Exploring the Role of Trust in BtB Partnerships: A Case-based Study of the Relationship between Indian Information Technology Vendors and Japanese Customers

Suhas Bhargava

Tata Consultancy Services Japan, Limited. Japan

Tadao Kagono

Konan University, Japan

Abstract

Indian Information Technology (IT) vendors, the undisputed leaders in offshore IT outsourcing business are trying to replicate their success in the world's second largest IT services market-Japan. Japanese customers also have extremely high expectations of Indian IT vendors to enable them to reap the same competitive benefits as their western counterparts. This paper attempts to understand the relationship between Indian IT vendors and Japanese customers in their attempts to build BtB partnerships. The study provides practical inputs to Indian IT vendors on enhancing the three forms of trust; 'competence trust', 'contractual trust' and 'goodwill trust'; all of which are essential in order to build long term strategic partnerships with Japanese customers.

Keywords: *BtB partnerships, India, Japan, Offshoring, Trust*

INTRODUCTION

The Japanese Information Technology (IT) Services market happens to be the world's second largest worth over USD 125 Billion as per leading industry reports. Embedded software is said to value an additional USD 40 Billion and has been steadily increasing in the last few years (Tachikawa, 2012). 86% of the market share is held by Japanese companies and if revenues of IBM Japan (considered a Japanese company by all standards) are excluded, market share of foreign-service providers is a mere

5-7%. Although the use of offshore IT services is growing in Japan, it 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. Indian IT vendors hitherto dependent on traditional English speaking western markets are 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. In all, 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). because the level of offshoring adoption is low and the fact that it is a high cost economy. In all, Japan contributes less than 2% of India's software exports despite most large Indian IT providers having.

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 & Crandal, 2003). With a complex multi-tier hierarchy, the Japanese software industry works in a relatively closed and isolated manner with little outside influence to either change their approach or introduce fresh outside ideas, consequent to which there is a general reluctance to leverage outside assistance particularly that of foreign vendors (Matsubara, 2001). 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 & 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. 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 need to understand 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). 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 & Butler, 2002).

Given this business reality, while the root causes identified above for the low adoption of IT offshoring in Japan by (Kojima & 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
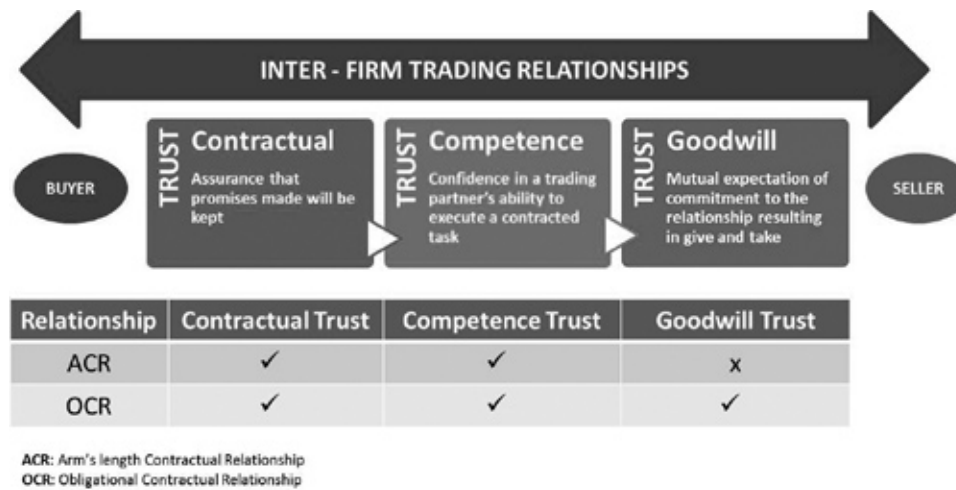
Figure 1: Representation of trust in inter-firm trading relationships (Sako, 1992)

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 & Nexhmi, 2004). Many other authors have also emphasized on the concept of 'Trust' which is seen as one of the most essential elements which define trading relationships. Trust has been found contributing to lower transaction costs and promoting market efficiency (Fukuyama 1995); (Quddus, Goldsby & 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 & Chu, 2003). Trust has been conceptualized 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) (Sako, 1992). The arm's length contractual relationship (ACR) and obligational contractual relationship (OCR) have been shown to occupy either ends of the spectrum of possible trading relationships in a theoretical and empirical examination of the link between the type of buyer- supplier relations and corporate performance in the electronics industry covering British and Japanese companies. 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).

This present study is a small first step in investi-

gating concept of *"Trust"* in the context of buyer-seller relationships between Japanese customer organizations (buyers) and Indian IT vendors (sellers) using the analytical framework of (Sako, 1992). This study is an initial attempt to understand *"Trust"*; with a view to answer the following research questions:

Primary research question (RQ): How to build trust with Japanese customers?

RQ 1: Which type/s of trust would best suit the India-Japan vendor-customer IT business relationship?

RQ 2: How does the particular type/s of trust help in enhancing the business relationship?

RESEARCH METHOD

Qualitative research strives to understand the social world by studying and interpreting the world by the actions of its participants (Bryman & 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 & 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 & 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 between April 2010 and September 2010. 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. The representatives were again consulted between April and May 2015 in order to reconfirm the understanding and verify the validity of the research findings in the current time setting. Additional discussions were subsequently carried out with a few representatives of Indian IT vendors in Japan in order to understand their perspectives on doing business in Japan and validate the observations of Japanese customer representatives.

SAMPLE DESCRIPTION

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 restarted 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.

RESEARCH FINDINGS

Advantages in doing business with Indian IT vendors

Representatives of J1 and J2 believe that although their Japanese IT vendors are by themselves adequate for servicing their needs, they highlight the following key reasons tabulated as under for their preference of Indian IT vendors over their traditional Japanese IT vendors.

Observations tabulated above are further elaborated in perspective based on the discussions with the representatives of J1 and J2 as under.

Table 1: Advantages in doing business with Indian IT vendors

Advantage of Indian IT vendors	Response J1	Response J2
Technology skills	When compared to Indian engineers and their experience of having done business in the US and Europe, the difference between Indian and Japanese IT vendors becomes obvious as Japanese IT vendors do not apply themselves to improve their technological ability	*"A number of next generation technological advances are expected in the world of IT and change the way business is done in the coming years. The technological capabilities of Indian IT vendors would be a great benefit in order to capitalize on such new technology in our own business"*
Scale of operations	In the case of Indian IT vendors, an organizational structure that includes a resource pool is a very common practice. From the common resource pool, it is possible to assign the right technical resources at short notice	*"Indian firms employ tens of thousands of engineers. Hence they have the ability to ramp up team sizes quickly, when we execute large scale projects. Japanese IT firms do not have that scale"*
Global experience	*"During 2000, I have visited Indian IT firms such as Zensar, SISL, Cognizant, Mahindra-BT etc., After visiting them I was able to sense the self confidence in their work from the point of view of technology, business knowhow and the experience of having done business in the US & Europe"*	*"Indian IT vendors have gained extensive experience by working with leading global customers. Hence their knowledge of global best practices will be invaluable to us in our own business when we expand our business in global markets as Indian IT vendors have already worked with our global competitors and we have expectations from them to help us learn from their best practices"*
English language skills	Japanese are not open to learning other languages. Latest information on technological advances is available first mainly in English. Since Japanese IT vendors lack English language skills, there is a delay in access to information and knowledge. Hence the reality is that engineers from Japanese IT vendors are alienated from the latest technical information vis-à-vis Indian IT vendors.	*"English is a natural advantage of Indian IT vendors. This skill would be useful to us to help support our global projects which our Japanese partners lack"*
Superior quality management system and standardized processes	Among the CMM level 5 firms in the world 60% are in India. One of the reasons of the success of Indian firms in US and Europe is this. *"The Indian IT vendor that we worked with was the first among Indian firms to get the CMM Level 5 certification".*	*No specific observation from J2*
Cost	Indian IT firms have very capable human resources with technology and business knowhow and are available at low cost. This is the main value expected of Indian IT firms	Indian firms have a definitive cost advantage compared to Japanese partners

a) Global experience, English language skills and
   technological superiority

Information technology (IT) is increasingly seen as playing a greater role in providing organizations, a competitive advantage globally. With technological advances and next generation technologies expected to be out in the market, customers are expecting Indian IT vendors to assist them in their digital business transformation in the coming years. Indian IT vendors have the experience of working with the best of global corporations who are all competitors to Japanese customers in the global market place. Hence knowledge of global best practices possessed by Indian IT vendors is extremely invaluable to Japanese firms when they themselves expand their business outside Japan. 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. 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 advanced global projects.

b) Scale of operations and resource mobilization capability

Having extensively researched Indian IT vendors, J1 and J2 have 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. 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.

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.

d) 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 for both J1 and J2.

Challenges in doing business with Indian IT vendors

Summarized below in Table 2, are the challenges that have been expressed by representatives of Japanese customers J1 and J2 in their experience of doing business with Indian IT vendors.

Elaborated in further detail in perspective below are some of the key challenges that have been encountered by Japanese customers J1 and J2 in doing business with Indian IT vendors.

a) Inadequate linguistic ability in Japanese language to comprehend Japanese customer expectations

Japanese users in general 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

Table 2: Challenges in doing

Challenges in business with Indian IT vendors	Response J1
Inadequate linguistic ability in Japanese language with Indian IT vendors	In view of the fact that Japanese people are not open to learning other languages and have very little English language skills, although Indian IT vendors know the English language which will be useful for Japanese customers when they have to go global, the fact of the matter is that in order to communicate with Japanese customers, Indian IT vendors need Japanese language skills. If Indians want to do business in Japan, it is imperative for them to do business using the Japanese language. Since this barrier is very high to overcome, unless that is conquered, it becomes very difficult to expand business with Indian IT vendors.
Inability to adjust to customer's evolving performance requirements	Indian IT vendors use the Statement of Work or SOW to fully protect their business. The size of the project is estimated before the beginning of a project and is treated as a collective agreement (SOW) and if there are deviations, owing to additional requirements during the course of the project, the same is treated as a change (change request) and is charged additionally. *"There arose at every stage of the project that we were working with an Indian IT vendor, many things which required negotiation with the India based management team as they used to frequently to claim that the requirements our teams were conveying during the course of the project were not captured at the beginning of the project and we have to pay for additionally".*
Inadequate resource commitment	*No specific observation on this aspect from J1*
Inability to comprehend customer specific business practices	*"The way of doing business in Japan is different from that in US and Europe; it is important for Indian IT vendors to understand that first. Japan has its own peculiar practices (Nemawashi, Amakudari), and if Indian IT vendors do not understand that, they will end up questioning why certain decisions went against them or certain things happened in a certain way. For e.g., Amakudari is prevalent more than what is generally understood. It is natural for people (working in large system integrators such as our company as well as end user customer companies) to think about their employment post retirement – they value their relationship with their partner IT vendors closely. The meaning of value is that when these people help finalize placement of fixed orders on their partner IT vendors, it is to guarantee their employment post retirement at a fairly important position in that IT vendor. Further even after moving to the partner IT vendor, since this person's subordinates are still working at the order placement side, it is possible to make them continue to keep giving orders because of that past relationship and as an organization it is possible to ensure an everlasting business continuity that way. In such a situation, even if the top management of the order placement side asks strongly to use cheaper offshore resources belonging to the Indian IT vendor, people at lower levels who are thinking of their own post retirement employment will end up ignoring those directions".*

business with Indian IT vendors

Response J2
Representative of J2 says; *"understanding customer's stated and unstated expectations, engaging intensively with the customers and converting the 60-70% customer stated requirements to the 100% +α default expectation of Japanese customers lies with the staff assigned onsite by the Indian IT vendors i.e., bilingual bridge engineers. The bridge role that they are playing is falling too short of what is truly required in order for the India IT team to deliver the power of Indian IT to Japanese customers".*
Japanese customers do not spell out their requirements completely even to their Japanese IT vendors (because at the time of project initiation, customers themselves would not be aware of all that would be required in the project or the system to be developed). They expect their IT vendor staff to help them define the rest of the requirements. Japanese customers expect that their IT vendor staff will define for them requirements/functionalities which they themselves as customers had not thought would be required for their own needs. This (+ α) or the positive surprise is the *'value'* that Japanese customers expect from their IT vendors. Given this expectation, there is no way that Japanese customers will pay additionally for work items that Indian IT vendors will claim as "change request" because they were not spelt out at the beginning of the project because Japanese customers will counter claim that the IT vendor as the experts should have anticipated the need for these requirements in the first place and should ideally have factored in the same at the beginning of the project.
The right kind of staff needs to be assigned from the Indian IT vendors in order to build relationship with customers and understand their stated and unstated needs. *"In our experience so far, we have seen that the Indian IT vendors focus first on selling in their services without even making sure if they have the right resources to deliver those services to customers. In many cases, only after the project is awarded, the Indian IT vendors assign or recruit new people and assign them the role of bilingual bridge engineers".*
An example of a recent project was quoted on which J2 worked with one Indian IT vendor. This vendor assigned a lady Japanese bilingual bridge engineer to interface between the customer team and the project team of the Indian IT vendor. Not acting just as a bridge between the Indian technical side and the Japanese user side; this lady also regulated questions & answers, clarifications etc., diligently trying to find answers to queries herself without passing on all the queries to the users and only asking what is required without causing inconvenience to the users. The users were all very happy with the progress of the project and were very impressed with the hard work put in by the lady. On the other hand another Indian IT vendor which had executed another project with the same user team had assigned an Indian bilingual bridge engineer as the coordinator between the Japanese user team and the Indian technical team. This bilingual Indian bridge engineer diligently translated all the queries being asked by the India side to Japanese and sent them to customer side without doing any filtering/checking on his side, he kept following up with the users for getting the answers to these queries and his Japanese language skill was also not very perfect which added to the user's dissatisfaction. At the end of the project, although both the Indian IT firms were equally good technically, the users gave a rating of 4.2 out of 5.0 to the first Indian IT vendor while the second Indian IT vendor was only given a rating of 2 out of 5. It should be noted that this Japanese lady did not have the technical qualifications related to the project. However she had the required competence and smartness to understand customer expectations and performing exactly that. However interestingly for the next project, the first Indian IT vendor instead of continuing with the same lady for the new project as well, assigned a totally a new person who did not have the right competence and J2 awarded this project to another Japanese vendor. Representative of J2 says; *"looks like assigning the Japanese lady with the right competency on the first project was not deliberate but more by chance. Unfortunately this Indian IT vendor does not seem to have realized the importance or the effectiveness of the role the Japanese lady had played in the success of the first project and it is doubtful whether we will award another project to this vendor in the near future and the sad part is that both the Indian IT vendors will not even realize why future project decisions are going against them".*

project deliverables in Japanese. Hence they need similar Japanese speaking staff to continue to interact with them even while working with Indian IT vendors. However despite this expectation, J1 and J2 have 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. From an operational perspective, on day to day project interactions, J1 and J2 find that Indian IT staff is not able 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) Inability to adjust to customer`s evolving performance requirements

Japanese customers J1 and J2 have found that Indian IT vendors that they have worked with, expected detailed specifications with all requirements completely spelt out as an input to their proposal based on which they create an estimate which is then encapsulated in a Statement of Work (SOW), which was used as the original agreement between the contracting parties prior to starting the project. The Indian IT vendors use the SOW as an important means to confirm the areas of work that are not included in their scope. Work items deviating from SOW are managed as Change Request (CR) and are usually insisted by the Indian IT vendors to be paid for additionally by customers. 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, very different from Japanese perspective which is more oriented to trust and long term relationship.

c) 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 the inability of Indian IT vendors to commit resources which is one the reasons 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. He explains his experience as under:

> "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 especially on the Japan side. 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."

Representative of J2 says that he 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.

d) 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 with whom J1 was working was unable to understand how these practices worked 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 preva-

lent 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. Representative of J1 believes that 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.

Further considering the following observation of J2 from Table 2 above;

> *"Unfortunately this Indian IT vendor does not seem to have realized the importance or the effectiveness of the role the Japanese lady had played in the success of the first project and it is doubtful whether we will award another project to this vendor in the near future and the sad part is that both the Indian IT vendors will not even realize why future project decisions are going against them."*

It becomes evident that many times Japanese customer decisions are based on certain specific factors which are not visible to outsiders as they are not sensitized enough to the way Japanese customers think, feel and act and will be left wondering why certain decisions are going against them despite making the best technical and commercial proposal. Further if in case they do not have a sufficiently good relationship with customers, they will remain ignorant of what is lacking in their proposal or approach which is preventing them from getting business with their Japanese customers.

Overall J1 and J2 feel that with IT capability within themselves and along with their Japanese partners, the customer organizations are by and large very self-sufficient. Hence any collaboration with external entities viz., foreign-service providers needs to have a solid long term business case and a justification for the need for such collaboration. J1 and J2 therefore feel 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 and cooperate for the long term with Japanese customers.

FINDINGS FROM DISCUSSIONS WITH INDIAN IT VENDORS

In order to validate the data obtained from the interviews with Japanese customer representatives, additional discussions were held with representatives of few leading Indian IT vendors in Japan between August 2015 and October 2015. Detailed below are the responses from some of the representatives of Indian IT vendors:

Japanese language capability

Indian IT firms recognize and acknowledge the unique nature of the Japanese market, the need for cultural sensitivity and the importance of communication in the local language as some of the most essential elements of doing business in Japan. Most of the country managers and sales personnel of these Indian IT vendors are either native Japanese or bilingual Indians. Customer communication for project execution and delivery is handled by onsite personnel who may be either native Japanese or bilingual bridge engineers in customer facing roles while the overall delivery is predominantly controlled by India based delivery organization. A few Indian IT vendors confessed that the number of Indian engineers who are trained in Japanese language is quite limited. They acknowledged the need to create a Japan desk within the organization, the need to invest in a variety of programs including identifying and training engineers with the right aptitude for Japan, teaching them Japanese language and keeping them ready well ahead of doing business in Japan rather than building these capabilities

after launching Japan business. Relatively smaller Indian IT companies find it difficult to make this kind of upfront investment in building required skills for Japan.

A former Country Manager of a mid-size Indian IT vendor stated;

> *"We need to establish an emotional connectivity with customers and that can happen through language and culture. We need to be aware of certain norms of doing business in Japan. Unfortunately we do not have sufficient Indian IT engineers who understand Japanese enough to understand Japanese customer expectations".*

Japan specific business practices and expectations

The Country Manager of another Indian IT vendor stated;

> *"A lot of time, we feel barrier in our dealings in Japan because we do not know how customers evaluate us and on what basis decisions are made by customers in Japan. A lot of our mistakes happen because we do not understand how a Japanese customer's business works internally. We do not understand why an organization or person behaves in a certain way. In Japan, what we implicitly assume will be different from what happens in practice".*

Looked another way; the same gentleman adds;

> *"At the fundamental level of doing business, there are no differences between Japanese and Indian companies. However as we delve deeper, the differences between Japanese and Indian business styles start emerging—i.e., differences start emerging at the level of the 'How' of doing business. In Japan, the process of 'How' business is to be conducted is Japanized. Hence although we have customized several offerings for Japan, these are still different from what is expected in Japan".*

Common mistakes Indian IT vendors end up doing as admitted by the former Country Manager of another mid-size Indian IT vendor include; not being aware that the expectation of Japanese customers is usually very high at the outset; Indian IT vendors need to set customer expectations in the first place, insisting on equal partnership based relationships, not realizing that customers are actu-

ally trying to test vendor's capability and earnestness when they initially give few small size projects, stopping engaging with customers if they do not see new business opportunities.

The former Country Manager of another Indian IT vendor summed it up by stating;

> *"Indian IT vendors have not been trusted enough by Japanese customers. Only when Japanese customers assign mission critical projects to Indian IT vendors, then that is a sign that they trust truly us".*

EXAMINATION OF FINDINGS IN THE CONTEXT OF TRUST

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 & 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 & 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 attempt to 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.

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.

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.

Enhancing Goodwill Trust

a) 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 & 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 eco-system 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 im-

proves relationships with business users who are the ultimate users of the computer systems and helps expand new business.

b) 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.

CONCLUSIONS

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 continu-

ously 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.

LIMITATIONS OF THE CURRENT RESEARCH STUDY

The authors acknowledge that the current study might have certain limitations in terms of limited sample size and inadvertent bias in analyzing research findings. Nevertheless considering the limited amount of research that has been done on the subject, by way of the two case studies and from the responses of Indian IT vendors, we believe the research has been able to bring out operational challenges faced in BtB partnerships between Japanese customers and Indian IT vendors. The first steps towards reaching solutions to challenges is to acknowledge the existence of problems, analyzing why they occur and then working closely with all relevant stakeholders to identify corrective actions. We hope that current study through the practical solutions that have been suggested will in some small measure contribute to overcoming the challenges and can help Indian IT vendors in their ef-

forts to build trust with their Japanese customers and expand their business with them.

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Mr. Suhas Bhargava is the Industry Leader (Life Sciences), Tata Consultancy Services Japan, Limited.
e-mail: bhargava.suhas@tcs.com
Dr. Tadao Kagono is a research professor at Konan University. e-mail: kagono@center.konan-u.ac.jp