Does Experience Matter? Sources of Outsourcing Experience and its Impact on Outsourcing Attitude =- Empirical Evidence from the German Banking Industry

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Does Experience Matter?
Sources of Outsourcing Experience and its Impact on Outsourcing Attitude
- Empirical Evidence from the German Banking Industry –

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ABSTRACT

Previous studies indicate that prior experience of the outsourcer has an impact on the actual outsourcing evaluation. However, the question where this experience derives from remains unanswered. In an empirical analysis with Germany's 200 largest banks it is empirically shown that the level of experience indeed has a significant impact on senior management's attitude towards outsourcing. Furthermore, the analysis of the data reveals that close personal contact with prior outsourcing projects has the highest impact on management's level of experience. Interestingly, no significant impact is observed for indirect sources like former outsourcing experiences within the firm (intra-corporate knowledge), communication with peers and colleagues or the consultation of related business literature and newspapers. This research adds to the understanding of the influential factors which form senior management's cognitive position towards outsourcing. It calls for outsourcing service providers to thoroughly investigate and anticipate the personal history of their negotiating partner. Hers or his level of hands-on outsourcing experience clearly dominates the attitude formation towards outsourcing.

Keywords
Outsourcing, Experience, Outsourcing Evaluation

INTRODUCTION

Outsourcing IT and/or business processes promises efficiency improvements by re-arranging the corporate value chain (Gilley and Rasheed 2000). Outsourcing research typically adopts a macro level view of the firm, applying economic theories or strategic management concepts to identify the benefits of outsourcing (Dibbern, Goles, Hirschheim and Jayatilaka 2004). This approach, at least implicitly, excludes any understanding of "the motivations, preferences or attitudes of individual stakeholders and their impact on the outsourcing decision" (Dibbern et al. 2004, p.42).

Although some authors have shown that there is an impact of the outsourcers' experience on the outsourcing project, in particular regarding partnership quality (see e.g. (Beimborn, Franke and Weitzel 2005; Lee and Kim 1999; Poppo and Lacity 2002)), research on the role of experience as antecedent of the outsourcing decision has only occasionally been conducted (e.g. (Benatami and Rajkumar 2002)). This comes as surprise as the Theory of Reasoned Action (TRA) (Ajzen and Fishbein 1980) as well as other adoption theories unanimously point out that experience is a major factor influencing the attitude towards a behavior. Therefore, understanding the factors which influence the attitude of decision makers helps us to better understand the actual decision.

This paper focuses on a key area of IS research: the outsourcing domain. The specific focus of this research was narrowed down to a single industry in a single country to control for unwanted side effects as suggested by Chiasson and Davidson (2005). The focus of the analysis is on the impact of prior experience on the attitude towards business process outsourcing (BPO) in the German banking industry. The subject of analysis (the highest ranked manager responsible for one of four defined business processes) was chosen to reflect the findings of Barthelemy and Geyer (2001) and Kakabadse and...
Kakabadse (2002), who indicate that many organizational-level decisions are ultimately made or strongly influenced by single individuals. Furthermore, Dibbern (2004) shows that the outsourcing decision is an individual rather than an organizational decision.

This paper addresses two major questions (depicted in Figure 1):

1) Does the level of prior experience have a significant impact on senior management's attitude towards BPO?

And, if experience is an important factor within the outsourcing decision process,

2) Which sources of experience have a profound impact on management's self assessed level of experience?

An empirical survey has been conducted to obtain data for addressing the research questions. 593 senior managers in Germany's 200 largest banks were approached. 218 usable questionnaires were sent back leading to a return rate of 36.8%. The questionnaire asked for different sources of experience which comprise direct (e.g. involved in outsourcing project) and indirect contacts (e.g. business literature on outsourcing). Also the level of experience and the respondent's attitude towards BPO were asked for.

The analysis of the respondent's answers revealed the following key results:

- The level of prior experience has a profound impact on the attitude of managers in charge of a business process towards BPO. A high level of experience results in a more positive attitude towards BPO and vice versa.
- Direct sources of experience (e.g. personally being involved in an outsourcing project) have the largest impact on the experience level of managers in charge.
- Surprisingly, indirect sources (e.g. newspaper coverage or opinions of colleagues) do not influence the personal experience level at all.

The paper is structured as follows: First, related research and prior empirical studies on the role of experience for the outsourcing decision are summarized and discussed. Afterwards, the research approach section introduces the research model.
for this paper. Subsequently, the empirical basis is explicated as well as the methodology applied to gain insights regarding our research questions, followed by a discussion of the results and conclusions which can be drawn from the empirical results.

RELATED RESEARCH

Adoption research acknowledges that experience has a significant influence on an individual's beliefs, attitude, intention and usage of information technology (e.g. (Bhattacherjee and Premkumar 2004; Karahanna, Straub and Chervany 1999)). Although the relationship of experience and attitude is well known in technology adoption, its role and influence within the outsourcing context is largely unexplored.

Managers' prior experience with outsourcing and their experience with the partners' service quality have only been scrutinized in a limited number of studies (e.g. (Benatami and Rajkumar 2002)). Recent research in outsourcing has shown that managers learn from mistakes in early engagements how to craft more effective IT contracts and how to manage the outsourcing relationship more successfully (Poppo and Lacity 2002). These experiences were often developed by means of incremental outsourcing (Lacity and Willcocks 2003). Van Grembergen and van Belle (1999) and Lee, Huyh, Chi-wai, and Pi (2000) have empirically shown a strong influence of partnership experience on the outsourcing decision. Accordingly, Lee et al. (1999), found that partnership quality is a critical success factor of IS outsourcing. Featherman and Pavlou (2003) found empirical evidence that positive experiences adversely influence the perceived risk and Aubert, Rivard, and Patry (2002) showed that learning effects lead to decreasing probabilities of undesirable consequences as well as to an implementation of more effective risk management strategies. Further, an empirical study by Perkins and Rao (1990) found that experience affects decision making especially for non-programmed (i.e. new and little structured) decisions. An investigation of Beimborn et al. (2005) revealed that prior outsourcing experience can have a profound impact on the evaluation of outsourcing projects.

However, the major part of confirmatory research on outsourcing does not explicitly consider the role of executives' prior experience on their attitude towards outsourcing. One of the very few examples where experience is indirectly reconsidered as a partial driving factor is Dibbern's model of the Sourcing of Application Services (Dibbern 2004) which applies the Theory of Planned Behavior (TPB). TPB (Ajzen 1991) states that individual experience strongly influences the degree of perceived behavioral control which in turn is hypothesized by Dibbern to be a driving antecedent of outsourcing. Unfortunately, the results regarding the impact of experience in Dibbern's data set are heterogeneous, calling for additional research to clarify this issue.

RESEARCH APPROACH AND EMPIRICAL DATA

To address the research questions outlined in the introductory section, it will first be analyzed how prior experience impacts managements' attitude towards BPO. In a second step, the role of different sources of experience will be investigated.

The fundamental research question tackled in this paper on the impact of different sources of experience on the attitude towards BPO is operationalized in three separate constructs: the level of experience of the manager, the manager's attitude towards BPO and the different sources of experience.

Level of Experience

The managers were asked to self-rate their experience with BPO. The question was "How would you rate your level of experience regarding the topic 'outsourcing'.' The answer was to be provided on a seven-point Likert scale, ranging form "low experience" to "high experience.

Attitude towards BPO

The attitude towards BPO was asked for by providing four statements and asking for the level of agreement, which was indicated on a seven-point Likert scale (strongly agree - predominantly agree - rather agree - neutral - rather disagree - predominantly disagree - strongly disagree). The following statements were used:

a) Overall, my attitude towards outsourcing of business processes is positive.

b) The outsourcing of business processes is an attractive alternative to internal production.

c) I believe that the benefits of business process outsourcing outweigh the associated risks.

d) Overall, the outsourcing of business processes provides our bank with added value.
Different Sources of Experience

Five sources of experience were provided and the respondent asked to indicate which source she/he uses to gather experience with outsourcing. Multiple answers were possible and the option to indicate that none of the given sources has previously been used was offered.

a) Prior personal involvement in an outsourcing project.
b) The manager herself/himself has been affected by an outsourcing project before ("has been outsourced").
c) Exchange of knowledge, experience and opinions with colleagues, peers and/or business partners.
d) Prior outsourcing experience within the company (without personal involvement).
e) Consumption of business literature, newspapers or other news regarding outsourcing.
f) No experience gathered.

These five sources of experience can be differentiated into sources with direct involvement in outsourcing (options a and b; in the following referred to as "direct experience") and no direct involvement (options c, d and e; referred to as "non-direct experience").

Empirical Basis

The empirical data used underlying our analysis results from an empirical survey with senior managers of Germany’s 200 largest banks. In 2003, 2,226 banks were registered for conducting banking business in Germany. These included 261 private banks, 504 savings banks, 1,395 cooperative banks and 66 other banks (specialized credit institutions, state owned banks etc.). For this research, the 200 largest banks in Germany were chosen, based on their total assets as reported in the balance sheet of the year 2003 (latest available figures at the time of preparing the survey). The cumulated balance sheets of the 200 largest banks account for more than 90% of the cumulated balance sheet of the entire German banking market (estimate based on (Bundesbank 2004; Karsch 2004)). The number of responses per bank type in the sample as well as population data is shown in Table 1.

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Sample</th>
<th>Population (200 largest banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Responses</td>
<td>Relative Response Rate</td>
</tr>
<tr>
<td>Private Banks</td>
<td>28</td>
<td>22.2%</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>75</td>
<td>59.9%</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>20</td>
<td>15.9%</td>
</tr>
<tr>
<td>Other Banks</td>
<td>3</td>
<td>2.0%</td>
</tr>
<tr>
<td></td>
<td>126</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 1. Distribution per bank type in responses and 200 largest banks

Due to the extraordinary response rate of 79.6% among large banks (assets > EUR 20bn), the cumulated assets of the responses accounted for more than 90% of the total cumulated German banking balance sheet. This is only a rough estimate, as the questionnaire asked for the sum of assets on an interval scale to ensure anonymity. As a $\chi^2$-test shows, the distribution in the data sample and the population are not significantly different regarding size and bank type.

To assess experience and attitude with BPO, four banking processes were selected which are generally not regarded as areas of core competence for banks and therefore are at least potential candidates for outsourcing (Lamberti and Pöhler 2004): back office/settlement processes for transactions in securities, consumer credits, domestic payments and foreign exchange/money market. All 200 top banks were contacted by phone to personally identify the managers responsible for the business processes mentioned above. Some banks do not offer all four banking processes to their clients, therefore only 593 questionnaires were sent out. 218 usable questionnaires were received, resulting in a response rate of 36.8% amongst managers. The number of responses per process is shown in Table 2. The results brought forward in this paper regarding attitude are not influenced significantly by the type of process the manager is responsible for. This has been accounted for by a multi-group analyses as suggested by Dibbern and Chin (2005) (these tests are not reported separately in this paper). Regarding sources of experience and level of experience, managers in charge of the credit process reported significantly lower personal experience but being influenced by outsourcing more often than the respondents in other processes. This can be explained by a hype regarding outsourcing of credit processes by the time this survey has been conducted.
The respondents' statistical characteristics show a mean of 8.75 years of experience in their current position and on average, they manage 71.3 employees. 85.9% of the respondents are at the 2nd or 3rd level of hierarchy within the corporation.

**FINDINGS**

The respondents' outsourcing experience level was evaluated by asking for a self-assessment of the managers' experience regarding outsourcing on a seven-point Likert scale. Descriptive results for this question are depicted in Figure 2. The largest group (26.6%) evaluates themselves as being somewhat experienced. Besides this peak group, the evaluation resembles a normal distribution. The mean total experience level is 4.08.

![Figure 2. Self-assessment of outsourcing experience](image_url)

To address the first research question the impact of this self-assessed level of experience on the attitude towards BPO was analyzed. It turns out that managers who state for themselves to have a high level of experience tend to have a more positive attitude towards outsourcing. All correlation coefficients are significant on the 0.01-level (see Table 3).

Subsequently the non-parametric Kruskal-Wallis test was applied to check whether one potential source of experience - personal involvement in outsourcing projects (source a) - significantly affects the attitude means. It turned out that manager who had personally been involved in an outsourcing project before had a significantly higher/better attitude towards BPO for all items compared to their peers without prior sourcing experience. Table 4 depicts the means of the two groups and provides information on the Kruskal-Wallis test and calculated significance level of the difference in distributions. For all distributions, the null hypothesis of no difference can be rejected on significance levels better than 0.01. Accordingly, it can be stated that prior involvement in an outsourcing project has a profound positive impact on the managers' attitude towards BPO. Managers who had prior personal outsourcing experience are more positively attuned to outsourcing than their colleagues without prior personal experience.
The second research question addresses the issue which sources contribute most to the self-attested experience. First a descriptive analysis of the empirical data regarding the investigated sources of experience is given. Subsequently an analysis of variance is conducted to investigate the impact of the different sources of experience.

Table 5 shows that all potential sources of experience are substantially present in the given sample. The two most prominent sources of experience are previous direct involvement in an outsourcing project (a) and having been affected by outsourcing (b). The least frequent source of experience was prior experience in the organization (d). Only ~10% of the participants did not acquire experience through any given source.

Since the independent variables (sources of experience) were measured on a nominal scale, and the dependent variable (self-assessment of experience) utilizes a metric interval scale, an analysis of variance was chosen as the most appropriate method to analyze the relation between both. The general hypothesis that there is an impact of different sources on the general experience level is transformed into a testable pair of statistical hypothesis, leading to:

$H_0$: The source of experience does not have an impact on the managers' self-assessed outsourcing experience.

$H_1$: The source of experience does have an impact on the managers' self-assessed outsourcing experience.
Franke and Gewald

Sources of Outsourcing Experience

<table>
<thead>
<tr>
<th>Source of Experience</th>
<th>Frequency absolute (relative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>a) Own outsourcing project</td>
<td>129 (59.2%)</td>
</tr>
<tr>
<td>b) Affected by outsourcing</td>
<td>99 (45.4%)</td>
</tr>
<tr>
<td>c) Knowledge exchange with colleagues</td>
<td>89 (40.8%)</td>
</tr>
<tr>
<td>d) Experience with outsourcing in the organization</td>
<td>74 (33.9%)</td>
</tr>
<tr>
<td>e) Business literature</td>
<td>90 (41.3%)</td>
</tr>
<tr>
<td>f) None</td>
<td>20 (9.2%)</td>
</tr>
</tbody>
</table>

Table 5. Descriptive Statistics of Sources for Outsourcing Experience

A significance level of 0.05 was chosen as critical value for rejecting $H_0$. For each source of experience or factor (a-e) a singular analysis has been conducted. The results are depicted in Table 6.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean experience level (total $\mu=4.08$)</th>
<th>Main effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>with factor</td>
<td>without factor</td>
</tr>
<tr>
<td>a) Outsourcing project</td>
<td>2.79</td>
<td>4.97</td>
</tr>
<tr>
<td>b) Affected by outsourcing</td>
<td>3.37</td>
<td>4.93</td>
</tr>
<tr>
<td>c) Knowledge exchange</td>
<td>4.12</td>
<td>4.02</td>
</tr>
<tr>
<td>d) Organizational experience</td>
<td>3.96</td>
<td>4.31</td>
</tr>
<tr>
<td>e) Business Literature</td>
<td>4.13</td>
<td>4.01</td>
</tr>
</tbody>
</table>

Table 6. Analysis of Variance Results

Regarding the empirical significance level and the desired significance level, $H_0$ can only be rejected for the first two factors (a, b), the other factors (c, d, e) do not show a significant impact on the dependent variable. The direction of the impact of the direct sources of experience a and b is positive as expected. The participation in an outsourcing project or being personally affected by one does have a positive impact on the self-assessment of outsourcing experience. This finding is interesting, but not surprising. We also tested for interaction effects between the different sources of experience, but did not find any significant effects.

More surprising is the finding that the other non-personal types of non-direct experience sources do not affect the outsourcing experience level in a particular way. The responses indicate that the only way to gain experience with outsourcing is being immediately and personally affected. Indirect approaches referring to knowledge exchange with colleagues, prior organizational experience or business literature do not have an impact on the self-assessed experience level of managers at all.

A particular critical fact is that source d - organizational experience - did not show up to have an impact at all. Accordingly, since outsourcing decisions are individual rather than organizational decisions (Dibbern 2004) it can be argued that outsourcing service providers should not solely rely on taking a look at the organization's outsourcing history, but more importantly should take a close look at the personal history of the negotiation individual.

DISCUSSION AND RECOMMENDATION

The aim of this research is to analyze the role of experience for the attitude towards outsourcing and to identify the most relevant sources of experience. It turns out that the level of experience of managers has a profound impact on the attitude...
towards outsourcing. Those managers who claim to hold a higher level of experience are also more attuned to outsourcing compared to their colleagues without such experiences. This represents an important finding for outsourcing vendors when it comes to negotiations with a potential client. If the client does not have direct outsourcing experience (as is the case for many managers in banks), according to our data, she/he will likely have a more negative attitude towards outsourcing. A possible explanation for this finding is that outsourcing in many cases turns out to be advantageous, hence direct involvement in successful outsourcing projects leads to a more positive attitude towards outsourcing. Or, to put it the other way, general opinion regarding outsourcing (the opinion adapted by managers without prior experience) is worse than actual/objective experience (managers with higher experience) with outsourcing would suggest.

Furthermore, it was assessed which sources of experience are most salient for the actual level of experience of managers in charge regarding outsourcing. Five potential sources of direct and non-direct outsourcing experience were analyzed. It could be demonstrated that only direct and personal sources have a significant impact on the managers' level of outsourcing experience. Having participated in a prior outsourcing project represents the most prominent factor. Managers' with prior responsibility for outsourcing projects reported themselves to have the highest level of experience in our sample. Having been affected by outsourcing has been found to be a second important source of outsourcing experience. Both potential sources bring the manager in charge in close personal contact with outsourcing issues.

Other sources like knowledge exchange with colleagues, organizational experience, or the reading of business literature does not have a distinct impact on the experience level of managers in charge. This is counter-intuitive as especially the public coverage of outsourcing ventures was expected to be of greater importance. Obviously managers either read those articles but do not take the reported experience seriously, or they ignore media coverage of outsourcing ventures. The reading of these media articles does not raise the self-stated level of experience. Also the private network of the manager i.e. colleagues, peers and business partners was expected to be a much more influential source to gain subjective experience with the topic. However, as this analysis shows, these “second-hand-experiences” do not significantly raise the level of perceived experience.

**Recommendation for Practitioners**

The finding that organizational outsourcing history does not have a profound impact on the experience level and the positive impact of experience on attitude in conjunction with the insight from literature that outsourcing is an individual rather than an organizational issue calls for service providers to closely consider the personal history of their negotiating partners instead of focusing on the outsourcing history of the organization.

**Contribution to Theory**

This research contributes to theory by explicitly taking the role of experience in outsourcing into account as suggested in Beimborn et al. (2005). Prior experience of the manager in charge has been shown to significantly influence the attitude towards outsourcing, with higher experience fostering a higher attitude. This calls for future surveys to explicitly control for the prior experience of survey respondents to account for response bias if evaluating the attitude towards outsourcing. Furthermore, the Theory of Planned Behavior is confirmed to correctly predict the effect of experience on attitude in an outsourcing context, hence representing an additional theoretical framework for research in outsourcing. Furthermore, testable hypothesis for further research taking experience in outsourcing into account are proposed (see further research).

**LIMITATIONS AND FURTHER RESEARCH**

The approach of measuring experience applied here incorporates several limitations that need to be mentioned. First and foremost a self-assessment of the outsourcing experience was evaluated. There was no objective evaluation of the actual experience and the resulting knowledge of the respondents. Regarding the quantitative type of empirical research conducted, an adequate and objective assessment of the experience level is difficult to gain. Nevertheless, further research could use personal in-depth interviews to get a more objective estimate for the actual experience of the respondents. The results presented here can serve as a first step in developing propositions on the antecedents of outsourcing experience and provide two testable propositions for further studies, namely:

P1: Personal sources of experience have a profound impact on the actual level of experience.

P2: Non-personal sources of experience do not significantly affect the actual level of experience.

A second limitation is the lack of control for the specific type of experience (e.g. whether our respondents were affected by a successful or failed outsourcing project, especially regarding the impact on attitude, since it could be argued that negative experiences will not have a positive effect on the manager’s attitude towards outsourcing). Nevertheless, a positive impact on
outsourcing experience regardless of its success was discovered. Either the managers in the sample had rather positive experiences or controlling for the type of outsourcing could reveal an even larger impact for positive experiences. Further research should take this control factors into account to further clarify the role of prior experience in outsourcing.

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