Effects of partnership quality, talent management, and global mindset on performance of offshore IT service providers in India

ABSTRACT

This paper investigates the effects of partnership quality, talent management and global mindset on the performance of offshore service providers (OSPs) in the information technology sector in India. The findings show that partnership quality has partial and strong mediation effects on the impact of talent management and global mindset on performance of OSFs. We also find that talent management strongly mediates the effects of global mindset on partnership quality. Overall, the results confirm that global mindset, by itself, has limited direct influence on the performance of OSFs and that the full benefits of global mindset can only be enjoyed by OSFs which have well developed talent management and high quality partnerships with their clients. The implications and limitations of the study are also discussed.

Key words: Offshore service providers; partnership quality; global mindset; talent management; performance; India.

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1. Introduction

Offshoring involves organizational re-configuration of activities wherein activities which are previously co-located are relocated to offshore destinations (Contractor et al., 2010; Manning et al., 2008). Offshoring usually involve two main agents; namely the client on the demand side and the vendors on the supply side. In information technology (IT) sector, the clients are typically large firms from advanced industrialized countries from USA (37%), Western Europe (35%) and Japan (14%) which accounts for almost 87% of the IT services outsourcing market (EITO, 2006). On the supply side, the vendors or the offshore service providers (OSPs) are increasingly from emerging and developing economies such as India, China, Malaysia, Russia and the Philippines. Among these countries, India accounts for a dominant share of the global IT offshoring market (Peterson and Gott, 2011; Raman and Chadee, 2011). Most recent research on understanding the performance and behavior of offshoring organizations have so far focused on the client, with increasing, yet still limited attention on OSPs (for literature review see Chadee and Raman, 2009). OSPs are increasingly being recognized as integral strategic partners of their clients because the success or failure of an OSP is intricately linked to the overall competitiveness of the client firms (Feeny et al., 2005).

Organizations involved in offshoring activities usually face additional challenges related to international inter-task interdependency (Kumar et al., 2009), coordination and integration of offshoring activities (Srikanth and Puranam, 2011), and potential complexities arising from the re-configuration of activities (Larsen et al., 2012). Most of the times the tasks performed on site and those offshored are interdependent with more communication and coordination needs (Kumar et al., 2009). The increased communication and coordination needs are the result of differences in terms of geography, time, infrastructure, culture, governance, and regulations which offshoring organizations face while relocating work to

distant locations. The interdependencies, unless well coordinated and integrated, are likely to adversely impact the performance of OSPs (Srikanth and Puranam, 2011). The re-configuration of activities also increases offshoring complexity consisting of “a combination of configuration and task complexity. While task complexity resides within the actual implementation, configuration complexity occurs as a result of new interdependencies between countries, activities, and people” (Larsen et al., 2012 p.6). Thus, the offshoring of value chain activities poses complex international management and organisational challenges to offshoring organizations. In light of these challenges and complexities, greater understanding of the factors which affect the performance of OSPs is informative given the fact that the fortunes of OSPs and their clients are intricately linked.

This study focuses on OSP perspectives by examining how certain factors - partnership quality, talent management and global mindset of top managers - enhance performance of OSPs in the Indian IT services sector. Recent studies on OSP perspectives on partnership quality (Lahiri and Kedia, 2011; Lahiri et al., 2012), talent management (Chadee and Raman, 2012) and top management social intelligence (Kong et al., 2012) motivate this paper to analyze the interplay between these factors to examine their impact on performance of OSPs.

The Indian IT sector, in general, has experienced phenomenal growth since the late 1990s. The sector’s revenue has grown from USD 5 billion in 2000 to over USD 88 billion in 2011, contributes about 6.4% to domestic GDP, directly employs approximately 2.5 million people and accounts indirectly for another 8.3 million jobs (Nasscom, 2009, 2012). The Indian offshoring sector has moved up the value chain from providing mundane, low value end services to knowledge intensive relatively high value services in a relatively short period of time (Niosi and Ted Tschang, 2009). A number of OSPs in India such as Tata Consultancy Services, Wipro Technologies, Infosys Technologies and HCL Technologies have become

established global players which provide a comprehensive range of IT and business process services. The Indian IT services sector accounts for more than half of the global market for IT offshoring which has been estimated at approximately US\$ 150 billion a year with an average annual growth rate of 15-20% (Nasscom, 2012; Oshri et al., 2009).

Our study contributes to the literature in three ways. First, the focus on Indian OSPs is timely given the rapid growth of OSPs in India and in developing countries in general. Recent trends indicate that the majority of leading OSPs are from developing countries and a dearth of research exists on the establishment and growth of firms from developing countries in general. Thus, examining OSPs from India can provide insights into understanding the performance of firms from developing countries. Second, research on OSPs remains underdeveloped despite the strategic role of OSPs as they increasingly become integral parts of the value chain of their clients. Finally, the study provides new insights into the mechanism through which performance is impacted by examining the inter play among global mindset, talent management and partnership quality. The focus on these three constructs is important because OSPs are highly globalized business-to-business organizations where close interactions with clients from around the world is critical for their success (Dyer and Singh, 1998). As we will demonstrate, partnership quality is an important mechanism through which both global mindset and talent management influence the performance of OSPs. We argue that the influence of global mindset on the performance of OSPs is jointly mediated by talent management and partnership management.

The remainder of the paper is organized as follows. The next section reviews the literature and develops the research hypotheses. This is followed by a description of the research methods and data used for hypothesis testing. The results are then presented, followed by a discussion of the main findings, conclusion and limitations of the study.

2. Conceptual model and hypotheses

To date only a few studies (Chadee et al., 2011; Holzweber et al., 2012; Kong et al., 2012; Lahiri and Kedia, 2009; Lahiri and Kedia, 2011; Zaheer et al., 2009) have focused specifically on various aspects of OSP behavior and performance. Lahiri and Kedia (2009) investigated the effects of internal resources and capabilities on the performance of OSPs and found that (human) resources and capabilities are important determinants of their performance and that partnership quality has partial-mediating and moderating effects on these relationships. More recently, Lahiri et al. (2012) investigated how internal and relational resources and capabilities of OSPs in India influence their performance. They found that management capabilities positively moderate firm-specific, idiosyncratic resources. Managing clients and developing strategic partnerships with appropriate information sharing and coordination mechanisms is an essential capability OSPs need to have to perform better (Holzweber et al., 2012). Chadee and Raman (2012) found that talent management has strong mediating effects on the association between the external knowledge resources of OSPs and their performances. Also, top management teams' (TMTs') social intelligence plays an important role in acquiring external knowledge which helps OSPs sensing and implementing the required strategic changes (Kong et al., 2012).

In continuation with recent attempts to understand OSP perspectives, the present study reinforces the role of partnership quality and goes a step further by establishing that partnership quality is a key mechanism by which talent management and TMTs' global mindset enhance firm performance. OSPs provide services to their clients from countries and cultures across the globe. Given OSPs' global operations, the global mindset of their top managers arguably is essential for their success. Past research suggests that top management global mindset impacts positively on various aspects of organizational outcomes such as strategic postures and international performance (Harveston et al., 2000; Levy, 2005;

Nummela et al., 2004). OSPs are highly globalized firms which operate in multiple countries simultaneously with different social, political, economic and cultural environments. Because of that, top management global mindset is critical for their success (Chadee et al., 2011). Although it is largely agreed that in order to be successful in highly complex business environments, it is critical for firms to possess well developed global mindsets, research on how global mindset impacts OSPs' performance remains underdeveloped.

The performance of OSPs depend on their ability to foster high quality partnership with their clients (Chadee et al., 2011; Lahiri et al., 2012) because repeat customers and word of mouth from existing clients have been found to be important features of the industry where clients are co-producers (Nambisan, 2002). Thus, OSPs with high partnership quality are more likely to have superior performance. In order to develop their partnership quality, it is critical for OSPs to have a well-developed talent management practices which recognize the importance of partnership quality. Firms which sustain the right talent pool in the long run are more likely to perform better than other firms (Vance and Vaiman, 2008). Talent management has also gained prominence in the last few years with the advent of the global financial crisis when it is critical for firms to properly identify and retain key employees while downsizing (Whelan, 2011). Also, OSPs with well-developed global mindset are more likely to be successful in developing strong partnership and relational capital.

While all three factors - partnership quality, talent management and global mindset - have direct impact on the performance of OSPs, we argue that global mindset, by itself, has limited effects on the performance of OSPs. We contend that the effect of global mindset is jointly mediated by talent management and partnership quality and that the impact of talent management is mediated by partnership quality, which, in turn, is the key mechanism that enables global mindset and talent management to enhance OSP's performance (see figure 1).

By integrating streams of research on partnership quality, talent management and global mindset, this paper investigates the interplay among these constructs and their impact on performance of OSPs. Previous studies have considered the effects of talent management (Chadee and Raman, 2012) and partnership management (Chadee et al., 2011; Lahiri et al., 2012) on the performance of OSPs. However, we know less about how global mindset affects the performance of OSPs and how the interplay among these three factors enhances OSP performance. As we argued earlier, this gap is difficult to justify. Also, previous attempts to understand the role of relational capability have focused on its mediating effects on the association between organizational outcomes and variables, such as knowledge sharing, organizational capability, extent of outsourcing, and a firm's internal resources and capabilities (Grover et al., 1996; Lahiri and Kedia, 2009; Lee, 2001). Although global mindset and talent management are critical for the development and nurturing of relational capital, to date, there has been no comprehensive attempt to explicitly investigate its mediating role on the effects of the global mindset and talent management on performance of OSPs. The proposed relationships among the three factors and the performance of OSPs are shown in Figure 1 and are discussed below.

*** Insert Figure 1 about here ***

2.1 Partnership quality

Partnership quality has been identified as one of the key factors which allow OSPs in India to be competitive (Chadee et al., 2011; Lahiri and Kedia, 2009). The partnership concept relies on the principle of joint, mutually dependent actions resulting in improved performance for both the buyer and the seller based on trust, business understanding, conflict management and commitment (Claro et al., 2003; Lee, 2001; Lee and Kim, 1999). The offshoring of IT services has elements of cooperative agreement where clients build long term cooperative

partnerships with OSPs (Willcocks and Choi, 1995). This is an important feature of the IT services sector because clients are joint producers with service providers and both clients and vendors usually benefit mutually from working cooperatively. Good partner relationships result in relational rents (Dyer and Singh, 1998) which are not realized in the absence of good relationship. These rents occur because of complementary resources and capabilities, knowledge exchange and lower transaction costs. Good relationships also help OSPs to better understand the nature of their clients' business and their requirements. Furthermore, good client-vendor relationship not only results in a high retention of existing clients, but also has the potential to attract new clients through existing client referrals and networks.

From a risk management perspective, developing relational capital between business partners has been found to be beneficial in high risk and uncertain environments (Barthelemy, 2003). This is because good partner relationship allows problems to be solved without incurring the high legal cost usually associated with the enforcement of contracts. The outsourcing of services typically involves a higher degree of environmental and technological uncertainties because unlike products, the consumption and production of services occur simultaneously. For this reason, contracts cannot be tested until they are realized and good partner relationships provide both clients and vendors with the flexibility to manage unforeseen problems as they arise. Thus, relational governance is preferred in ventures associated with higher uncertainties and risks (Barthelemy, 2003) such as in outsourcing ventures which provide high value end services (Kedia and Lahiri, 2007) and when business takes place in jurisdictions with either weak institutions or where institutions do not exist at all (Peng et al., 2009). Relational governance helps mitigating undue contractual complexities which may prove counterproductive (Shepherd, 1999). Thus, we argue that partnership quality allows OSPs perform better by gaining better understanding of their clients' needs,

service them appropriately and address problems as they arise in a mutually beneficial way (Lahiri and Kedia, 2009; Lee, 2001). Hence, we advance the following hypothesis:

Hypothesis 1: Partnership quality contributes positively to performance of OSPs.

2.2. Talent management

The concept of talent management has moved recently from the management of talented people by focusing on high-performing employees (Michaels et al., 2001; Smart, 1999) to focusing on ‘pivotal positions’ rather than ‘pivotal people’ (Collings and Mellahi, 2009; Mellahi and Collings, 2010). The latter school of thought defines strategic talent management as “activities and processes that involve the systematic identification of key positions” which contribute to firm performance, and the development of systems and processes to fill those positions (Collings and Mellahi, 2009: 304). Accordingly, talent management focuses on identifying strategic (pivotal) positions within the organization and appropriately filling those positions based on well-developed systems and processes for recruitment, retention, remuneration, reward and development of employees. The former school of thought, on the other hand, focuses on top performers as they contribute more to organizational outcomes than low performing employees (Heinen and O'Neill, 2004). However, excessive focus on star performers runs the risk of encouraging a work place culture which discourages internal collaboration and teamwork because it over-values individual performance over group performance (Mellahi and Collings, 2010). For the purposes of this research, we refer to talent management as top management’s deliberate and organized efforts to optimally select, develop, deploy and retain competent and committed employees who bear significant influence on the overall performance of the organization.

A key motivation for multinationals to outsource some of their high end services to OSPs is to gain access to skilled human resources (Jensen and Pedersen, 2012; Lewin et al.,

2009; McKinsey, 2001). However, because of the global nature of the IT services sector and the increased ease with which employees can move between jobs and across borders, OSPs in India face the constant challenge of retaining their best talent in an increasingly global market place. Qualified IT professionals are usually attracted by higher wages, better work conditions and lifestyle in advanced industrialized countries (Mäkelä et al., 2010). Furthermore, a global shortage of skilled IT specialists in recent years has also resulted in ‘the war/race for talent’ (Lewin et al., 2009; McKinsey, 2001), which has highlighted the critical importance of talent management of OSPs in sustaining their performance (Vance and Vaiman, 2008). Thus, OSPs which have developed rigorous systems to manage their pool of key employees and which strategically deploy them in pivotal positions are more likely to have better performance (Axelrod et al., 2002; Huselid et al., 2005; Vance and Vaiman, 2008). Hence, we advance the following hypothesis:

Hypothesis 2: Talent management contributes positively to performance of OSPs.

Moreover, it is the talent pool that is consistently engaged with clients in the design and delivery of services and as such, an optimal human capital pool is likely to enhance client-vendor relations. Clients and OSPs co-create value in the offshoring processes wherein onsite and offshore operations are highly interdependent – both require increased communication and coordination (Holzweber et al., 2012; Srikanth and Puranam, 2011). OSP professionals need to understand the intrinsic nature of the offshored activities and undertake implementation in a timely and effective way with enhanced service standards which is likely to result in good client-vendor relations. Hence, we advance the following hypothesis:

Hypothesis 3: Talent management contributes positively to the partnership quality of OSPs.

Based on our arguments that partnership quality enhances performance of OSPs (H1) and that talent management enhances the quality of client vendor relations (H3), it follows that partnership quality mediates the association between talent management and performance of OSPs.

2.3 Global mindset

Organizations are reflection of top managers and top managers matter in organizations, irrespective of whether they are domestic or global, young or mature, for profit or non-government, or public or private (Carpenter et al., 2004; Hambrick, 2007). Building on the premise of bounded rationality, the upper echelons theory posits that top managers' strategic choices depend on their personalized interpretations of the situations they face and are influenced by their experiences, values and backgrounds (Hambrick, 2007; Hambrick and Mason, 1984). Thus, the characteristics of top management influence their interpretations of the situations and consequently, determine top managers' strategic choices. These choices and decisions influence an organization's strategic direction and performance. The literature has relied on both psychological (e.g. cognitive base and values) and observable (e.g. demographics) top management characteristics (Hambrick, 2007; Hodgkinson and Sparrow, 2002; Lawrence, 1997; Markoczy, 1997). Observable characteristics do not fully represent executive behavior and are vague proxies for measuring top managers' cognitive behavior. Accordingly, this study focuses on managerial cognition and patterns of attention to the external environment (Hambrick, 2007; Levy, 2005; Levy et al., 2007) .

Top management's global mindset is usually captured by two main elements - awareness of and familiarity with the cultural and economic environments in which they operate (Chadee et al., 2011; Levy et al., 2007). The cultural element relates to familiarity, appreciation and knowledge of the cultural diversity of the firm's global operations. The

knowledge of various cultures allows managers to “interpret situations using multiple cultural frameworks and then select the most appropriate action for each particular situation” (Nardon and Steers, 2008, p. 49). A high level of cultural awareness and appreciation is valuable in gaining a better understanding of clients’ needs, tastes and preferences and can be a source of competitiveness, particularly in the delivery of customized services to clients from different countries. The economic element is associated with the extent to which management is knowledgeable about broad global economic trends and about the economic dynamics in countries where the firm does business. A well-developed understanding of the economies in which OSPs operate allows them to optimize economic and strategic decisions by minimizing economic risks and transaction costs. A high level of economic awareness is particularly relevant for OSPs operating in developing countries where information is not readily available due to institutional voids.

Overall, a high level of cultural and economic awareness in general and in specific markets where a firm operates, provides firms’ TMTs with superior ability to scan the external environment and leverage opportunities in international markets (Bouquet, 2005; Levy, 2005). It also enables TMTs to integrate international cultural and market diversities (Beechler and Woodward, 2009) in the assessment of business opportunities in foreign contexts. TMTs’ global exposure has been found to be positively related to organisational outcomes (Levy et al., 2007). The international orientation of TMTs has also been found to convert about one-third of small- and medium-sized firms in Germany, Finland, Japan, Korea and South Africa into successful exporters (Dichtl et al., 1990), and to contribute to the successful international expansion strategies of firms (Levy, 2005; Nielsen and Nielsen, 2011; Sambharya, 1996). Hence, we advance the following hypothesis:

H4: The global mindset of TMTs contributes positively to performance of OSPs.

TMTs' global exposure has been found to be positively related to organizational outcomes as it enables top managers to enhance the quality of relationships with foreign firms (Lee and Park, 2006, 2008). Global exposure is associated with a greater understanding of foreign markets and cultures, less conflicts among partners and more solid foreign network ties (Lee and Park, 2008). Global cultural and economic competence are the two key dimensions of global leadership (Mendenhall, 2011) which, in turn, is essential to any firm operating across borders (Maznevski and DiStefano, 2000). Knowledge has been identified as one of the key characteristics global leaders must have (Caligiuri, 2006) and top management's knowledge of international business environment is likely to help them deal more effectively with clients from different national, political, social, cultural, economic and legal environments. TMTs with well-developed global mindset are likely to have good relationships with their clients as they tend to have a better understanding of these clients and their respective specific business environments. Furthermore, in the context of developing countries where formal institutions are underdeveloped or where there are serious institutional voids, relational capital has been found to be a common form of governance (Ang and Michailova, 2008; Peng et al., 2008). Accordingly, we posit that the global mindset of TMTs, by itself, has somewhat limited direct effects on firm performance, and argue that the global mindset of TMTs helps to improve the quality of the client-vendor relationship which, in turn, enhances the overall performance of firms. This is because TMTs which have greater familiarity with, awareness of and sensitivity to different cultures and economies are more likely to relate positively to their global clients, establish more fertile collaborative working arrangements, and resolve unforeseen problems co-operatively.

Top managers have overall responsibility for their firm's transnational operations (Bartlett and Ghoshal, 2003; Tung and Miller, 1990) and deal directly with their counterparts of client firms that are geographically globally dispersed. OSPs with well-developed global

mindset are likely to have well developed talent management practices. In OSPs, a global orientation to human resource practices is critical so as to avoid corporate failures and for sustaining competitiveness particularly in people-based, knowledge-intensive firms servicing clients from different countries. Hence, we advance the following hypotheses:

Hypothesis 5: Global mindset of TMTs contributes positively to the partnership quality of OSPs.

Hypothesis 6: Global mindset of TMTs contributes positively to the talent management of OSPs.

Based on our arguments about partnership quality – performance relationships (H1), global mindset – partnership quality relationships (H5), and global mindset – talent management relationships (H6), it follows that partnership quality mediates the associations between (a) global mindset and performance, and (b) talent management and performance of OSPs. Figure 1 also suggests that the impact of global mindset on performance is jointly mediated by partnership quality and talent management.

3. Research method

3.1 Data

The sample for the study is drawn randomly from a population of 842 IT service providers in India which are members of Nasscom, India's main trade association of IT companies. Nasscom members account for more than 95% of the IT offshoring industry's revenue in India (Nasscom, 2006, 2010). The sample consists of a wide range of OSPs with respect to their age, size, ownership type and the nature of service provided. Their characteristics are shown in Table 1.

Insert Table 1 about here

The data collection process involved the development of a comprehensive on-line questionnaire by the authors, which was pretested and administered to Nasscom members after being endorsed by the Association's vice president. Participating OSPs were requested to complete the questionnaire by a member of their TMTs, that is, a top manager involved in strategic decision making (Carpenter et al., 2004; Nielsen and Nielsen, 2011). This group included the CEOs, CMOs, CFOs, Directors, Vice Presidents and Heads, and Presidents and Vice Presidents of functional departments such as strategy and marketing. Following the initial mail-out and two subsequent reminders, a usable sample consisting of 68 responses was received by the cut-off date, thus achieving a response rate of 8.08%. Despite the fact that a low response rate is not uncommon in data collection in Asian countries (Roy and Berger, 2005), and despite substantial and continuous efforts to increase the response rate by utilising personal networks and getting endorsements from the industry trade body, we consider the low response rate to be one of the limitations of the study.

3.2 Measurement

The questionnaire asked respondents to rate a number of items pertaining to the dependent and independent variables used in the study. The questionnaire items are perceptual measures based on previous studies and an earlier qualitative study by the authors (Chadee et al., 2011) undertaken to investigate the competitiveness of OSPs in India. The information in Table 2 summarises the items used for measuring the dependent and independent variables; namely TMTs' global mindset, partnership quality, talent management and OSP performance.

Global mindset (GM) is a composite measure which consists of six items describing top managers' familiarity with global cultural and economic environments (Chadee et al., 2011; Levy et al., 2007). The items were measured on a five-point Likert-type scale, where 1=not

familiar and 5=very familiar. A sample item states, “In your view, how familiar is your top management team with international trade practices”?

Talent management (TM) is measured by five items which describe the firm’s deliberate practices in strategically managing its talent pool. We draw from previous studies (Chadee and Raman, 2012; Hatch and Dyer, 2004) in formulating five items to capture various talent management practices within OSPs. The items were measured on a 5 point scale, where 1 = substantially below industry practices and 5 = substantially above industry practices. A sample item states, “Our company’s recruitment and selection processes are: (1: substantially below industry standard 5: substantially above industry standard)”.

Partnership quality (PQ) consists of four items describing the level of trust, commitment, business understanding and conflict management between the OSPs and their business partners. These items were developed based on previous studies (Lee, 2001; Lee and Kim, 1999). Respondents were asked to indicate their agreement to each statement using a five point Likert type scale, where 1= strong disagree and 5=strongly agree. A sample item states, “We and our clients understand each other’s business objectives and processes”.

Firm performance (PERF) consists of four items describing different commonly used performance yardstick in the IT services industry. These include total revenue growth, client base expansion, client base retention, and overall business growth. The items were selected following interviews with senior managers of OSPs who were asked to identify the top four performance indicators which they routinely use. Firm performance is measured as managers’ perceptions of their firm’s total revenue growth, client base expansion, client base retention and overall business growth relative to the industry during the previous two years. The

respondents were asked to rate the performance of their firms on a 5-point scale (1 being substantially below industry average, and 5 substantially above industry average). The use of subjective perceptual measures of performance is common in the literature given that managers have comprehensive knowledge of a firm's performance and use that knowledge in making strategic decisions (Leonidou et al., 2002). Furthermore, research also shows that the measured outcomes of perceived and objective measures are equivalent and positively correlated (Wall et al., 2004).

Control variables: Two control variables were used in the study – OSP business experience (i.e. number of years in business) and firm size (i.e. number of employees). Previous studies (Lahiri and Kedia, 2011; Manning et al., 2011) have noted that PQ is also related to experience and size of business operation.

3.3 Common method bias

Two major tests were performed to determine the presence of common method bias: Harman's single factor test (Harman, 1976; Podsakoff et al., 2003) and partial correlation technique using a marker variable (Lindell and Whitney, 2001). Harman's single factor test explains that common method bias is present when a single factor emerges or one factor accounts for more than 50% of the variance of the items in the factor analysis (i.e. unrotated matrix) whereby all items measuring all the variables in the study are allowed to load simultaneously (Harman, 1976). All items measuring all the constructs were factor analyzed using maximum likelihood technique with Varimax rotation. Results showed that no single factor emerged and no factor accounted for more than 50% of the variance. These findings suggest that under Harman's single factor rule, common method bias was not an issue in the current study.

Using Lindell's and Whitney's (2001) partial correlation technique, a variable called *sources of financing* measured by five items was used as the marker variable in the questionnaire. This construct was established a priori to have no theoretical or conceptual relationship with at least one of the major variables under study. Using this technique, a data set is said to be contaminated with common method bias if the correlation coefficients amongst the variables significantly change when the effects of the marker variable are controlled for (Lindell and Whitney, 2001). Using SPSS's partial correlation analysis function, a correlation matrix was developed to examine the zero-order correlation coefficients of the GM, TM, PQ, PERF and the marker variable. The results showed that the marker variable had correlation coefficients close to zero relative to the other variables. This finding provided further assurance that common method bias was not an issue in the current study (Podsakoff et al., 2003). When the marker variable was controlled for in the correlation analysis, there were no significant changes in the relationships at 95% level of confidence amongst the variables. The results further suggested that common method bias, per se, could not explain the results of the current study.

4. Model estimation and results

This study tests the outlined hypotheses using the partial-least squares (PLS) approach to structural equation modeling (SEM). PLS-based SEM is suitable when the sample size and the numbers of indicators and latent variables are not large enough for covariance-based modelling. The current study has met the guidelines in using PLS recommended by Marcoulides and Saunders (2006) in terms of PLS estimation after taking into account the main objective of the study (i.e., estimating relationships rather than predictive modelling), the sample size ($n=68$), the number of indicators (19) and latent variables (4), factor loadings

(minimum of .70), and factor inter-correlations (minimum of .41) in order to develop and test a PLS-based structural model with acceptable statistical power.

Following Anderson's and Gerbing's (1988) two step approach, confirmatory factor analysis (CFA) was performed on all of the constructs in order to examine the homogeneity and consistency of items comprising each construct and construct validity. Details of the CFA (Table 2) show that all of the items measuring each of the three constructs loaded highly on the pre-determined factors.

Insert Table 2 about here

The measurement model fits the data well, as shown by the significant loadings of items in their corresponding constructs at $p < .05$, which indicates the convergent validity of the constructs. The cross-loadings of items in other constructs are much lower than the pre-determined loadings. The values of Cronbach's α , composite reliability coefficients and Joreskog's rho were all above the minimum threshold of .70, which indicates item homogeneity, consistency, scale reliability and construct validity (Bagozzi et al., 1991; Fornell and Larcker, 1981; Kock, 2012). The full collinearity variance inflation factors are lower than the maximum tolerable value of 5 (Hair et al., 2010) which suggest that multicollinearity is not an issue in the measurement model.

Table 3 shows the means, standard deviation and correlations of the variables used in the succeeding analysis of the structural model-data fit. The bold figures are the square root values of the AVEs of each construct, which are higher than the correlation coefficient values of each construct relative to other constructs, which indicates the constructs' discriminant validity (Bagozzi et al., 1991; Fornell and Larcker, 1981). Overall, the results of the test of the measurement model-data fit suggested that the constructs used in this study have satisfactory levels of construct validity, internal consistency (i.e., reliability), and convergent as well as discriminant validity.

Insert Table 3 about here

The second step of Anderson and Gerbing's (1988) approach to structural equation modeling requires the development and testing of the structural models in order to test hypotheses H₁-H₆. Four nested structural models were developed and tested following the procedures suggested by Kelloway (1998) and James and Brett (1984) on mediation analysis. Testing of these models is necessary to determine whether: (a) PQ mediates the effects of GM and TM on PERF; and (b) TM mediates the effects of GM on PQ. This process will also determine whether there is partial or full mediation (Anderson and Gerbing, 1988; Kelloway, 1998).

The various path coefficients are summarized in Figure 2. The first model (Model A) shows the full mediating effect of PQ whereby it fully mediates the effects of GM and TM on PERF. This model also shows that TM partially mediates the effects of GM on PERF. The second model (Model B) shows the full mediating effect of PQ in the TM-PERF relationship and partial mediating effect on GM-PERF relationship. It also shows the partial mediating effect of TM in the GM-PQ relationship. The third model (Model C) shows the full mediating effect of TM where it fully mediates the effects of GM on PQ. It also shows the partial mediating effect of PQ in the TM-PERF relationship. The fourth model (Model D) is a partially mediated model whereby PQ partially mediates the effects of both GM and TM on PERF. It also shows the partial mediating effect of TM on the GM-PQ relationship.

Insert Figure 2 about here

In order to determine which model has the best fit with the data, the four models were compared following the procedures recommended by Kock (2012), Tenenhaus et al. (2004) and Preacher and Hayes (2008) in evaluating PLS-based SEM. First, the average path coefficients (APC), average r-squared (ARS) values and average variance inflation factors (AVIF), which are the goodness-of-fit measures of each model, were compared. APC, ARS

and AVIF show the average strength and significance of the relationships of the variables in the model, the predictive power of the exogenous variables to explain the variations in the endogenous variables, and the level of multi-collinearity which can undermine the validity of the model, respectively (Kock, 2012). The results show that the partially-mediated model (Model D) has better fit with the data. Kock (2012) recommends that when comparing competing models, the model with the highest ARS value indicates that it has the best fit with the data. In this study, Model D has the highest ARS value which indicates that it captures well the variations in the dependent variables (i.e., PQ and PERF).

Secondly, we calculated the goodness-of-fit (GoF) global index for each model following the recommendations of Tenenhaus et al. (2004). The GoF index is the geometric mean of the average communality and the average r^2 , and represents the index for validating the PLS model globally (Tenenhaus et al., 2004). Wetzels et al. (2009) recommend the comparison of models using the GoF values of PLS models where the baseline GoF indices of .1, .25, and .36 represent small, medium and large effect sizes. Accordingly, the GoF indices of the models in this study suggest large effect sizes, although Model D shows the highest GoF index, which indicates that it has the best model-data fit. Hence, following Preacher and Hayes (2008), we tested whether the indirect effects of the mediated paths in Model D are significant. The results presented in Table 4 show that the direct effects and indirect effects are all significant. The effect sizes range from .11 to .35 which suggest that the indirect effects are substantially relevant in explaining the partial mediating roles of TM and PQ. Based on the foregoing results, Model D fits the data best relative to the other three models.

Insert Table 4 about here

The results suggest that PQ partially and strongly mediates the relationships between GM and PERF as well as TM and PERF. The results also show that TM partially and strongly

mediates the relationships between GM and PQ. In the partially-mediated model (D), all variables had variances (i.e., v) that were statistically different from zero, which indicates that each variable was highly distinguishable (i.e., distinctive) from the others. Both GM and TM are shown to have a positive and statistically-significant effect both on PQ and PERF. GM is also shown to have a positive and significant effect on TM. PQ, on the other hand has a positive and statistically significant effect on PERF.

In Model D, GM was statistically-significant in explaining 30% of the variations (i.e., r^2) in the firms' level of TM. On the other hand, TM along with GM, experience and firm age, explained 47% of the variations in the firms' PQ. PQ along with GM and TM, explained 41% of the variations in firm performance. The Stone-Geisser Q^2 measures how well the model and its parameter estimates reproduce the observed values (Geisser, 1975; Stone, 1974). A Q^2 value greater than zero suggests that the model has acceptable predictive validity. In Model D, the Q^2 values ranges from .31 to .49 which further supports the hypotheses of the study. Both control variables, firm size and business experience, have insignificant effects on PERF.

5. Discussion of main findings

The main objective of this study was to assess how partnership quality, talent management and global mindset impact on the performance of OSPs in India. We examine the mediating role of partnership quality on the impact of global mindset and talent management on performance of OSPs. The results support our contention shown in Figure 1. Global mindset, talent management and partnership quality significantly contribute to performance of OSPs. Talent management mediates the relationship between global mindset and partnership quality partially and strongly. Partnership quality has partial and strong mediation effect on the association between global mindset and firm performance, and talent management and firm

performance. The findings also suggest that global mindset enhances firm performance directly as well as indirectly through partnership quality and talent management. In other words, the effects of global mindset on firm performance are jointly mediated by partnership quality and talent management. It implies that partnership quality is the key mechanism through which global mindset and talent management enhance performance of OSPs.

The significant impact of partnership quality on firm performance and partnership quality as the key mediator of the global mindset-firm performance association and the talent management-firm performance association reinforce the role of relational capabilities in offshoring ventures. Interestingly, Lahiri and Kedia (2009) did not find empirical support for their relational capability's mediation hypotheses on the impact of human capital and management capabilities on performance. However they did find partial mediation impact of partnership quality on the organizational capital and performance relationships. They argue that higher reliance of business process outsourcing (BPO) on their human capital and management capabilities and less on relationships may be the reason for the non-mediation findings. However, our support for the strong and partial mediation effects of partnership quality may be attributed to two reasons. First, our sample consists of OSPs which provide BPO services as well as software services. Relationships are more important in case of high-value knowledge-intensive work as compared to mundane BPO services as the provider need to interact and understand their clients better to provide customized knowledge solutions. Second, the conceptualization of global mindset and talent management are broader and more comprehensive compared to previous studies. Moreover, relationships play an important role in economies with weaker institutions as they tend to fill in existing institutional voids. Developing and maintaining trustworthy relations with clients through better understanding of their business and commitments in meeting contracts is likely to create an environment in

which clients feel comfortable with the vendors. This creation of relationships increases relation specific joint equity and thus results in renewal of contracts (Manning et al., 2011).

Moreover, outsourcing contracts have been found to face higher uncertainties and can never cover all eventualities and, thus, are associated with higher transaction costs (Williamson, 1991). Where this is the case, high quality client-vendor relationships help to overcome contractual uncertainties. Relational specificity with strong and long-term client-vendor relationships binds clients and vendors together is likely to save switching costs and helps avoid uncertainties in finding new vendors (Manning et al., 2011). In addition, in weaker institutional environments, which is the case in most developing countries, relationships play a greater role as contracts are hard to enforce through underdeveloped legal systems (Ang and Michailova, 2008; Peng et al., 2008). A greater focus on developing and improving relational capital by keeping the promises made and executing contracts well, understanding client's businesses and requirements, incorporating mutually-agreed dispute resolution mechanisms, and creating trusted relations over a period of time are critical for the performance of OSPs. Lahiri et al. (2012) also highlight the greater role of partnership relationships in offshoring of IT services because they are knowledge-intensive and more complex compared to other forms of offshoring. Client firms in the IT sector tend to renew their existing contracts and seek long term relationships with their offshore service providers thereby indicating the strategic importance of long term relationships (Manning et al., 2011).

The significant positive impact of global mindset and talent management emphasize the significance of people in the IT outsourcing industry. An increasing number of multinationals from developed economies are offshoring their business activities for the global race for talent (Lewin et al., 2009). Most of the preferred locations for IT offshoring such as India and China are endowed with the large pool of skilled human resources required to provide high quality and affordable services to their offshore clients. Furthermore, many

firms are increasingly outsourcing IT related functions based on cost considerations in order to remain competitive. The positive impact of global mindset on organizational outcomes such as strategic postures (Harveston et al., 2000; Levy, 2005; Sambharya, 1996) and international performance (Dichtl et al., 1990; Nummela et al., 2004) exists in the literature. OSPs are highly globalised firms which provide IT-enabled business process services and software and system services to clients in multiple international locations that are characterized by diverse economic, social, legal, technological and cultural environments. As managerial mental models influence their strategic choices, the familiarity of TMTs with foreign cultures, customs and traditions is likely to help them in gaining a better understanding of the needs of their clients and suppliers in offshore locations where cross-cultural sensitivity is important (Winkler et al., 2008). In the current financial recession, it is particularly relevant for top managers to be knowledgeable about and familiar with the changing economic conditions worldwide and in markets where they do business in order to remain competitive.

Upper echelons theory argues that top management characteristics influence firm performance through their decisions which are based on their view of the world (Hambrick, 2007). The literature on TMTs, on the other hand, provides mixed evidence about the impact of managerial characteristics on organizational outcomes, calling for the examination of the context which could influence global mindset and performance relationships (Carpenter et al., 2004; Certo et al., 2006; Levy et al., 2007). Our study contributes to the global mindset literature by providing additional evidence from knowledge-intensive firms that global mindset improves partnership quality directly and by enhancing its talent management practices. As our findings suggest, it is not the global mindset *per se* that enhances performance; it is the mechanism, namely partnership quality which actually leads to higher performance.

The availability of human capital is a key factor for determining location attractiveness of OSPs (Graf and Mudambi, 2005). However, low employability ratios of Indian and Chinese graduates (Farrell and Grant, 2005) and high attrition rates at the OSP destinations provide critical challenges to OSPs in sustaining a pool of skilled employees. The high turnover is likely to lead to loss of knowledge which people take away with them and this loss is particularly critical for knowledge-intensive firms such as OSPs. In addition to retaining, training, developing and deploying their human resources, OSPs face the challenges of understanding their clients from a variety of cultures/countries. A simple mistake in understanding the clients while servicing them might prove costly. Most of the large Indian OSPs such as TCS, Wipro and Infosys serve clients from around the globe. Sensing the economic, legal and political environments of the countries where they do business is important for OSPs in terms of framing their strategies. For example recent legislations in the US for limiting IT outsourcing may have great implications for OSPs. Therefore managers of OSPs need to be globally oriented, maintain talent management practices which are above the industry standard and have good client-vendor relationships in order to perform better. The findings of this study endorse this relationship and suggest that appropriate talent management practices result in enhanced client-vendor relationships and performance of OSPs.

The literature on business-to-business relationships highlights the importance of high quality client-vendor relationship in achieving organizational outcomes (Dyer and Singh, 1998; Lee, 2001). Good client-vendor relations are particularly critical in the offshoring of knowledge-intensive services from developing economies for four reasons. First, the complex nature of IT services requires a greater understanding of the needs of clients and their businesses (Kedia and Lahiri, 2007). Second, uncertainties and incompleteness of contracts require greater understanding between clients and vendors as it is not possible to have

everything incorporated into contracts (Williamson, 1989). Third, as many OSPs are from developing economies which have weak institutions, relational capital becomes a critical element in filling institutional voids (Peng et al., 2009). Lastly, relational capital supplements contractual governance and a combination of both is likely to enhance success in offshore outsourcing ventures (Poppo and Zenger, 2002). The key mediating role of partnership quality suggests that by investing strategically in areas which enhance the top management global mindset and talent management, OSPs can improve their relational capability which leads to better performance.

6. Conclusion, implications and limitations

Our findings show that partnership quality is the mechanism through which global mindset and talent management enhance the performance of OSPs. We can also conclude that talent management significantly mediates the association between the global mindset and partnership quality. Overall, our results confirm that for firms with global orientations, such as OSPs, it is important for top management teams to have 1) a well-developed understanding of foreign cultures, politics, economics and business etiquette; 2) well developed talent management practices which ensure that the human capital of the organisation can be strategically managed for sustained competitiveness and 3) well developed relations with their client firms. Globally oriented top managers help firms to have effective talent management practices and superior client-vendor relationship. Developing mutually beneficial partnership is particularly important in offshoring where contracts are often not enforceable for legal and institutional reasons. This finding provides new insights into the strong mediation role of partnership quality on the effects of global mindset and talent management on the performance of OSPs. Another novel finding in this study is that the effect of global mindset is jointly mediated by talent management and partnership quality. In

essence, the results suggest that global mindset by itself has limited influence on performance and that most of its impact is through its interaction with talent management and partnership quality.

The findings of this research have some important implications for managers and researchers. First, we highlight the critical role of talent management for enhancing partnership quality. This implies that OSPs need to focus on how to enhance their talent management practices in a rapidly changing and highly competitive global environment where skilled employees are in high demand. OSPs are advised to focus on the development of human resource programs and policies that are designed to improve retention of pivotal employees. Second, the critical importance of global mindset in globally oriented firms which has been highlighted in previous research (e.g. Tung and Miller, 1990) is also confirmed in this study. Global mindset is found to be strongly associated with the partnership quality. Globally oriented managers are more likely to be competent in assessing global risks and global business environmental changes. Thus, investments in developing the global mindset of top managers can greatly enhance the overall performance of OSPs. Third, partnership quality is the key mechanism which enables talent management and global mindset to enhance the performance of OSPs. This calls for establishing and sustaining good client-vendor relations as the key for enhanced performance.

At the same time, the findings need to be interpreted carefully and with caution in regard to generalizability. The relatively small sample size presents a main limitation. Future studies should preferably draw from larger and more representative samples, allowing the results to be more generalizable. Also, the data draws from the experience of a sample of OSPs from India. These OSPs operate in a specific business and institutional environment. A possible avenue for future research includes the comparison of the behavior and performance of OSPs from different countries. In particular, comparative studies of OSPs in India and

China can provide valuable insights into the topic we investigate bearing in mind that OSPs from China are predicted to be the next possible attractive location for offshoring after India (Raman and Chadee, 2011). Yet another limitation of our study is that we measured the client-vendor partnership quality construct solely from the OSPs' side. Ideally this measure should be associated with assessments from both sides, i.e. clients and OSPs. Dyadic studies including both the client and vendor perspectives are likely to enhance the understanding of the partnership further. Finally, the impact of relational capability on outsourcing success is another research area to explore whereby particular attention may be given to the question of 'how close relationships are good enough'. This is an issue which we have not touched, but one that has both theoretical and practical relevance.

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Figure 1: Effects of partnership quality, talent management and global mindset on OSP performance: conceptual model

Figure 2: The structural equation models

Model A.

Model B.

Model C.

Model D.

Goodness of Fit Indicators:

Average Path Coefficients (APC)

Average R-squared (ARS)

Average Variance Inflation Factor (AVIF), good if <5

Amato et al's (2004) Absolute Global Goodness of Fit

Model A

.326**

.343**

1.349

.42

Model B

.311**

.384**

1.311

.44

Model C

.323**

.345**

1.289

.42

Model D

.279**

.394**

1.426

.45

Legend:

β = standardised path (beta) coefficient; se = standard error; Q^2 = Stone-Geisser Q-squared coefficient;

f^2 = Cohen's f-squared = effect size; **significant at $p < .01$; *significant at $p < .05$

Table 1: Sample characteristics

	Number	Percent
Age (2006 - Year of Incorporation) (n=68)		
1 – 5 years	14	20.6
6 – 10 years	27	39.7
11 – 15 years	14	20.6
> 15 years	13	19.1
Number of Employees (2006) (n=63)		
10 – 100	15	23.81
101 – 1000	13	20.64
1001 – 5000	21	33.33
>5000	14	22.22
Ownership Type (2006) (n=68)		
Indian Owned	53	77.9
Foreign Owned	15	22.1
Service Type (2006) (n=68)		
Software Development and System Services (SDSS)	27	39.7
Information Technology Supported Services (ITSS)	14	20.6
Both of the above (BOTH)	27	39.7

Table 2: The measurement model

Constructs	Standardised factor loadings
Global Mindset	$\alpha = .88, CRC = .91, \rho = .91$
(AVE = .63; Full Collin. VIF = 1.710)	
International trade fairs / conferences	.70
Foreign customs and traditions	.88
Foreign cultures	.71
Global competition in the industry	.79
International trade practices	.86
Globalization issues	.81
Talent Management	$\alpha = .90, CRC = .92, \rho = .92$
(AVE = .71; Full Collin. VIF = 1.904)	
Performance and financial incentives	.77
Career progression and promotion opportunities	.82
Company recruitment and selection processes	.87
Company training and development programmes	.87
Employees skills identification programmes	.88
Partnership Quality	$\alpha = .86, CRC = .91, \rho = .91$
(AVE = .70; Full Collin. VIF = 1.97)	
Make mutually beneficially decisions	.83
Execute promises & agreements very well	.87
Understand each other's businesses	.86
Dispute resolution processes	.80
Firm Performance	$\alpha = .90, CRC = .93, \rho = .93$
(AVE = .77; Full Collin. VIF = 1.614)	
Total revenue growth	.90
Customer retention	.80
Client base expansion	.87
Overall business growth	.92

Note: AVE= average variance extracted; α = Cronbach's alpha; CRC = composite reliability coefficients; ρ = Joreskog's rho; full Collin. VIF =full collinearity variance inflation factor)

Table 3: Mean, standard deviations and correlation coefficients

Variables	Mean	SD	GM	TM	PQ	PERF	Exp	Size
GM	4.14	.64	.79					
TM	3.68	.79	.52**	.84				
PQ	4.34	.56	.60**	.62**	.84			
PERF	3.62	.99	.41**	.51**	.46**	.88		
Experience	12.43	9.67	.15	.19	.04	.15	n/a	
Firm size	4860.89	11196.18	.27*	.28*	.17	.13	.60**	n/a

Note: ** indicates significance at $p < .01$; *significance at $p < .05$; n/a not applicable; bold figures are the square root values of average variance extracted (AVE) for each construct

Table 4: Analysis of direct and indirect effects of the independent variables on firm performance

Effects of independent variables on dependent variables	Direct effects		Indirect effects		Total effects	
	β	Effect size#	β	Effect size#	β	Effect size#
<i>Model D</i>						
GM $\rightarrow$ PQ	.36*	.22*	none	none	.36*	.22*
GM $\rightarrow$ TM $\rightarrow$ PQ	.36*	.22*	.22*	.13*	.58*	.35*
GM $\rightarrow$ PERF	.32*	.31*	none	none	.32*	.31*
GM $\rightarrow$ PQ $\rightarrow$ PERF	.32*	.31*	.26*	.11*	.59*	.31*
TM $\rightarrow$ PERF	.22*	.11*	none	none	.22*	.11*
TM $\rightarrow$ PQ $\rightarrow$ PERF	.22*	.11*	.21*	.11*	.32*	.16*

Note: β indicates path (beta) coefficient; # Cohen's f^2 (Cohen, 1992); * significance at $p < .05$