers in strategic management have considered how the dynamics within an organization are critical to governing inter-firm relations. Researchers focusing particularly on outsourced product development activities have argued that organizations require specific internal capabilities to effectively coordinate activities with a supplier of this service. For example, in his study of the Japanese automobile industry, Takeishi (2001) theorized that governing outsourced product design required not just close personal relationships with the supplier, but also internal coordination within the organization, which can then foster problem solving with the supplier. Drawing on data collected from automobile manufacturers and their suppliers, he discovered that outsourcing performance and design quality were positively related to not just the frequent face-to-face communication between the automaker and the supplier, but also the effective internal coordination within manufacturing firms whereby various engineering functions had to work well together, as well as to coordinate with purchasing functions in the organization, which was critical to problem solving with the supplier. Thus, without effective internal coordination, an automaker could not achieve effective outsourcing relationships with designers.

These findings support previous theoretical arguments on the importance of coordinating mechanisms within the firm on inter-firm relations when the outsourced service has broad inputs into the organization. For example, Hillebrand (1996) argued that in order to perform well in inter-firm relations, the firm has to first cooperate internally which requires, as Adams (1980) noted, organizations to resolve conflicts among various internal departments in order to effectively manage external relations; elements of internal conflict can become inputs to a second conflict between firms. These studies by Takeishi and others provide strong empirical evidence of the importance of internal mechanisms on governing inter-firm relations, which subsequent research by Azoulay (2004) has supported. Azoulay (2004) argued that the organizational design and policies of a firm could either enable or impede the emergence of close, trusting relationships between firms. In an in-depth qualitative examination of supply relationships between six pharmaceutical and biotechnology firms, Azoulay found that supplier organizations were organized with detailed hierarchical divisions of labor, a rigid chain of command, and emphasis placed on formal reporting mechanisms to achieve coordination within the firm. Performance in these organizations was also measured by how quickly employees could perform the task, rather than quality.

These policies and structures subsequently created negative outcomes within the organization, such as impeding the exchange of information among employees and creating a highly "transactional orientation" (Azoulay, 2004) within the firm, whereby employees focused on exiting the organization. Thus, turnover as well as distrust within the organization was significant. With this internal dynamic, supplier organizations formed partnerships with pharmaceutical firms, but trust-based relationships failed to develop between the organizations. Rather, suppliers tended to distrust their partners, and monitor them closely, just as their bosses did to them. Azoulay's work provides insight on how the dynamics within an organization created through its policies and structures can impede the governance of inter-firm relations. An environment of distrust between managers and co-workers fostered similar relations between

outsourcing partners and clients. Thus, these studies suggest that governing outsourcing relationships is not just a choice between formal contracts and trust, but also a question about the internal dynamics within an organization. Instituting mechanisms and establishing policies which can generate trust and foster cooperation are critical to inter-firm relations. I build on this little studied research in this article, to understand how the cultural dimension of power distance impacts the internal dynamics of the organization, and subsequently outsourcing effectiveness. Few studies have considered this question of how power distance impacts outsourcing relationships, and the mechanisms of trust, status competition, and role ambiguity, which influences the internal dynamics of firms.

Power Distance

Much of the complexity of culture has been modeled by assuming that societies vary along a number of cultural dimensions. Many such theories and frameworks have been identified, and theoretically and empirically developed. Perhaps the most widely known and acknowledged framework was proposed by Geert Hofstede (1980) who argued that one of the central dimensions of culture is that of power distance. The concept of power from which this dimension arises, has intrigued writers throughout the centuries. Researchers in organizational behavior have in particular, considered power from both a psychological and cross-cultural perspective. While psychologists have provided insight into the needs, motivations and enactment of power, cross-cultural researchers have examined differences in the acceptance and enactment of power across societies.

In this article, I concentrate on this latter stream of research, focusing on Hofstede's (1980) measure of power distance. Researchers, such as Bhagat, Kedia, Harveston, and Triandis (2002) have proposed that power distance can significantly impact inter-organizational relationships, and here, I particularly focus on its influence on outsourcing. Below I review this important, but little studied dimension of culture (Khatri, Templer, & Budhwar, 2003) by discussing its conceptualization and its impact on global outsourcing relationships.

Defining Power Distance

In his seminal study, Hofstede considered power distance as a societal norm and defined the concept as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, 1991, p. 97). Members of high power distance cultures accept inequalities among individuals as appropriate, while emphasis on equality and a sense of discomfort with hierarchical distinctions is characteristic of low power distance cultures. Applying this concept to the study of relationships within the organization, Hofstede proposed that national culture affects the interaction between managers and subordinates: "the power distance between a boss (B) and subordinate (S) in a hierarchy is the difference between the extent to which B can determine the behavior of S and the extent to which S can determine the behavior of B" (Hofstede, 2001, p. 83).

To measure power distance in boss-subordinate relationships across cultures, Hofstede constructed a three-item scale that assessed the extent to which employees are afraid to express disagreement, and the actual and preferred decision-making style of managers. In high power distance cultures, autocratic decision-making style was argued to be prevalent, and managers were expected to direct their employees. However, in low power distance cultures, a participatory style of decision-making between managers and employees was more common. To empirically test his ideas, Hofstede surveyed IBM managers across 41 countries, and discovered that in high power distance countries, employees depend on managers to make decisions without participating or providing input into these decisions. Managers in turn, were expected to act according to their higher status and direct employees. However, in low power distance countries, a participatory style of decision-making was preferred such that subordinates jointly engaged with their managers in making decisions. Thus, managers and subordinates in the culture did not accept an underlying sense of inequality.

Drawing on Hofstede's construct of power distance, subsequent research in cross-cultural management has provided strong empirical support for the importance of congruence between power distance and management practices, such that the fit between the two results in better employee outcomes.

For example, researchers have found that practices such as empowerment and participation are negatively associated with job satisfaction, organizational commitment, and productivity in high power distance countries (Robert, Probst, Martacchio, Drasgow, & Lawler, 2000; Morris & Pavett, 1992). Thus, this stream of research has generally found strong evidence for the importance of congruence between cultural values and management practices.

Power Distance Across Levels of Analysis

Considerable research in cross-cultural management has critiqued Hofstede's measure of power distance. Researchers, such as Kirkman, Lowe and Gibson (2006), House, et al. (2004), and Smith (2002) have questioned the validity of the construct, while Rao and Pearce (2012) have argued that the limitations center on the theoretical focus and level of analysis to which power distance refers. Indeed, an in-depth review by Rao and Pearce (2012) reveals significant limitations in the construct and measurement of power distance, which are briefly summarized below. First, researchers have noted that the operationalization of the construct differs across studies from a norm, value, or behavior. Thus, there is considerable variation as to whether power distance is considered as a societal norm or a management practice across studies, as Rao and Pearce note (2012). Furthermore, researchers have considered the construct at various levels of analysis from the individual (Farh, Hackett, & Liang, 2007) to the societal, and combined items across these different levels of analysis in their measure of power distance, indicating poor construct validity (Rao & Pearce, 2012). Thus, aggregating and then, comparing the results of what some researchers have called a "hodgepodge" of ideas, such as obedience, hierarchy, formalization and privilege (Maznevski, et al., 2002), across studies can result in conflicting findings (Rao & Pearce, 2012).

To more clearly specify the content and scope of the construct, I draw on the constructs of societal and interpersonal power distance proposed by Rao and Pearce (2012), which differentiates the distal, societal norm of power distance from the interpersonal construct focused on the dependence in the supervisor-subordinate relationship. As defined by Rao and Pearce (2012), societal power distance (SPD) is considered as "the extent to which rank, status and power are accepted within a society." SPD is similar to Hofstede's concept of a societal norm, however the construct is not confounded by the supervisor-subordinate relationship (Rao & Pearce, 2012). Interpersonal power distance (IPD) is considered as the "difference in power and status between two individuals, such that one party is more dependent on another" (Rao & Pearce, 2012). Researchers such as Provan (1980) have noted that power is a critical multidimensional construct in organizations, with objective and subjective aspects as well as perceptual and actual measures. Thus, understanding it from varied angles, including its proximal and distal effects is important in providing a complete picture of the impact of this variable within and between organizations engaged in global collaboration.

Power Distance and Outsourcing Effectiveness

I propose that understanding the manifestation of power cross-culturally across levels of analysis is critical to analyzing the effectiveness of outsourcing relationships. Below, I present a theoretical model that elucidates the relationship between power and outsourcing effectiveness by specifically examining the mediating mechanisms through which this occurs, specifically trust, status competition, and role ambiguity. Second, I focus on how the type of knowledge transferred between organizations affects outsourcing effectiveness. A summary of the propositions is presented in Table 1.

Table 1. The Relationship between Societal and Interpersonal Power Distance

Interpersonal Power Distance	Generalized Power Distance	
	Low Societal Power Distance	High Societal Power Distance
High Interpersonal Power Distance	I Ineffective outsourcing relations due to status competition between co-workers within the outsourcing firm	II Effective outsourcing relations, especially when knowledge is explicit
Low Interpersonal Power Distance	III More effective outsourcing relations, than high SPD – high IPD when knowledge is tacit	IV Ineffective outsourcing relations due to role ambiguity within the outsourcing firm

Researchers in organizational behavior have previously considered differences in the cultural patterns of the society in which organizations are located and the importance of cultural fit on inter-organizational relationships. Considerable empirical research has found that cultural similarity between firms, even in power distance, is positively related to international joint venture performance (Geringer and Herbert, 1991). Expanding on the importance of cultural similarity on inter-firm relations, Bhagat, Kedia, Harveston and Triandis (2002) theorized that dissimilar cultural patterns create ineffective inter-organizational relationships by distorting the knowledge that is transferred between organizations. Focusing on Triandis' (1995) cultural typology of vertical-horizontal and individualism-collectivism, they proposed that when the cultural profile of two countries is the same (e.g. both organizations are from vertical individualistic countries), the exchange of knowledge is the most effective. However, when there is a difference in one facet (e.g. vertical individualism to vertical collectivism), knowledge transfer becomes more difficult. Dissimilarity along two facets (e.g. vertical individualism to horizontal collectivism) was proposed to be the least effective. I build on Bhagat's, et al. (2002) work, but note several differences between their arguments and those proposed here. First, I focus on the dimensions of societal and interpersonal power distance and their role in effectively transferring knowledge between organizations. One must note that not much research in this area has focused on the cultural dimension of power distance.

Although, Bhagat, et al. (2002) mention verticality or power distance, their theoretical argument largely focuses on the role of individualism-collectivism; they state that the "I-C dimension becomes more important than the V-H dimension in transferring tacit versus explicit...knowledge," in the inter-organizational relationship (Bhagat, et al., 2002, p. 211). Here, I propose that the cultural dimension of power distance is as critical to a comprehensive understanding of the effectiveness of the inter-organizational knowledge transfer. Another noteworthy difference between Bhagat's work and the arguments proposed here is the focus of the study. Bhagat, et al. (2002) examined the differences in culture between organizations, while I consider the influence of culture (particularly societal and interpersonal power distance) *within* a single organization, specifically the outsourcing vendor. I argue that the congruence between these levels of power distance (such that both are high or low) creates relatively more effective relations *between* outsourcing vendor and client. I further consider the mediating mechanisms through which this occurs, and the conditions under which certain levels of power distance are more beneficial in creating outsourcing effectiveness than others.

I first consider the extent to which societal power distance exists alongside interpersonal power distance, or the level of dependence between supervisors and subordinates in the outsourcing vendor organization. Combining interpersonal with societal power distance yields a two-by-two matrix (Table 1), such that two levels of congruence exist – whereby both constructs are at either high or low levels. I propose that this congruence between interpersonal and societal power distance generally increases outsourcing effectiveness through its influence on the internal dynamics of the organization. I consider both situations of fit between these constructs here. In Quadrant II in Table 1, a high societal norm of power distance emphasizes one's position in the hierarchical social structure, and the importance of rank

and status is reinforced by one's dependent relationship with their supervisor. A second level of congruence exists whereby a low level of interpersonal power distance exists in an environment with a low power distance, societal norm (Quadrant III, Table 1). In either situation, congruence between proximal and distal factors of power distance fosters a consistent view of one's social standing both in the organization, as well as in the society (Rao & Pearce, 2012). This clarity in role relations reduces uncertainty about one's position, and fosters trust within the organization as noted by Rao and Pearce (2012). Indeed, researchers have argued that the development of trust is based on stable and enduring role definitions (Zaheer, McEvily & Perrone, 1998), and trust generally improves the performance of inter-organizational relationships (Zaheer, et al., 1998).

One must note that the idea that congruence, particularly high societal and high interpersonal power distance, creates trust does not necessarily contradict earlier research by Hofstede who found that power distance is positively related to societal distrust. Hofstede's finding is based on correlational evidence that high power distance between supervisor – subordinate is associated with general distrust in unspecified others in one's society, not specifically those that an employee knows, or is working with. This distrust might not extend to clients that an employee is closely involved in, and collaborating with across organizational boundaries. Indeed, as argued above, congruence in the levels of power distance could actually foster clarity in role relations and trust within the organization (Rao & Pearce, 2012), building trust between organizations. Indeed, the transaction cost economics (TCE) literature has argued that trust in market relations, and between organizations is generally more difficult to develop due to the presence of formal contracts and possibility of opportunism between firms, so I argue that a necessary first step to building trust between organizations, is fostering trust within the organization.

Thus, I draw on the research of Zaheer, et al. (1998) and the work of Takeishi (2001) and Azoulay (2004) who demonstrated that intra-organizational dynamics, specifically that of trust, creates more effective outsourcing relationships. They further argue that employees working in organizations with a high level of intra-organizational trust are better able to create trusting and effective outsourcing relationships with their outsourcing partners. They are more likely to share information (perhaps in a centralized manner), negotiate disputes, and mitigate information asymmetries with other organizations, when congruence rather than incongruence exists, thereby increasing the effectiveness of the outsourcing relationship. Indeed, researchers have hypothesized and found a positive relationship between these different levels of trust, as well as trust and performance (Zaheer, et al., 1998). Thus, I propose the following:

Proposition 1: Intra-organizational trust will mediate the positive relationship between match between societal and interpersonal power distance and outsourcing effectiveness, such that fit will be positively related to intra-organizational trust, which will be positively related to outsourcing effectiveness.

Tacit Knowledge

I next consider which type of congruence between interpersonal and societal power distance – high or low (evident in Quadrants II and III in Table 1) – is more conducive to creating effective outsourcing relationships. I propose that the type of knowledge is an important moderating variable between the match between the levels of power distance and outsourcing effectiveness. I draw on Polanyi's (1958) distinction between explicit versus tacit dimensions that concern the extent to which knowledge is well articulated. Tacit knowledge is highly personal in nature, specialized, and often transferred through a process of apprenticeship and mentoring over an extended period of time. Thus, the exchange of tacit knowledge requires richer context and media. Explicit knowledge on the other hand, is far easier to understand, codify and consequently transfer between individuals and organizations.

Drawing on this distinction, researchers have described its influence on outsourcing by suggesting that managing the transfer of explicit knowledge requires less coordination and control between organizations (Dickson, 2004), which consequently increases the effectiveness of the inter-organizational relationship. Additional research by Hansen (1999) has similarly argued and found that the transfer of

complex knowledge is impeded by weak ties between units in a large electronics company. Drawing on this research, I propose that tacit knowledge moderates the relationship between the congruence between the levels of power distance and outsourcing effectiveness. In a situation of high societal and high interpersonal power distance in an organization, the outsourcing relationship is highly structured, whereby managers occupy pivotal, centralized positions in the inter-organizational relationship. In this arms-length relationship characteristic of high power distance, explicit knowledge is easier to transfer since it requires lower levels of interaction, and coordination intensity. Thus, I theorize that the relationship between high interpersonal – high societal power distance and outsourcing effectiveness will be stronger when the knowledge transferred is explicit (Quadrant II, Table 1), rather than tacit.

Proposition 2: The extent to which knowledge is tacit will moderate the positive relationship between high interpersonal - high societal power distance and outsourcing effectiveness, such that the relationship will be stronger when the knowledge transferred between organizations is less tacit.

It is possible that employees working under conditions of low levels of power distance are in a better position to transfer tacit knowledge between organizations than those at high levels of interpersonal and societal power distance. Unconstrained by either dependence on their supervisor or cultural norms of rank and status differences, employees can build close, cooperative relationships within and across organizational boundaries. Individuals can cross these boundaries to gather information and solve problems without much consideration of the acceptability of these actions based on their social standing in the hierarchy. Unconstrained by this upward focus toward their supervisor or authority figures, employees are better able to look beyond their organization, and externally to their market relations and the needs of their outsourcing clients. Indeed, Kirca, Jayachandran, and Bearden (2005) found that in buyer-supplier relationships, those low on power distance were more externally focused on their clients and the changing environmental conditions. Thus, employees free of these proximal and distal influences of power (Quadrant III, Table 1) might be able to more effectively transfer tacit knowledge between organizations than those constrained by these forces of power (Quadrant II, Table 1).

Proposition 3: When knowledge is tacit, outsourcing will be more effective when interpersonal and societal power distances are low than when they are high.

Lastly, I consider the effect of incongruence between interpersonal and societal power distance within an organization on outsourcing effectiveness. I propose that the type of incongruence (evident in Quadrant I or IV in Table 1) creates unique intra-organizational dynamics within the organization by influencing the level of status competition and role ambiguity, which are subsequently argued to be detrimental to inter-organizational relationships. Previous research has provided some empirical evidence that differences in cultural values decrease trust in international strategic alliances in China (Luo, 2002). Although incongruence was considered between organizations in this study, I contend that lack of fit in the levels of power distance *within* an organization can also damage inter-organizational relationships, as argued in Proposition 1. I further propose that the mediating mechanism through which this occurs depends on the particular level of interpersonal and societal power distance. The two types of incongruence between interpersonal and societal power distance create considerably different internal dynamics within the organization, based on status competition and role ambiguity, which are outlined in Table 1 and discussed in detail below.

Status Competition

Quadrant I in Table 1 depicts a situation where interpersonal power distance is high but societal power distance low. When employees do not have a cultural expectation of rank and status differences, and they are additionally faced with an interpersonal relationship characterized by asymmetric power, then they are likely to react negatively. Researchers have provided empirical evidence of these adverse reactions. Sherif, White, and Harvey (1955) experimentally demonstrated that an autocratic supervisor creates status differences in adolescent groups where children's frustration with their leader is exhibited in aggressive

behavior toward their fellow classmates. Building on this research, Bothner, Stuart, and White (2004) showed in a series of simulations, that an autonomous, autocratic boss creates differentiation within the group. Indeed, high status employees were able to obtain rewards while lower status individuals were unable to do so. The resulting status-based social forces consequently, broke the group of workers apart. Conversely, low power distance between boss and subordinate, where the boss occupies a compromised position, creates the opposite result – all employees (even those of low status) are sufficiently well positioned to extract rewards from the boss over time – creating group-level cohesion, rather than differentiation.

Building on these studies, I propose that high levels of interpersonal power distance in a culture that does not espouse rank and status differences, creates aggression and competition among co-workers. Employees will aggressively compete with each other for greater status and resources from their supervisor, in an effort to ingratiate themselves to their boss. These forces of differentiation or status competition as I refer to it here, can break the group apart. Thus, the advantages of greater cohesion within the organization, such as trust, fewer barriers to transferring information (Baker, 1984) and greater willingness to cooperate – will be absent. The higher levels of status competition and distrust *within* the organization will subsequently, limit the effectiveness of the outsourcing relationship. Thus, I propose that status competition influences the internal dynamics of the vendor organization, and acts as a mediating mechanism between high interpersonal - low societal power distance and outsourcing effectiveness.

Proposition 4: Status competition will mediate the negative relationship between high interpersonal – low societal power distance and outsourcing effectiveness, such that high interpersonal – low societal power distance will be positively related to status competition, which will be negatively related to outsourcing effectiveness.

Role Ambiguity

The incongruence between the levels of power distance is lastly evident when high societal power distance is present alongside low interpersonal power distance (Quadrant IV, Table 1). In a culture where a societal norm of inequality is widely accepted, individuals expect considerable rank and status differences to exist. However, when this expectation is not addressed proximally by a powerful supervisor who can clarify the individual's position in the organizational hierarchy, then employees are likely to experience ambiguity about their position in the organization. Researchers have argued that uncertainty and ambiguous role relations impede the development of trust and performance of the inter-organizational relationship (Ring & Van de Ven, 1994). I thus, propose that outsourcing relationships are negatively impacted by the ambiguity in one's role within the organization, which is a result of this disparity between power distances.

Proposition 5: Role ambiguity will mediate the negative relationship between low interpersonal – high societal power distance and outsourcing effectiveness, such that low interpersonal – high societal power distance will be positively related to role ambiguity, which will be negatively related to outsourcing effectiveness.

To reduce this uncertainty and resolve their social standing in the organization, one must note that employees might still engage in small attempts to gain status within the existing organizational structure. Indeed, Bothner, et al. (2004) have argued that when dyadic power is low (or the boss is weak), then all employees have an equal opportunity to appropriate value and resources, such that cohesion as well as status differentiation are present among co-workers. Whether cohesion or differentiation prevails in the organization is an empirical question, and one that deserves attention since it influences the extent of cooperation in inter-organizational relationships. Together, these intra-organizational mechanisms of role ambiguity, status competition, and trust across these levels of power distance are critical to understanding the effectiveness of outsourcing relationships.

Conclusion

The theoretical arguments presented here contribute to our understanding of the influence of culture on

the effectiveness of inter-organizational relationships. Following a review of the literature on governing outsourcing relationships, I examined power distance across levels of analysis and proposed that the interaction between levels creates particular intra-organizational dynamics. I then, examined how trust, status competition, and role ambiguity influence the internal dynamics of the vendor organization, and act as critical mediating mechanisms between proximal and distal forces of power distance and outsourcing effectiveness. Lastly, the type of knowledge transferred in the inter-organizational relationship was considered and tacit knowledge was argued to negatively influence the effectiveness of the outsourcing relationship.

The contribution of this study can be considered in terms of the streams of research on power distance and inter-organizational relationships. Few have studied the construct of power distance in great depth. For, as Khatri, et al. (2003) note, the individualism-collectivism dimension has received far greater attention than power distance, which is perhaps as important a cultural dimension in its influence on employee behaviors and organizational processes. Drawing on Rao and Pearce's (2012) differentiation of power distance, I consider the multi-dimensional nature of this construct to better understand the manifestation of power in organizations and its critical role in building external collaborations and inter-organizational relationships.

This article further contributes to the strategic management literature, which has considered how intra-organizational factors affect the relationship between organizations. Minimal research has considered how intra-organizational dynamics impacts inter-organizational relationships. Building on the studies by Azoulay (2004) and Takeishi (2001), I consider how power distance across multiple levels influences intra-organizational variables of trust, status competition and role ambiguity, which are critical in building an internal organizational culture of trust and cooperation. Indeed, organizational researchers have long argued that competition, conflict and distrust undermine organizational performance and can act as strong forces of group differentiation and dysfunction.

I propose here, that this internal organizational dynamic critically influences external collaborations developed by the organization, and their performance. As Leung and White (2006) note, alliances remain a largely unexplored territory as a context for organizational behavior phenomena. Thus, I address the under-socialization of this research here by considering the mediating role of these micro-level variables of trust, status competition and role ambiguity in the culture-performance relationship. Future research in international management can expand on the theoretical arguments presented here by testing the propositions advanced in this article to understand the influence of culture on global collaborations, and the critical roles that status competition, role ambiguity and multiple levels of trust play in fostering effective inter-organizational relationships and global collaborations. Studying this enactment of power within and between organizations can provide much needed insight on the underlying processes of globalization.

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