Examining IT Outsourcing Service Continuance: An Expectation-Confirmation Model

Siew Fan Wong
Sunway University, siewfanw@sunway.edu.my

Follow this and additional works at: http://aisel.aisnet.org/confirm2011

Recommended Citation
http://aisel.aisnet.org/confirm2011/13

This material is brought to you by the International Conference on Information Resources Management (CONF-IRM) at AIS Electronic Library (AISeL). It has been accepted for inclusion in CONF-IRM 2011 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.
Examining IT Outsourcing Service Continuance: An Expectation-Confirmation Model

Siew Fan Wong
Sunway University
siewfanw@sunway.edu.my

Abstract
This is a research-in-progress paper that examines clients’ decision to continue engaging their current IT outsourcing vendors. It employs the lens of expectation-confirmation theory to evaluate how prior expectation relates to the evaluation of actual vendor performance, how expectation-confirmation influences client satisfaction, and how it leads to the decision of outsourcing service (dis)continuance. The theory suggests that positive confirmation and positive disconfirmation lead to client satisfaction and higher probability of outsourcing service continuance while negative disconfirmation leads to dissatisfaction and service discontinuance. Formation of expectation is a dynamic process as clients continuously updating their expectations based on new experiences. When performing expectation-confirmation evaluation, clients may refer to new expectations that are not present prior to relationship engagement but are formed during the course of the relationship.

Keywords
IT Outsourcing, Service Continuance, Expectation-Confirmation Theory, and Expectation Management.

1. Introduction
The Information Technology (IT) outsourcing market is a multi-billion dollar business. Eager to earn a share of the lucrative business, an increasing number of vendors are parading into the outsourcing service provider market. This is evident from the sharp increase in the number of vendors over the past few years (Qu and Brocklehurst 2003). Increasing number of vendors is a welcoming news to clients as they now have more choices to select from. To vendors, however, it means the need to manage relationships with clients on a long-term basis has become more important. Ensuring that clients continue their relationships with current IT vendors in the future (i.e., IT outsourcing service continuance) naturally becomes a top agenda.

However, existing statistics show that the percentage of IT outsourcing service continuance is not encouraging. According to DiamondCluster International, 78% of clients terminated their agreements early (Overby 2003). Cox et al. (2005) reported as many as 44% of clients are considering changing vendors while Lacity and Willcocks (2000) reported that 32% of clients have cancelled at least one contract. In 2003, the rate at which vendors lost outsourcing accounts increased by 3% (Caldwell and Young 2003).
One important factor that leads to low contract continuance rate is this issue of ‘expectation-confirmation.’ Expectation-confirmation is the extent to which the actual performance of a product/service matches the expectation formed prior to the purchase and consumption of the product/service (Bhattacherjee 2001; Oliver 1980). Expectation-confirmation is important because it affects clients’ satisfaction with their outsourcing services, which in turn influences the decision to continue or discontinue current vendor services (Nam et al. 1996). The rate at which outsourcing contracts fail to meet expectation is high. According to DiamondCluster International (2003), none of the executives it surveyed were fully satisfied with their outsourcing efforts; only 23% were more than partially satisfied, 54% were only partially satisfied, and about 23% were dissatisfied with their outsourcing relationships.

Even though the market indicates that vendors’ failure in meeting expectation may lead to discontinuance of IT outsourcing services, research to empirically establish such a relationship is lacking with the exception of Lacity and Hirschheim (1994) and Koh et al. (1999). However, they did not specifically tie expectation-confirmation to the decision of continuing relationships with current vendors. Others that examine subsequent outsourcing decision (e.g., Goo et al. 2007; Nam et al. 1996) also did not take into account the effect of expectation-confirmation. Therefore, the goal of this work is to examine clients’ expectation-confirmation and how it relates to the decision to continue relationships with current IT vendors. The rest of the paper is organized as follows. Section 2 introduces expectation-confirmation theory and discusses the application of the theory to IT outsourcing service continuance. Section 3 describes the research methodology as well as current work progress while Section 4 provides a brief conclusion to the paper.

2. Theoretical Background

2.1 Expectation-Confirmation Theory

Expectation-confirmation theory (ECT) is widely used in consumer-behavior literature to study consumer satisfaction and repurchase intention of a product/service (Dabholkar et al. 2000; Oliver 1993; Patterson et al. 1997). According to this theory, consumers’ intention to repurchase a product or continue using a service is determined by their satisfaction with the consumption of that product/service (Oliver 1980; Oliver 1993). Consumer satisfaction is in turn determined by the extent to which actual usage experience of the product/service matches the level of performance expectation formed prior to consumption (i.e., performance-expectation confirmation). As shown in Figure 1, the formation of performance-expectation confirmation, satisfaction, and repurchase or service continuance intention follows a two-stage model (Bhattacherjee 2001; Oliver 1980).
Confirmation of performance-expectation is key to consumer satisfaction and repurchase intention. Initial expectation serves as the reference level for consumers to form evaluative judgments about the performance of a product/service. These evaluative judgments will influence subsequent purchase intention. If the initial expectation is low and the actual performance is low, consumers form negative confirmation, in which case they will feel indifferent in terms of their level of satisfaction (Figure 2). If the initial expectation is high and the actual performance is high, consumers form positive disconfirmation. Such positive disconfirmation will result in high consumer satisfaction, and will lead to product/service repurchase. If the initial expectation is high and the actual performance level is low, negative disconfirmation is formed. Since consumers abhor inconsistency, negative disconfirmation will lead to consumer dissatisfaction and subsequent discontinuance of product/service use. If the initial expectation is high and the actual performance level is high, then positive confirmation is formed, resulting in satisfactory assessment. This will lead to higher intention to continue product/service use.

Expectation formed prior to initial product/service consumption (i.e., pre-purchase expectation) is different from expectation formed following usage of the product/service (i.e., post-purchase expectation). Pre-purchase expectation is usually based on others’ opinion or information disseminated through the media (Bhattacherjee 2001). Post-purchase expectation, on the hand, is tempered by first-hand experience of using the product/service (Bhattacherjee 2001). Consumers will continue adjusting their expectations as they acquire new experience or information regarding a product/service. Once updated, post-purchase expectation will replace initial
expectation formed prior to purchase. This cycle of expectation-use-update will continue as long as consumers purchase the product/service.

![Figure 2: Expectation-confirmation matrix](image)

### 2.2 An Expectation-Confirmation Model of the IT Outsourcing Service Continuance

Outsourcing is the engagement of third party to provide services that was previously provided internally. It involves (1) vendors who sell and provide the services, and (2) clients who purchase the services rendered by vendors. ECT can serve as a useful theoretical framework to explain clients’ intention to continue engaging their existing vendors when their current outsourcing contracts expire. Just as any other consumers’ product/service repurchase intention, formation of the decision to continue buying outsourcing services from current vendors follows the repurchase model shown in Figure 1.

Prior to initial outsourcing, senior management in client organizations forms pre-outsourcing expectation. This pre-outsourcing expectation is clients’ beliefs about what vendors will provide if they engage in an outsourcing relationship (Lacity et al. 1994). The source of pre-outsourcing expectation is press publications, peer discussions, and consultants’ forecasts that tend to portray only the benefits of outsourcing. In some organizations, outsourcing is considered the ‘silver bullet’ that solve all IS problems (Chapman and Andrade 1998; Perkins 2003). Consequently, client organizations form a high level of expectation towards IT outsourcing (Chapman and Andrade 1998; Perkins 2003).

A review of literature shows that organizations expect to gain two major types of benefits: financial and strategic (see Table 1). Financial benefit is the most common expectation. Through outsourcing, organizations hope to reduce IT cost and improve returns on IT investments (Loh 1994; Smith et al. 1998). Organizations believe that vendors are able to provide services at a lower cost compared to internal IT departments due to mass production efficiencies and labor specialization. Using the ‘outsouce to reduce IT cost’ motto to market and sell services, some vendors promise organizations savings of 10% to 50% off their existing IT expenditures (Krass 1990). Besides financial expectations, organizations also engage in outsourcing to obtain
strategic benefits. Outsourcing allows organizations to focus on core competencies (Lacity and Willcocks 2001). Through outsourcing, organizations also expect vendors to improve the overall IT performance by providing better service quality, access to leading edge technologies and skilled IT personnel required to run an efficient and effective IT function (Grover et al. 1996).

<table>
<thead>
<tr>
<th>Expectations of outsourcing</th>
<th>Supporting literature</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td></td>
</tr>
<tr>
<td>Reduce cost, gain production cost advantages</td>
<td>(Ang and Cummings 1997; Ang and Straub 1998; Clark et al. 1995; Lacity and Hirschheim 1993; Smith et al. 1998)</td>
</tr>
<tr>
<td>Reduce the need for IS investment</td>
<td>(Apte et al. 1997)</td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td></td>
</tr>
<tr>
<td>Return to core competency, assistance with strategy implementation</td>
<td>(Huber 1993; Slaughter and Ang 1996)</td>
</tr>
<tr>
<td>Improve performance and service quality</td>
<td>(Clark et al. 1995)</td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Huber 1993)</td>
</tr>
</tbody>
</table>

Table 1: Outsourcing expectations

Armed with expectations of financial and strategic gains, organizations enter into outsourcing relationship. After an initial outsourcing period, they will form perceptions regarding vendor performance and assess the performance. Based on the extent to which actual vendor performance conforms to initial outsourcing expectation, organizations will form a satisfaction evaluation. Satisfied organizations are likely to continue engaging their existing vendors. Dissatisfied organizations will discontinue existing vendor services. Some choose to wait until the end of the contractual period before disengaging vendors while others choose to terminate vendor service prior to contract maturation. Depending on the expectation-confirmation gap, dissatisfied organizations may choose to switch vendors or choose to bring outsourced functions back into the control of internal organizations (Whitten and Leidner 2006).

3. Methodology
The research approach adopted in this paper is an in-depth case study (Yin 1994). This approach is suitable to understand processes at which pre-outsourcing expectations are formed and evaluation of post-outsourcing expectation-confirmation are performed. The notion of ‘theoretical sampling’ was employed to identify potential participating organizations (Applegate 1994). Since the research objective is to understand the intention to continue engaging existing vendors using ECT, all participating organizations (1) had experienced one round of IT outsourcing arrangement, and (2) are in subsequent rounds of sourcing arrangement (e.g., continue with existing vendors, switch vendors or backsource). Also, since IT sourcing strategy is a high level decision made at top management level, only decision-makers responsible for making IT decisions participated in the interviews. Table 2 shows the profiles of participating organizations.
3.1 Data Collection and Analysis

A total of 13 interviews were conducted with eight senior IT managers in three organizations. The interviews, in the form of both unstructured and semi-structured, had an average duration of 90 minutes. Main questions of the interviews were oriented around outsourcing expectations prior to the first outsourcing arrangement, actual performance of vendors during the first outsourcing arrangement, and subsequent IT sourcing decisions. If organizations have switched vendors or continued with their first outsourcing vendor, their new outsourcing expectation was solicited. All interviews were tape-recorded and transcribed.

Currently, we are in the process of analyzing the data. Basically, the data analysis process will follow these three steps:

1. Organizing and classifying interview transcripts using Atlas.ti\(^1\). The goal is to have an initial impression of the data. The transcripts will be classified according to participating organizations.

2. Coding the transcripts. The guiding set of codes comes from the literature in outsourcing expectations (see Table 3 for the coding scheme). For each coding category, three pieces of information will be extracted: (1) expectation of that category formed prior to outsourcing, (2) performance of that category during outsourcing, and (3) expectation of that category post-outsourcing. The overall satisfaction level and subsequent sourcing decision will also be coded.

3. Interpreting the data. An iterative process will be used to analyze the data until a synthesis is being reached. To ensure the validity and robustness of the analysis, triangulation strategy will be used.

---

\(^1\) Atlas.ti is a specialized software package for the analysis of qualitative data.

---

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Revenue(^*)</th>
<th>Number of Employees(^*)</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>Service</td>
<td>~ 2.298B</td>
<td>&gt; 20,000</td>
<td>• Managing director of IT&lt;br&gt;• Director of IT Operations&lt;br&gt;• 2 Senior IT managers</td>
</tr>
<tr>
<td>Beta</td>
<td>Higher Education (private)</td>
<td>~ £100 million</td>
<td>700</td>
<td>• Dean of Technology&lt;br&gt;• CIO</td>
</tr>
<tr>
<td>Gamma</td>
<td>Government</td>
<td>~ 300 million</td>
<td>650</td>
<td>• CIO&lt;br&gt;• Director of IT – Infrastructure</td>
</tr>
</tbody>
</table>

\(^*\) Figures as of 2007.

Table 2: Profiles of Participating Organizations
4. Conclusions
The goal of this research is to examine clients’ decision to continue engaging their current IT outsourcing vendors using expectation-confirmation theory. We believe expectation-confirmation and expectation management play important roles in clients’ decision to continue their relationships with current vendors in the future. Noteworthy contributions we anticipate from this work are the application of ECT to the IT outsourcing context, the linking of expectation confirmation to client satisfaction and outsourcing service continuance, and the emphasis on the importance of continuous expectation management.

References


