Exploring Trust in Buyer-Seller Relationships: Experience of Japanese Customers with Indian Information Technology Vendors

Suhas Bhargava,  
Global IT Services Company, Tokyo, Japan.  
E-mail: bhargava.suhas@gmail.com

Tadao Kagono,  
Konan University, Kobe, Japan.  
E-mail: kagono@center.konan-u.ac.jp

Abstract

The aim of this study is to investigate the concept of ‘Trust’ in the context of buyer-seller relationships between Japanese customer organizations (buyers) and Indian Information Technology (IT) vendors (sellers) in their attempts to build B2B partnerships, by studying the perspectives of two large Japanese customers as case studies. The study employs the analytical framework of Dr. Mari Sako in her seminal 1992 work titled; Prices, quality and trust: interfirm relations in Britain and Japan. Study concludes that Japanese customers prefer Obligational Contractual Relationships (OCR) over Arm’s Length Contractual Relationship (ACR) and engage their vendors in the spirit of determining whether the vendors have the potential to become long term strategic partners who can flexibly respond to their needs and are aligned to their corporate transaction practices. The study provides practical inputs to Indian IT vendors to enhance all the three forms of trust; contractual, competence and goodwill trust, characteristic of OCR relationships, all of which are essential to build a strong foundation for a long term strategic partnership with Japanese customers.

Key Words: B2B relationships, India, Japan, Offshoring, Trust  
JEL Classification: L14, L86, M16, N75, O14
1. Introduction

The Global Information Technology (IT) services industry was valued at over USD 954 billion at the end 2014 with North America accounting for about 42%, Western Europe 30% and Asia Pacific including Japan accounting for about 21% of the total IT services spends. The Japanese Information Technology (IT) Services industry happens to be the world’s second largest IT Services market worth over USD 103 Billion next only to the United States accounting for about 11% of global IT services spend. According to industry analysts the market which is already matured will however remain to be oligopolistic with current top 5 players maintaining about 50% market share, without prominent market entries or withdrawals of others. A whopping 86% of the market share is held by domestic Japanese IT services companies and if revenues of IBM Japan (which is considered as a Japanese company by all standards) are excluded, the market share of foreign-service providers (from US, Germany, India, France, Sweden, China) is a meagre 5-7% of the Japanese IT services market. Interestingly even for the giants of the global IT industry, such as HP, Cisco, Microsoft, SAP, Oracle, Accenture; the revenues from their Japan operations do not exceed 6% of their global revenues at the maximum. Indian IT vendors hitherto dependent on traditional English speaking western markets are also focusing attention on new markets with untapped potential such as Japan for growth. Japan is considered to be a significant market in the Asia Pacific region particularly because the level of offshoring adoption is low and the fact that it is a high cost economy. However, Japan contributes less than 2% of India's software exports despite most large Indian IT providers having been present in Japan for close to 20 years. Success has been elusive thus far (Shivapriya, 2013), in view of the fact that offshore IT services still makes up less than 2% of the total IT services spend, with majority 79% of this going to China, 20% to India and rest to Vietnam and other countries according to industry reports. National Association of Software and Service Companies (NASSCOM), the Indian IT industry’s trade body which sets strategic direction for the industry has also reported that penetrating Japan continues to be a challenge for Indian IT vendors. NASSCOM believes that the need for Japanese language, oligopolistic service provider hierarchy, need for long term perspective to doing business along with trust and relationship oriented business culture are some of the reasons for the slow growth of the Indian IT industry in Japan (Iyer, 2012).

2. Literature Review

The history of Japanese IT offshoring is said to be relatively brief in comparison to American firms (Cusumano, 2005) and is considered to be still at an immature stage (Cusumano, MacCormack, Kemerer and Crandal, 2003). With a complex multi-tier hierarchy, the Japanese software industry is considered to be relatively closed and isolated with little
outside influence to either change their approach or introduce fresh outside ideas, consequent to which there is apparently a general reluctance to leverage outside assistance particularly that of foreign vendors (Matsubara, 2001). Further Japanese offshoring decisions have been found to be driven by; access to unique technical expertise not available with them and cost reduction not necessarily the prime motive; aspects fundamentally different from offshoring rationale of western customers (Tiwana, Bush, Tsuji, Yoshida and Sakurai, 2008). (Kojima and Kojima, 2007) have studied Japanese IT offshoring and have suggested that considering the low volume of offshoring and consequent limited experience of working in the offshoring model, offshoring in Japan has not progressed the way it has in the west, since the “Learning Curve” effect has not been realized fully on both customer and vendor sides. (Kojima and Kojima, 2007) have tentatively concluded that Japanese companies (outsourcers) are primarily responsible for the not so successful results of IT offshoring by Japanese firms. To remedy the situation, the authors have recommended; adoption of requirements engineering, reduction of ambiguity in technology specifications, clearly defining expected quality level required by clients beforehand, having a clearly-defined outsourcing strategy, treating offshore vendors as long term partners instead of sub-contractors and improving English skills of customer staff by training and getting them to adapt to a multi-cultural context.

While of course adaptation to multi-cultural context is important, ambiguity and other factors are not the sole outcomes of culture but are related to the aspects of business to business (BtB) transactions specific to Japan. Business related factors in Japan appear to be different and rigged against foreign firms leading to the perception that the Japanese market is a nightmare rather than as an opportunity (Backman and Butler, 2002). Although Japan is one of the biggest global economies with a large consumer market of over 126 million affluent customers, finding a foothold in the Japanese market has been an uphill task for foreign firms (Elashmawi, 2001). While perseverance and passage of time are keys to success, foreign businesses have been recommended to study the business environment in great detail, have a pragmatic understanding of business related factors at play in Japan and not simply be guided by a blind faith in the superiority of their products or services (Melville, 1999).

Given this business reality, while the root causes identified above for the low adoption of IT offshoring in Japan by (Kojima and Kojima, 2007) seem reasonable, however laying the onus on Japanese buyers (customer organizations) to improve their ability to work with IT offshoring vendors (suppliers), seems not only simplistic but also highly unreasonable. In a highly competitive market like Japan, with no dearth of service providers, where the concept of “Customer is King” is truly believed and practiced in its true sense, it becomes therefore important to analyze the perspectives of Japanese customers in order to understand what is it that would make them truly comfortable to work with offshore IT vendors seamlessly and benefit from the full potential of IT offshoring benefiting the rest of the world.
In this pursuit to understand Japanese buyer perspectives, we found that being an industrial power house, a number of business practices in Japan have a foundation in the practices followed in the Japanese manufacturing sector. In a study that involved over a hundred Japanese manufacturers, it was found that “Cooperative Long-Term Manufacturer–Supplier” relationship was based on a long-term relationship commitment between the customer (buyer) and the seller (supplier). Customer would offer such a commitment only to those suppliers it could trust (Miyamoto and Nexhmi, 2004). Many other authors have also emphasized the concept of ‘Trust’ which is seen as one of the most essential tenets that defines trading relationships. Trust has been found contributing to lower transaction costs and promoting market efficiency (Fukuyama, 1995); (Quddus, Goldsby and Farooque, 2000). Trust is considered to be a unique governance mechanism which leads not only to reduction in transaction costs but also facilitates greater information sharing and thus value creation in the relationship and may potentially be an important source of competitive advantage for transacting firms (Dyer and Chu, 2003).

3. Methodology

Qualitative research strives to understand the social world by studying and interpreting the world by the actions of its participants (Bryman and Bell, 2003). Case study research is considered most appropriate in research which is exploratory in nature and involves events of a contemporary nature beyond control of the investigator. Case study research is characterized as qualitative and observatory, using predefined research questions (Yin, 1989). Case study research designed in the form of multiple site case studies are used for purposes of comparison and are termed as comparative case studies with the case studies sharing some common characteristics. When such case studies are conducted over periods six months to longer than a year, they are also referred to as longitudinal case studies (Lapan, Quartaroli and Riemer, 2012). The advantages of the case study method include being able to; perform in-depth analysis, determine causal relationships and perform a better analysis of dynamic phenomena while its disadvantages include; uncertainty in generalizability of propositions and hypotheses derived and a greater likelihood of introducing selective perceptions and biases of researchers (Kagono, Nonaka, Sakakibara and Okumura, 1985). Case study research includes tools such as “Face to face personal interviews” with key stakeholders, which can be structured or unstructured giving researchers room for flexibility and exploration (Lapan et al., 2012), interview analysis and secondary research.

For the current research study, two large Japanese customers (referred to as J1 and J2 in the rest of the paper) have been selected as case studies. J1 is one of Japan’s largest System Integrators and J2 is an IT subsidiary of a very large and diversified globally recognized hi-tech Japanese conglomerate. Considering the context of “Trust” and “Commitment” that we
are attempting to examine through this study, both of which require long and sustained period of engagement to establish, the two customers were selected on the basis of their long history of over 20 years of systematically working with Indian IT vendors which has given them sufficient opportunities to evaluate and judge the performance of Indian IT vendors over the long term as against other Japanese customer organizations who have leveraged Indian IT vendors in a one-off manner transactionally. One representative each from J1 and J2 (both Japanese nationals who have had experience of contracting with and working closely with Indian IT vendors for several years), were contacted and their inputs were collected for the study. The representative from J1 who responded to an unstructured questionnaire in detailed written form in Japanese for this study in order to better express his thoughts and experiences was a Project Director of J1’s Offshore Development Centre organization. In his role, he was personally responsible for interacting and contracting with Indian IT vendors. The representative from J2 was the head of the IT procurement department and had extensive experience in transacting with Indian IT vendors by virtue of being part of vendor selection and subsequent performance evaluation of the 40+ member vendor panel comprising of all the top Indian IT vendors apart from Japanese vendors. Face to face personal interviews in Japanese language were conducted with the customer representative over multiple sessions that lasted between two to three hours at J2’s offices in Tokyo, Japan. Detailed handwritten notes were taken during these interviews, and unclear items were further clarified in subsequent meetings. Additional descriptions and explanations have been provided by supplementing the information obtained during the personal interviews with secondary research from information available in the public domain such as company annual reports, websites, newspaper articles, analyst publications etc.,

3.1 Research Questions

This paper investigates the concept of ˇTrustˇ in the context of buyer-seller relationships between Japanese customer organizations (buyers) and Indian IT vendors (sellers) in their attempts to build BtB relationships with a view to answer the following research questions:

Primary research question (RQ): How to build trust with Japanese customers?
RQ 1: What are the challenges Japanese buyers (customers) have faced while transacting with Indian IT vendors (sellers)?
RQ 2: What kind/s of trust need to be developed to overcome the challenges?

3.2 Analytical Model

Dr. Mari Sako (Sako, 1992) has conceptualized ˇTrustˇ in three forms; ‘Contractual trust’ (mutual expectations that promises made will be kept), ‘Competence trust’ (confidence in a trading partner’s ability to execute a contracted task) and ‘Goodwill trust’ (mutual expectation of commitment to the relationship resulting in give and take). She has also defined what are known as the arm’s length contractual relationship (ACR) and obligational contractual
relationship (OCR) which are considered to be occupying either ends of the spectrum of possible trading relationships in buyer-supplier relations. ACR transactions between buyer–supplier are conducted strictly at arm’s length in order to eliminate opportunities for control of either party by the other, obligations of both parties w.r.t to each other are clearly documented in contractual form ahead of starting a business transaction and any subsequent disagreements are resolved by legal or other normal rules. On the other hand OCR transactions are characterized by dealings between buyers and sellers who enjoy a degree of mutual trust which enables them to begin a transaction without having to necessarily having agreed to all terms and conditions of a contract at the onset of the transaction. The main difference between ACR and OCR lies in “Goodwill trust” which is present only in OCR relationships (Figure 1). Dr. Sako concludes that OCR transactions typically characteristic of Japanese buyer-seller relationships have shown to contribute to achieving superior corporate performance (Sako, 1992).

Figure 1: Representation of Trust in Inter-Firm Trading Relationships (Sako, 1992)

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Contractual Trust</th>
<th>Competence Trust</th>
<th>Goodwill Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACR</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>OCR</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
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ACR: Arm’s length Contractual Relationship
OCR: Obligational Contractual Relationship

3.3 Data

Japanese Customer J1 is headquartered in Tokyo and is a leading provider of Information Communication Technology (ICT) based business solutions and one of the world’s largest IT services providers. J1 being a large system integrator provides both IT services to its large customers and also develops and sells hardware and software products globally. J1’s experience with using Indian IT resources dates back to 1992 when they worked with a group company based in India for system development. Between 1992-95 and 1996-1999, J1 attempted twice in working with India in the field of IT but the project teams entrusted with working with the Indian IT resources gave up as their experience did not go smoothly owing to issues such as communication gap, frequent requirement changes etc. leaving behind a negative legacy. J1 internally reexamined the use of Indian IT vendors again during early 2000 as they were impressed with the self-confidence of the Indian IT vendors stemming
from their experience of having done business in the US and Europe. Following that visit, the customer representative interviewed for this study re-started offshoring business within J1 organization in early 2002. The observations described below are from one of his several experiences of working with Indian IT vendors. The J1 Representative believes that this specific experience below is a reflection of his collective experience with Indian IT vendors and it involved a large project to be executed in South East Asia contracted to J1 by one of their end customers. J1 in turn selected one of the top Indian IT services vendors to support in the project execution.

Japanese Customer J2 is an IT services subsidiary of one of the world’s leading corporations known for high technology in the fields of advanced electronic and electrical products, covering information & communications equipment and systems, internet-based solutions and services, electronic components and materials, power systems, industrial and social infrastructure systems, and household appliances. J2 is headquartered in Tokyo, established in 2002 by the spin-off as an independent company of the parent company’s internal information systems division, which had provided IT support for the company’s domestic and overseas businesses for over 40 years. J2 is responsible for executing and managing a vast project portfolio on behalf of group companies. It employs about 1410 staff directly and in addition works with a panel of 40 external IT partner vendors consisting of domestic Japanese, Chinese and about 8-10 Indian IT vendors selected after careful due diligence to supplement its resource base. For any IT project, partner vendors are selected from within the vendor panel based on their technical competence, prior relevant work experience, track record and other project specific selection criteria.

Our approach during the present study was on identifying issues that were common to the cases studied. Accordingly, while we were able to determine the common issues and have detailed out the same in the following sections, we were not able to determine any specific differences in expectations and reality of working with Indian IT vendors in the two cases during the course of the analysis.

3.3.1 The Case of Japanese Customer J1

History of Working with Indian IT Vendors

Japanese Customer J1 is headquartered in Tokyo and is a leading provider of Information Communication Technology (ICT) based business solutions and one of the world’s largest IT services providers. J1 being a large system integrator provides both IT services to its large customers and also develops and sells hardware and software products globally. J1 believes that for assuring their own business continuance, there is a business imperative to keep churning out new business products such as hardware and software and services continuously which are at the cutting edge of technology that benefit their end customers. In order to be able to develop these products and services, J1 feels a compelling need to find talented human
resources wherever they are globally and leverage their capabilities. While how to leverage them directly for their businesses seemed like a big challenge initially, the concept of global sourcing solutions provided by Indian IT vendors, which has brought together as a package, very capable human resources having technology and business knowhow and at low cost became available at the right time. J1 feels that working with Indian IT vendors rather than employing individual Indian IT engineers was far more effective in order to address their business challenges. J1’s experience with using Indian IT resources dates back to 1992 when they worked with a group company based in India for system development. Between 1992-95 and 1996-1999, J1 attempted twice in working with India in the field of IT but the project teams entrusted with working with the Indian IT resources gave up as their experience did not go smoothly owing to issues such as communication gap, frequent requirement changes etc. leaving behind a negative legacy with nobody wanting to use Indian resources any more again and that remained as impression within J1 organization. Subsequent internal analysis within J1 led to the conclusion that during the 1990s, since the IT offshoring industry in India itself was at a nascent stage, neither the company placing the order (buyer) nor the company providing the service (seller) had the knowhow on how to use offshore resources and hence it was difficult to use the offshore function effectively which resulted in the initial set back. J1 internally reexamined the use of Indian IT vendors again during early 2000 and the customer representative interviewed for this study visited several IT vendors in India. That visit left a strong impression on him as he was able to sense the self-confidence of the Indian IT vendors in their work from the point of view of technology, business knowhow and the experience of having done business in the US and Europe. Following that visit, the customer representative interviewed for this study wanted to introduce low cost and very capable Indian resources and re-start offshoring business within J1 organization in early 2002. He has since then worked very actively to make presentations to management, conduct internal promotion activities and has used Indian offshore resources on his own projects. The observations described below are from one of his several experiences of working with Indian IT vendors. The J1 Representative believes that this specific experience below is a reflection of his collective experience with Indian IT vendors and it involved a large project to be executed in the South East Asian region contracted to J1 by one of their end customers. J1 in turn selected one of the top Indian IT services vendors to support in the project execution.

Expectations from Indian IT Vendors

The J1 representative highlights the following key reasons for selecting an Indian IT vendor as their preferred partner over their traditional Japanese IT vendors for this project.

a) Global Experience, English Language Skills and Technological Superiority

Organizations the world over are vying to leverage technology for competitive advantage. With technological advances and next generation technologies expected to be out in the
market, customers are expecting IT to change the way business is done in the coming years. Indian IT companies derive bulk of their revenues from western markets and have the experience of working with the best of global corporations. Indian engineers by virtue of their experience of having done business with customers in these regions, and with their mastery of the English language are at a distinct advantage and much more technically advanced vis-à-vis their Japanese counterparts. On the other hand Japanese customers traditionally have been working with a network of hundreds of local vendors who are all dependent on these domestic Japanese customers for business. These partners as a result have little experience of working with non-Japanese customers outside of Japan and hence their engineers have no exposure to technological advancements happening outside. Further since information on global technological advancements being available mostly in English first, which Japanese engineers are not proficient in and hence people from Japanese software houses are alienated from the latest technical information. English language ability of Indian IT vendors is a natural and common feature, but seen from Japanese companies who have to execute global projects, this becomes a natural advantage to leverage, since local Japanese IT vendors have neither English language competency nor experience of executing global projects. Hence J1 believed that Indian IT vendors have knowledge of global best practices gained by working with global companies and have superior technological prowess which would be greatly useful to their own businesses and hence wanted to partner with Indian IT vendors to leverage the power of IT.

b) Scale of Operations and Resource Mobilization Capability

Having extensively researched Indian IT vendors, J1 found that they employ tens of thousands of engineers across a wide range of services and technology platforms all in one organization. The presence of a resource pool within the organizational structure of Indian IT vendors makes it possible to select appropriate resources available from across the organization at short notice, giving them the ability to ramp up project teams quickly to support large scale project execution in any technology, which cannot be expected of Japanese IT vendors. J1 also found that even if there was attrition during the course of the project, the vast resource pool allows replacement of individuals with others who are equally good or better without impact on the project. For the specific project contracted to this Indian IT vendor, the representative of J1 admitted that although four project managers got changed during the course of the project, however since each of the subsequent project managers was very capable, there was absolutely no impact on the project itself.

c) Superior Quality Management System and Standardized Processes

Indian IT vendors are organized based on systematic business and software development processes with clear project hierarchy and organizational structure which facilitates establishment of superior subordinate command and organization controls in place. In order
to expand and survive in the tough US and European markets and move in and out people from one region to the other seamlessly, reuse code, drive efficiency and be competitive on cost, Indian IT vendors have had to standardize their processes globally. At that time, over 60% of Software Capability Maturity Model (CMM) level 5 certified firms in the world were based in India. Japanese companies believe that one of the main reasons behind the success of Indian IT vendors in US and Western Europe is this continuous focus on quality and process compliance. This makes it possible for Indian IT vendors to deliver consistent quality despite employing geographically dispersed teams which are ramped up at short notice. Further Indian IT vendors have established a separate quality control department which verifies developed software code and if the software code is not able to pass their verification, the software cannot be delivered to customers. The representative of J1 states that the Indian IT firm that was selected by his company was in fact one of the first among the Indian IT vendors to get certified for CMM Level 5.

d) Usage of Tools for Communication and Bug Fixing

Indian IT vendors are very proficient in the use of tools as part of their development process which improves the overall efficiency of project execution. In the case of application development projects, the difficulty in working with offshore team arises due the inability to quickly fix issues that arise during integration test/system test/user acceptance tests. In such a situation, on the specific project contracted by J1 with this Indian IT vendor, there was a proposal by the offshore side for the use of open source software called “Bug tracker”, using which it was possible to avoid inconsistency of data and timely information sharing globally. From then onwards, J1 expanded the use of this tool for different phases of the project for information sharing with the offshore team and the tool became an inevitable part of the project.

e) Cost Advantage

Purely from a cost perspective, while there are newer and cheaper offshore locations such as Vietnam, Myanmar etc., for Japanese companies, but from overall cost performance perspective, Indian IT vendors are cost-wise still much more competitive than their Japanese IT partners and hence Indian IT vendors are considered to be an attractive alternative option from J1 perspective.

Challenges in Doing Business with Indian IT Vendors

a) Inability to Adjust to Customer’s Evolving Performance Requirements

J1 found that the Indian IT vendor expected detailed specifications with all requirements completely spelt out as an input to its proposal based on which it created an estimate which was then encapsulated in a Statement of Work (SOW), which was used as the original agreement between the contracting parties (viz., J1 and the Indian IT vendor) prior to starting the project. The Indian IT vendor used the SOW effectively as an important means to confirm
the areas of work that are not included in its scope. The Indian IT vendor then worked as per the SOW and any work seen as falling outside the SOW resulted in negotiations on price increase, owing to scope change. Work items deviating from SOW were managed as Change Request (CR) and were insisted by the Indian IT vendor to be paid for additionally by J1. J1 found that in order to manage conflicts if any that occur in the understanding with customers at any stage of the project, in order to minimize the impact on their organization, the Indian IT vendor had the practice of maintaining clearly defined contracts, minutes of meetings and other documentary evidences which they could produce at any point in time to show the differences between what has been contracted and what needs to be considered as CR or additional scope and hence additional payment. Further J1 also found that unlike local Japanese partners who do not question customers, at every stage of project execution, it experienced many situations which required negotiation with the India based management team of the Indian IT vendor. This left an impression within J1 organization that Indian IT vendors use an SOW to fully protect their own business interest by virtue of being a contract oriented society, very different from their own which is more oriented to trust and long term relationship.

b) Inability to Comprehend Customer Specific Business Practices

The representative of J1 feels that the way of doing business in Japan is different from that in US and Europe. He believes that there are Japan specific business practices well known but invisible from the outside which need to be understood and adapted or got along by the Indian IT vendors in order to build trust and prevail within the Japanese business context. Practices such as “Nemawashi”- internal consensus building process followed within Japanese companies, “Amakudari”- post retirement employment taken up by senior employees of a company in group or other companies etc., are a very intrinsic reality in Japan. The Indian IT vendor was unable to understand how these practices work and instead was looking for logical and rational explanations for why certain decisions worked against it when it actually was faced with such situations in dealing with J1. The Representative of J1 acknowledged that particularly, the practice of “Amakudari” is prevalent in Japanese decision making more than what is generally understood. “Amakudari” is based on strong personal ties of certain people to key decision makers within the customer organization is an effective tool to learn about customer needs and accordingly align vendor proposals and responses to customer expectations which in the normal course of things are invisible to the outside. One of the critical differences between western customers and Japanese ones is that even if there are extremely good offshore resources and very capable Indian IT vendors, one of the reasons for not using them more extensively in Japan could be attributed to the prevalence of the “Amakudari” which is not visible from outside. Hence representative of J1 says that, even if the top management of the order placement (customer) side pushes their subordinates strongly
to use Indian IT vendors considering their advantages, people lower down the hierarchy, who are more concerned about their own post retirement employment will end up ignoring management direction to work with such Indian IT vendors and provide one excuse or the other as to why working with Indian vendors will not work.

The representative of J1 feels that as a large system integrator companies such as themselves are very self-sufficient themselves. Hence any collaboration with external entities particularly foreign service providers needs to have a solid long term business case and a justification for the need for such collaboration. From a long term strategic perspective, whether working with Indian IT vendors remains an option for large system integrators such as J1, the representative feels that Indian IT vendors lack differentiators in terms of that one product or service or solution that only they possess. Indian IT vendors now approach system integrators such as J1, by positioning themselves as equal partners and try to sell their own technical capabilities while being oblivious to the technology and knowhow that is already in the possession of large system integrators such as J1. J1 therefore feels that it becomes difficult to expand their business relationship with Indian IT vendors unless Indian IT vendors think differently as to how to build trust, cooperate for the long term with Japanese vendors such as themselves by offering differentiated products or solutions along with outstanding customer service.

3.3.2 The Case of Japanese Customer J2

History of Working with Indian IT Service Vendors

Japanese Customer J2 is an IT services subsidiary of one of the world’s leading corporations known for high technology in the fields of advanced electronic and electrical products, covering information & communications equipment and systems, internet-based solutions and services, electronic components and materials, power systems, industrial and social infrastructure systems, and household appliances. J2 is headquartered in Tokyo, established in 2002 by the spin-off as an independent company of the parent company’s internal information systems division, which had provided IT support for the company’s domestic and overseas businesses for over 40 years, and merging it with two other subsidiaries. J2 is responsible for executing and managing a vast project portfolio on behalf of group companies. It employs about 1410 staff directly and in addition works with a panel of 40 external IT partners consisting of domestic Japanese, Chinese and Indian IT companies selected after careful due diligence to supplement its resource base. J2 maintains an annual partner grading system conferring partners with “Platinum”, “Gold”, “Silver” and “Bronze” certifications depending on the volume of business supported during the previous fiscal and internal evaluation based on parameters such as technology competence, work quality, schedule adherence, cost competitiveness, customer satisfaction and other project specific parameters. For any project or IT initiative, IT partners are selected from within the vendor
panel based on their technical competence, prior relevant work experience, track record and other project specific selection criteria. J2 has about 8-10 Indian IT vendors as part of the vendor panel and is keen on partnering with Indian IT vendors as they believe that Indian IT vendors possess very strong advantages vis-à-vis their domestic Japanese partners. Indian IT vendors which are part of J2’s vendor panel are working with them on a number of ongoing application development and support & maintenance projects. The vendor panel is managed by the procurement group within J2 while working closely with the individual project teams.

**Expectations from Indian IT Vendors**

The representative of J2 says that as a Japanese customer, in the normal scheme of things, their Japanese IT vendors are by themselves adequate for servicing their needs. Since they are able to communicate with vendors face to face in the Japanese language, they do not encounter issues of communication which they will face invariably while working with Indian IT vendors. Despite this, he says that they are interested in working with Indian IT vendors as they believe they possess some very good attributes such as:

a) **Technology Skills:** A number of next generation technological advances are expected in the world of IT and change the way organizations do business in the coming years. Expectation is high among Japanese customers about the ability of Indian vendors to help manage and support those technologies and leverage such next generation technology in their own business.

b) **Global Experience:** Indian IT vendors have obtained enormous experience by virtue of working with leading global customers who are all competitors to Japanese customers in the global market place. Hence Indian IT vendors’ knowledge of global best practices is extremely invaluable to Japanese firms when they themselves expand their business outside Japan.

c) **English language skills:** Capabilities in the English language is while very common among Indian IT vendors, it becomes their natural advantage when compared to domestic Japanese partners who lack the same language skills. Japanese companies find this to be an attractive advantage when they look for support for their global projects.

d) **Scale of operations:** By virtue of employing thousands of engineers, Indian vendors can ramp up team sizes quickly. Such flexibility is extremely useful when Japanese companies plan to execute large scale projects. Japanese IT partners unfortunately do not have that scale or flexibility

e) **Cost:** Indian vendors have a distinct cost advantage compared to Japanese partners. However they seem to be slowly losing this advantage compared to emerging countries like Vietnam.
Challenges in doing Business with Indian IT Vendors

a) Inadequate Linguistic ability to Comprehend Japanese Customer Expectations

Japanese users for whose business requirements, IT companies plan, design, develop and manage IT systems have a low level of English language proficiency and even limited exposure to working with foreign vendor staff. These users have always been used to having their Japanese IT partners sitting next to them, discussing their requirements with them face to face in the Japanese language, answering user queries and submitting project deliverables in Japanese. On the other hand, based on their actual experience of working with Indian IT vendors, J2 has found that Indian IT vendors either do not have or have very few Japanese speaking staff in their companies who can interact with Japanese users. Usually Indian IT vendors assign one bilingual bridge engineer or bilingual coordinator to interface between customer teams and Indian offshore team members. The bilingual bridge staff usually does not have all the answers to customer queries and has to depend on their offshore counterparts for answers. Customers experience time lag in getting their queries clarified whereas they would have got these queries clarified real time in face to face interactions with their Japanese vendors. Further, project deliverables are first created in English and then either translated into Japanese or submitted in English in which case the experience vis-à-vis their Japanese vendors becomes even more distant. Further from an operational perspective, on day to day project interactions, J2 finds that Indian IT staff is not able to put themselves in the users’ shoes when they develop software as they are unable to understand the Japanese context and the unstated needs of customers. There are default requirements in Japan for e.g., Japanese aesthetics, usability, user friendliness, reducing inconvenience to users, business processes which are always handled in specific ways which need not be spelt out separately when working with Japanese IT vendors.

b) Inadequate Resource Commitment

Having engaged Indian IT vendors over several years both as part of evaluation during the procurement stage and post contract award during project execution phase, representative of J2 highlights certain limitations in the way Indian IT vendors engage with them owing to which, J2 as a Japanese customer feels they have not been able to leverage the potential of Indian IT vendors to the extent that US and Western European customers have been able to capitalize on.

J2 believes that Indian IT vendors focus first on selling in their services through their salespeople without even making sure if they have the right resources to deliver those services to customers. Japanese customers mandate that proposal presentations are made by the designated project manager so that they get a chance to evaluate if they have the right skills to manage the project and work with customer teams effectively. Indian IT vendors usually get their sales managers make the presentations or get their Indian staff make the presentations by
flying in them just for the presentation or get it done remotely from India over teleconference using interpreters. Only after the project is awarded, Indian IT vendors either assign from their current team whoever is available or recruit totally new project manager or bilingual coordinator and assign him/her to the project. J2 has realized that Indian IT vendors want to minimize the number of non-billable people to engage with customers in the pre-sales stage, since this involves additional time, effort and ultimately cost, with no immediate visibility into the definite award of the project by customers. J2 thus gets the impression that Indian IT vendors often take a transactional view to engaging with customers by focusing their attention on reaching out to the “low hanging fruits” without realizing that with so much competition in the market place, and the structure of the Japanese IT industry there is already a very high barrier to the entry of foreign vendors.

4. Results and Discussion

Trust is one of the foundational blocks of trading relationships. Trust has been found contributing to lower transaction costs and promoting market efficiency (Fukuyama, 1995); (Quddus, Goldsby and Farooque, 2000). It is said to be impacted by degree of mutual dependence on the relationship and the nature of the alternatives to the relationship available for each transacting party (Cook, Hardin and Levi, 2005). Between the arm’s length contractual relationship (ACR) and obligational contractual relationship (OCR) that occupy either ends of the spectrum of possible trading relationships, the OCR transactions are typically characteristic of Japanese buyer-seller relationships whose features include; mutual interdependence between buyer and seller, shared norms for non-exploitation of either party, longer potential period of continued business relationship, openness to begin working on orders before contractual finalization, frequent two way communication which facilitates quality and timely delivery etc., These have shown to contribute to achieving superior corporate performance (Sako, 1992).

In the two Japanese customer case studies, it becomes clear that J1 and J2 appreciate the technical and commercial viability of the Indian IT vendors considering the potential of their value propositions of global experience, English language skills, scale of operations, resource mobilization ability, superior quality management systems and cost competitiveness. However, over years of transacting with Indian IT vendors, the challenges faced by both J1 and J2 in working with Indian vendors viz.; limited investment in Japanese language capabilities, avoidance of committing resources to projects, focus on contractual scope in order to mitigate scope creep and protect their own interests; all classical traits of ACR relationship approach vis-à-vis OCR relationship approach favored by Japanese customers. Consequently the two cases also demonstrate that there is a long way to go to the establishment of all three forms of trust ‘Competence trust’, ‘Contractual trust’ and ‘Goodwill trust’ (Sako, 1992).
From an examination of the two case studies of J1 and J2 and from the responses of Indian IT vendors, we now analyze the factors that could enhance the establishment of all the three forms of ‘Trust’ with Japanese customers which could eventually swerve the Indian IT vendors towards OCR type of relationship favored by Japanese customers.

a) **Enhancing Competence Trust: Improving Vendors’ Linguistic ability to communicate in Japanese which will help them Understand Customers and their Requirements Better**

Apart from the daunting and well established structure of the industry, Japanese language which acts as a substantial non-tariff entry barrier serves as a very high bar for foreign vendors to overcome. Japanese people prefer Japanese language for all forms of written and oral communication including project documentation, user manuals, system specifications etc., (Matsubara, 2001). Although English language proficiency of Indian IT vendors is a key attribute that Japanese customers hope to leverage from Indian IT vendors, these users prefer that Indian IT vendors are able to communicate with them seamlessly in Japanese in Japan and help them communicate on their behalf with their global partners outside of Japan in English thus assisting them to get over the language barrier without they themselves having to move out of their comfort zone of Japanese language communication. Hence apart from using Japanese language in all aspects of communication and all stages of project execution, in order to build trust and communication with customers, it is necessary to assign the right mix of business and technical teams early in the customer engagement process. Indian IT vendors can learn from Japanese IT vendor counterparts and replicate the process that they adopt in order to give a seamless experience to their Japanese customers.

b) **Enhancing Contractual Trust: Improving Vendors’ ability to Understand and Adapt to Customers’ Evolving Performance Requirements**

Japanese customers seem to have a marked preference for custom developed software while international trend is towards packaged software (Tanaka, 2007). It is also a well-known fact that Japanese user companies are not good at defining their requirements and hence they are not in a position to write clearly defined specifications. This is corroborated by customers from our study. Further since the customers have been traditionally working with the same set of suppliers who use the same set of people for years together dedicated to the customers, there is tacit customer knowledge built into the vendor personnel making them invaluable and irreplaceable (Matsubara, 2001). Japanese customers expect that Indian IT vendors with their extensive global experiences, knowledge of best practices and access to latest technological information can demonstrate their differentiation and provide a better articulation and better definition of customer requirements and give customers a “Positive surprise”. Those vendors who are able to support changing needs and evolving specifications effectively and seamlessly without causing burden on customers get to develop and retain
long term relationship, while the ones who are unable to sustain this get dropped off owing to their transactional approach to the relationship.

c) Enhancing Goodwill Trust:

(i) Leveraging Customer Resources for Mutual Benefit: “Amakudari”

Japan is an extremely networked society comprising of formal and informal relationships that exist in all aspects of the society extending from the local community, politics, government, bureaucracy, the banks, businesses, manufacturers, suppliers, executives and to the employees within a firm (Lincoln and Gerlach, 2004). “Jjinmyaku” or one's personal connections or one's network is fundamental to doing business in Japan. For those companies wanting to enhance their “Jjinmyaku” is available for a price in the form of “Amakudari” usually an influential ex-bureaucrat who has connections into the bureaucracy and can get things done for the company (Melville, 1999). While traditionally “Amakudari” refers to close and cozy relationship between bureaucracy and corporates, the system serves similar purpose even within corporate circles particularly in relationships that involve customer-vendor situations. “Amakudari”, as admitted by the customers in the current study prevails with all major IT vendors in Japan which will come in the way of giving out business to Indian IT vendors. “Amakudari” plays a very important role in Japanese industry, the acceptance of which reflects the internal organizational capability to collaborate with the ecosystem of which the organization is a part of. “Amakudari” is one such manifestation of making customer specific resource commitment smartly allowing vendors to virtually take erstwhile customer side resources hostage in return for continued business. Such resources are non-substitutable by virtue of their prior experience and earlier position within the customer organization because of their deep knowledge of customer context and personal relationships which run deep and wide within the customer organization. Having such resources on their payroll enhance the bargaining power of the vendors while creating a high exit barrier.

Indian IT vendors could also adapt the practice of “Amakudari” to their advantage in a few ways such as:

(1) Enlisting former customer side retired Japanese executives in either senior executive or advisory roles within their organization and leveraging their connections into the customer organization/s directly or indirectly to influence/ gain more business just like their Japanese counterparts.

(2) Recruiting former customer side Japanese IT engineers/ employees with good industry knowledge as Subject Matter Experts (SMEs) and assigning them as specialists on projects. Japanese projects require extensive Japanese business process and industry knowledge. Assignment of such Japanese experts with customer side industry knowledge not only helps execute projects better, but also improves relationships with business users who are the ultimate users of the computer systems and helps expand new business.
(ii) Adaptation to Customer Specific Business Practices

Japanese business relationships revolve around personal relationships developed out of trust, confidence, loyalty and mutual obligation arising out of personal relationships, establishment of which precedes starting of business relationships. “Domburi Kanjo”, is a well-established Japanese business tradition which is based on the need for a long term harmonious working relationship between a customer and vendor is an offshoot of the general dislike for legalistic approach bound by contracts to business relationships with the implicit belief in the power of interpersonal relationships and mutual obligations established out of trust to step in to resolve and reconcile conflicts if and when they occur (Cyr, 2002). The issue highlighted by the representative of J1, where he pointed out that there were several occasions where he had to resort to deep negotiations with the Indian side regarding the Statement of Work points to the extent to which the Indian IT vendor went to protect its interest. On the other hand, Japanese vendors who have differences with their Japanese customers on the issues of scope and contractual amounts would work out a tacit understanding with their customers that the loss that they are incurring on one project would be made good on the next project without even having to record such understandings in any written form anywhere. This practice also called the “Domburi Kanjo” is part of a well-established Japanese business tradition.

5. Conclusions and Recommendations

Transaction management is a mutual collaborative process. Vendors understand technology better, while customers understand their businesses better. Hence mutual collaboration is required for achieving success. Japanese customers engage their vendors in the spirit of determining if the vendor has potential to become a long term strategic partner who can flexibly respond to their needs and are aligned to their corporate value system. Japanese customers engage their vendors in the spirit of determining if the vendor has potential to become a long term strategic partner who can flexibly respond to their needs and are aligned to their corporate transaction practices. Japanese customers are known to appreciate and reward their vendors irrespective of whether they are Japanese or foreign with long term business relationship when they are able to trust their vendors to be earnest, committed and sincere in their efforts to continuously collaborate with them. Indian IT vendors therefore need to recognize this spirit in their Japanese customers by being patient, being prepared for the long haul with a strategic long term vision while embarking on relationship with Japanese customers and working diligently to build all three forms of trust (competitive trust, contractual trust and good will trust), all of which are different manifestations of trust which has evolved out of a mutually collaborative process to understand each other. Indian IT vendors will need to create an internal ability to build all the
three forms of trust while inculcating within themselves the true meaning of business and interpersonal relationships that Japanese companies prefer is the ability to trust the relationship (goodwill trust) and its obligations to help resolve conflicts between parties if and when they occur in the spirit of maintaining harmony or “wa” and allowing both sides to continue the relationship without either side losing face. To do this effectively requires the development of ‘Trust’, ‘Collaboration’, ‘Commitment to long term mutually beneficial relationship’, fundamental tenets based on which Japanese companies establish foundations of their business transactions with their vendors.

References


