

The Impact of Relational Switching Costs on the Decision to Retain or Replace IT Outsourcing Vendors

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29 September 2016

A thesis submitted to Auckland University of Technology
in fulfilment of the requirements for the degree of
Doctor of Philosophy (PhD)

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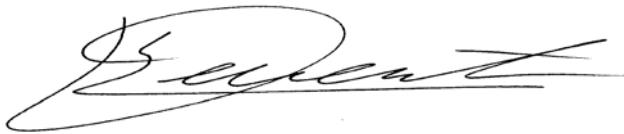
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ATTENTION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any degree or diploma of a university or other institution of higher learning.

A handwritten signature in black ink, appearing to read 'S. van Deventer', with a large, stylized initial 'S' and a horizontal line extending from the end of the signature.

Sean van Deventer

ACKNOWLEDGEMENT

I would like to acknowledge and thank Dr. Harminder Singh for all his support, guidance, insight and help over many years. This report and my personal development would not have been possible without all the contributions he has made. I would also like to thank Prof. Felix Tan for his support and guidance.

ABSTRACT

While the IT outsourcing market is growing in terms of the volume of business, organisations are at the same time replacing their outsourcing vendors more frequently. Replacing vendors can affect the stability and quality of the IT services an organisation receives; however, it also provides organisations with opportunities to lower their spending and benefit from the experience of other vendors. The decision to replace or retain vendors thus involves considering the costs and benefits of switching. This study examines how relational switching costs affect this decision, and how organisations perceive them vis-à-vis other types of costs. The study also investigates external issues that may possibly influence the impact of switching costs on the vendor replacement decision. This study builds on Burnham, Frels, and Mahajan's (2003) switching costs framework by drawing on transaction cost theory to help explain the economics costs, social exchange theory to help explain the non-economic costs and aspects of the relationships, and resource dependence theory to help explain resource dependence, interdependencies, and inter-organisational relationships and the power struggles they can create. Using an interpretive qualitative approach, two case studies on organisations that had made the vendor replacement/retention decision were developed. The studies found that financial switching costs have the greatest influence on the switching decision, while relational switching costs play a key role in day-to-day operations. Additionally, the findings highlight the different priorities of different levels of management, and that these priorities are used to identify which types of switching costs are more important in different contexts. The results also highlight that if the switching decision is made on an operational level, then procedural and relational switching costs have a larger effect on the switching decision. These findings contribute to the literature by clarifying the relational switching costs that are present in IT outsourcing, identifying the impact of these costs on switching decisions, and explaining the moderating effect of strategic dependence and culture fit on vendor switching decisions. The findings benefit practitioners by surfacing a list of relational switching costs, and providing a framework that practitioners can use during the vendor replacement decision process.

1.0 CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

The IT outsourcing market has grown tremendously in the past three decades, from an estimated \$100 billion in revenue in 1998 to \$152 billion in 2005 and \$313 billion in 2011, an annual growth rate of 12.2% (Dibbern et al., 2004; Britz et al., 2012). Outsourcing broadly refers to the provision of a variety of services to organisations by external vendors (Sanders et al., 2007). Outsourcing requires customer organisations to relinquish control of certain assets, and to transfer the property and decision-making rights over these to their vendor/s (Benamati & Rajkumar, 2001; Levina & Ross, 2003).

Vendor replacement usually occurs when vendors fail to deliver the expected savings or perform below the required standard (Peukert, 2010). It also occurs when new services are required, when operational growth changes the service requirements, or for the purposes of vendor rationalisation (Whitten et al., 2010). Vendor replacement is a large undertaking and can take anywhere from 8 to 18 months in large organisations (Barthelemy, 2001), and a better understanding of the barriers organisations face in this process will help to alleviate the uncertainty they face (Molina-Castillo et al., 2012).

While organisations expect gains from replacing a vendor or vendors, the costs of replacing a vendor can potentially be very high (Suang et al., 2009). Moreover, vendor replacement also introduces risks, such as business disruption and difficulties with knowledge transfer (Thomas & Nandakumar, 2006). The costs of

replacing vendors can be framed under the concept of switching costs (Whitten & Wakefield, 2006). In the outsourcing context, switching costs are the costs incurred when a vendor is replaced (Whitten & Wakefield, 2006; Whitten et al., 2010).

Despite the frequency of vendor replacement (Lacity & Willcocks, 2001; Whitten & Leidner, 2006), few studies have investigated the size and nature of the switching costs incurred while replacing vendors. More broadly, there has also been little study on the ability of organisations in interdependent relationships to modify their partnerships, and the challenges they face in doing so. This study examines this issue by examining the costs involved in replacing an IT vendor, and the impact of these costs on the decision to replace/retain a vendor.

1.1.1 BACKGROUND

Switching costs are the one-time costs that organisations incur when switching vendors (Burham et al., 2003). The costs can be seen as a sacrifice or a loss incurred when moving from one vendor to another or switching from one vendor to insourcing IT services (Jones et al., 2007). Switching costs are also seen as a disutility related to change (Weiss & Anderson, 1992), a relational investment during an exchange (Jackson, 1985), and an economic and psychological cost of a business relationship (Klemperer, 1987).

Switching costs can be categorised in several different ways (Klemperer, 2005; Whitten & Wakefield, 2006; Burnham et al., 2003). One of the first typologies on switching costs was developed by Klemperer (1987), and included costs such as learning costs, artificial or contractual costs, and transaction costs. Klemperer's

topology was built upon by Nilssen (1992), who suggested that there are only two types of switching costs: exogenous (the size of the costs is not determined by the actions of customer organisations) and endogenous (the size of the costs is affected by the actions of customer organisations). The various types of switching costs were summarised into a multi-dimensional model by Burnham et al. (2003). This model grouped switching costs in three categories: financial, procedural, and relational costs (Burnham et al., 2003; Barroso & Picon, 2012). These costs are described in more detail below.

Costs that are financially quantifiable are referred to as financial switching costs (Burnham et al., 2003). These costs are tangible and easier to identify and quantify, and have a strong influence on the decision to replace or retain a vendor (Barroso et al., 2012). A contractual relationship where a customer and vendor interact to create a financial benefit is one such example. Examples of such financial benefits include discounts, special rates, foregone commissions, and benefits from loyalty schemes (Barroso et al., 2012; Patterson & Smith, 2003; Kim et al., 2004; Guiltinan, 1989). These benefits are related to the services the vendor is contracted to deliver and they increase a customer's desire to continue with the relationship (Beatty et al., 1996). In such situations, the customer loses these benefits when the relationship is terminated, indicating the existence of financial switching costs (Barroso et al., 2012).

The second category of switching costs is procedural costs. These costs are a more conventional way of looking at switching costs (Jones et al., 2002). They create a future perception of expenditures in the form of time, psychological and mental effort,

and the difficulty incurred when a vendor is replaced (Jones et al., 2007; Burnham et al., 2003). They are also described as information costs (Barroso et al., 2012). They include learning costs (Aydin et al., 2005), search and evaluation costs (Lee et al., 2001), adaptation costs (Kim et al., 2004; Whitten & Wakefield, 2006), economic risk costs (Jones et al., 2002), and setup costs (Guiltinan, 1989). These costs can create feelings of frustration, dissatisfaction, risk, uncertainty, inconvenience, and anxiety (Barroso et al., 2012).

It is worth noting that the perceived value of a relationship can be increased by financial switching costs (Jones et al., 2002) as they benefit customers (Reynolds & Beatty, 1999), while procedural switching costs are compulsory costs that can cause customers to feel trapped in their relationships (Sharma & Patterson, 2000).

The third category of switching costs, relational switching costs, focuses on personal relationships. Long-term relationships between a vendor and a customer organisation cause them to enter into a psychological contract in addition to explicit legal contracts (Booker & Sixsmith, 2010). The termination of an outsourcing engagement leads to the closure of such psychological contracts, and can be accompanied by psychological or emotional discomfort. This occurs due to the change in the customer's identity, the discontinuation of relationships, and the loss of affectionate bonds between the employees from customer and vendor organisations (Burnham et al., 2003; Patterson & Smith, 2003). The bonds that were built during the contract are broken when the business relationship is discontinued and the loss of friendships can occur. When these bonds are broken, unfamiliar territory is entered into and a loss of identity is experienced (Guiltinan, 1989). This loss cannot

immediately be rectified as bonds between vendor and customer employees take time to establish, and the new vendor has to invest in building the same level of relationship. During the time it takes the new relationships to form, emotional and psychological discomfort will be felt (Burnham et al., 2003).

The switching costs described above inhibit customers from switching vendors. However, their impact on organisations is also influenced by the risk and cost of the transition process, the level of vendor “lock-in”, the cultural fit between the customer and vendor, and the strategic dependence of the customer on the vendor. These are discussed in detail as follows. First, the process of changing vendors carries a level of operational risk: the quality of knowledge transfer, ownership of intellectual property, challenges with service quality, and misaligned expectations may negatively affect the level of service delivered by the new vendor. Second, the vendor transitioning process may possibly incur additional financial costs, such as expensive setup costs and the need to improve staff skills through training. Any unforeseen activity or cost could jeopardise the savings that the vendor replacement would have made; considering that such savings are usually one of the main reasons for switching vendors (Peukert, 2010), the whole exercise could be seen as a failure.

Third, the extent to which a customer is locked into a relationship with a vendor affects the customer’s ability to leave the vendor. Lock-in refers to the perceived inability of a customer to transition to other vendors and thus possibly having to endure long periods of poor performance by a vendor (Goo et al., 2007) or higher costs over the length of the engagement (Bahli & Rivard, 2003). Long-term contracts

and the creation of perceived switching costs are used by vendors to lock in their customers (Nakamura, 2010). The creation of perceived switching costs causes customers to think that it will be too costly to switch vendors and this dissuades them from even starting the vendor replacement process, of which one of the first steps would be to investigate and compare the current vendor with alternatives.

Fourth, the cultural match or fit between the vendor and customer affects the ease of switching. Business engagements span borders and different cultural and ethnic business environments are merging (Fletcher & Fang, 2006), affecting the associated business environment and its social, technological, infrastructural, and legal aspects (Lee et al., 2010). Aspects of organisational culture in the business context include communications style, shared values, self-centeredness, group dynamics, trust, quality, and mutual commitment. Organisational culture is shaped by policies, customs, motivation, team spirit, cohesiveness, language, participation, organisational behaviour, management styles, and work ethic, among others (Dhar, 2006). Cultural differences can impact business engagements as different cultural groups place different values on the consequences, establishment, development, and maintenance of a relationship. These differences and the inability to understand each other, co-operate, and have a shared point of view can jeopardise an outsourcing engagement and should be considered during the vendor replacement decision (Lee et al., 2010).

Finally, strategic dependence refers to the strategic significance of the services being provided by the vendor (Straub et al., 2008), while strategic alignment refers to the alignment between the strategic direction of the vendor and customer firms (Van

Lier & Dohmen, 2007). These factors influence the strategy of information systems and the trajectory of the IT outsourcing engagement. In short, the higher the level of strategic dependence and alignment between a vendor and a customer, the less likely it would be for the customer to change vendors. Additionally, if the current vendor is considered to be a strategic partner, it could potentially leverage the strategic importance to dissuade its customer from launching an investigation into changing vendors.

1.1.2 THEORETICAL FOUNDATION

The thesis draws on three theories to help explain the economic and non-economic nature of switching costs as well as the interdependence and inter-organisational relationships between outsourcing partners. Transaction cost theory (TCT) is used to explain economic switching costs, and social exchange theory (SET) is used to explain the non-economic (behavioural) switching costs. Resource dependence theory (RDT) is used to examine how organisational interdependence influences the level and impact of switching costs. TCT is also used to explain the motivation for firms to enter into an IT outsourcing relationship.

While most studies examine switching costs using the descriptive categories mentioned earlier (financial, procedural, and relational) (Whitten & Wakefield, 2006; Jones et al., 2000), this thesis aims to go beyond these descriptions to understand the issues underlying this phenomenon. Thus, this thesis combines TCT, SET and RDT to explain the relationship between specific switching costs and the categories they fall into (Whitten & Wakefield, 2006; Lee et al., 2010) as well as the inter-

dependence factors these organisations face, and to then illustrate their potential consequences.

1.1.3 RESEARCH APPROACH

A flexible research framework was developed to support the conceptualisation of the research. The framework shows that while firms may be motivated to replace their IT vendors because of a range of factors (“drivers”), they may also be held back by the switching costs and other factors that they may face. An interpretive research method was used to gain insight into the phenomenon from the perspective of the people who interact with the phenomenon. An interpretive approach was used to design the research utilising qualitative data, multiple case studies, narrative enquiry, and thematic analysis. It can be argued that the conceptual model and the use of existing theories are components more fitted for positivist research (Dubé & Paré, 2003). However, the conceptual model was used as a mechanism to help guide the research and the supporting theories were used to provide additional insight into the phenomenon as opposed to building a new theory or testing existing theories (Dubé & Paré, 2003).

1.2 MOTIVATION AND RESEARCH QUESTIONS

My motivation for undertaking this research project is based on my experiences as an IT professional. As a practitioner, I have been involved in a number of IT outsourcing engagements where customers have replaced their vendors. I have observed a number of factors being considered when the vendor replacement

decision has been made and the customer vendor relationship has always been of specific interest to me. As a researcher, I started investigating the vendor replacement/retention process and the factors that impact the vendor replacement decision in order to improve the decision-making capability of my organisation. While Burnham et al. (2003) argued that financial, procedural, and relational switching costs affect the vendor replacement decision, there has been a lack of literature on relational switching costs, the vendor replacement/retention decision-making process, and other factors that may influence the decision (Whitten & Leidner, 2006).

Relational switching costs are an example of how the relationship that is formed over the duration of an outsourcing contract impacts the vendor replacement decision as well as the morale of the operational staff. Inter-organisational governance is usually understood through TCT for relationships that are more “at arms’ length”, and with SET for more long-lasting and embedded relationships. But, there is little theoretical explanation as to how firms can extricate themselves from such close relationships, or how they should manage the ending of such links, while keeping their operations running.

Additionally, within my organisation, I found that information on the vendor replacement/retention decision-making process that was followed from initiation through to the eventual decision was insufficient to support decision-making from both the research and practice perspectives. The information available on such processes was non-existent and external expertise that could facilitate or consult on such a process was difficult to find. The few people who had an understanding of the

end-to-end process were those who had undertaken an outsourcing decision-making process before; however, they were also difficult to locate.

An apparent solution to this problem was to gather the different levels of experience from individuals who had been involved in IT outsourcing (not necessarily only in vendor replacement decisions) and to build a process flow with decision points that could help facilitate such an endeavour. This would enable practitioners and researchers to at least have a starting point in the form of a framework or process flow that could facilitate the process. It could thus help IS practitioners improve their ability to manage outsourcing relationships and contracts (Whitten & Wakefield, 2006).

This study provides a start for exploring this issue using the lens of switching costs and the context of IT outsourcing, and provides an opportunity to contribute to the academic literature on IT outsourcing, since there are few such studies in the literature, to the best of my knowledge. Examining the vendor replacement issue closely will enable organisations to better assess the success of their outsourcing activities, especially the extent to which they can balance the trade-off between strategic flexibility and operational efficiency.

This research aims to answer the following questions:

1. Which relational switching costs do organisations incur when they replace their vendors?
2. How do relational switching costs affect an organisation's decision to replace or retain its vendors?

3. How do decision-makers decide which costs are more salient, and on what basis? Specifically, what criteria do they use to compare the different costs and what issues shape their prioritisation?

1.3 CONTRIBUTION

This study contributes to the literature by clarifying the relational switching costs that an organisation faces when replacing a vendor. It identifies the impact these switching costs have on the vendor replacement decision and how the risk of transitioning, lock-in, and strategic and cultural factors contribute towards the eventual decision. It bridges the gaps in the literature by discussing the reasons why organisations may want to switch vendors, details the specific switching costs organisations incur, produces a list of relational switching costs, and examines the effect of relational switching costs on the vendor replacement decision. Additionally, this study identifies the flow of the decision process organisations follow when considering the vendor replacement decision. This study also contributes towards the broader issues around outsourcing by discussing the implications of risk management when relational switching costs are considered to have a lower priority than financial switching costs. It links strategic outsourcing to inter-organisational relationships, and identifies how relationships are key to the operational success of an outsourcing contract.

This study contributes to practitioners in the IT outsourcing field by detailing the vendor replacement decision-making process, and how relational and financial switching costs are traded off in the process of managing success in IT outsourcing.

This knowledge improves their decision-making process by highlighting critical factors that are often missed when decisions are made.

1.4 STRUCTURE OF THESIS

The thesis begins by reviewing the literature on IT outsourcing, switching costs, relational switching costs, the three theories underlying switching costs, and the relevant strategic and cultural factors. This is followed by an overview of the research methodology and conceptual development. The thesis continues with a description of the data and the results of the analysis, and concludes with a discussion of its contribution to the field.

1.4.1 *CHAPTER 2: LITERATURE REVIEW*

This chapter examines the reasons why customer organisations may consider switching vendors. The two main reasons are cost savings and improvement in service. It continues by discussing the changing focus of IT outsourcing contracts where more strategic outsourcing is occurring. Then, it examines the switching costs that can occur when switching vendors; some of these costs include the costs of knowledge transition, knowledge stickiness, business disruption, organisational realignment, search, and setup cost. It continues by examining the theoretical framework for this research which is based on transaction cost theory, social exchange theory, and resource dependence theory. The economic relationships and different types of IT outsourcing contracts are discussed and relational switching costs are examined in more detail. The chapter concludes with an investigation into

the role of cultural fit and strategic dependence in the vendor replacement/retention decision.

1.4.2 CHAPTER 3: RESEARCH METHODOLOGY

This chapter starts with a description of the conceptual model based on the discussion in the previous chapter. It then explains the research methods used to answer the research questions. Research methods refers to the way in which data is gathered and analysed to explore the underlying context and process of a phenomenon (Pettigrew, 1985). The chapter continues by discussing the interpretive approach used in this research project. Then, it examines case studies and discusses the multiple case study approach that was used. It describes how the case study sites were chosen by purposeful sampling, based on certain selection criteria for the organisations and participants. The chapter concludes with a discussion of the data gathering and analysis framework, where narrative enquiry and thematic analysis is discussed.

1.4.3 CHAPTER 4: RESULTS OF THEMATIC ANALYSIS

This chapter starts with a detailed description of the two organisations chosen for the case studies. The thematic analysis is then described in detail. It follows a five-phased approach (Braun & Clarke, 2005) which starts by the researcher familiarising him/herself with the data, followed by generating initial codes. In total, 700 initial codes were created in Phase 2 in this project, which were reduced to 180 codes during the third phase (“searching for relevant themes”). The thematic analysis

concluded when 20 themes were chosen; the validation of the results was carried out with Cohen's kappa (Hallgren, 2012; Cohen, 1960, 1968).

1.4.4 CHAPTER 5: RESULTS

This chapter describes the results from the previous chapter in detail. It starts by examining the reasons for considering switching and the vendor replacement/retention decision. It then investigates the switching costs that were found in the cases studies, as well as delving deeper into relational switching costs. It next compares the incidence of switching costs across organisations, functions, and roles, and examines the impact of lock-in and the risk of transitioning. The chapter then discusses strategic dependence and cultural fit and how these factors influence the vendor replacement decision. It concludes with a review of the overall vendor retention/replacement decision.

1.4.5 CHAPTER 6: DISCUSSION AND CONCLUSION

This chapter discusses the contribution of the study from a theoretical and practical perspective, by examining the broader implications of the findings on the vendor replacement decision. The chapter examines the theoretical and practical implications of the findings, and the boarder issues of inter-organisational ventures and what role relationships play. It concludes by examining opportunities for future research in this field.

1.5 CHAPTER 1 SUMMARY

This chapter began by discussing IT outsourcing in the global market and then delved into the issue of vendor replacement. It explained that organisations may consider switching vendors to receive better service and/or reduce their costs, and discussed how switching costs, cultural fit, and strategic dependence can prevent them from switching. The chapter then discussed transaction cost theory, social exchange theory, and resource dependence theory, which will be used as the theoretical foundations of this research project. Following that, the chapter described the interpretive research approach to support the use of case studies to gather data and explained how thematic analysis will be used to analyse the data. The chapter then explained the motivation for the study, both from a research and practice perspective, and identified the possible contributions in both categories. The chapter concluded with a short description of each of the chapters that follows.

2.0 CHAPTER 2: LITERATURE REVIEW

This chapter starts with a description of information technology (IT) outsourcing and the two key reasons why organisations would consider changing vendors (Whitten & Leidner, 2006), as well as the benefits and costs of doing so. It then reviews the literature on switching costs, and discusses how transaction cost theory (TCT), social exchange theory (SET), and resource dependence theory (RDT) can be integrated to provide a deeper understanding of switching costs (Whitten et al., 2010; Lee et al., 2010). The chapter next describes the different types of IT outsourcing contracts and the impact of relational switching costs in more detail. It concludes with a discussion of the external forces that could influence an organisation's decision to switch vendors.

2.1 IT OUTSOURCING

IT outsourcing is the transfer of all or some of an organisation's internal IT functions, systems, services, and processes to a vendor (Gottschalk & Solli-Saether, 2005) (Li & Li, 2009). These vendors are chosen because they specialise in particular IT activities, thus possessing the relevant know-how and capabilities that can enhance the innovativeness, performance, and quality of an organisation's IT environment (Farrell, 2010). Once an IT function is outsourced, a vendor takes responsibility for delivering the specified IT services back to the organisation as per a predetermined agreement or contract (Benaroch, 2010). Examples of IT services that can be outsourced are application development, systems integration, infrastructure, Web development, e-commerce, network maintenance, remote software management,

end user and help desk support activities, data warehousing, repositories and maintenance, and server and communication support (Li & Li, 2009; Sharma et al., 2008; Mazdeh & Hamedani, 2012). More sophisticated IT outsourcing contracts cover disaster recovery, operations, facilities management, and system integration (Sharma et al., 2008; Mazdeh & Hamedani, 2012).

2.1.1 REASONS FOR OUTSOURCING

The significant increase in the size of the IT outsourcing market could be due either to existing customer organisations outsourcing more IT services, or an increase in the number of organisations using outsourcing. A 2009 survey found that 98% of US credit unions preferred using outsourcing as their IT provisioning method (Peukert, 2010). The background to this could be the number of IT-related challenges that organisations face in today's competitive global market. These include the increasing costs of IT systems and services, the potential for interruptions in IT services to disrupt daily operations, and the possibility that attacks on IT systems could lead to a loss of intellectual property (Farrell, 2010). Most organisations specialise in fields other than IT, and are thus compelled by the need for specialisation and efficiency to find ways to enhance their organisation's performance (Farrell, 2010; Sanders et al., 2007). One way to do so is to outsource non-core activities, such as IT, and focus on the core activities that drive revenue and profit (Koh et al., 2007; Levina & Ross, 2003; Li & Li, 2009; Booker et al., 2010).

IT outsourcing can help organisations achieve their strategic goals by delivering benefits, such as lower costs for the IT function, higher quality IT services, lower

product and service-related costs, greater overall efficiency, access to specialised knowledge and staff with expert technical skills, lower operational complexity, and increased competitiveness (Lioliou et al., 2014; Cullen et al., 2005; Harland et al., 2005; Salerni, 2001; Sharma et al., 2008; Whitten & Leidner, 2006; McIvor, 2009).

Outsourcing enables organisations to reduce the size of their organisation by transferring staff to the outsourcing vendor. The time spent on non-revenue generating resources can now be reallocated to focus on revenue-generating activities and cost-reduction activities, thereby maximising productivity and reducing overheads (Mazdeh & Hamedani, 2012; Salerni, 2001). Outsourcing IT infrastructure is one example where large organisations can transfer hundreds of employees to a vendor, freeing up the organisation to focus on value-adding activities as described above. Outsourcing can also be used to reengineer an organisation by reassessing and redesigning business processes to improve performance (McIvor, 2009).

2.1.2 CHANGING FOCUS OF IT OUTSOURCING

Vendor switching or replacement is the act of transferring outsourced services from one vendor (incumbent vendor) to another vendor (Gottschalk & Solli-Saether, 2005). Vendor replacement is becoming more common in IT outsourcing (Chua et al., 2008), despite the fact that it can be costly, with IT outsourcing contracts constituting more than 80% of IT budgets (Whitten & Leidner, 2006). About half of IT outsourcing contracts are discontinued and the vendors replaced, either with other vendors or by internal staff ("backsourcing") (Lacity & Willcocks, 2001; Whitten & Leidner, 2006). Gartner Research forecasted in 2014 that vendor replacement

would become more frequent: by 2015, 70% of current IT outsourcing engagements would be renegotiated (Gartner, 2014) and customers would be faced with a decision to replace or retain their vendors.

There are two main reasons for vendor replacement. First, organisations replace vendors that have performed below the required standards or that have not delivered the expected savings (Peukert, 2010). While the process of soliciting, evaluating, and choosing a vendor can be tedious, time-consuming, and expensive (Power et al., 2006), selecting or switching to the wrong vendor could also potentially lead to losses of billions of dollars (Suang et al., 2009). When evaluating outsourcing vendors, organisations do not only consider the quality of service provided by the vendor, but also whether the vendor can lower their IT risk and reduce IT costs (Mazdeh & Hamedani, 2012).

The second reason for changing vendors is that organisations are moving from transactional to strategic outsourcing (Power et al., 2006) as a way to realise competitive success (Farrell, 2010; Harland et al., 2005). Organisations today place a high value on innovation, in the form of new ideas, knowledge creation, and improvements in processes and products, and seek these from their outsourcing vendors. In contrast to strategic outsourcing, transactional outsourcing emphasises the transfer of routine services (such as software development) to a vendor organisation, so as to have access to a larger development capability while removing a component of the fixed overhead costs.

The shift towards strategic outsourcing (Farrell, 2010) is driven by the need for collaboration and innovation between organisations and their vendors (Baloh et al., 2008). Mutual innovation, where customers and vendors collaborate to invent new ideas and share knowledge, creates capabilities that are crucial to success (Baloh et al., 2008). This becomes increasingly important in today's global market, where organisations need to not only maintain their skill levels and competencies (Farrell, 2010), but also create innovative ways of doing business to sustain organisational competitiveness (Farrell, 2010; Harland et al., 2005).

Other reasons for vendor replacement include: a) a need for additional services or an increase in the customer's scale of operations, which their vendor is unable to support; b) the discovery of alternative vendors (i.e., competitors of their current vendor); and c) a desire to rationalise the number of vendors a customer uses to minimise management overhead (Whitten et al., 2010).

2.2 COSTS OF CHANGING IT VENDORS

Replacing vendors is a potentially expensive exercise (Suang et al., 2009) because customers may incur early termination and transition costs, and costs to realign organisational processes that were structured to meet the previous vendor's requirements. Replacing vendors is also potentially risky, with the risks including business disruption and difficulties with knowledge transfer from the previous to the new vendor, especially around the issue of extracting tacit knowledge from the previous vendor's staff (Thomas & Nandakumar, 2006). Table 1 below provides

examples of the early termination and transition costs that various organisations incurred when they terminated outsourcing contracts.

Organisation	Value	Vendor	Costs Incurred	Reference
Essex Council	\$200mil	BT	\$"tens of millions"	Simons, 2009
Sears	\$1.6bil	CSC	\$96 million	Sliwa, 2005
Diebold	\$"tens of millions"	Deloitte	\$7 million	Cooney, 2006
Bank of Scotland	\$700mil	IBM	\$50 million	Computer Weekly, Aug 2002
Oxford Health	\$330mil	CSC	\$10 million	Computer Weekly, May 2002
Sainsbury	\$1.7bil	Accenture	\$260 millions	Rohde, 2004
Cable & Wireless	£1.7bil	IBM	£"tens of millions"	Adshead, 2003
Bedfordshire Council	£270mil	HBS	£7.7 million	Computer Weekly, Sep 2005

Table 1: Recent Examples of Cancelled IT Outsourcing Contracts

Such costs are referred to as "switching costs" in the outsourcing context – they are the costs incurred when firms change their vendors (Whitten & Wakefield, 2006; Whitten et al., 2010). Examples of switching costs include the costs of knowledge transition, knowledge stickiness, business disruption, organisational realignment, search, and setup (Molina-Castillo, 2012; Whitten, 2009). These costs are the one-time costs associated with switching from one vendor supplier to another (Burham et al., 2003) and are considered a disutility that customers would rather avoid (Molina-Castillo et al., 2012).

In addition to these one-time costs, replacing vendors also leads to customers incurring recurring switching costs, which include the costs of learning about the customer's environment, processes, and routines, the cost of anxiety, and post-switching behavioural and cognitive costs (Molina-Castillo, 2012; Whitten, 2009).

Tangibility is another dimension in which vendor replacement costs differ, with some of them being fairly easily measurable and apparent, such as setup costs, while others, such as knowledge loss, are much harder to ascertain and only become clearer over time (Whitten, 2009).

Despite the frequency of vendor replacement in IT outsourcing (Lacity & Willcocks, 2001; Whitten & Leidner, 2006), few studies have investigated the size and nature of the switching costs that firms incur when they replace their information systems vendors. This may be due to the difficulty in identifying switching costs (Carlsson & Lofgren, 2006). This study examines the costs involved in replacing a vendor, and the impact of these costs on the decision to replace/retain a vendor. The focus is on a particular aspect of switching costs – relational switching costs – which have received even less attention than other types of switching costs (Vasudevan et al., 2006; Whitten & Leidner, 2006). The identification and analysis of switching costs is the first important step for customers to understand, manage, and reduce the barriers to switching (Jones et al., 2002).

The next section reviews the literature on switching costs broadly, before discussing research relevant to the current study.

2.3 SWITCHING COSTS

Switching costs refer to the one-time costs associated with switching from one vendor to another (Burham et al., 2003). The costs can be described as a sacrifice or loss incurred when moving from one vendor to another (Jones et al., 2007).

Switching costs are described as a disutility related to change (Weiss & Anderson, 1992), a relational investment during an exchange (Jackson, 1985), and an economic and physiological cost of a business relationship (Klemperer, 1987).

2.3.1 PRIOR RESEARCH ON SWITCHING COSTS

The concept of switching costs has been well-studied in various fields, such as economics, marketing, psychology, and strategy (Molina-Castillo, 2012; Whitten & Wakefield, 2006). Switching costs present an important contributing factor when the decision to terminate a contract is being made (Whitten & Wakefield, 2006) and have been examined in contexts such as banking (Lodge, 2011; Tesform & Birch, 2011), airlines (Carlsson & Lofgren, 2006), electricity generation (Salies, 2005), and credit markets (Barone et al., 2011). However, most studies have focused on individual-level switching costs, and relatively few studies have examined switching costs at the organisational level (Chen & Hitt, 2002).

Switching costs can be categorised in different ways (Klemperer, 2005; Whitten & Wakefield, 2006; Burnham et al., 2003). Klemperer (1987) developed one of the first typologies of switching costs, which included learning costs, artificial or contractual costs, and transaction costs. Nilssen (1992) built on this topology and suggested that there are only two types of switching costs: exogenous (size of costs are not determined by the customer organisation's actions) and endogenous (size of costs are determined by the customer organisation's actions) switching costs. Burnham et al. (2003) then summarised the various types of switching costs into a multi-dimensional model of procedural (psychological), financial (monetary), and relational (relationship) costs (Burnham et al., 2003; Barroso & Picon, 2012). Financial and

relational costs increase the perceived value of service relationships (Jones et al., 2002) and are associated with positive benefits (Reynolds & Beatty, 1999), while procedural switching costs are compulsory costs that can cause customers to feel trapped in their relationships (Sharma & Patterson, 2000).

Procedural costs are the most conventional way of looking at switching costs (Jones et al., 2002). They represent the perception of future expenditures in the form of the time, psychological and mental effort, and difficulties incurred when vendors are replaced (Jones et al., 2007; Burnham et al., 2003) and are also known as information costs (Barroso et al., 2012). They include learning costs (Aydin et al., 2005), search and evaluation costs (Lee et al., 2001), adaptation costs (Kim et al., 2004; Whitten & Wakefield, 2006), economic risk costs (Jones et al., 2002), and setup costs (Guiltinan, 1989). These costs can lead to feelings of frustration, dissatisfaction, risk, uncertainty, inconvenience, and anxiety (Barroso et al., 2012).

Financial switching costs are those that are financially quantifiable (Burnham et al., 2003), and their tangibility means that they have a strong influence on the decision to replace or retain a vendor (Barroso et al., 2012). One example of a financial switching cost is the loss of financial benefits. A contractual relationship between a customer and their vendor often yields financial benefits for the customer. When this relationship is terminated, the customer loses these benefits (Barroso et al., 2012). Examples of such financial benefits include discounts, special rates, foregone commissions, and benefits from loyalty schemes (Barroso et al., 2012; Patterson & Smith, 2003; Kim et al., 2004; Guiltinan, 1989). These benefits are related to the

services the vendor is contracted to deliver and this increases the customer's desire to continue with the relationship (Beatty et al., 1996).

Relational switching costs are derived from personal relationships. Customers engage in long-term relationships with their vendors by entering psychological contracts in addition to explicit legal contracts (Booker & Sixsmith, 2010). When such relationships are terminated, psychological or emotional discomfort can occur due to a change in the customer's identity, the discontinuation of relationships, and the loss of affectionate bonds between customer and vendor employees (Burnham et al., 2003; Patterson & Smith, 2003). When a business relationship is discontinued, the bonds between vendor and customer co-workers, who may possibly have become close friends, are broken. When these bonds are broken, unfamiliar territory is entered into and a loss of identity is experienced (Guiltinan, 1989). This gap in familiarity cannot be immediately bridged by the new vendor. During the time it takes new relationships to form, emotional and psychological discomfort will be felt by the individuals involved (Burnham et al., 2003).

While the three types of costs are similar in that they decrease the value obtained from outsourcing, they differ in their quantifiability: financial and procedural switching costs are tangible and clearly defined, but relational switching costs are intangible and difficult to define. This lack of clarity makes it difficult to identify which one of the three is the most critical and how their importance varies across different types of outsourcing engagements.

The literature on switching costs in IT outsourcing and other fields is reviewed and summarised chronologically in Table 14 (Appendix A). The review suggests that further research on switching costs in the context of IT outsourcing is required to better understand the barriers to switching vendors, alleviate the uncertainty associated with vendor switching, and possibly reduce future switching costs (Molina-Castillo, 2012). The review also highlights that the difficulty of identifying switching costs is a core reason for the lack of research into this phenomenon (Carlsson & Lofgren, 2006).

An outsourcing vendor's motivation to maintain its service quality and search for saving opportunities that can be passed to its customers is reduced by switching costs that prevent customers from moving to other vendors. Thus, organisations that find it difficult to change vendors because of high switching costs could experience a deterioration in service quality and higher costs (Bahli & Rivard, 2003). While high switching costs make it more likely that customers will stay in a dissatisfying relationship (Monilla-Castillo et al., 2012) and be deterred from changing to other vendors (Bell et al., 2005), the absence of these costs means that customers are more likely to switch vendors (Jones et al., 2007).

Vendors' awareness of this has encouraged them to build exit barriers into their contracts and manage their customers' perception of value (the greater the value, the larger the switching costs) so as to strategically bind their customers into the engagement (Liu, 2006). Enhancing a customer's perception of high switching costs has proven to be a beneficial strategy for vendors to retain customers (Liu, 2006). Vendors utilise various tactics to create switching costs. For example, they may

install propriety hardware and software on their customers' systems that would be useless if the relationship was terminated (Liu, 2006). However, many vendors lack the knowledge and skill to lock their customers in with such "hard assets" and use other tactics to create switching costs (Liu, 2006). For example, they may induce customers to perceive that switching costs are higher than they actually are by emphasising the investments incurred in building "soft assets", such as relationships. This tactic is based on organisations' reluctance to build new relationships, and can prevent customers from looking for a new vendor (Liu, 2006).

So far, this chapter has explained how switching costs can be broadly placed into three categories: financial, procedural, and relational. While this ontological structure is useful for descriptive purposes, it is less helpful as a device for explaining the origins of switching costs, and their possible impacts. There is thus a need to provide a broader theoretical foundation for them. One way to derive this is to examine the phenomena underlying the three categories. These are organisational governance arrangements, social relationships, and the process of switching itself. Substantial prior research on organisational governance has used transaction cost theory, while social relationships have often been examined through the lens of social exchange theory. Additionally, the resource dependence created by inter-organisational engagements is explained by resource dependence theory, which highlights dependencies and inter-organisational relationships. This study therefore draws on these three theories to explore switching costs in more detail, and to understand their relationships.

2.3.2 THEORETICAL FRAMEWORK FOR SWITCHING COSTS

This study draws on transaction cost theory (TCT), social exchange theory (SET), and resource dependence theory (RDT) to explore switching costs in more detail. TCT has been used in information systems research to explain the process of switching itself (Whitten & Leidner, 2006; Whitten & Wakefield, 2006) and to predict outsourcing decisions (Alaghehband, 2011). It provides a framework for understanding the economic aspects of switching costs, which includes the financial and procedural costs of switching. TCT is useful for understanding the rationale and motivation for entering relationships in which goods and services are exchanged.

However, TCT is less useful for explaining the behavioural (i.e., the non-economic) aspect of transacting, such as trust and commitment, leading to the use of SET for this purpose (Islamoglu & Liebenau, 2007). SET provides insights into the partnership perspective of exchange relationships by delineating the relational investments involved and the relational value of substitutes. It thus provides a basis for identifying the relational switching cost factors that are present in the IT outsourcing relationship (Whitten & Leidner, 2006; Whitten & Wakefield, 2006). While SET and TCT explain the types of resources that are exchanged in relationships and the reasons and consequences for doing so, the two theories are less useful for understanding the process by which organisations manage the level or extent of switching costs they are exposed to. RDT (Pfeffer & Salanick, 1979), which focuses on how organisations interact with other organisations to obtain essential resources, is used for this purpose. RDT is useful for understanding the organisational-environment relationship (Hillman et al., 2003), the motivators for inter-organisational dependence, and how these factors impact inter-organisational

engagements like IT outsourcing (Drees & Heugens, 2013). Besides their fit with the phenomenon of switching costs, these three theories are also relevant here because they operate at different levels of analysis. TCT and RDT are usually used to study organisations, while SET is more common in individual-level studies. While outsourcing is essentially based on a legal contract between organisations, it manifests itself in the daily interactions between the staff of the customer and the vendors. Thus, integrating these theories allows this study to examine how switching costs operate at the organisational and individual levels. The next few sections develop these arguments in greater detail.

TRANSACTION COST THEORY (TCT)

Transaction costs are the costs related to the search, creation, negotiation, monitoring, and enforcement activities surrounding contracts (Alaghehband et al., 2008 & 2011; Subhankar & Balakrishnan, 2006). TCT is relevant for intra-organisational and inter-organisational transactions (i.e., transactions between customers and vendors) and provides one theoretical platform for understanding the switching costs incurred when an organisation replaces its vendor (Whitten et al., 2010). TCT can also be used to understand the management of the operational costs associated with the exchange of IT services, since IT operational costs can be viewed as a string of transaction costs (Whitten et al., 2010).

TCT rests on two basic assumptions (Williamson, 1985). The first is bounded rationality, which refers to the inability of the human mind to completely evaluate all of the consequences for all decisions, or to fully grasp the entire range of possible

decisions. In the context of IT outsourcing, this issue comes into play in terms of the difficulties an organisation faces in identifying its outsourcing requirements, selecting vendors, and managing vendor relationships. The second key assumption of TCT is opportunism, which posits that individuals act in self-interest and act with guile or slyness. Opportunism is particularly relevant in situations where one party is vulnerable to the other. In the IT outsourcing context, one example where opportunism could play a part is the willingness of IT vendors to overstate the capabilities, knowledge, and competence of their staff (Bahli & Rivard, 2003).

TCT has a long history in the information systems field (Ciborra, 1981). For example, it has been used to explain how IT can increase or decrease the horizontal and vertical dimensions of a firm's size by changing the number of suppliers (Gurbaxani & Whang, 1991). It has been employed to analyse the impact of IT on public and private organisational structures (Islamoglu & Liebenau, 2007), as well as bilateral resource dependencies between firms that use electronic data interchange systems (Johnston & Vitale, 1988). Another area where it has been used is in examining the viability of distributing public services (healthcare, education, and social services) via pseudo markets (Le Grand & Bartlett, 1993).

TCT is a dominant theory in explaining outsourcing outcomes (Lacity & Willcocks, 2001). It has been used in many IT outsourcing studies and has been employed to analyse vendor switching and backsourcing (Whitten & Leidner, 2006). TCT has been used to explain the economic rationale for inter-organisational IT outsourcing relationships and to evaluate the relative benefit of sourcing IT services internally versus outsourcing them (Whitten, 2009). TCT has also been used to evaluate the

economic costs of an IT outsourcing engagement (Whitten & Wakefield, 2006). For example, transaction costs can be high when a firm is searching for a vendor with rare and specialised skills, or one that is able to support its global operations. Transaction costs are high in these cases because of the significant effort, cost, and time taken to search for such vendors (Alaghehband et al., 2008).

For example, the higher the transaction costs of outsourcing a particular process, the more likely it will be that a firm will seek a long-term relationship with a vendor to manage it. A long-term contract will thus create a “hands-tying” scenario where the customer is legally obliged to continue the relationship with the vendor (Nakamura, 2010). This will enable the vendor to lock in the customer and, in turn, provide the vendor with an opportunity to manipulate their customer’s perception of the level of switching costs like high termination fees, setup and transition costs, knowledge and staff transferred to the vendor’s organisation, and search and evaluation fees for a new vendor. This allows the vendor to increase its relative value compared to its rivals. In this way and others, transaction costs drive the existence and persistence of switching costs.

SOCIAL EXCHANGE THEORY (SET)

SET aims to understand human behaviour during economic interactions. It suggests that social interaction is an exchange of intangible or tangible resources, particularly in the form of benefits or costs (Lee et al., 2010 & 2014). It incorporates unspecified personal obligations, intrinsic rewards, and is the middle ground between pure calculation and pure love costs (Lee et al., 2010). Furthermore, SET suggests that

social relationships revolve around intimacy, self-interest, cost-benefit calculations, and disinterest (Lee et al., 2010).

SET originated from economic, psychological, and sociological perspectives (Lee et al., 2010) and has been applied in various fields, such as marketing, hospitality (Kanagal, 2009), manufacturing (Lee et al., 2010), finance, and politics (Leung, 2001). It relies on two assumptions. The first is that both parties aim to receive mutual benefits from their relationship, benefits they would not be able to obtain on their own. The second assumption is that relationship evaluation is based on relationship growth and maintenance. Both of these assumptions are relevant in IT outsourcing relationships (Lee et al., 2010), which are ideally built on the basis of mutual benefit and require continued attention to enhance their quality. The exchange in question is usually something that both parties can accomplish by themselves, and if the exchange is discontinued, the benefits from the exchange will also cease (Lee et al., 2010).

SET suggests that successful long-term relationships rely heavily on aspects of social exchange such as commitment, equity, trust, and conflict (Ural, 2007). At the same time, these aspects are the basis of the relational switching costs that arise when inter-organisational relationships are formed as they are the aspects that will be affected when the relationship is terminated. Even though an outsourcing arrangement with a particular vendor may feature successful interpersonal relationships, an organisation may still need to re-contract with other vendors for other reasons, such as a mismatch in skills, an inability to provide qualified resources, or a change in firm requirements, for example, moving from transactional

outsourcing to strategic outsourcing. The challenge in such situations is that the existing relationships between the staff of the vendor and client may act as an impediment (a reluctance to break friendships or bonds) when the client is looking for a new service provider. Understanding such scenarios may require the unpacking of the arrangement to clarify the different levels (organisational vs. individual, client vs. vendor) at which benefits and costs are being obtained or borne.

RESOURCE DEPENDENCE THEORY (RDT)

Resource dependency theory (RDT) suggests that all organisations rely on other organisations for the supply of resources and that the relationship is often reciprocal (Drees & Heugens, 2013). The reliance on resources (resource dependence) tends to drive the formation of inter-organisational engagements (Pfeffer & Salanick, 1979). RDT is used to explain why organisations enter into inter-organisational engagements, such as outsourcing (Pfeffer & Salanick, 1979). It is also used to explain strategic organisational management (Hillman et al., 2009) and to understand the relationship between an organisation and its environment (Hillman et al., 2003). RDT also addresses how power in inter-organisational engagements shifts depending on who controls the vital resources (Drees & Heugens, 2013).

RDT was developed in 1978 by Pfeffer and Salanick and the theory has been applied to many areas of research to help explain how inter-organisational dependence and uncertainty can be reduced (Hillman et al., 2003). An organisation is described by RDT as an open system which relies on external environmental contingencies (Pfeffer & Salancik, 1978). Organisational behaviour is influenced by

external factors and managers can make certain decisions to reduce the influence of these factors, uncertainty, and dependence (Hillman et al., 2003). These decisions are related to power, which is the influence or control they have over certain resources; organisations want to strengthen the power they have over others and reduce the power others have over them (Hillman et al., 2003). This forms the basis of resource dependence and inter-organisational relations by suggesting that (Hillman et al, 2003):

1. Organisations are the formal unit for understanding inter-organisational relations;
2. Organisations are not autonomous and rely on interdependencies with other organisations;
3. The interdependencies combined with uncertainty creates an environment where the continued success of the organisations is unclear;
4. The uncertainty causes a situation where organisations are compelled to manage the interdependencies, which are rarely successful, but does result in a pattern of dependence and interdependence;
5. The patterns in turn create a level of power which effect the inter- and intra-organisational behaviour.

RDT has been used by information systems researchers in various contexts. For example, Straub (2008) studied resource dependence in IT and the need for managers to control valuable resources to reduce dependencies on external organisations that could cause vulnerabilities. Yilmaz and Beduk (2014) studied resource dependence in the context of outsourcing and found that resource dependence has a positive outcome on outsourcing by reducing transactional costs

and freeing vital resources to focus on the core competencies of the organisation. RDT has also been studied in the fields of production and supply chain by, for example, Fink et al. (2006), who studied the dependencies and social factors present in the customer-vendor relationship. Additionally, RDT has been studied in economics, management, strategic decision-making, and political science (Hillman, 2009). RDT is widely used by researchers in the broader management field. For example, Tate et al. (2009) studied offshore IT outsourcing and the effect resource dependence has, as well as the benefits provided by the off source resource filling the resource dependence gap.

INTEGRATING THE THEORIES

Switching costs are both economic and non-economic in nature, and therefore two theories are used to explain each aspect: TCT for economic switching costs and SET for non-economic (behavioural) switching costs. Additionally, this study focuses on IT outsourcing which is based on inter-organisational co-operation, and where interdependence, resource dependence, and inter-organisational relationships are important. To explain and understand this aspect of the research, RDT is used.

TCT can be used as a theoretical lens to explain why firms enter into an IT outsourcing engagement and to clarify the motivation behind the relationship. However, TCT by itself cannot explain the decision to retain or replace a vendor. SET provides an additional explanation of the dynamics of the relationship and the decision to replace or retain a vendor by examining the social factors present in a long-term relationship (Whitten & Leidner, 2006). More broadly, while SET and TCT

can explain episodes and structures of interactions, they are less useful for explaining the broader outsourcing relationship in terms of the power and resource dependence associated with such engagements. RDT is thus relied upon to explain this aspect of the study.

While most studies examine switching costs using the descriptive categories mentioned earlier (financial, procedural, and relational) (Whitten & Wakefield, 2006; Jones et al., 2000), this thesis aims to go beyond describing switching costs. Thus, TCT, SET and RDT is used to explain the relationship between specific switching costs and the categories they fall into (Whitten & Wakefield, 2006; Lee et al., 2010), and to then illustrate their potential consequences.

In the next section, the perceived switching costs are reviewed that develop when two organisations enter into an outsourcing engagement.

2.3.3 IMPACT OF OUTSOURCING CONTRACT TYPE ON SWITCHING COSTS

Many factors affect the decision to switch vendors (as listed in Section 2.1.1 above). Switching costs that are transactional in nature are tangible and easier to define, making it easier to investigate the option to change vendors. In comparison, switching costs that incorporate human behaviour are intangible and difficult to define, making the switching decision hard to quantify.

The relative importance of the different types of switching costs, and thus the relevance of TCT, SET, and RDT in a customer-vendor relationship, is determined by the type of outsourcing contract the organisations have entered into (Figure 1).

This is because a different mix of relational and economic resources is exchanged in each type of outsourcing contract. Each contract is a request for a certain type of IT service, and IT services fall in a continuum across various dimensions, such as the level of technical emphasis, the extent of interaction with end-users, the impact on day-to-day processes, the focus on strategic versus operational outcomes, and so on.

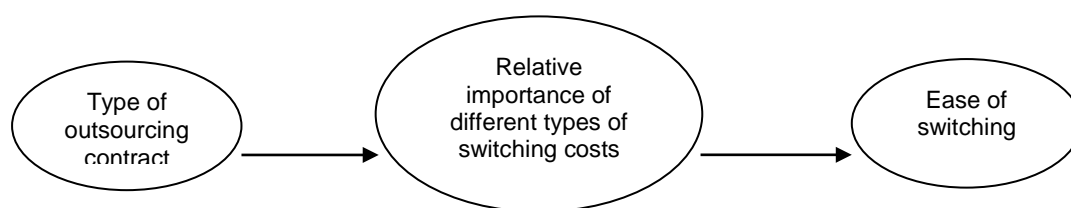


Figure 1: Impact of Type of Outsourcing Contract on Switching Costs

Some contracts will have a greater transactional focus (Alaghehband et al., 2008) and can be more easily explained by TCT, whereas other contracts might have a higher component of human behaviour and will rely more on SET (Lee et al., 2010). A contract with a high degree of transactional or economic consideration will rely more on TCT to help explain the switching decision. The customers in these types of engagements will put a greater emphasis on financial and procedural switching costs, increasing their importance relative to relational costs (Alaghehband, 2011). In contrast, outsourcing engagements which include a high degree of human interaction are better analysed using SET. In such situations, human relationships are relatively more important for ensuring the viability of the engagement than economic and transactional considerations (Lee et al., 2010, 2014).

Different types of IT services have a different mix of transactional and human behavioural components due to the nature of the engagement. A highly mechanical and process driven engagement has a greater transactional emphasis, whereas an engagement that relies on human interaction and a greater understanding of the customer's organisation (Gottschalk & Solli-Seather, 2005) has a greater social exchange component. Although the levels of TCT and SET vary among the different types of contract, the relevance of RDT remains high. The reason is that RDT focuses on resource dependence and how inter-organisational resources can be utilised to fill a resource gap (Hillman, 2009). At the centre of outsourcing engagements is the fact that one organisation requires the resources of another organisation in order to achieve its goals, which creates a resource dependence at the outsourcing level rather than at the type of contract level. Because of this, RDT is relevant in understanding the creation and continuance of all outsourcing contracts. Additionally, RDT is about relative power, dependence, and inter-organisational relationships, TCT is about economic costs, and SET is about social relationships and non-economic costs. Combining these three theories provides a more complete picture of switching costs and which ones matter when, in what contexts, and why.

Table 2 below lists example of certain types of outsourcing contracts, and how their characteristics affect the ease with which vendors can be changed. The four IT services listed in the table were chosen because they are types of contracts found in this study and represent different ends of the TCT/SET cost continuum. Thus, using these services provides an idea of the variance of the outsourcing phenomenon. The services were analysed to examine the degree to which transactional and social considerations mattered to their successful performance. This was done by listing

the main types of switching costs that were relevant in each type of outsourcing engagement. *Infrastructure contracts* are highly transactional and high in social exchange (as described below). *Infrastructure contracts* were used as the starting point for comparing the level of transactionality/social exchange for the outsourcing of testing services, software development services, and project management services. Based on this comparison, a ranking table (Table 2) was developed.

Type of Contract	RDT Importance	TCT Importance	SET Importance	Ease of Switching
IT Infrastructure Maintenance & Support	High	High	High	This type of contract is highly transactional and has a high relationship component. The decision to switch will typically be more difficult.
IT Project Management Office	High	Medium	High	This type of contract is slightly less transactional and has high relational factors. The decision will typically be more difficult.
Software Development	High	Medium	Medium	This type of contract is less transactional and has some relational factors. The decision will typically be less difficult.
Testing Capability	High	Low	Low	This type of contract has a low transactional component and low relational factors. The decision will typically be easy.

Table 2: Impact of Contract Type on Switching Costs

Human relationships are important in *infrastructure contracts* because the interaction between the customer and the vendor's operational staff is necessary for the successful delivery of this service (Ahuja & Sinclair, 2012). The operational staff need to interact, discuss, plan, and communicate regularly to transfer information about service outages, future expansion, service delivery expectations, and standard

operating procedures (Ahuja & Sinclair, 2012). An infrastructure contract is also very transaction-focused: it requires structure, processes, and procedures that both the customer and vendor organisations need to perform (Thouin et al., 2009).

In contrast, human relationships are less important for *testing contracts* (compared to *infrastructure*), because they only require the transfer of testing requirements and testing results between the customer and vendor. The vendor is often based offshore and the communication is conducted through email. Such engagements are also not very transactional (compared to *infrastructure* contracts), as inter-organisational interaction between different departments in each organisation is not heavily relied on for the success of this engagement.

A *project management contract* relies heavily on human interaction and one of the main activities in project management is to facilitate collaboration and co-operation (Mazur, 2014). This requires customer and vendor staff to interact and collaborate on a regular basis in order to ensure the successful delivery of the project/services. This contract is less transactional than an infrastructure contract as the structures, processes, and procedures (e.g., vendor specific project delivery methodology) are more prevalent within the vendor organisation and it something that the vendor organisation needs to perform. Finally, a *software development contract* requires human interaction and focus on transactions but only at specific stages within the software development lifecycle. A large part of the development can be done in isolation once the requirements have been developed and discussed. Although interaction and transactions are important to success, the need for constant interaction and constant transactions are limited.

This section has shown that the type of IT services being contracted for affect whether economic or social/relational switching costs are more significant in a particular outsourcing engagement. Between the two broad categories of switching costs, TCE-related costs have been better studied than relational switching costs. The next section of the chapter thus explores relational switching costs in more detail by studying the literature to examine studies on concepts related to such costs. Before that, some time is spent reiterating the criticality of relationships in outsourcing engagements.

2.3.4 OUTSOURCING RELATIONSHIPS

A relationship is a dynamic process that develops when two parties perform activities for one another to obtain valuable resources (Goo et al., 2007). IT outsourcing is an example of an inter-organisational relationship that helps one organisation cope with resource shortages and reduce the level of vulnerability and uncertainty it experiences, in return for paying money to another organisation (Goo et al., 2007).

The success of an outsourcing engagement depends largely on the relationship between the customer and the vendor (Webb & Laborde, 2005). Recent literature has started to focus on this relationship to improve the longevity and satisfaction of IT outsourcing engagements (Sharma et al., 2008). Research has shown that relationships play a critical part in creating a positive perception of the IT outsourcing engagement (Chakrabarty et al., 2008). High-quality relationships have been found

to improve trust, satisfaction, and economic performance in an inter-organisational engagement (Dibbern et al., 2004).

Successful IT outsourcing engagements are ones where the customer and vendor share a family-like relationship (Webb & Laborde, 2005). It can be argued that organisations that are able to build and maintain good relationships can achieve a competitive advantage over their competitors (Dyer & Singh, 1998). The key to a successful vendor-customer relationship is to develop a tailor-made relationship that meets the needs of the customer (Webb & Laborde, 2005). Relationships are very unpredictable and factors that might have made for a strong relationship in one instance would not necessarily constitute a strong relationship between other parties (Webb & Laborde, 2005). Customers and vendors alike often do not have the relational knowledge to develop, improve, and maintain a strong relationship (Webb & Laborde, 2005). The difficulty in developing relationships hampers the potential for expanding the relationship, by the customer outsourcing more services and the vendor increasing its revenue, which could lead to the termination of the IT outsourcing engagement (Webb & Laborde, 2005).

The perception of switching costs is influenced by the quality and age of the relationship between the two parties. Older relationships tend to have better communication, higher levels of trust, and a higher level of confidence that the relationship will continue. As a relationship develops over time, emotional bonds strengthen and perceived switching costs increase (Weiss & Anderson, 1992; Booker & Sixsmith, 2010). Furthermore, organisations prefer to stay in long-term

relationships with vendors that consistently provide an acceptable quality of service because acceptable service levels are difficult to develop (Goo et al., 2007).

Relationships are terminated or continued based on the level of satisfaction of the organisations involved in the relationship. Positive experiences in a relationship contribute to its continuation, because mutual trust has been established and the benefits of the relationship grows over time. Satisfaction with a relationship thus increases (Goo et al., 2007). Thus, an organisation's perception that its vendor is "taking care" of it is one of the determining factors of an engagement's continuance (Webb & Laborde, 2005). This makes relationship quality a key component of relational switching costs in IT outsourcing.

2.3.5 RELATIONAL SWITCHING COSTS

IT outsourcing engagements often result in long-term relationships that are not only captured in explicit contracts with economic terms but also in psychological contracts with relational factors (Booker & Sixsmith, 2010). The discontinuation of a relationship, changes in identity, and the breaking of affectionate bonds between employees from customer and vendor firms can lead to psychological rather than economic costs. These costs relate to feelings (love, liking, affection, and acceptance) and the ensuing emotional stress can manifest as psychological or emotional discomfort (Burnham et al., 2003; Patterson & Smith, 2003).

Employees from client firms can experience a loss of identity when bonds are broken and unfamiliar territory is entered into (Guiltinan, 1989; Burnham et al., 2003). These

feelings (love, liking, affection, and acceptance) can best be described as “comfort levels” that developed over time between the affected client and vendor employees and, whether changing to a new vendor or back sourcing, relational continuity is required to maintain these aspects (Jones et al., 2002). Relational continuity is created by a lasting and developed relationship and the termination of a vendor causes a break in continuity, which increases discomfort and can decrease performance level (Jones et al., 2002). The customer and vendor depend on each other to realise certain goals and objectives and the loss of the organisational dependency leads to distress (Lee et al., 2010).

The literature on switching costs and vendor replacement/retention was reviewed to identify specific examples of relational switching costs that would be relevant in the context of IT outsourcing. The reviewed studies took place in various industries and at both individual and organisational levels. The switching costs that were identified were derived from two categories of studies:

1. Studies that specifically identified relational switching costs, and
2. Studies that did not specifically identify relational switching costs but described other types of costs that met the definition of relational switching costs based on the previous discussion of TCT and SET.

The result of this review led to the identification of various concepts associated with relational switching costs. These concepts are described in turn below.

TRUST

Social exchange theory suggests that trust is necessary to reduce risk, opportunism, and transaction costs and to maintain a strong long-term relationship (Lee et al., 2010). Trust can be described as the psychological assurance that the vendor will act in a manner that is predictable, stable, and mutually acceptable (Lee et al., 2010). Trust, in this instance, lies within the roles and routines of the relationship, opposed to trust lying with the individuals (Young-Ybarra & Wiesenma, 1999). Once the vendor and customer establish trust, they learn that working together produces higher rewards for both parties than working alone. Trust is very important in a strategic relationship and can be considered a central characteristic (Lee et al., 2010).

Trust consists of three components: dependability, predictability, and faith. Dependability can be described as the expectation that the vendor, or customer, will act in the relationship's best interest. Predictability is the consistency with which either party acts, and faith is the belief that the other will not act opportunistically. Trust is strengthened by commitment, which is the pledge between a vendor and a customer to continue with their relationship, and is considered the most important aspect of a relationship.

COMMITMENT

While structural factors such as service level agreements (SLAs), penalties, bonuses, and incentives do not inspire commitment, research has found that individuals perform much better when they are truly committed to a task (Lee et al., 2010; Linder, 2004). Commitment is not something that is present at the start of a

relationship; instead, it grows over time, like the relationship (Booker & Sixsmith, 2010). When a relationship is terminated, the established commitment is also terminated. Commitment is critically important to a strong and long-lasting relationship and underwrites stability, quality, and durability (Lee et al., 2010).

ALLIANCE

An alliance is when two or more firms co-operate to achieve mutually beneficial goals that could not easily be achieved alone. Alliances are a key component of IT outsourcing (Lambe et al., 2002). Once an alliance is formed, the impact of a number of relational aspects is reduced due to the more forgiving and understanding nature of the relationship (Gottschalk & Solli-Seather, 2005). These issues include inadequate contracts, misunderstandings, service standards, and general day-to-day operations (Gottschalk & Solli-Seather, 2005). The relationship is not as stringent as a pure business-to-business-for-profit relationship. This could put the vendor and customer significantly more at ease and create a feeling of content with the relationship.

BRAND RELATIONSHIP

Brand relationship loss costs relate to brand association, and the psychological and emotional discomfort experienced during different types of brand relationships (Burnham et al., 2003). They can be classified into three different categories:

- a) *Brand loyalty* is associated with how an organisation perceives the value of the brands of its incumbent and new vendors, and can represent a switching cost (Chen & Foreman, 2008). If brand loyalty is lost, psychological discomfort could be experienced by the customer. This feeling is enhanced when this has to be rationalised to others, which is often the case within organisations (Samuelson & Zeckhauser, 1988).
- b) *Competitors' perception*: When a firm replaces a vendor, it switches brands. For example, if the incumbent vendor is a well-known firm and the new vendor is relatively unknown, the market's perception of the customer's brand could be negatively affected, especially if it has a long-lasting relationship with the vendors' brand, and psychological discomfort could occur. The market could perceive the customer's brand as being less valuable because of its relationship with someone other than a large, well-known brand (Bahli & Rivard, 2003; Williamson, 1985).
- c) *Vendors' perception*: Reputation in this context is associated with how other vendors view the customer's brand. Terminating a seemingly well-performing vendor can damage the customer's reputation, while other vendors could be overly risk averse when a new relationship is being established (Anderson & Weitz 1989). Furthermore, the change in direction in the IT outsourcing strategy may reflect badly on the customer's planning process, which is something it would want to avoid (Wong, 2008).

LOST RELATIONAL EQUITY COSTS

Relational equity is the assurance of reasonable trade by the vendor, assuming that both parties want to minimise expenditures and maximise gains within the exchange relationship (Lee et al., 2010). Equity is not immediately available and needs to be developed over time (Booker & Sixsmith, 2010). When a relationship is terminated, this hard-earned equity is lost. Furthermore, business relationships between customers and their vendor often yield non-financial equity or benefits. These benefits can include special or preferential treatment, expedited orders, shortened lead time, and so on. Benefits are often accumulated over time and personal knowledge and respect is built up, which describes a strong relationship (Guiltinan, 1989).

The loss of benefits often affects the perception of the quality of service, possibly more than other switching costs (Parasuraman et al., 1988). The benefits are also related to interpersonal relationships and friendships. The better the relationship or friendship, the more willing the vendor would be to extend further preferential treatment (Jones et al., 2002). Since the perceived quality of service and interpersonal relationship affect the switching decision heavily (Beatty et al., 1996), lost performance costs will affect the replace/retain decision heavily.

CONCLUSION

Although the literature provides some initial insight into relational switching costs (Booker & Sixsmith, 2010), some gaps in our understanding remain, such as:

1. Which relational switching costs do organisations incur when they replace their vendors?

2. How do relational switching costs affect organisations' decision to replace or retain their vendors?
3. How do decision-makers decide which costs are more salient, and on what basis? Specifically, what criteria do they use to compare the different costs and what issues shape their prioritisation?

The difficulty in identifying switching costs contributes to the fact that the available list of switching costs is very limited (Carlsson & Lofgren, 2006) and is not well-understood. Furthermore, little consideration has been given to the impact of relational switching costs over time, and to evaluating how the impact of the different types of switching costs differs. In addition, there has been little research on the relevance of switching costs to the various types of IT outsourcing. The paucity of information (Carlsson & Lofgren, 2006) on this phenomenon motivates us to study it so as to improve our understanding of a phenomenon that has large financial consequences for practitioners and organisations (Simons, 2009).

The next section reviews the external forces that influence switching costs and eventually impact the decision to switch vendors.

2.4 CHARACTERISTICS OF THE CLIENT-VENDOR RELATIONSHIP

Studying the influence of external forces is of fundamental importance in forming a holistic understanding of a research topic (Hayes & Matthews, 2009). The previous sections in this chapter have examined the factors that affect an organisation's decision to replace its outsourcing vendor. This section looks at the broader issues

that influence the strength of these relationships. Specifically, it examines the aspects of the relationship between an organisation and its outsourcing vendor which may affect the impact of switching costs on the vendor replacement decision.

The thesis posits that the impact of switching costs on an organisation's eventual decision may be influenced by at least two external forces: strategic dependence and cultural fit.

2.4.1 STRATEGIC DEPENDENCE

IT outsourcing is a management strategy whereby the management and operations of services, processes, and components are delegated to third party vendors who specialise in these activities (Farrell, 2010). IT outsourcing has long been recognised as a strategic initiative that can be developed and implemented in order to realise the advantages of cost saving and competitive superiority (Farrell, 2010).

It is of critical importance that an organisation's strategy drive its outsourcing engagements (Farrell, 2010). Within the bundle of outsourced services and operations, certain activities affect the strategic direction of the organisation. Organisations outsource IT services that have a high level of strategic importance to drive IT improvements (Goo et al., 2007). Thus, organisations look for reliable, trustworthy, and ethical vendors to collaborate and interact with during the duration of the IT outsourcing engagement (Goo et al., 2007). The greater the extent to which an organisation outsources its strategy-centric services and operations, the greater will be its dependence on the vendor (Goo et al., 2007).

This could explain the drive by organisations to fully understand their corporate objectives and goals and their core competencies so as to fully utilise IT outsourcing engagements to meet their strategic objectives (Sanders et al., 2007, McIvor et al., 2009). Furthermore, customers are increasingly looking for vendors that can help them with the application of strategic information systems, that is, applications that can provide a sustainable competitive advantage (Goo et al., 2007). IT outsourcing as a strategic initiative inherently suggests that strategic information from the customer's organisation must be shared with their vendor. Fei (2005) suggests that strategy, in the context of IT outsourcing includes:

1. Flexibility
2. A focus on core competencies
3. Strategic alliances
4. Increased expertise
5. Technological innovations
6. Increased knowledge
7. IT infrastructure as a competitive asset in extremely competitive industries
(Whitten & Leidner, 2006)
8. Partnerships for developing and maintaining strategic assets and activities
(Goo et al., 2007)

For IT outsourcing to be strategically significant and provide a competitive advantage, the IT services that are procured must be hard to duplicate, rare, and valuable (Goo et al., 2007). In contrast, an IT outsourcing vendor that wants to be successful should possess services and products that are standardised and common

among IT outsourcing vendors, so as to reap the benefits of economies of scale and reduce the cost of IT for its customers (Goo et al., 2007). The strategic fit between customer and vendor organisations matters more in certain types of outsourcing engagements, where the specific goal of outsourcing is to create a competitive advantage as opposed to reductions in cost. However, a competitive advantage can be created when two organisations unite and strategically plan and implement activities that will lead to the realisation of competitive advantages for both organisations (Goo et al., 2007). This “matching up” of organisational strategies is referred to as strategic alignment in the outsourcing context (Van Lier & Dohmen, 2007).

In the context of IT outsourcing, organisations can sometimes find themselves in a situation where they are not self-sufficient and rely heavily on their vendors, for example, when they have outsourced the support and maintenance of critical IT applications (Straub et al., 2008). Strategic dependence comes into existence when an external vendor provides services that are strategically significant to the customer; the more critical the service to the strategic goals of the organisation, the higher the value of the dependency (Straub et al., 2008). This leads to a large amount of overhead (effort) being expended to manage external parties, making strategy implementation more complicated.

From an RDT perspective, organisational dependencies in the outsourcing context occur when a vendor has resources that a customer needs to meet its strategic objectives. Doing so reduces uncertainty for the customer (Oh, Gallivan, & Kim, 2006). The intensity of the customer’s dependence on the vendor is increased by the

level of skill, knowledge, and experience the vendor possesses in relation to the customer's environment and requirements. A power struggle between the customer and vendor may occur, because the vendor controls the resources that are valued in an outsourcing engagement. However, the vendor is not necessarily the only organisation that possesses the resources the customer organisation needs to meet its strategic goals. Once the customer recognises this, the level of power the vendor has decreases. The complexity of a customer's strategy depends on the amount of control the customer decides to exercise over inter-organisational activities. A higher level of control ensures that the customer's objectives will be met, but also adds additional overhead to the strategy and management of the outsourcing engagement (Goo et al., 2007).

Organisations are moving towards strategic outsourcing and away from transactional outsourcing, which is a recognition of the fact that organisational success often depends on the ability to respond to changes in the market and to develop strategies that allow them to respond rapidly (Farrell, 2010). Strategic outsourcing has become increasingly important because it helps organisations stay adaptable, by shifting risk to the vendor (Whitten, 2009). However, a major factor associated with adaptability is an organisation's ability to respond to changes in its outsourcing agreements (Tan & Sia, 2008), and by extension, manage the cost of switching vendors. Thus, strategic adaptability influences the effect of switching costs on the decisions to retain or replace a vendor (Whitten, 2009). The length of IT outsourcing contracts also affects the strategic flexibility of a customer organisation. Customers should enter into short-term contracts when IT services of strategic importance are outsourced. This will

prevent them being locked-in for long periods of time and mitigates the risk of having to endure long periods of poor performance (Goo et al., 2007).

The relationship between IT outsourcing and organisational strategy can be used opportunistically by vendors to identify actions that increase the perceived level of switching costs (Liu, 2006). A strong relationship between an organisation's outsourcing activities and its strategy heightens the importance of switching costs, and thus their effect on the decision to replace or retain a vendor. For example, a firm may be less willing to replace a vendor, even though the switching costs of doing so are low, because the services outsourced to this vendor are strongly related to the firm's strategy.

2.4.2 CULTURAL FIT

Business processes today rely on extended networks of relationships that cross national and cultural borders. This causes the merging of different ethnic business environments into a global business environment (Fletcher & Fang, 2006). These global environments, be they social, technological, infrastructural, or other, are affected by the different cultures (Lee et al., 2010). This is reflected in the context of IT outsourcing, with large outsourcing agreements being signed between companies from different countries. Vendors provide staff from their home country and resources are often transferred to the country of the customer. An example is a multimillion-dollar outsourcing deal between HCL from India and Fonterra from New Zealand (Those, 2007).

Organisational culture in the context of business refers to how one international business partner operates in terms of communications, shared values, hygiene, self-centeredness, group dynamics, trust, quality, and commitment. Culture is shaped by policies, customs, motivation, team spirit, cohesiveness, language, participation, organisational behaviour, management styles, and work ethic, among others (Dhar, 2006). Cultural differences can vary widely and different cultural groups place different levels of emphasis on the consequences, establishment, development, and maintenance of relationships, and gauge the value of relationships differently (Lee et al., 2010).

Communications plays a large role in the interaction between different cultural groups. Although technological advances aid communications, they can also hinder the relationship between different cultural groups (Sharme et al., 2008). Different cultures use technology and communication mediums differently and the context in which the conversation is held is important (Setlock et al., 2004). Technological communications are part of day-to-day business operations in the form of tools such as Skype, Communicator, and MSN Messenger, to name a few. When cross-cultural communication takes place over these channels, contextual information is lost and cultural differences can exacerbate misunderstandings over messages, which can hinder a respondent's ability to react appropriately to a specific situation. This in turn can lead to frustration, discomfort, and an inability to assess what the correct behaviour should be. It can also lead to unrealistic expectations and lost time and money, further damaging cross-cultural relationships (Sharma et al., 2008).

Cultural dimensions and their effect on the outsourcing relationship have received significant attention (Krishna et al., 2004). Cultural factors play an important part in achieving a successful outsourcing relationship (Gurung & Prater, 2006). In fact, culture plays such a critical role in the success of an outsourcing agreement that it is suggested that organisations should engage with vendors from similar cultures. This would facilitate the development of common interests and mutual understanding to develop and maintain a successful relationship (Sharma et al., 2008).

Despite the impact that cultural differences can have on outsourcing outcomes, cross-cultural outsourcing engagements are still common. This is because efficiencies and resource availability are regarded as more important than cultural differences and the potential outcomes of cultural clashes (Sharma et al., 2008). It is therefore important to incorporate a balanced approach to maintain the outsourcing relationship where cultural differences also receive sufficient consideration. Trust should be developed for both parties to positively assess the actions of the other (Oza et al., 2005).

Clearly, the effect of culture on IT outsourcing is large. This thesis argues that culture influences the perception of relational switching costs and affects the decision to replace or retain a vendor. For example, a firm may be more willing to replace a vendor, even though the switching costs of doing so are high, because the vendor is a poor fit with the firm's organisational culture.

2.5 CONCLUSION

Once a firm decides that it wants to replace its vendor, it has to make a further decision as to whether it should switch to a different vendor or “backsource” its IT services. This study focuses on the initial replace/retain decision, not the secondary decision, leaving the latter for future extensions of this research.

This study is about the role of switching costs in the vendor replacement/retention process. Figure 2 (below) depicts the research framework for this study. The framework shows that while firms may be motivated to replace their IT vendors because of a range of factors (“drivers”), they may also be held back by the switching costs that they may face. The diagram also highlights external forces that may affect the extent to which switching costs influence the vendor replacement/retention decision.

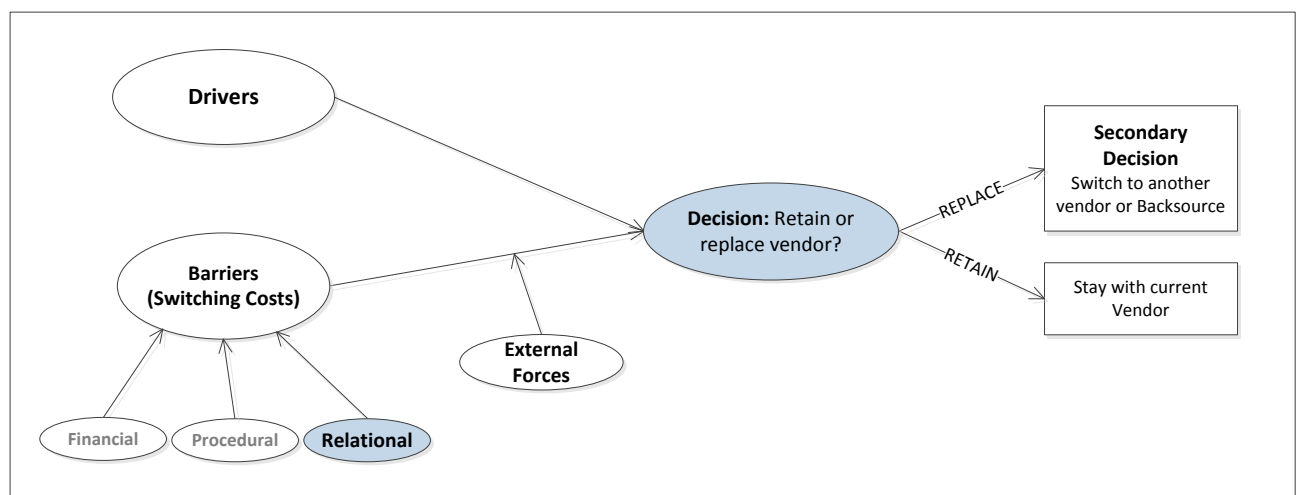


Figure 2: Flexible Research Framework

2.6 CHAPTER 2 SUMMARY

This chapter began with a description of IT outsourcing and then identified the key reasons for organisations to consider switching their vendors (Whitten & Leidner, 2006). It then listed the benefits of switching vendors and the costs of doing so, which can be placed into three categories: financial, procedural, and relational switching costs. Next, three theories (TCT, SET and RDT) were identified to deepen the conceptualisation of switching costs, so as to go beyond a descriptive understanding (Whitten et al., 2010; Lee et al., 2010; Hillman et al., 2009). Following that, the chapter examined the key concept of this thesis – relational switching costs – and analysed how they differ across the various types of IT outsourcing contracts. The chapter concluded with an investigation of the external forces (cultural fit and strategic dependence) that could influence the decision to switch vendors. The next chapter presents the thesis' research methodology, framework, and model for understanding the phenomenon at hand.

3.0 CHAPTER 3: RESEARCH METHODOLOGY

3.1 CONCEPTUAL MODEL

Once a firm decides that it wants to replace its vendor, it has to make a further decision as to whether it should switch to a different vendor or backsource its IT services. This study focuses on the initial replace/retain decision, not the secondary decision, leaving the latter for future extensions of this research.

This study is about the role of switching costs in the vendor replacement/retention process. Chapter 2 examined the factors (“drivers”) that motivate organisations to change their vendors. These factors include: a) a need for additional services or operational scale that the vendor cannot provide; b) becoming aware of their vendor’s rivals, who are competing in the same market; c) the failure of the vendor to meet their performance expectations; and d) a desire to rationalise the number of vendors they use to minimise management overhead (Whitten et al., 2010). In contrast to these “push factors”, less work has been done on examining the impact of the switching costs and their relative influence. This study posits that the impact of these costs on an organisation’s eventual decision may vary depending on the presence of external forces, such as cultural fit and strategic dependence. Figure 2 in the previous chapter depicts the research framework for this study. The research questions for the thesis are:

1. Which relational switching costs do organisations incur when they replace their vendors?

2. How do relational switching costs affect an organisation's decision to replace or retain its vendors?
3. How do decision-makers decide which costs are more salient, and on what basis? Specifically, what criteria do they use to compare the different costs and what issues shape their prioritisation?

This chapter describes the research methods that were used to answer these questions.

3.2 RESEARCH PARADIGM

A research method refers to the way in which data is gathered and analysed to explore the underlying context and process of a phenomenon (Pettigrew, 1985). The trustworthiness of a research method can be enhanced by incorporating an existing theoretical underpinning.

There are two main approaches to research. The positivist approach to research is useful for providing a causal explanation of a phenomenon (Roth & Mehta, 2002) by evaluating theory-based predictions that use constructs specified *a priori* (Dubé & Paré, 2003). In contrast, the interpretive approach focuses on learning how the individuals involved in a certain phenomenon understand it, so that researchers can learn about their personal interpretation of reality (Roth & Mehta, 2002). The interpretive approach is used to gain deep insight into a phenomenon from the perspective of those who interact with the phenomenon (Schwandt, 1994).

Interpretive research assumes a socially constructed reality and suggests that the researcher acts as a theoretical lens through which the reality can be revealed (Cavana et al., 2001). Moreover, interpretive research supports the social world's characteristics by allowing for interaction between the participants and the researcher (Mingers, 2001). It allows for the researcher's interpretations to play a key role, where substantive arguments rather than statistical accuracy form the validity of the research (Garcia & Quek, 1997).

Although a positivist approach can provide a causal explanation, it is less useful for uncovering hidden realities and patterns (Roth & Mehta, 2002) compared to interpretive research. This study examines the variety of switching costs that IT managers encounter, how they prioritise them, the criteria they use to do so, and the impact of these factors on their vendor replacement/retention decisions. The limited research on these issues (Carlsson & Lofgren, 2006) means that there is a need for studies focused on exploring the phenomenon, rather than providing explanations or testing hypotheses. At the same time, the limited range of clearly defined constructs highlights the need to surface the concepts for the theory being developed from the words of those involved in the phenomenon. Thus, this study will use a series of interpretive case studies to answer the research questions.

It is important to note that the conceptual framework (Figure 2) is a flexible framework for the thesis and is used as a mechanism to help guide the research; that is, no testing of relationships between the concepts will occur. Instead, the thesis' focus will be to understand how clients decide which type/s of switching costs

are relatively more important. Since relational costs are more intangible than other types of switching costs, how do organisations compare them with the other types of costs that are more quantifiable and measurable? More specifically, which particular types of switching costs are considered (and conversely which are ignored or given a lower priority) in vendor replacement/retention decisions and why?

3.3 CASE STUDY METHODOLOGY

This thesis uses case studies, an explanatory method viewed as an excellent method for the in-depth investigation (Yin, 2003) of IT organisations (Darke et al., 1998). Case studies are “an empirical inquiry that investigates a contemporary phenomenon within its real-life context” (Yin, 2003). They are regarded as a good method to employ when trying to understand a complex issue and are seen to be robust enough to be used across industries and disciplines (Eisenhardt, 1989). An explanatory case study investigates data from a holistic and an in-depth level and facilitates the process of understanding the phenomenon at hand (Yin, 2003).

Case studies in the field of information systems allow researchers to study aspects of information systems in their native operating environment, learn from close proximity, and develop or confirm theories from practice (Eisenhardt, 1989). Furthermore, they allow for a thorough comprehension and a holistic view of the phenomenon in its natural setting (Creswell, 1998; Eisenhardt, 1989). Additionally, case studies allow researchers to understand the organisational operating environment and the associated difficulties, allowing valuable conclusions and observations to be made (Benbasat et al., 1987).

Case study research in the field of information systems has demonstrated an ability to produce rich information and understanding of the interaction between humans and technology (Orlikowski & Barousi, 1991). Moreover, it has been described as a method of gathering sufficient material for analysis (Miles & Huberman, 1994) and is an appropriate approach when studying current events where it is not necessary to control behaviour or variables. Therefore, a multiple case study approach is appropriate when the intent of the research is to aid description, or theory building and testing (Yin, 2003)

3.3.1 MULTIPLE CASE STUDIES

Both the single and multiple case study approaches were considered for this research. The single case study is useful in extreme cases where an in-depth study is done of one case, possibly because a duplicate of the extreme case would be hard to replicate (Miles & Huberman, 1994). Multiple case studies are considered a better fit for typical cases where multiple cases are available (Miles & Huberman, 1994). Multiple case studies are regarded as having the following advantages over single case studies:

1. The precision of the findings are strengthened (Miles & Huberman, 1994).
2. The validity and stability of the findings are enhanced (Miles & Huberman, 1994).
3. The evidence from multiple cases are regarded as being more convincing (Yin, 2003).

4. The robustness of conclusions are enhanced (Yin, 2003).

A multiple case study can be regarded as a replication of a single case study and therefore, has the advantages associated with a larger audience and a larger pool of experience and knowledge (Yin, 2003). A multiple case study approach is used in this thesis, beginning with a series of pilot-test interviews (Dubé & Paré, 2003). These pilot interviews were used to verify the questions, evaluate the quality and relevance of the data gathered, and to test and refine the interview process. Following that, other sites for the study were identified using the sampling method below.

SAMPLING

Purposeful sampling refers to identifying a sample of entities for a research project that has the best ability to produce results of interest, by selecting entities that contain the characteristics of interest (Guarte & Barrios, 2006). A reciprocal relationship exists between purposeful samples and the opportunity to discover operationalised practices (Guarte & Barrios, 2006). Furthermore, very specific information can be gathered on the topic by directing the data gathering towards a group that contains relevant data (Guarte & Barrios, 2006). For this thesis, sampling was from organisations known to have IT outsourcing engagements, improving the chances of discovering relevant information. These organisations were contacted and permission to interview them was obtained.

SELECTION CRITERIA

Organisations were chosen according to the following criteria:

- a. Relevant context:* Each organisation should exhibit the required aspects of the study so that the data gathered will be relevant (Curtis et al., 2000). In this study, these aspects were the use of IT outsourcing and experience in switching vendors, for example, instances where IT vendors were replaced.
- b. Possibility of gathering rich data:* This will help improve the quality of the findings and will be found in organisations that contain a large aggregate of relevant information and practical experience (Curtis et al., 2000; Miles & Huberman, 1994).
- c. Maximise variance on dimensions of the phenomenon:* This will increase the generalisability of the findings, and will be enhanced by selecting organisations from different industries, that work with multiple vendors, and have varied experiences with vendor replacement/retention (Miles & Huberman, 1994).
- d. Possibility of gathering reliable data:* This will be enhanced by studying organisations with well-organised and large IT departments (Curtis et al., 2000; Miles & Huberman, 1994).

Based on the above criteria, two possible research sites were identified in Auckland, New Zealand, the location where the research was conducted (Dollinger et al., 1997). These organisations met the criteria required to gather rich and relevant data and to provide insight and explanations for answering the research questions (Curtis

et al., 2000). The organisations have in-house IT functions which enhanced the probability that resources with relevant experience would be available. Intellectual property and organisational learning (ability to learn from the experiences of the organisation) played a role in the selection process. An organisation rich in IT outsourcing intellectual property would clearly provide greater insight into the phenomenon at hand and would improve the ability to learn from their experiences. It stands to reason that an appropriate organisation will contain the intellectual property (and learning opportunity) required for this study. Organisations with a reputation and who possess experience in outsourcing (as listed in Table 3) were chosen (Gallivan & Oh, 1999). Subsequently, the corporate reputation of the researched organisations and the reputation (Dollinger, 1997) of their outsourcing partners enhanced the believability, trustworthiness, and legitimacy of the findings (Castro et al., 2004; Wong, 2008).

Large organisations in the public and private sector were chosen because they are more likely to engage and interact with multiple vendors and hence possess a larger bucket of relevant experience that this study can draw on. Additionally, the recent shift from transactional to strategic outsourcing required a selection of at least one organisation with a strategic outsourcing engagement.

ROLE OF FIRM SIZE IN OUTSOURCING

This study searched for large outsourcing contracts which can only be found between large vendor and customer organisations. Large outsourcing contracts ensured the presence of multiple technologies which provided some insight from a transactional and social perspective, a large number of people interacting at all

levels (senior management to operational staff) which provided insight from a relational, financial, and procedural perspective as well as identifying the different priorities between different levels of the organisation, and a wide selection of participants that would not be present in a small/medium organisation. Organisations with large outsourcing contracts are familiar with the process of comparing vendors when deciding whether to replace or retain them, and were thus seen as more able to relate their perceptions of the various switching costs they consider and how and why they prioritise them. Although small and medium-sized firms may also replace or retain IT vendors, it is more likely that they work with a limited range of service providers as they do not have the infrastructure to engage in any significant outsourcing engagement. While they may outsource their email of five users or their single server to a single vendor, this is unlike large firms who usually work with a variety of vendors and hence are more experienced in understanding the factors that shape switching costs. Additionally, small and medium-sized organisations do not possess a large number of people who can partake in an outsourcing engagement. Typically the vendor organisation will interact with a single person from the customer's side.

PRIVATE VS PUBLIC SECTOR

Private sector organisations have a greater drive to increase revenue and profit and reduce costs as this directly relates to the success of the business. Some public sector organisations are established to deliver a service and although keeping costs down is important, the need to increase revenue and profit does not exist. Because of the mismatch in priorities, comparing a public sector organisation with a private sector organisation might not yield very reliable or consistent results. However, the

public sector organisation chosen for this study was purchased by the state not only to deliver a service but at a minimum to be able to cover its operational expenses and at best return a profit (New Zealand Government, 2014). Because of this, the drive to increase revenue and reduce cost is as great in this organisation as in any private sector organisation and the difference in sectors would not impact the results in this case.

STRATEGIC VS TRANSACTION OUTSOURCING

Traditional outsourcing contracts are the transfer of routine services to a vendor organisation (Farrell, 2010). Transactional outsourcing is common and most organisations with outsourcing contracts have this type of outsourcing contract (Farrell, 2010; Harland et al., 2005). A shift to strategic outsourcing where the vendor and customer organisation share strategic direction, embark on mutual innovation, and invent new ideas is less common (Farrell, 2010) and identifying an organisation with this type of outsourcing contract is difficult. However, the comparison between a strategic outsourcing engagement and a transaction outsourcing engagement provides valuable insight and this study set out to select at least one strategic outsourcing engagement across the two selected organisations.

The specific selection criteria are captured in Table 3.

Attributes	Measures
Revenue	Greater than NZ\$500m
Staff	More than 3,000
Role of IT (Explained below)	Enabler (direct/indirect Influence

	on Revenue)
IT Staff	More than 200
IT Budget	Greater than NZ\$20m
User base	More than 2500
IT outsourcing features(ITO) :	
1. ITO accounts for more than 30% of the IT budget	Yes
2. Onsite ITO resources	Yes
3. Constant interaction between customer and vendor staff	Yes
4. ITO staff is embedded in the IT department	
Experience in switching vendors/customers	Yes
Experience in retaining vendors/customers	Yes

Table 3: Case Study Selection

Once the sites were chosen, participants within each organisation were identified as key informants based on their experience with the phenomenon at hand (Curtis et al., 2000; Miles & Huberman, 1994). All of the participants were very experienced with outsourcing and vendor switching as the unit of analysis was the organisation's experience(s) in switching vendors. Although two case studies were selected, the analysis was based on their experience(s) with switching vendors (unit of analysis) rather than the organisations themselves. For example, if a firm had changed three vendors, these counted as three separate incidents and data was collected about the issues that were pertinent to each one. However, some issues were organisation-wide concerns and were relevant for all of the incidents. For example, if a firm hired a new CEO or CIO, his/her strategy or goals would influence how most or all IT vendor relationships would be managed. The organisations' experience with

switching vendors was analysed and used to answer the research questions and to understand the impact of different switching costs on the vendor switching decision. Once an organisation decides to switch vendors, then an implementation phase is entered into; however, the implementation phase was not considered to be within the scope of this research. The participants were in positions of authority (strategic, operational, and technical) with decision-making rights, and thus enhanced the believability and trustworthiness of the findings (Curtis et al., 2000; Miles & Huberman, 1994). Decision-making rights are the delegated authority assigned to individuals by an organisation which gives them the right to decide whether to switch vendors and enter into a new outsourcing contract on behalf of the organisation. Additionally, the typical operational and technical roles that manage an outsourcing engagement are IT managers, infrastructure managers, technical managers, and service delivery managers. These roles have daily operational and technical interaction with the vendor and are responsible for the operational success. This study focused on the operational and technical managerial roles because the operational and technical staff (not managers) had limited interaction with the decision-making process and no influence on the decision.

The research commenced with a pilot study (2 senior managers, 1 operations manager and 1 IT manager) (Dubé & Paré, 2003) from different organisations that did not necessarily meet the criteria in Table 3. The pilot sites did not have to meet the selection criteria as these interviews were only used as a test run to verify the questions, evaluate the quality and relevance of the data gathered, and to test and refine the interview process. The results were integrated into the findings of this thesis. The data from the pilot study was not used in the results of this research.

Except for the order in which the questions were asked, no changes were made to the methodology.

For the final data collection, two case studies were conducted. The first site, with 12 interviewees, is a retail organisation and relies on IT to co-ordinate and plan the logistics and delivery of its products. Without the IT function, the organisation cannot continue to operate. Thus, IT has a direct influence on its revenue. The second research site, with nine participants, is in the transport and infrastructure industry and relies on IT for back-end services (i.e., email, communication, documentation). In this case, IT is a support function and the organisation does not rely on its IT function to help perform the activities required to generate revenue; that is, the organisation's services can be provided irrespective of whether its IT function is online. However, lack of an IT function would require a greater effort and in this case, IT does help provide support, efficiency, and an easier way of working.

Thus, the research sites maximise variance in two dimensions: type of IT use (front-end vs. back-end) and industry (retail vs. infrastructure), while being similar in that both work with multiple vendors. These dimensions are relevant to the topic being studied because: a) the role of IT in an organisation affects the impact of switching costs on its operations; and b) different industries have different cultures, dependence on IT, and prominence of outside vendors in their IT operations. The differences in the way IT is used in the industry sector increases the generalisability of the findings (Miles & Huberman, 1994).

The interview participants had the following roles (Table 4):

Position	Total	Case Site A	Case Site B	Pilot Study
Executive/Senior IT Managers	4	1	1	2
IT Operations Managers	3	2	0	1
Commercial IT Managers	3	2	1	0
IT Technical Managers	4	1	3	1
Business Unit Managers	3	1	2	0
Service Delivery Managers	4	3	0	0
Project Management Office Managers	4	2	2	0
TOTAL	25	12	9	4

Table 4: Interview Participants

ACCESS TO PARTICIPANTS

Access to the organisations was gained by approaching senior managers of the pre-selected New Zealand organisations (Table 3) for their support of this project, and they were briefed on the objectives and potential outcome of the study. The email addresses of the managers were obtained via one of two methods:

1. I possessed a number of email addresses because of my industry experience and previous interactions with, or introductions to, the potential participants;
2. To obtain the email addresses that I did not possess, I contacted my acquaintances in the industry who possessed them because of their role in the industry.

The senior managers that agreed to support this project were asked to assist in recruiting participants meeting the criteria outlined above. The managers of the relevant departments were then asked to identify potential participants with experience in the phenomenon. The managers forwarded an invitation to potential participants, who were asked to directly contact me if they were interested in participating. Face-to-face interviews were then arranged based on the employees' schedule and preferences.

3.4 DATA GATHERING AND ANALYSIS FRAMEWORK

The gathering and analysis of relational switching costs were conceptualised from two perspectives: a) as being embedded in the decision-making process (Chia & Langley, 2004); and b) having a variance of influence on the relational variables and on the eventual decision (Langley, 2008).

3.4.1 *NARRATIVE ENQUIRY*

Narrative enquiry and the long interview technique (McCracken, 1988) was used to interview the participants. Data was gathered on: a) relational switching costs, b) influence of switching costs, and c) external forces. McCracken's technique (1988) was employed in a semi-structured fashion. This technique allowed participants to reflect upon discussion in a comfortable and holistic manner. The narrative enquiry allowed the participants to tell their own story (Tan & Hunter, 2002), thus providing a contextual sphere of understanding. Many IT researchers have described narrative enquiry as a good method of eliciting information (Tan & Hunter, 2002).

Narrative enquiry has four main steps (Tan & Hunter, 2002). One, the “grand tour” refers to the initial general questions and aims to put the participant at ease. The questions are non-directive and the participant has control over the substance of the answers (Tan & Hunter, 2002). Two, the enquiry is based on predefined questions (see Appendix B). These questions, although still general in nature yet within the context of the study, act as a doorway into the discovery of new information (Tan & Hunter, 2002). In this study the literature review was used to compile a list of questions that would form the base of the enquiry. Three floating questions were used. Floating questions delve into any relevant and interesting answers that the participant might give (Tan & Hunter, 2002). These questions depend on the information the participant reveals when answering the predefined questions. The aim is to discuss and gather new information that might not have been apparent from the literature review and to capture unexpected observations or perceptions from the participant’s perspective (Tan & Hunter, 2002). The final step is employed towards the end of the interview and is called planned prompts. These questions are more generally phrased and the answers are expected to deliver any general or specific pieces of information that might not have been covered during the interview (Tan & Hunter, 2002).

The interviews were performed by the researcher according to the ethics principles described in the ethics approval document (EA1) that was submitted to the AUT Ethics Committee on July 2013. The data was collected between October 2013 and February 2015. The interviews took place on the premises of the identified organisations. All interviews were recorded and transcribed by a professional

transcriber and the transcriptions were not reviewed by the participants. All participants completed and signed the consent form as described in the ethics principles.

3.4.2 PHYSICAL ARTEFACTS

In addition to the interviews, relevant artefacts were examined such as procurement process documentation, weighted scorecards, transition plans, and vendor switching programme definition documentation. Examples of the artefacts can be seen in the results chapter (Chapter 5) as they contribute to the findings. The multiple sources (interviews and physical artefacts) were triangulated to corroborate the findings during the data analysis process. Each artefact acts as a building block towards an understanding of the whole phenomenon. The convergence of multiple sources strengthens the findings and the collective view promotes a more in-depth understanding of the research topic (Yin, 2003).

3.4.3 THEMATIC ANALYSIS

Qualitative thematic analysis was employed as a theoretical approach for analysing the data and answering the research questions. Thematic analysis is a method by which themes can be identified from the data, and patterns reported (Braun & Clarke, 2006). It is regarded as an excellent method for unpacking data and an excellent process for coding qualitative research (Byrne, 2001). Data coding is a method of labelling the findings (Byrne, 2001) and is usually the first step to qualitative data analysis (Bryman & Bell, 2011). Coding is a simple mechanism to

analyse qualitative data, in which a word or phrase is used to summarise a sentence or a longer piece of text (Meyers, 2009).

Thematic analysis provides a mechanism by which data can be categorised and focused. It allows the researcher to find a path through the data (Bryman & Bell, 2011) by reducing the noise of irrelevant data and capturing and categorising relevant data into themes. Multiple levels of categorisation can occur with the objective of answering the research question (Braun & Clarke, 2006). The themes are expected to be from different sources: the literature and the data.

Furthermore, thematic analysis has the following advantages:

- It is a relatively easy method by which the data can be understood and the analysis can be performed by researchers with no experience (Braun & Clarke, 2006).
- It provides a degree of flexibility where one does not need to try to fit the data into a specific framework; the data can guide the researcher towards the categorisations (Braun & Clarke, 2006).
- It can summarise key features of a large body of data which allows the researcher to focus on relevant sections of the data (Braun & Clarke, 2006).
- It can highlight similarities and differences across data (Braun & Clarke, 2006).
- Unanticipated insight can be gained by categorising the data (Braun & Clarke, 2006).

In this study, the expected outputs from the analysis were the discussion of scenarios where IT outsourcing vendors were replaced, identification of the reasons why they were replaced, the factors that played a role in the decision to replace them, and the role that strategy and culture played in the eventual decision.

3.4.4 REFLECTION

Interpretivists can be described as those who believe that the world is a product of perception. They believe that the world can only truly be understood if one is a participant and that one's personal values will inevitably have an effect on the way occurrences are perceived. They believe the world is adaptive and has a large portion of unpredictability (Meyers, 2009; Guba & Lincoln, 1994; Grant & Giddings; 2002).

As a practitioner, the positivist mind-set initially seemed more reasonable. However, first-hand experience in the industry has highlighted the value of authenticity. Since existing models can be less useful for achieving this, the researcher decided to use an interpretivist approach, using existing theoretical constructs to guide the understanding of the field but not to determine the kind of information obtained from the study participants. As this is an interpretive study conducted by a practitioner, the possibility of bias and preconceptions do exist. However, the researcher's personal experience in the domain of research will help sensitise him to a greater understanding of the phenomenon.

3.5 CHAPTER 3 SUMMARY

This chapter started by reviewing the conceptual model used for this study and explaining the rationale behind the use of an interpretive research paradigm. It then argued for the appropriateness of the multiple-case study method and continued with a description of the plan for gathering and analysing the data.

4.0 CHAPTER 4: RESULTS OF THEMATIC ANALYSIS

This chapter begins with organisational vignettes, which are short descriptions of the context in which each organisation is located. It continues with a discussion of the data and the methods used to analyse it. It describes the steps that were followed and identifies the main themes. The chapter concludes with an explanation as to how the data was validated.

4.1 ORGANISATIONAL VIGNETTES

Interviews and documentation were used to develop vignettes for each organisation studied. Table 5 below provides some broad demographic details of the organisations. These vignettes describe each organisation's experiences with switching outsourcing vendors and the decision processes they went through. The organisations in the case studies present a wide spectrum of IT outsourcing contracts and a vast experience of switching vendors over the past 10 years. It is worth noting that, to preserve the anonymity of the organisations, references for the information in the vignettes will not be provided.

	Organisation A	Organisation B
Industry	Retail and manufacturing	Transport, shipping, and property management
Size	Large organisations (more than 3,000 employees), with a significant IT function (> 200 staff)	
IT functions outsourced	IT infrastructure, enterprise resource	Desktop support, printing services, mobile

	planning, data centre, network connectivity, server hosting	services, IT call centre, data centre
Experience with changing outsourcing vendors	Switched IT vendors multiple times	
Insourcing	Have not insourced an IT function over the past 5 years	Have insourced at least one IT service over the past 5 years

Table 5: Descriptions of Organisations Studied

ORGANISATION A

Organisation A is a large organisation in the retail and manufacturing industry in the private sector of New Zealand. It was formed in the early 2000s by a merger between two co-operatives and has grown to a company with a number of subsidiaries and joint-ventures across the globe. The merger was followed by regulatory changes which facilitated the export of their product to international markets. The organisation underwent a capital restructuring exercise in the mid-2000s as it needed access to capital to support its global growth. After that, it purchased a number of plants and other companies in other countries. Shortly thereafter, the organisation ended the initial capital restructure and planned another capital restructure with the goal of increasing incentives for various shareholders. The first step of the capital restructure was to increase the minimum number of shares that shareholders could own as well as establish an incentive scheme that would persuade shareholders to keep their shares even if their value declined. The second step changed the share ownership value and the third step changed the mechanism for evaluating and selling shares.

In 2015, this organisation cut a number of jobs because its profits declined. Market analysts suggested that the organisation needed to reduce the number of managers and increase its focus on marketing to improve its performance. Poor governance has also been cited as contributing to some of its problems. As it has a co-operative shareholders model, the interests of the company were not always put above the interests of the shareholders. Another reason cited for the down-turn was the lack of pricing information which inhibited production and investment decision-making.

This organisation's information systems department supports IT projects, IT infrastructure, and IT applications for operations across the world. A variety of cutting-edge technologies, like virtualisation, "green field" implementations, and newly-developed disaster recovery systems, are utilised. The organisation has an IT strategy of utilising multiple outsourcing vendors to reduce costs and improve the level of service. This supports its IT vision and enables it to manage its IT infrastructure effectively while supporting its global operations. Its previous strategy involved having a small number of large outsourcing contracts, while it is now relying on multiple specialised vendors who support various different services.

Additionally, the organisation's IT strategy highlights a different way of delivering IT services to its business customers by providing them "*as a service*", increasing their flexibility and reducing the capital expenditure required to establish and maintain such services. Organisation A has dismantled its single large infrastructure outsourcing contract and has divided it into multiple sections with different vendors supporting different services. The multi-vendor model requires additional governance

and operational level agreements had to be implemented in order to motivate the vendors to work together. The IT department is headed by a chief information officer and his direct reports are the managers of the applications, infrastructure, project office, IT architecture, and security and business engagement departments. The chief executive officer considers IT to be very important for competitiveness, and IT is critical to providing data to decision-makers and staff. The chief financial officer felt that that business is about relationships, but that technology is critical for business operations. This organisation invests in research and innovation, and is well-placed against others.

Organisation A's annual revenue is over NZ\$500 million. Its products are produced across New Zealand and in other parts of the world. It retrieves the raw material from across New Zealand and then transports it to several plants within New Zealand for further processing. The organisation manufactures a variety of products locally and ships these products locally and across the world.

This organisation has an annual IT budget in excess of NZ\$20 million and more than 200 IT staff members. The IT function, and by extension the outsourced IT services, has a direct effect on the organisation's revenue. If the IT services fail for an extended period, the organisation will find it very difficult to generate revenue. This organisation has over 2,500 IT users and relies heavily on vendors to support them. It mainly uses the services of five large vendors, each with an annual revenue over \$1 million. Employees from the vendors are located on the organisation's premises and are embedded into the IT function, and interaction between customer and vendor staff occurs regularly when operational activities like the commissioning of

new services, failures, architecture re-designs, and service improvements need to occur. The vendor staff possess intellectual property and knowledge that are critical for Organisation A's operations. More than 30% of their IT budget is utilised on outsourced services. The outsourcing contracts cover a range of IT services that are described below.

1. IT infrastructure

Organisation A outsources a large portion of its IT infrastructure services. Server infrastructure, maintenance, and support is outsourced to one vendor. The multi-million dollar outsourcing contract is supposed to support the organisation's global infrastructure and improve services and reduce cost. The global support contract enables the organisation to support its operations without a large capital investment as well as support the business and strategic direction. The outsourcing contract went through an RFP process and a financial business case was developed, with the aim of saving costs, reducing working capital, and ensuring the best outcomes for the organisation. The contract spans hundreds of offices across a number of countries and includes the local area networks (LANs), servers, networks, email systems, and software.

2. Enterprise Resource Planning

The enterprise resource planning (ERP) system, environments, hardware, and release platforms are hosted off-site and a large portion of the intellectual property associated with the ERP lies with the vendors. The ERP system supports local and

global operations, and the integration of local and global business units was required. A remediation of multiple ERP systems was done and a single instance was established, which required highly skilled and experienced resources.

3. Data centre

A full outsourcing engagement, including data centre relocation, network and systems management, and a transitioning project, was undertaken and most of the organisation's IT equipment is now managed, maintained, and supported by a vendor, who hosts it off-site at its data centre. The vendor's recognised expertise in data centre management and equipment up-time was an attractive attribute when Organisation A was choosing an outsourcing partner.

4. Network connectivity

Voice and data infrastructure and services are managed, maintained, and support by a vendor. A wide variety of voice, data, and telecom services are utilised by this organisation. Related architecture, wireless broadband, wide-area-network, and communication services as well as IP implementations are outsourced. Additionally, the intellectual property that was present in the infrastructure teams was transferred to the vendor by knowledge-sharing and by transferring the staff over to the vendor.

5. Server hosting

The hosting of the server, network, and applications are managed, maintained, and supported by vendor organisations. Over 1,000 application and service servers are

outsourced to reduce the fixed cost of such assets and to increase service levels. Cloud computing is also a service that is utilised in a software-as-a-service offering and support services in over 40 countries. The outsourcing contract moved away from traditional outsourcing engagements when an outcomes-based model was chosen. The vendor manages and is fully accountable for the service delivery and some aspect of consumption based pricing are incorporated.

This organisation has experience in identifying, selecting, managing, and replacing vendors. It has multiple current outsourcing contracts and has not considered insourcing any of its services in the past five years.

ORGANISATION B

Organisation B has a similar profile to Organisation A, but is in the transport, shipping, and property management industry and also part of the public sector. It has sites across New Zealand which it utilises to transport its customers' products around New Zealand. It too has an annual revenue of over NZ\$500 million. The original organisation was established in the late 1800s and was Government-operated. It has gone through a number of acquisitions and name changes. In the early 1990s, the organisation was privatised; however, the Government repurchased it in the late 2000s and, along with other related organisations, it was merged into one large organisation, which is its current form. Significant capital was provided to support the sustainability of the organisation and this was known as the "turn-around plan". This plan was intended to support the organisation until its revenue could cover its operating costs, a process which was expected to take 10 years. The turn-around-plan had a number of steps, including better vehicle

reliability, reduced transport time, increased transportation routes, improved access into major cities, increased transport capacity, new transportation vehicles, and IT systems and process improvements. The revenue targets and improvement plan were hampered by the Christchurch earthquakes, as some services and transportation routes were cancelled or disrupted.

The strategy of this organisation is focused on transformation and to meet the requirements of the capital investment by the Government. The transformation includes infrastructure upgrades, equipment modernisation, and improvements to facilities and systems. The plan is focused on flexible service delivery while improving reliability and speed and increasing and growing the organisational revenue. As mentioned in the previous paragraph, the Christchurch earthquakes and other natural disasters have unexpectedly inhibited its growth. On the upside, the revenue growth rate has exceeded the GDP growth rate, and customers seem committed to utilising their transportation services.

The business plan includes investigating non-core services (like IT) in order to reduce the capital investment and potentially reduce operating costs and improving service levels. The plan has recently undergone a review and a new plan has been developed based on the learning from the recent past. The improved plan still focuses on revenue growth and expanding the organisation's reach; it includes the objective of being a financially sustainable organisation by 2020. It also includes lower operational spending, reprioritising capital expenditure, and asset rejuvenation with the aim to achieve the financial targets. Additionally, operational projects focusing on performance and productivity have been undertaken.

This organisation's IT department has more than 200 IT staff and over 2,500 IT users. It too relies heavily on vendors and the vendor staff is on-site and is embedded into the IT function. It works mainly with three large vendors, each having annual turnover of more than \$1 million. Daily interaction between the vendor and customer staff occurs and the vendor possesses important intellectual property and knowledge about the customer's IT operations and systems. The annual IT budget is greater than NZ\$20 million. The purpose of the IT department is to support organisation-wide business operations and objectives by supporting core technological systems, processes, and equipment.

One of the organisation's key projects is the rejuvenation of an operational support system that is used by one of the largest revenue generating business units. Asset management and data centre relocation are also key projects, while cloud computing, software-as-a-service, mobility, business intelligence, Voice-over IP, business continuity, and disaster recovery are lower in priority. Since it was built out of a merger of a number of organisations, a new senior IT manager was needed to bridge the gaps caused by the integration of technological platforms and processes. This CIO role was advertised in the early 2010s and this position required someone who appreciated the importance of technically merging the organisations, who understood legacy systems and issues, who could strategically plan the IT direction, and who could harness technology to support the business objectives. This person was required to be visionary and the projects and prioritisation of IT activities all needed to align to the business strategy and the turn-around-plan.

The newly-appointed CIO was focused on the commoditisation of technical services which could improve IT's ability to respond and support business change. He feels that IT is seen as an enabler within the business and has a key role to play in terms of availability, responsive, and stable services that can support the organisation's transformation and service delivery capability. The direction of IT is focused on the turn-around plan and how IT can support the objectives. All IT activities and projects are planned and prioritised according to the plan. In the early 2010s the IT projects and IT staff were projected to significantly increase while business transformation activities were started. The asset management system and other revenue generating support systems are examples of this. In 2015, the IT projects and IT staff were drastically reduced, as the organisation's plan to reduce costs was initiated. A number of IT services (in addition to the services that were already outsourced) were outsourced. These services included IT infrastructure, IT project management, IT service delivery, and IT applications.

This organisation utilises more than 30% of its IT budget for outsourced services but the type of outsourced contracts differ from organisation A. They include:

- 1. Desktop support*

This organisation went through a large outsourcing drive and one of the services that was outsourced was desktop support. Desktop support services and desktop, laptop, and tablet support, maintenance, and replacement services were outsourced to a vendor. A year-long project was embarked upon. This first six months were dedicated to an RFP process identifying, evaluating, and choosing the outsource

vendor. The following six months were spent on building a relationship with the outsourcing vendor and upgrading and rolling out new desktop hardware. This was done alongside the old technology in order to reduce business disruption.

2. Printing services

This organisation initiated a large project that would outsource organisation-wide printing services to improve services and reduce capital expenditure. The project entailed vendor evaluation and selection, followed by a replacement and roll-out project which saw all printing services being replaced by the vendor's printers. All printing services including printers, paper, wireless printing maintenance, support, and management is outsourced. The switch from in-sourced printing caused some business disruption but the eventual outcome was positive as all new equipment with new technology was rolled-out on a pay-as-you-go basis based on the amount of printing that occurred. Service level agreements and service expectations were implemented and the vendor assumed total accountability.

3. Mobile

The organisation started this multi-level outsourcing engagement by first outsourcing its mobile platform. The mobile platform is used to carry the mobile voice and data across the telecommunication backbone. Thereafter the organisation outsourced its mobile devices, the supply and repair and management of the mobile devices, and then continued with the outsourcing of the security and application management aspects. Currently the entire mobile platform, as well as the mobile devices and

application supporting the mobile devices and mobile security, is outsourced to a third vendor organisation.

4. Call Centre

The call centre management, staff, hardware, software applications, and voice connectivity are outsourced to a fourth vendor organisation. The call centre was initially an in-house service that received customer orders for transportation of goods. The service as well as the technology (telephones, servers, IVR call management, order recording software, etc.) are now all outsourced to the vendor, who assumes total accountability for the call centre services.

5. Data Centre

One of the major projects undertaken in recent years was the data centre relocation, hosted by a vendor organisation. The organisation's service, network, application infrastructure management, support, maintenance, connectivity, and security are now outsourced to a fifth vendor organisation. The data centre move was partly done because of the earthquake risk to the current location and the data centre was moved from one of the vendor's locations to another.

This organisation also has experience in identifying, selecting, managing, and replacing vendors. It also has multiple current outsourcing contracts which it manages on a daily basis. However, unlike Organisation A, Organisation B has insourced some of its outsourced services in the past five years, that is, the IT call

centre. Additionally, unlike Organisation A, IT does not have a direct effect on the organisation's revenue. If the IT services are disabled for an extended period of time, this organisation will be able to continue to operate and perform its revenue generating activities.

The two cases are similar in some aspects but vary across others. Organisation A has outsourced some of its key services while Organisation B has outsourced some of its secondary services. Also, Organisation B has experiences with insourcing and is thus more resilient to IT outages than Organisation A. The similarities and differences in the cases will help answer the research questions by providing possible explanations for contradictory findings and by reducing bias either way.

4.2 THEMATIC ANALYSIS

Next, thematic analysis was used to identify themes and patterns in the data, following Braun and Clarke's (2006) five-phase approach. Thematic analysis is employed as a method by which data can be analysed, themes can be identified, and patterns can be reported (Braun & Clarke, 2006). The themes were uncovered through the interviews and the physical artefacts were used to support the uncovered themes. Example of the artefacts can be seen in the results chapter (Chapter 5) where they confirm and support the findings.

This research employed a five-phase data analysis approach based on Braun and Clarke's (2006) "phases of thematic analysis". The five-phase approach is not a rule, rather it is a guideline as to how to approach thematic analysis and a level of

flexibility, pragmatism, and a fit with the data/research needs to be applied. This approach signifies one way of performing thematic analysis and because of its independence it can be applied to a wide range of topics. It was chosen for this research because it can be applied to:

1. A wide range of research questions (three questions in this case)
2. People's experiences and understandings
3. Transcripts from interviews
4. Theory driven analysis; that is, the aim to answer the research questions

4.3 PHASE 1: FAMILIARISATION WITH THE DATA

In total, 25 interviews were conducted and recorded and the data was transcribed by a third party. The transcripts were read several times in order to gain familiarity with the depth and breadth of the data and to aid in the understanding and context of the discussions (Braun & Clarke, 2006). The transcripts were read three times and initial conceptual ideas and patterns started to form. The discussion transcripts contained approximately 120,000 words.

4.4 PHASE 2: GENERATING INITIAL CODES

In this phase, initial codes were developed by identifying interesting and relevant features within the data set (Braun & Clarke, 2006). An example of the coding is shown in Table 6.

Quotes	Codes
One of the things that we like to do is to determine against cultural fit, how we can work with the vendor, and it's not often considered, and sometimes in large outsourcing bids it's a bit hard to determine that because the organisation's so massive (<i>Service Delivery Manager, Organisation A</i>)	<ol style="list-style-type: none"> 1. Cultural fit is not often considered 2. Cultural fit is hard to quantify
The contract was for a certain period of time; I think it was four years. Two years in we were looking to find a way out, there were penalty clauses associated with that so we had to pay a lump sum. So we took that on board and then did a business case, said that we needed to go to market to look for a cheaper model for outsource call centre, and if we got the model right, it would offset the penalties. (<i>Commercial IT Manager, Organisation B</i>)	<ol style="list-style-type: none"> 1. Business case facilitated decision making process 2. We thought we could get a cheaper model 3. The eventual calculation included the contract termination fee
Establishing a relationship is always key but also being able to ask the question of the customer, about how they felt about something. And how they feel about something is the truth of it, what they think about something is a filter. (<i>Service Delivery Manager, Organisation A</i>)	<ol style="list-style-type: none"> 1. Relationship is key to success 2. Relationships allow you to get real answers

Table 6: Example of Quotes from Respondents and Matched Codes.

The codes enabled the identification of items with similar features and recording them in a simple manner while still maintaining the data's integrity in terms of being meaningful for analysis (Boyatzis, 1998). The data was analysed from a theory-driven perspective (i.e., aiming to answer the research questions) as specific questions needed to be answered and therefore particular features of the data were identified (Braun & Clarke, 2006).

With the theoretical interest in mind, the transcripts were coded in a systematic fashion into a Microsoft Excel spread sheet utilising either a copy-paste method or retyping the relevant data in the researchers own words. The researcher chose Microsoft Excel (instead of Nvivo) because of familiarity and ease of use. The latter aided in capturing the relevant data and discarding irrelevant data (Braun & Clarke, 2006).

The analysis identified concepts with similar and/or different attributes, relating to the research questions and they were captured into a list of 700 codes with approximately 6,650 words (Braun & Clarke, 2006). The 700 codes contained many duplicates and were reduced to 191 once the duplicates were removed. These codes predominantly focused on the research questions (i.e., contained information that could help answer the research questions); however, some codes captured the context of the outsourcing engagements (Bryman, 2012) and additional background information.

In total, 11 of the initial codes contributed to the contextualisation of the discussion but not to answering the research questions (examples are in Table 7), and were thus removed, reducing the number of codes to 180. However, these points were kept in mind while completing the analysis (Braun & Clarke, 2006). The 180 codes provided an overall conceptualisation of the data and prepared the analysis for the next phase (Braun & Clarke, 2006).

The vendor carried the switching cost
It was 13 times more difficult to switch than to stay
Mitigated knowledge transfer risk by motivating staff to move to new vendor

Table 7: Examples of Codes that were Removed in Phase 2

4.5 PHASE 3: SEARCHING FOR THEMES

In this phase, the 180 codes were analysed from a higher level perspective and emerging themes and relationships between themes were identified (Boyatzis, 1998; Braun & Clarke, 2006). Themes are different from codes in that they are broader and they act as a mechanism by which related codes can be grouped together (Braun & Clarke, 2006). Furthermore, codes generally capture specific ideas where the same code can be distributed throughout a number of themes (Braun & Clarke, 2006). The codes were collated into an initial 22 meaningful (Tuckett, 2005) themes by identifying similarities in the codes that could be combined into higher level groups.

Due to contradictions in the data set, 23 codes were removed as they did not contribute to answering the research questions (some examples are provided in

Table 8), bringing the number of codes down to 157 (Braun & Clarke, 2006). This phase concluded with 22 main themes with a number of sub-themes. Table 9 lists the main themes and an extract of the sub-themes and Figure 3 shows the thematic map for this phase. Table 9 formed the starting point for developing the thematic map and helped organise the main themes before applying the links. Each linked theme has some level of communality or association and the links helped in the collapsing of similar themes in one combined theme. The links represent a relationship between the themes and the codes. All the themes except switching cost comparison (comparison) have an effect on the vendor replacement decision and their relationships are represented as such. As the themes reduce, the relationship between the vendor replacement decision and the theme become clearer.

Concerned about noise and key noise transfer
Once you go to the contract you have failed
Managing the change management component took the most time
Vendors are also allowed to make profit
Vendors might be inflexible when profit/loss (P&L) is low

Table 8: Examples of Codes that were Removed in Phase 3

Main Themes	Sub-themes
1. Switching consideration	<ul style="list-style-type: none"> 1. Procurement regulation requirement 2. Show competitiveness
2. Decision	<ul style="list-style-type: none"> 1. Impact entire organisation 2. Significant process
3. Decision process	<ul style="list-style-type: none"> 1. RFx process ** 2. Procurement process
4. Relational decision impact	<ul style="list-style-type: none"> 1. Did not play a role 2. 10% consideration
5. Financial decision impact	<ul style="list-style-type: none"> 1. ROI based 2. Switching costs measured financially
6. Procedural decision impact	<ul style="list-style-type: none"> 1. Not considered 2. Pain and anxiety was considered
7. Financial switching costs	<ul style="list-style-type: none"> 1. Financial cost of RFP 2. Financial cost of going to market
8. Comparison	<ul style="list-style-type: none"> 1. No challenges comparing 2. All cost based
9. Relational value	<ul style="list-style-type: none"> 1. Tighter budgets less value on relationship 2. My organisation values relationship
10. Relationship description	<ul style="list-style-type: none"> 1. Touchy feely side of things 2. Partnership is everything
11. Strategic alignment	<ul style="list-style-type: none"> 1. Not strategically aligned 2. Strategically aligned
12. Cultural fit	<ul style="list-style-type: none"> 1. Has a close cultural fit 2. Does not have a close cultural fit
13. Cultural importance	<ul style="list-style-type: none"> 1. Important, similar mind-set

	2. Would pay more for cultural fit
14. Strategic importance	1. Relationship facilitates strategy through discussions 2. More strategically aligned higher perceived switching cost
15. Procedural switching cost	1. Cost of lost time 2. Cost of dropping balls
16. Relationship benefits	1. Builds trust 2. Builds stable environment
17. Relationship building	1. Building relationship is a big cost 2. Building relationship takes time
18. Relationship vs Business	1. Hardest to quantify 2. All about sales
19. Locked in	1. Contractually locked in 2. Because of vendor IP
20. Customer vendor relationship	1. Feels part of the customer 2. Can work with the vendor
21. New vendor relationship	1. Did not know environment 2. Did not have required skills
22. Transitioning	1. Lost good people 2. Outages occur

*** RFX is a Request For proposal/quote/information. It is used to request information from the market regarding pricing, services, capability, etc.*

Table 9: Main Themes & Sub-themes

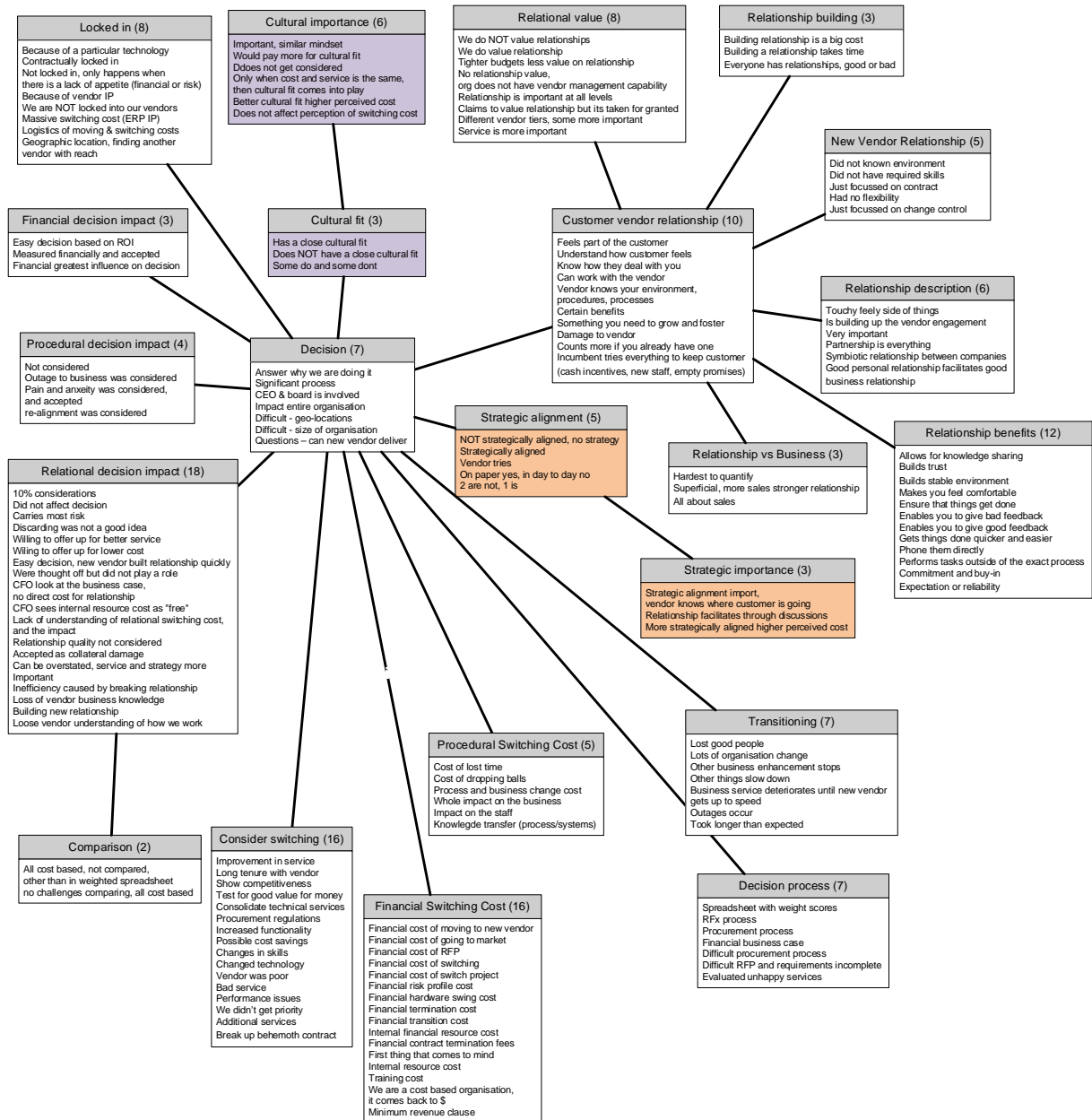


Figure 3: Phase 3 thematic map

4.6 PHASE 4: REVIEWING THEMES

This phase involved the refinement of the above mentioned 22 themes in a two-step process. First, the codes were reviewed and their relevance were analysed in accordance to their current themes (Braun & Clarke, 2006). The review occurred on

a code level basis and did not take a holistic view of the data set. No codes were identified as a mismatch to their themes and no codes were discarded in this step (Braun & Clarke, 2006). Secondly, the data set was reviewed from a holistic perspective, that is, not on a code level but as a data set in its entirety. The appropriateness of the themes were analysed in order to establish whether they told the same story as the data set in a meaningful and complete way. (Braun & Clarke, 2006). No recoding was required but the 22 themes were collapsed (1. Cultural importance and cultural fit; 2. Strategic importance and strategic alignment) into 20 major themes that represented a more concise thematic map that identified the pertinent theoretical information (Braun & Clarke, 2006). The collapse of the themes did not reduce the codes and the total number remained at 157.

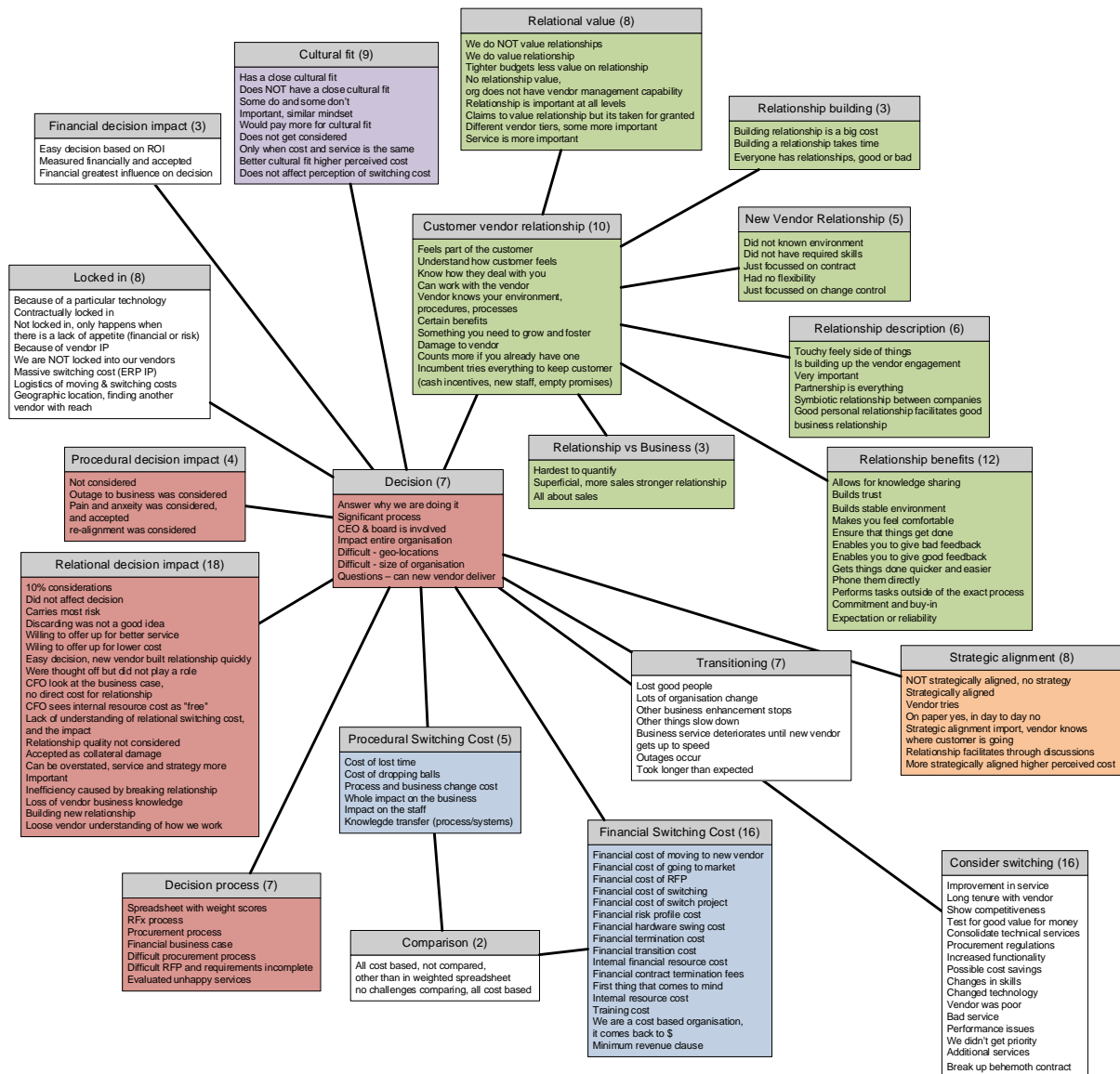


Figure 4: Phase 4 thematic map

4.7 PHASE 5: DEFINING AND NAMING THEMES

The thematic map of Phase 4 was reviewed and further analysed with the aim of identifying the essence of each theme and to highlight the most pertinent themes and codes (Braun & Clarke, 2006) based on the research questions and the focus of this thesis. By organising the current themes and codes into coherent and internally

consistent groups (Braun & Clarke, 2006), 20 themes were collapsed into 10. Although the collapsing of these occurred in Phase 4 as well, it was necessary to do it in a staged approach to reduce the amount of data that needed to be dealt with at one time. The exercise of collapsing the codes identified three duplicate (similar enough to be combined) codes which reduced the total count to 154. The 10 major themes and codes were specifically named to parsimoniously represent the entire story of the data set in relation to the main topic (relational switching costs and the switching decision) as well as to fulfil the project's theoretical objectives and answer the research questions, as represented in Figure 6. The themes also contained supporting information that provided context in relation to the main topics and research questions.

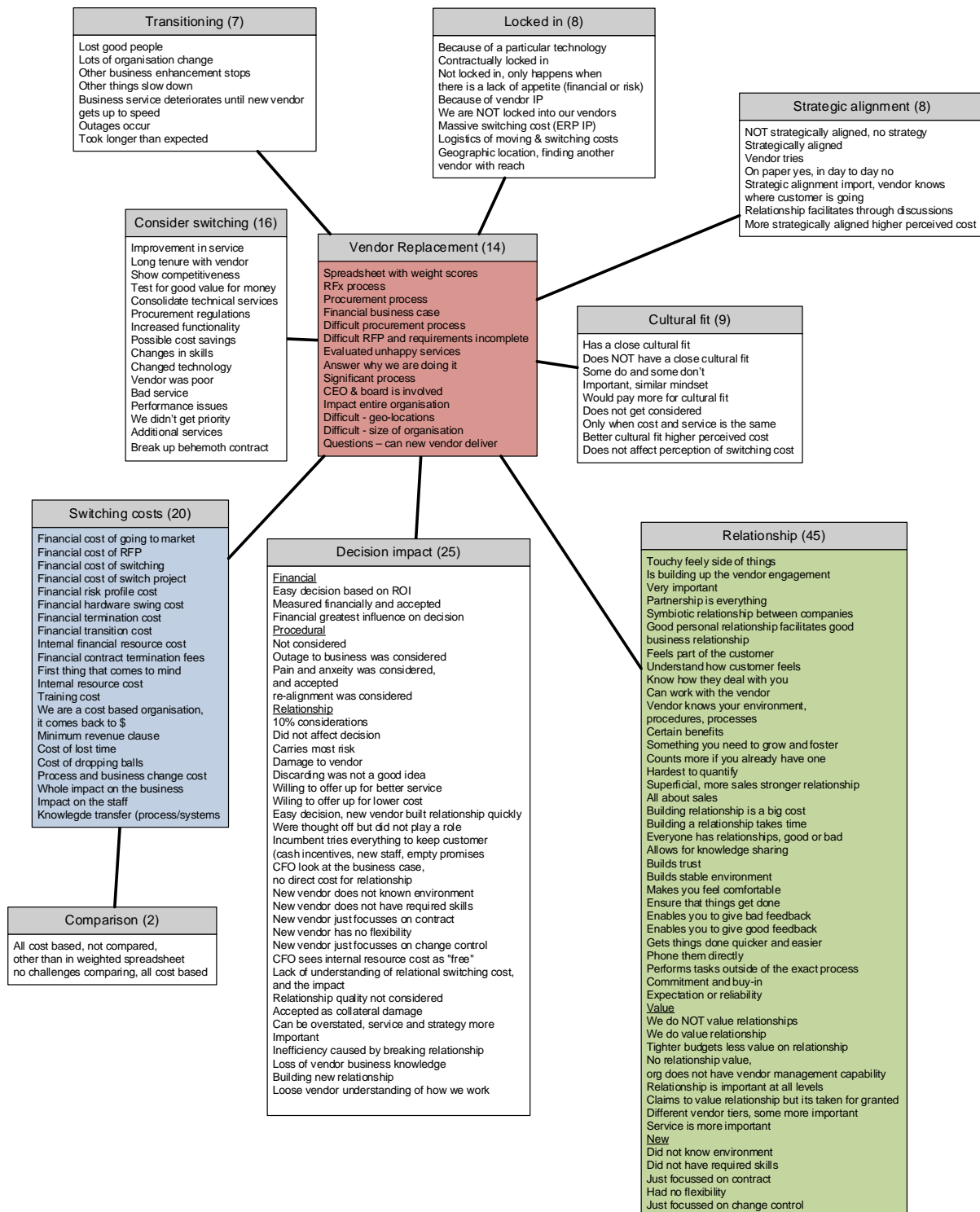


Figure 5: Phase 5 thematic map

4.8 VALIDATION OF RESULTS

Validation of interpretive research differs from the positivist approach in that the moral stance of the researcher is reflected (Fiumar, 1990) and it “is reflected in the focus on understanding meanings in everyday existence and on supporting the development of self-awareness in the research participants” (Leith et al., 2010). It suggests that the research provides “practical, generative, possibly transformative, and hopefully nondogmatic answers to the questions we pose as researchers” (Angen, 2000). Furthermore, ethical validation involves posing the question of whether the research is helpful to the target population, whether other alternative explanations are available, and whether our awareness and enlightenment has been improved by it (Unger, 1992).

Qualitative research validation generally occurs by “providing rich and immersive discussions of the research context, data collection processes, and analysis approaches” (Venkatesh et al., 2013). Additionally, the validation exercise is strengthened by using supporting quotations from the detailed narratives of the participants (Yin, 1989). Since the method is not a sufficient measure of validity in qualitative research, it is necessary to rely on the substance of the inquiry to ensure validation (Leith et al., 2010).

The codes and themes were validated by a fellow PhD student. Firstly, the data analysis chapter was read and the five phases of thematic analysis were studied and understood. The five thematic phases consisted of becoming familiar with the data, generating initial codes, searching for themes, reviewing themes and finally, defining

and naming themes. These phases, data extracts and themes (as well as Table 6: main themes and sub-themes, and the three figures: Figures 3-5) were read several times to understand the coding process.

A number of transcripts were randomly selected and read several times to understand their content. The five-phased approach was applied to the transcripts: codes were captured and various themes and sub-themes were recorded. The codes, themes, and sub-themes were compared to the Microsoft Excel spreadsheet, the tables (Table 5: data extract and codes, Table 6: main themes and sub-themes), and the figures contained in this chapter. Minimal difference were encountered – for example, different words were used for the same codes or some codes were allocated to different themes. After some discussion, the differences were reconciled. The content in this chapter represents the reconciled version.

The consistency in the findings between the researcher and the other rater was tested using Cohen's kappa (Hallgren, 2012; Cohen, 1960, 1968). Six topics were chosen to test the level of agreement. The six subjects were chosen on the basis that they represented the high-level story from when the decision was made to switch, through the decision-making process, touching on the relational factors, and finally external issues, such as lock-in and strategic considerations. The six subjects were:

- a. Considerations of switching
- b. Decision-making process for switching vendors
- c. Challenges for switching
- d. Relationship with vendors

e. Locked-in

f. Strategy

The first step in validating the findings was to organise the scores of agreement (Table 10) into a consistency table (Hallgren, 2012; Cohen, 1960, 1968). If agreement was reached, the number of agreements were entered into the cell where the two subjects met, that is, agreement from both researchers for subject A = 3. If there was no agreement, then the value was placed in a cell outside where the two subjects met: for example, if there were 2 agreements and 1 disagreement for subject B, the 1 disagreement was placed where A and B met. Table 10 below presents the results of the rating exercise.

		Coder A						Total
	Subject	A	B	C	D	E	F	
Coder B	A	3						3
	B	1	2					3
	C			1	1			2
	D				1			1
	E					1		1
	F						1	1
	Total	4	2	2	1	1	1	11

Table 10: Inter-rater Agreement Scores

Once the individual comparisons were done, the row and column totals were totalled. The overall total was calculated to ensure that the rows and columns added to the same value for a computational check (Hallgren, 2012; Cohen, 1960, 1968). The number of agreements were calculated by adding the agreements together.

For example, if the total number of agreements was computed as: $\sum a = 3 + 2 + 1 + 1 + 1 + 1 = 9$ (a = agreements – as depicted in Table 10), then based on the percentage similarity, the proportion of agreement would be $9/11 = 81\%$. This percentage does not take into account the agreements that would have happened by chance. The expected frequency of the number of agreements by chance were then calculated (Hallgren, 2012; Cohen, 1960, 1968).

$$Ef = (\text{row total} * \text{col total}) / \text{overall total})$$

$$Ef(a) = 3*4 / 11 = 1.1$$

$$Ef(b) = 3*2 / 11 = 0.55$$

$$Ef(c) = 2*2 / 11 = 0.36$$

$$Ef(d) = 1*1 / 11 = 0.1$$

$$Ef(e) = 1*1 / 11 = 0.1$$

$$Ef(f) = 1*1 / 11 = 0.1$$

The sum of the expected frequencies of agreement by chance were calculated.

$$\sum ef = 1.1 + 0.55 + 0.36 + 0.1 + 0.1 + 0.1 = 2.31$$

Finally the kappa was calculated.

$$K = (\sum a - \sum ef) / (N - \sum ef)$$

$$K = (9 - 2.31) / (11 - 2.31)$$

$$K = 6.69 / 8.69$$

$$K = 0.77$$

A kappa greater than 0.70 is considered a satisfactory inter-rater reliability (Hallgren, 2012; Cohen, 1960, 1968) and considering the kappa = 0.77, the inter-rater reliability can be considered satisfactory.

4.9 INTERPRETATION OF THEMATIC ANALYSIS

The aim of this research is to investigate the effect of relational switching costs (and other factors) on the vendor replacement decision. The research questions were aligned accordingly. As expected, the themes that were identified are related to the vendor replacement decision, and this helped in answering the research questions. Analysis of the themes was organised to follow the vendor replacement process used by the organisations studied. The literature review also followed the vendor replacement process which helps to clarify the link between the literature review (theory) and the thematic analysis. Additionally, the conclusion chapter also follows the vendor replacement process and thereby creates a clear link between the theory, the thematic analysis, and the conclusion.

First, the high-level activities were identified, such as the drivers for and barriers to switching, which could potentially affect the vendor replacement decision. Next, the analysis went deeper into those activities and discovered the specific details in each of those areas, as well as areas not in the model, and discovered the real-life impact of specific activities on the vendor replacement decision.

4.10 CHAPTER 4 SUMMARY

Chapter 4 started with short vignettes of the organisations that were investigated in the case studies. A short descriptions of each organisation was provided for contextualisation purposes and the data and the methods used to analyse the cases were described. The next section described the process that was followed to identify the main themes. The chapter concluded with an explanation as to how the outcomes of the analysis were validated.

The next chapter describes the results of the thematic analysis (i.e. the 10 themes) in detail. First, the reasons for switching vendors, which trigger the vendor replacement process, are listed. This is followed by an examination of the switching costs mentioned by the respondents, including the relational switching costs, the impact of these switching costs on the vendor replacement decisions, and a comparison of the switching costs across the organisations and respondent roles. Finally the effect of cultural fit, strategic dependence, lock-in, and the risk of transitioning on the vendor replacement decision are analysed.

5.0 CHAPTER 5: RESULTS & DISCUSSION

The previous chapter presented the themes that were surfaced from the interviews, and their relationships. This chapter provides a summary of the results of analysing the data from the case studies, and demonstrates how they answer the research questions. The analysis follows the flow of the vendor replacement process as described in Section 4.9. The chapter concludes with an examination of the vendor replacement decision and process as viewed by customers of IT vendors, and an enquiry into how well the data answered the research questions.

REASONS FOR CONSIDERING SWITCHING

The main reasons cited for considering switching vendors by virtually all the participants were to obtain potential cost savings (Whitten et al., 2010) and achieve service improvements (Peukert, 2010). Resource dependence theory (RDT) suggests that improvements in service requirements created a dependence relationship, where the customer organisations relied on the vendors' resources to provide the expertise and skills to improve the service. Additionally, RDT helps identify the inter-organisational relationships that were required to make the outsourcing contract successful. Other reasons for considering other vendors were connected to the procurement process. For example, some procurement processes required organisations to "market test" services provided by vendors after a number of years to assess the competitiveness of existing vendors. The least cited reasons were "increased functionality", "technology changes", and "service consolidation".

The data suggest that significant focus was paid to financial issues and value achievement (in terms of savings and service quality), and less attention was placed on process issues. Transaction cost theory (TCT) comes into play here when economic costs were identified as key contributors to the outsourcing engagement or the decision to switch vendors. However, aspects of social exchange (SET), like non-economic costs and social relationships, played a less important role. Interestingly, considering that the discussions were around IT outsourcing, there was very little focus on technological factors. The lack of attention to technology reconfirms the view that in most organisations, IT was seen as a support function that enabled an organisation to reach its strategic goals, and that decisions around IT were not technology-based but rather, were based on enablement (service), cost versus benefit analysis (financials), and value to the organisation (improvement in service) (Gwebu et al., 2010).

VENDOR REPLACEMENT/RETENTION DECISION

The decision to switch vendors was described as a significant process that impacted the entire organisation, up to the CEO and the board of directors. The decision to switch vendors differed from the actual implementation of the switch, which is discussed more in the risk of transition section of this chapter. The decision had to be substantiated by an explanation as to why vendors were switched. This emphasises the fact that the decision to switch was one that was carefully considered and needed strong justification. This highlights the key role of IT in

organisational performance (Gwebu et al., 2010), leading to decisions like these involving not just the IT department but also senior management.

That was a quite significant process. It wasn't just done with IT, a recommendation went to the CIO of IT, and her leadership team had to get involved in that, and the rationale behind it. But also went up to the Chief Executive. (Project Management Office Managers, Organisation A)

The decision process was driven through each organisation's procurement regulations and processes. It was necessary to follow these standards for any high-value acquisitions and were not specific to IT. An extract of the tender document from Organisation B is below.

1 REQUEST FOR TENDER EVALUATION

1.1 Document purpose

The purpose of this document is to provide guidelines to the Evaluation Team when carrying out the evaluation of vendors' Request for Proposal (RFP) responses.

1.2 Shortlisted vendors

■■■■■ received [x] responses to the RFP. The following vendors have been shortlisted for evaluation:

- Vendor name
- Vendor name
- Vendor name

■■■■■ has declined our invitation to participate in the process.

1.3 Selection process

The selection process comprises the following:

- The Evaluation Panel's evaluation of the vendors' RFP responses and presentations (if any).
- An evaluation, by the Steering Committee, considering:
 - the RFP evaluation outcome
 - the cost
 - the technical solution
 - ongoing support
 - other appropriate criteria

It should be noted that the best or cheapest solution does not always provide best value for money.

1.4 RFP Evaluation process

RFP evaluation

The Evaluation team will evaluate the vendors' RFP responses following the timetable and guidelines in this document. Please make a note of any questions you may want to raise at the presentations. Evaluators may confer with other evaluators (only) but the scoring must be their own judgement.

Figure 6: Vendor Evaluation

The interesting finding is that the procurement process, although detached from IT, provided a structured approach that supported a decision of this magnitude. The documentation requirements included a procurement plan, requests for proposal/quote/information (RFx), a financial business case, and weighted scoring calculations, all of which contributed towards the final decision. The other interesting finding is that the business cases seemed to be focused on financial issues only. However, there were instances (15% of the time) where relational switching costs were included and a monetary value was attached to them. For example, Organisation A used a weighted scoring system to compare vendors and to make the eventual switching decision. The weighted score had a section for relationship which contributed to the final score.

We are in the structure for procurement and it's not actually in IT. It supports the procurement activity in the company so we're entirely focused with contracts and vendor relationships and the practice of sourcing initiatives. (Commercial IT Manager, Organisation A)

Below is an example of the weighted score card used by Organisation A. The main categories used were company profile, commercial offering (counting 30% towards the decision), technical solution (25%), operations (15%), ancillary services (5%), and vendor presentation (3%). Vendor presentations were used to evaluate the relationship strength as well, because the template did not make provision for relationship directly.

	A	B	C	D	E	F	G	H	I	J
1	V1.1 Changes to Match the agreed SPP weightings									
2						Score	each question out of 100			
3										
4						Provider 1	Provider 2	Provider 3		
5	Evaluation Criteria	Weight				Score	Weighted Score	Score	Weighted Score	Score
6										
7	Overall Score	100%		100%		0		0		
8										
9	1. Company Profile									
10		7%	100%							
11	Company stability in New Zealand		20%	1%		0	0.00	0	0.00	0
12	Innovation, product road map		10%	1%		0	0.00	0	0.00	0
13	The respondent's proven track record of delivering similar services;		20%	1%		0	0.00	0	0.00	0
14	Evidence of strong administrative and reporting systems and ability to interface with KiwiRail's processes and systems;		20%	1%		0	0.00	0	0.00	0
15	Evidence of the respondent's ability to establish and maintain a mutually acceptable business relationship with KiwiRail;									
16	Project management skills		10%	1%		0	0.00	0	0.00	0
17	Company capacity (such as staff resources) and capability (technical skills);		5%	0%		0	0.00	0	0.00	0
18	Sales/account management		10%	1%		0	0.00	0	0.00	0
19			5%	0%		0	0.00	0	0.00	0
20	2. Commercial Offering									
21		30%	100%							
22	Pricing options/flexibility		5%	2%		0	0.00	0	0.00	0
23	Pricing (overall contract value)		60%	18%		0	0.00	0	0.00	0
24	Billing process		15%	5%		0	0.00	0	0.00	0

Figure 7: Weighted Score Card

SWITCHING COSTS

Switching costs were described overwhelmingly from a financial perspective (Barthelemy, 2001; Whitten, 2009; Whitten & Wakefield, 2006). Each participant identified financial switching costs; however, a small number of participants also identified a procedural (impact on staff) and a relational (lost performance cost) switching cost (Burnham et al., 2003). The data showed that the participants were aware of non-financial switching costs but considered them to be necessary sacrifices instead of factors that hindered the switching decision.

The switching costs would be the financial aspects in moving from one particular vendor to another vendor, and the costs incurred with going to market, RFP and then latterly the loss of time, etc. and dropping of balls between the two vendors as the second vendor comes up to speed. (Senior IT Manager, Organisation B)

The relational switching costs (Burnham et al., 2003) were described by an interviewee as the “*touchy feely side of things*”. All the interviewees indicated that everyone throughout the organisation had relationships with vendors, good or bad, and the relationship was very important for success. While this supports RDT’s stance that all organisations are dependent on inter-organisational relationships, this dependence was stronger in an outsourcing engagement where one organisation took full ownership and accountability of another organisation’s IT services.

Relational switching cost(s) (are) probably more the touchy feeling side of things about the damage that you do to that vendor. (IT Operations Manager, Organisation A)

A majority of the participants indicated that their organisation valued the relationship with their vendors and that the relationship was important at all levels. However, when budgets tighten, less value was associated with the relationship. This seems to indicate a power struggle between the economic costs described by TCT and the importance of the inter-organisational relationships ascribed by RDT. Furthermore, the relationship was described as very superficial and the strength of the relationship depends on the amount of business that is done between the parties, referring back to the financial switching costs (Barthelemy, 2001; Whitten, 2009; Whitten & Wakefield, 2006).

Interestingly, the relationship was regarded as important as long as there was financial freedom. When financial pressure was applied, the relationship played a less prominent role. When there was a likelihood of cost reduction by switching vendors, the strength of the relationship did not play a significant role in the decision

to switch. There may have been a trade-off between the financials and the relationship, but this was fairly rarely: in other words, an organisation was unlikely to choose a vendor that was more expensive; instead, it would choose a vendor with whom the organisation had a strong relationship over a vendor who was cheaper but had a poor relationship with the organisation.

The relationship is hugely important. I look to our vendors to be providing us with an insight into what's coming up. (Service Delivery Manager, Organisation A)

I always remind myself, that's sales, right? It's always about sales, so you can get along well with account managers and the vendors that you deal with directly, but let's not forget at the end of the day, it's business. (IT Operations Manager, Organisation B)

The participants described a number of relational switching costs (Table 11) they felt were important for a successful relationship, and these costs were extracted and classified from the transcripts. The social exchanges required to make a relationship work were considered important but as I explain later, they were more important from an operational perspective than from a strategic decision-making perspective. According to Burnham et al. (2003), relational switching costs are grown and fostered over time and they are realised when a relationship is discontinued. Additionally, when entering into a new relationship, the relational switching costs that were incurred when the prior relationship was established need to be taken on again.

Relational Switching Costs	Participants' Descriptions
<i>Relationship establishment cost</i>	<ol style="list-style-type: none"> 1. Understanding whether you can work with the vendor 2. Building a relationship takes time 3. Building a relationship is a big cost 4. Builds up vendor engagement
<i>Lost performance cost</i>	<ol style="list-style-type: none"> 1. Gives you certain benefits 2. Enables us to phone them directly 3. Gets things done more quickly and more easily
<i>Continuity cost</i>	<ol style="list-style-type: none"> 1. Makes you feel comfortable 2. Builds a stable environment 3. You know how they deal with you
<i>Stakeholder cost</i>	<ol style="list-style-type: none"> 1. Allows vendors to feel part of the customer 2. Allows vendors to understand how the customer feels
<i>Dependence cost</i>	<ol style="list-style-type: none"> 1. Enables you to performs tasks outside of the exact process 2. Ensures that things get done
<i>Organisational alignment cost</i>	<ol style="list-style-type: none"> 1. Enables you to give good and bad performance feedback 2. Allows the vendor to know your environment, procedures, processes
<i>Commitment cost</i>	Commitment and buy-in
<i>Trust cost</i>	Trust
<i>Alliance cost</i>	Allows for knowledge sharing
<i>Expectation cost</i>	Sets the expectation or reliability

Table 11: Relational Switching Costs Described by Interviewees

IMPACT OF SWITCHING COSTS

Switching costs from all three major categories – financial, procedural, and relational switching costs (Burnham et al., 2003) – could be found in the case studies. However, their impact on the decision to switch vendors varied significantly. The switching cost category that had the greatest impact on the decision to switch vendors was the financial switching cost. This finding did not vary across customers, vendors, services, or any other factors. The decision was facilitated by the capturing of the financial switching costs, predominantly in the form of spreadsheets which presented the economic implications (Liu, 2006) of moving from one vendor to another. Such spreadsheets contained the return on investment (ROI) information which formed the basis of the vendor switching decision.

Q: Which switching cost had the greatest influence on the decision (to switch vendors)?

A: Definitely the transitional financial cost. (Project Management Office Managers, Organisation A)

So if the ROI enabled us to change, based on that sort of factor, you look at it. (Project Management Office Managers, Organisation A)

Procedural switching costs were identified in the form of pain and anxiety (Molina-Castillo, 2012; Whitten, 2009) that affected the operational staff who had direct contact with the vendor on a daily basis. However, the procedural switching costs were less evident at a management and decision-making level. The procedural switching costs had little to no impact on the decision to switch. Although pain and

anxiety and business disruption had no impact on the decision, they were considered and discussed. Procedural switching costs were accepted as a necessary sacrifice when moving from one vendor to another to reap some kind of financial benefit and/or to improve service quality.

Q: How about procedural costs, like the cost of the people on the ground?

A: Those things were thought about but there were no costs associated or attributable to them. (Project Management Office Managers, Organisation A)

There wasn't such an issue from that side of things. It was more the anxiety of the staff involved in the actual, there was a huge amount of anxiety. (IT Technical Manager, Organisation B)

Relational switching costs were identified and seemed to be very important to the participants. The relationship with the vendor was identified as a key factor for success; without a strong relationship, administration and management of the contract was guaranteed to fail. Good relationships facilitated the day-to-day operations (Kern & Willcocks, 2000) and helped to ensure that the daily workings between the parties were successful. Furthermore, good relationships facilitated the performance of responsibilities and interactions, which then led to the mutual benefit realisation for both parties (Hamid & Suberamany, 2009). The relationship was described as a partnership which one grows and fosters and is very important to success (Tompkins et al., 2006). The case study suggests that an organisation's relationship with its outsourcing vendor is very important on an operational level, and that operational staff consider the relationship as one of the major factors when deciding between vendors.

However, when it came to management and the decision-making process, relational switching costs had no effect on the decision to switch vendors. The overwhelming emphasis on a financial perspective ensured that the quality of the relationship with a vendor also played no role in the decision.

Relational switching costs were found to be of secondary importance in both case studies, even though Organisation A had outsourced their primary activities and Organisation B had outsourced their secondary activities. This is interesting as it could be expected that financial considerations might matter more in secondary activities (as these activities represent operating costs which are viewed as support functions or business costs as opposed to revenue generating activities). TCT is used to understand operational costs (Whitten et al, 2010) and could explain the link between outsourcing secondary activities in order to reduce cost, which is one of the main reasons for outsourcing as identified in Chapter 2.

Relationships matter more in primary activities, as these activities are directly related to generating revenue and the relationships are key to collaborative problem solving, reducing uncertainty with a wide range of technical skills, and ensuring the operations of high impacting activities continue without disruption. SET suggests that successful long-term relationships rely heavily on aspects of social exchange such as commitment, equity, trust, and conflict (Ural, 2007). Commitment and trust are necessary to reduce risk and opportunism, and to maintain a strong long-term relationship (Lee et al., 2010), which is critical to ensure that day-to-day operations continue without disruption.

The CFOs (and decision-makers) in both cases looked at the business case (financials) and did not associate any direct financial costs in the relationship. Therefore, most participants were willing to offer up the relationship for a lower cost (Whitten et al., 2010) or a better service (Peukert, 2010). However, although the relationship was not considered important enough to impact the decision, the relationship was a major discussion point and received a lot of thought and attention. The case studies suggest that relational switching costs are such a major factor in the success of an outsourcing contract that if the financial switching costs are equal, then relational switching costs will determine the outcome.

Relational switching costs had very little influence on the decision to be honest. (Service Delivery Manager, Organisation A)

We would be willing to break relationships if they get a cheaper price, better service; it's one of the factors. (IT Technical Manager, Pilot Study)

However, although the relationship with the vendor was highly regarded by participants, it was neglected when the decision-making process was underway. One explanation could be that the relationship mattered to the participants on an operational level but not on a strategic level. The desire to quantify the relationship indicated that the participants wanted to measure the relationship; however, no clear mechanism for doing so existed. One participant suggested that the relationship was neglected because of the lack of understanding and ignorance towards its effects on success.

I actually think there's a lack of understanding or even belief that those things are relevant.
(Service Delivery Manager, Organisation A)

SWITCHING COSTS COMPARISON

Financials play a key role in the business environment and it is therefore understandable that decisions are financially based and only when the financials are equal, do other factors, such as relational switching costs, come into play. To that end, it was not strange to discover that switching costs prioritisation focused only on the comparison, measurement, and prioritisation of financial switching costs. The mechanism used for the comparison was in the form of a weighted score with a financial value which was easily quantifiable and led to a clear cut decision. Below is an example of Organisation A's intention to switch vendors; it shows that one of the motivating factors was a reduction of financial operational costs by 10%.

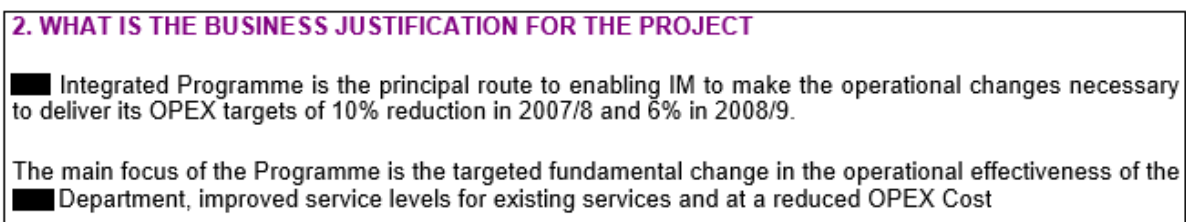


Figure 8: Intention to Switch

As financial switching costs dominated the vendor switching decision, procedural and relational switching costs were not measured, compared, or prioritised. One reason for the lack of measurement was the difficulty in quantifying such costs (Lacity et al. 2011). Although relational and procedural switching costs did not impact the decision to switch vendors, they were discussed and considered. They were not

documented but rather described as “intuitive” or a “feeling” which again suggests the measurement difficulty (Lacity et al., 2011). However, on the odd occasion, there was an attempt to translate the relationship value into a financial value and thereby measure it in comparison to other financial switching costs. Even though an attempt was made to measure the relationship value, the measurement rarely carried a weightage of more than 5% in the final calculation.

During the comparison process, I don't think they were even thinking about the relational switching costs. (Project Management Office Managers, Organisation A)

Q: What criteria were used to compare different switching costs?

A: RFP and weighted scoring of financials, purely cost. (Project Management Office Managers, Organisation A)

LOCK-IN

Lock-in refers to the perceived inability of a customer to transition to other vendors and thus possibly having to endure long periods of poor performance by a vendor (Goo et al., 2007) or higher costs over the length of the engagement (Bahli & Rivard, 2003). Customers may feel locked-in to a vendor for a number of reasons, and this study identified technology dependence, vendor intellectual property, contracts, and the financial cost of switching as the major lock-in factors.

Yes. So my programme right now, we're locked in to a small company called XYZ. The reason behind that is they've pushed us down a particularly technology path which they only have skills in. (Project Management Office Managers, Organisation A)

Vendors may attempt to manipulate the perception of switching costs in order to prevent their customer from considering switching. For example, a vendor for organisation A had built up more knowledge on some of the key applications than the customer and had thereby created the perception of a substantial switching cost. A locked-in customer ensures continued revenue for the vendor as well as reduced pressure to perform at a constant rate of high quality. In contrast, some customers are happy to accept the locked-in aspect of a contract. While a long-term contract may “tie their hands”, it also provides a platform for negotiation (the customer can negotiate a lower rate) and provides a level of security; that is, the customer will receive the specific service for at least the length of the contract.

Yes, it is locked in. And why – it's a two part – one is the vendor is there to make money and secondly we're there to get the best service for the least amount of money, and if you can get that by getting a longer term contract, then you would look at that. A lot of our contracts are built that way. Sign up five years and you get a lower cost per year. The vendor gets what they need and we get a bit of assurance around longevity and so forth, and service, at a good cost.
(Business Unit Manager, Organisation A)

Interestingly, one of the participants argued that one is never locked in, and that lock-in only exists if you are not willing to accept the risk and support the financial overhead of switching. However, if outsourcing was undertaken to reduce costs and risk, then this notion contradicts the objectives of the initial outsourcing engagement. It does however raise the question: are the drivers for switching vendors great enough to cancel out the factors that lock an organisation into an engagement with a particular vendor?

So I guess the reason you can be locked in is the lack of appetite for change, to invest in that change. But if the appetite's there you're not locked in, you just got to spend the money. (Service Delivery Manager, Organisation A)

RISK OF TRANSITIONING

Transitioning from one vendor (incumbent vendor) to another presents a number of challenges and is risky. The interviewees identified the loss of good people, appetite for change, and the slow down and deterioration of business services as potential challenges and risks. When moving from one vendor (incumbent vendor) to another, the onsite vendor employees who have become a part of the customer's organisation are replaced. These vendor employees have knowledge and are familiar with the customer's processes, systems, culture, and environments.

It's more around knowledge transfer, when we transition will we lose that, will we lose people out of the vendor. (Business Unit Manager, Organisation B)

The incumbent vendor builds up and possesses the intellectual property of the customer, applications, and the related services, and their removal creates a gap in knowledge, efficiency, and the ability to provide the outsourced services.

Then the key one is intellectual property, how long you're with a partner, the more they inherently get to know about your systems ... documentation cannot beat people who understand your business. (Project Management Office Managers, Organisation A)

This could lead to the deterioration of services, a slowdown in the ability (or appetite) of IT to support the rest of the business, and a potential increase in system outages. The length of the vendor transition period increases this risk significantly.

Transition stops you and the appetite for change across the business, doing these things across the global business. (Business Unit Manager, Organisation B)

During that process (transitioning), some services to the business were deteriorating, and there was a lot of noise. (Project Management Office Managers, Organisation A)

Below is an example of a transition plan that Organisation B used to transition from one vendor to another. This activity occurred after the vendor replacement decision and the interviewees claimed that such plans were a key component of operational success.

	A	B	C	D	E	F	G	H
1	BACKUP AND RECOVERY							
2		Activity	Criticality	Owner	Date Start	Date End	Duration	TASK
3	B&R	ADM	1Major		20/12/2007		-	Identify transition/handover start date
4	B&R	ADM	1Major			25/01/2008	-	Forecast transition/handover completion date
5	B&R	ADM	3Minor		20/12/2007	25/01/2008	Weekly	Project update communications
6								
7	B&R	FAC	2Significant		10/01/2007	14/01/2007	4h	Identify and configure desk/phone/port requirements
8	B&R	FAC	4N/A					Capture safe locations, requirements, combinations
9	B&R	FAC	1Major		20/12/2007	25/01/2008		Capture building and room access and key requirements
10	B&R	FAC	4N/A					Ensure carparking pool reallocations
11								
12	B&R	HR	1Major		3/12/2007	20/12/2008		Appoint key staff
13								
14	B&R	AUD	2Significant		20/12/2007	25/01/2008		Complete inventory list
15	B&R	AUD	2Significant		20/12/2007	25/01/2008		Inventory hardware spares, locations
16	B&R	AUD	1Major			25/01/2008		Identify business owner
17	B&R	AUD	2Significant		20/12/2007	25/01/2008		Identify maintenance windows
18	B&R	AUD	1Major		20/12/2007	25/01/2008		Hardware and hosting standards audit
19	B&R	AUD	1Major		20/12/2007	25/01/2008		Software standards and licensing requirements audit (o/s, application)
20	B&R	AUD	1Major		20/12/2007	25/01/2008		Check backup agent install/requirements

Figure 9: Transition Plan

STRATEGIC DEPENDENCE

Strategic dependence refers to the strategic significance of the services being provided (Straub et al., 2008) and strategic alignment refers to the alignment of the strategic direction of the vendor and the customer organisations (Van Lier & Dohmen, 2007). Most participants agreed that it was important for a vendor to be strategically aligned to their customers, as this facilitates the vendors' ability to predict the direction of their customers' business and in turn develop internal roadmaps that could support that direction. However, many participants also expressed unease that high strategic dependence indicates an over-reliance on one vendor and is a source of vulnerability. In other words, strategic dependence could also represent being locked into a vendor without the freedom to negotiate or switch (Thomas & Nandakumar, 2006).

However, the participants felt that this type of strategic alignment and dependence did not exist in their organisation. One reason for this might have been the lack of a business strategy on the customers' part, which was confirmed by the majority of the participants. The lack of a business or IT strategy ensured that strategic alignment and dependence would not occur, and even if it did exist, the ability to identify alignment and dependence would be very difficult.

If I don't believe they understand my business or where I'm going, then there's no strategic alignment. (Service Delivery Manager, Organisation A)

It's a really difficult question because if you talk strategy you need to have strategy within your organisation for your vendor to be aligned to it. We are what I would term probably 50:50 in us having one of those. (Service Delivery Manager, Organisation A)

Another possible reason for the lack of strategic alignment could have been due to the type of outsourcing contracts present in this study. Most of the outsourcing contracts were transactional with only one contract being a strategic outsourcing engagement. Strategic alignment was less prevalent and less important in transactional outsourcing, which could explain the lack of strategic dependence across this particular mix of outsourcing contracts.

CULTURAL FIT

Cultural fit was described by the participants as important because it created an environment where people of a similar mind-set congregated to perform certain tasks (Lee et al., 2010). All participants identified cultural fit as playing an important role in the success of the outsourcing contract (Lee et al., 2010) and cultural fit was also described as a mediating factor during the decision-making process but only when the costs (Whitten et al., 2010) and service levels (Peukert, 2010) were equal. Additionally, cultural fit was described as a factor that would increase the perception of switching costs if a good cultural fit existed. However, the case study identified a divided level of cultural fit, with half of the participants describing their vendors as culturally similar while the other half denied any cultural fit between their organisation and their vendors.

Interestingly, while cultural fit played little part in the decision-making process, it was critical to the successful delivery and reception of the services. With the decision-making process lasting only a couple of months and an IT service engagement lasting possibly five or 10 years, there was a large divide between the decision-

making process and the use of the services procured. The factors that participants deemed important during the decision-making process were not necessarily the factors that would ensure that the services were delivered and received to the satisfaction of both parties.

I think the culture is important, they have to be able to work with you day to day for most of the day and then again, to change that, again increases the cost. (IT Operations Manager, Pilot Study)

I think it definitely does because if these guys understand our business they don't just understand me, they understand who my customers are, they understand the challenges that I face within the organisation. (Service Delivery Manager, Organisation A)

REVIEW OF THE VENDOR RETENTION/REPLACEMENT DECISION

Although the major reasons for considering whether to switch vendors were clear (to lower IT costs and improve service quality), the process to eventually switch was complicated because many factors needed to be considered. The possibility of saving costs or improving service triggered the need to investigate switching vendors both from a strategic and operational perspective.

Cost savings were denoted as a strategic driver for considering a change of vendors and the decision-makers focused on this aspect. Service improvement was found to be an operational issue, and operational staff (not the decision-makers) placed more importance on this aspect.

THE DECISION TO INVESTIGATE

The next step for an organisation is to decide whether they are prepared to spend resources on investigating switching vendors. Investigating comparable vendors and transitioning to them is a large undertaking, and can cost hundreds of thousands of dollars (as per the case studies). An investigation identifies whether switching vendors would be in the customers' favour based on their specific requirements, measurements, and organisational goals.

It is at this point where the vendor has the first opportunity to dissuade customers from even starting the process of switching vendors based on the perception of high switching costs (created over the life of the current outsourcing contract) and thereby locking them in. The vendors in the case studies created (intentionally or by accident) the perception of high switching costs. The customer had a vendor that held a great deal of intellectual property and knowledge about some of their key applications and switching from the vendor was perceived to carry a large financial investment in knowledge transfer, upskilling, and hiring technical capable staff to take over from the vendor. The vendor of the other organisation created a perception of high switching costs by securing a number of interrelated services where if the customer chose to switch one of the services, the other services would also have to be switched which would require a large financial investment. Organisations, therefore, can find themselves in a situation in which it appears that switching from their vendors is a large financial expenditure and thereby dissuades them from even considering investigating switching vendors in order to secure their business and continued revenue. However, if the motivation to switch vendors is strong enough, then the customer will continue with the investigation in order to quantify exactly what it would require to switch vendors rather than merely relying on perception.

MEASUREMENT TOOL & VENDOR COMPARISON

Once the initial decision to investigate vendor switching is made, then a process of comparing the current vendor with other vendors/in-house services starts. However, before a comparison can be done, a measurement tool needs to be created where all vendors/in-house services can be rated and compared. In the case studies this tool was a weighted score card which contained items that were important to the successful delivery of the IT services – for example, technical expertise, compliance with technical requirements, country-wide footprint, vendor financial stability, transition plan, and so on. Additionally, some of the major considerations were switching costs, lock-in, risk and cost of transition, and cultural and strategic fit. Once the vendors are selected a comparison starts between the current vendor, the selected vendors, and in-house services of which the comparison tools form the basis.

VENDOR RETENTION/REPLACEMENT DECISION

Financial, procedural, and relational switching costs were identified in both case studies. Financial switching costs affected the decision to switch vendors, while procedural and relational switching costs did not.

In both case studies, when switching costs were considered, financial switching costs were clearly the most important factor for the decision-makers. If switching vendors meant a reduction in operational cost or a positive ROI, then the decision

was easily made without high regard for the operational difficulties and day-to-day challenges that the transition would create. This could be due to the fact that it is easy for a tangible financial measurement to justify the change. It reduces the operational cost and allows for capital to be invested in other activities that could increase revenue, freeing up resources that could be utilised on high value activities like marketing or process improvement which leads to an organisation's main strategic goal of increasing shareholder value.

Relational switching costs were present in the two case studies, but played a role on an operational level and not in the strategic decision-making of switching vendors. When an organisation considers switching vendors from an operational perspective, then the decision based on financials is not as clear cut. The operational staff face a number of challenges and relationships, trust, and commitment play a large part in their ability to co-operate, collaborate, and deliver the required services on a day-to-day basis. As shown in the case studies, if the operational staff are the decision-makers, financials are not the predominant factors in the final decision. The ability to work with the vendors, the familiarity with their staff, and the trust in their capability carries a higher weighting towards the final decision than pure financials. This phenomenon could be related to the KPIs of different levels of management within an organisation. On a strategic level, the KPIs are revenue generation and cost reduction which includes process improvement. On an operational level, the KPIs are around operational service delivery, availability of services, and service quality. The KPIs on a strategic level can indicate why a financial decision will be made whereas the KPIs on an operational level may indicate why relationship (commitment, trust, and capability) are more important. In the case study

organisations, the decision to switch vendors was made on a strategic level and therefore financial switching costs were the main driver and relational switching costs, although considered, played no significant role in the final decision.

Both case studies confirmed that there is a difference between the factors that are considered during the decision-making process but the differences are associated with the level of management that makes the final decision. In both cases the final decision was made on a strategic level by strategic managers, and financials were the predominant factors. This was due to the fact that IT was seen as a support function and as a cost and the possibility of reducing the cost while receiving the same level of services was alluring. However, the service level was the responsibility of the operational management and a financially based decision created challenges for the operational staff. If the decision was made on an operational level, then financial switching costs would have been important but relational switching costs would have been equally or more important. An operational decision would have placed more emphasis on relational switching costs as the main responsibility of operational management was to IT service delivery with less concern about the overall financial position of the organisation.

In both cases vendors created switching costs in order to ensure the longevity of the outsourcing contracts. In one case, intellectual property and knowledge was leveraged as a switching cost, and in the other case, technical integration was used. Only the financial switching costs or any switching cost that translated into financials were considered important. Relational switching costs were developed organically as

a relationship was established and the cost of re-establishing a new relationship was considered low.

The level of switching costs differed depending on the type of IT services. The greater the level of social interaction, the greater the relational switching costs – and the greater the transactionality, the greater the procedural switching costs. However, the financial switching costs did not differ between the types of IT services. They were always present and the size of the financial investment to switch vendors was the only thing that differed. This was largely based on the value of the contract: contracts of higher value had higher financial switching costs, such as contract penalties.

The maturity of the customer-vendor relationship affected the prevalence of relational switching costs. However, because relational switching costs did not affect the switching decision, the maturity of the relationship did not effect the decision to switch vendors.

Cultural fit had no impact on financial switching costs and therefore did not affect the vendor switching decision. Culture, like relational switching costs, is important at the operational level, and if the switching decision was made by operational staff, it would have been considered more important.

Strategic dependence was not found in the case studies and was not considered a determining factor when deciding whether to switch vendors. However, unlike cultural fit and the quality of the relationship, strategic dependence was not an

operational activity but a strategic activity. One reason why it did not affect the switching decision is that strategic dependence does not affect financial switching costs, which are of primary importance in the switching decision, based on the data.

RESEARCH QUESTIONS

The research questions were answered as follows:

- 1. Which relational switching costs do organisations incur when they replace their vendors?*

As per Table 11, the following relational switching costs were observed in the case studies:

- a. Relationship establishment cost
- b. Lost performance cost
- c. Continuity cost
- d. Stakeholder cost
- e. Dependence cost
- f. Organisational alignment cost
- g. Commitment cost
- h. Trust cost
- i. Alliance cost
- j. Expectation cost

2. How do relational switching costs affect an organisation's decision to replace or retain its vendors?

Relational switching costs were identified and seemed to be very important to the participants. The customer-vendor relationship was identified as a key factor for success and without a strong relationship, the administration and management of the contract was guaranteed to fail. This relationship facilitated day-to-day operations (Kern & Willcocks, 2000) and helped to ensure that the daily workings between the parties were successful. Furthermore, the relationship facilitated the performance of responsibilities and interactions which then led to the mutual benefit realisation for both parties (Hamid & Suberamany, 2009). The relationship was described as a partnership which one grew and fostered and was very important to success (Tompkins et al, 2006). The case studies suggest that the relationship is very important at an operational level, and that operational staff consider the relationship as one of the major factors when deciding between vendors.

However, when it came to organisational management and the decision-making process, relational switching costs had no effect on the decision to switch vendors. The overwhelming drive from a financial perspective ensured that the quality of the relationship also played no role in the decision. The chief financial officer and other decision-makers in both cases looked at the financial aspects of the business cases, and did not associate any direct financial cost to the relationship. Therefore, most participants were willing to trade off their relationship with their vendor for a lower cost (Whitten et al., 2010) or a better service (Peukert, 2010). However, although the relationship with the vendor was not considered important enough to impact the

decision, it was discussed widely and received a lot of thought and attention. Furthermore, the case studies suggest that relational switching costs are such a major factor in the success of an outsourcing contract that if the financial aspects are similar, relational switching costs will determine the outcome.

3. How do decision-makers decide which costs are more salient, and on what basis? Specifically, what criteria do they use to compare the different costs and what issues shape their prioritisation?

It is understandable that outsourcing decisions are primarily based on financial considerations, since financial issues play a key role in the business environment. Only when the financials are equal, do other factors, such as relational switching costs, come into play. To that end, it is not strange to discover that switching costs prioritisation focused only on the comparison, measurement, and prioritisation of financial switching costs. The mechanism used for the comparison was in the form of a weighted score with a financial value which was easily quantifiable and led to a clear-cut decision.

As financial switching costs dominated the vendor switching decision, procedural and relational switching costs were not measured, compared, or prioritised. One reason for the lack of measurement was the difficulty in quantifying such costs (Lacity et al., 2011). Although relational and procedural switching costs did not impact the decision to switch vendors, they were discussed and considered. They were not documented but rather described as “intuitive” or a “feeling” which again suggests the measurement difficulty (Lacity et al., 2011). However, on the odd

occasion, attempts were made to translate the value of the relationship into a financial value and measure it so that it could be compared to other financial switching costs. Even when this was done, it was rarely given a weightage higher than 5% in the final calculation.

COMPARISON OF MAIN THEMES ACROSS ORGANISATIONS AND ROLES

Main Themes	Organisation A	Organisation B
1. Switching Consideration	12	9
2. Vendor Replacement Process	12	9
3. Decision Impact	12	9
4. Relational Decision Impact	6	5
5. Financial Decision Impact	6	5
6. Procedural Decision Impact	6	6
7. Switching Cost Comparison	6	5
8. Lock-In	12	9
9. Transitioning	12	9
10. Strategic Alignment	6	5
11. Cultural Fit	6	5

Table 12: Occurrence of Main Themes in Each Organisation

In the final stage of the analysis, the prevalence of the main themes identified were compared across the two organisations and the various roles in the organisations. The findings were similar across both organisations, and were related to the management level and role of the participants, as explained below.

Both organisations and all roles in the organisations were aware that, at some point in time, a request to evaluate an outsourcing vendor, scan the market, and possibly switch vendors would be made. The trigger for making the decision to consider

switching vendors was usually either a need to reduce operational costs and/or to improve service levels. The decision-making process that followed from these triggers until the final decision was mapped out and owned by the procurement department in both organisations. The process was generic and was not limited to IT; in other words, it applied to vendor engagements across all departments.

All participants in both organisations recognised the activities that impacted the final decision. Interestingly, the degree of the impact differed significantly across the various roles. In both organisations, the participants could be divided into two groups (see Table 13). The first group in Organisations A and B consisted of the senior executives and managers, commercial managers, business unit managers, and project office managers. These managers operate at the strategic level and are concerned with business outcomes and the financial position of the organisation. The second group in both organisations included IT operations managers, IT technical managers, service delivery managers, and project office managers. These managers are concerned with service delivery and operations. It is worth noting that project office managers were located in both the strategic and operational groups. This could be because the project portfolios they are responsible for delivering have an impact on the achievement of both strategic objectives and specific process-level improvements.

Organisation A		Organisation B	
<i>Group 1</i>	<i>Group 2</i>	<i>Group 1</i>	<i>Group 2</i>
1 x Executive/Senior Manager	2 x IT Operations Managers	1 x Executive/Senior Manager	3 x IT Technical Managers
2 x Commercial Managers	1 x IT Technical Manager	1 x Commercial Managers	2 x Project Office Managers
1 x Business Unit Manager	3 x Service Delivery Managers	2 x Business Unit Managers	
2 x Project Office Managers	2 x Project Office Managers	2 x Project Office Managers	

Table 13: Participant Groups in each Organisation

While both groups across both organisations identified financial, relational, and procedural switching costs as having an impact on the decision to switch vendors, the degree of emphasis varied between them. Those in Group 1 considered financial switching costs as the main issue, and attempted to translate everything into a financial cost. Individuals in this group realised that relationships are important but assumed that they could be developed with any vendor. They also realised that procedural switching costs are important, but again assumed that their operational managers would solve any process or operational problems that might occur and that they would be able to develop a robust and flexible operating model with the new vendor. Since the members of this group are the decision makers, their priorities had greater influence on the decision compared to members of Group 2. This led to the situation in which financial switching costs were the determining factor in the decision to switch vendors.

The members of Group 2 had an appreciation of financial switching costs and agreed that the cost of an outsourced service is key, especially since the outsourcing

engagement or vendor replacement exercise is meant to reduce costs and improve service. However, this group also realised that to maintain and improve service delivery, procedural factors and the relationship with the vendor are key for success. Commitment, trust, and loyalty are some of the factors that are present in a developed relationship and these factors create a partnership environment. This is important when an organisation's operational staff know that they are heavily reliant on their vendor's staff, but without a good relationship, the uncertainty and anxiety about the vendor's responsiveness or level of service can be physically and mentally taxing. Resource dependence theory implies that the vendor organisation has a power advantage, because it is in control of vital resources. However, this power dissipates as the relationship with the customer deepens, and the customer's staff realise that they can rely on the vendor's staff. Therefore, Group 2 suggested that relational and procedural switching costs should have at least equal weightage compared to financial switching costs when financial decisions are being made. Given that the members of Group 1 are the decision makers, their priorities take priority over Group 2, and financial switching costs become the main determining factor in the vendor replacement decision.

Both groups considered factors that could lock the customer organisation into an engagement, but differed in the type of lock-in activities. Group 1 focused on the contract and how much it would cost to terminate it. It also focused on any activity that required a capital investment to move from one vendor to another. Group 2 also considered the financial implications of moving from one vendor to another, but was also concerned with the emotional and psychological effort that a move would require. In addition, members of Group 2 were more concerned about the

relationship and were uncertain whether they would get along with the new vendor, if they would be able to work with it, and whether both organisations had aligned expectations around service delivery. Another major concern of Group 2 was the culture of the new vendor. This was because cultural mismatches, in terms of communications, shared values, hygiene, and group dynamics, could derail day-to-day operations. Although Group 1 considered cultural fit important, it was viewed in the abstract from a high level, as the members of this group did not interact daily with the vendor's staff. Group 1 again assumed that the operational staff would make any engagement with any vendor "work". Since Group 2 had daily intimate interactions with the vendor organisation, cultural fit played a critical role in the success of operations.

Transitioning was mentioned by both groups, but there was also a divide on this issue in terms of financial and relational issues. Members of Group 1 were concerned about any activity that had a cost associated with it. On the other hand, those in Group 2 were concerned about successfully transitioning from one vendor to another, without business disruption, and about restoring and improving on the service levels as soon as possible.

Strategic alignment was considered by members of Group 1 as they handled strategic issues. However, interviewees in both organisations remarked that none of their vendors were strategically aligned, and thus, the impact of strategic alignment on the vendor replacement decision was very small. One explanation for the lack of importance of strategic alignment could be due to the fact that a poor relationship prevents the vendor from fully understanding the customer's business, which in turn

inhibits the vendor's ability to plan, develop roadmaps, and strategically align itself to the goals and objectives of its customer.

5.1 CHAPTER 5 SUMMARY

This chapter summarised the results that were discovered during the analysis of the data from the case studies. This chapter also provided answers to the research questions and examined the vendor replacement decision and process from the perspective of organisations who are customers of IT vendors. The flow of the analysis followed the vendor replacement process as described in Section 4.9. Examples from the data, both interview quotes and extracts from the documents, were used to support the arguments. The chapter concluded with an assessment as to how well the data answered the research questions.

CHAPTER 6: CONCLUSION

OVERVIEW OF THESIS

This thesis was motivated by the need to understand the issues that interdependent organisations consider when modifying their partnerships, and the challenges they face in doing so. The chosen context to examine this issue was IT outsourcing and the phenomenon of vendor switching, a relevant and timely experience for many organisations today. As more business processes are virtualised and an increasing number of organisational functions are embedded in IT, organisations across all industries are becoming more reliant on their information systems to keep their operations running. The combination of the tremendous growth in IT innovation and the pressure on organisations to focus on their core strengths has led most organisations to become heavily dependent on their IT vendors.

IT vendors operate both within organisations, co-located with the users they serve, and externally, monitoring the systems they are responsible for, such as security and storage, and coming in to the organisation as required. In such an environment, organisations frequently aim to reap the benefit of cost savings and service improvements by replacing or switching their IT vendors. However, switching vendors comes with a level of risk to the stability of the IT services being provided, as well as the need to take on known and unknown costs that can impact such an endeavour. Thus, identifying the key issues that organisations consider when they seek to modify their dependencies, and the challenges they face in doing so, are valuable and relevant research objectives.

To achieve these objectives, a survey of the literature was carried out to examine the state of the field and the concepts related to this phenomenon. Switching costs were identified as the core concept for the study, and the literature review revealed that, while switching costs have been well-studied, certain aspects needed deeper elucidation, especially relational switching costs. This led to an exploration of three theories – transaction cost theory, social exchange theory, and resource dependence theory – to see how they could improve our understanding of switching costs. These theories were chosen because they are complementary, in that they explain different aspects of organisational interaction: governance, relationships, and power imbalances. Transaction cost theory helps explain economic switching costs, social exchange theory helps explain non-economic switching costs, and resource dependence theory helps explain how the control of vital resources can create power differentials in inter-organisational relationships.

Since the study's focus is on relational switching costs, the various facets of such switching costs were described next. This was done so as to sensitise the researcher to the multiple aspects of this concept. Finally, other factors that could impact the vendor replacement decision, namely strategic dependence and cultural fit, were discussed. The discussion concluded with the development of a flexible framework that depicted the key concepts involved in the vendor switching decision. Next, the methodological choices were discussed and the design of the study was explained in detail. Following that, the data from the two case studies was presented. First, each organisation's strategic, operational, and technological contexts were summarised as vignettes. These provided richness to enhance the meaning of the

interview responses. Then, the responses were analysed thematically in a series of phases to arrive at a parsimonious set of 10 themes. These themes were fleshed out using data from the respondents and extracts from the documents that were reviewed. The findings were also compared across organisations and roles to surface interesting differences or similarities. Finally, they were discussed in light of the theoretical framework to answer the research questions.

The case studies delivered in-depth and robust explanations of the phenomenon at hand (Eisenhardt, 1989; Yin, 2003). Additionally, the case studies helped our understanding of the complex decision-making process (Eisenhardt, 1989) by providing insight into additional information required to understand not only the research questions but also the surrounding factors, decisions, and rationales that contribute to the final decision. The study found that financial switching costs were the main determining factor for deciding whether to switch vendors. Additionally, the study found that relationships were critical for the day-to-day operations of an IT outsourcing engagement. The results also brought to light divergent priorities among different levels of management, and that the level of decision-making (strategic vs operational) affected how financial and relational/procedural switching costs were prioritised. In the next few sections, the contributions of this study in the light of the findings, its limitations, and some suggestions for future research are discussed.

CONTRIBUTIONS

This study's first contribution is to clarify the relational switching costs that are relevant to organisations engaged in IT outsourcing. The size and nature of

switching costs incurred during vendor replacement has not been well-studied and many gaps exist around switching costs, vendor replacement decision making, and other factors contributing to vendor retention. Relational switching costs have received even less attention. Thus, this study discusses the reasons for switching vendors and the switching costs organisations incur when doing so, both relational and otherwise.

The study's second contribution is to identify the impact of these switching costs on the decision to retain or replace IT vendors, and its third contribution is the specification of the cultural and strategic factors that may strengthen or weaken the impact of switching costs on the decision to retain or replace IT vendors. These contributions have been integrated to craft a process that organisations can follow when undertaking a vendor replacement analysis (Figure 10).

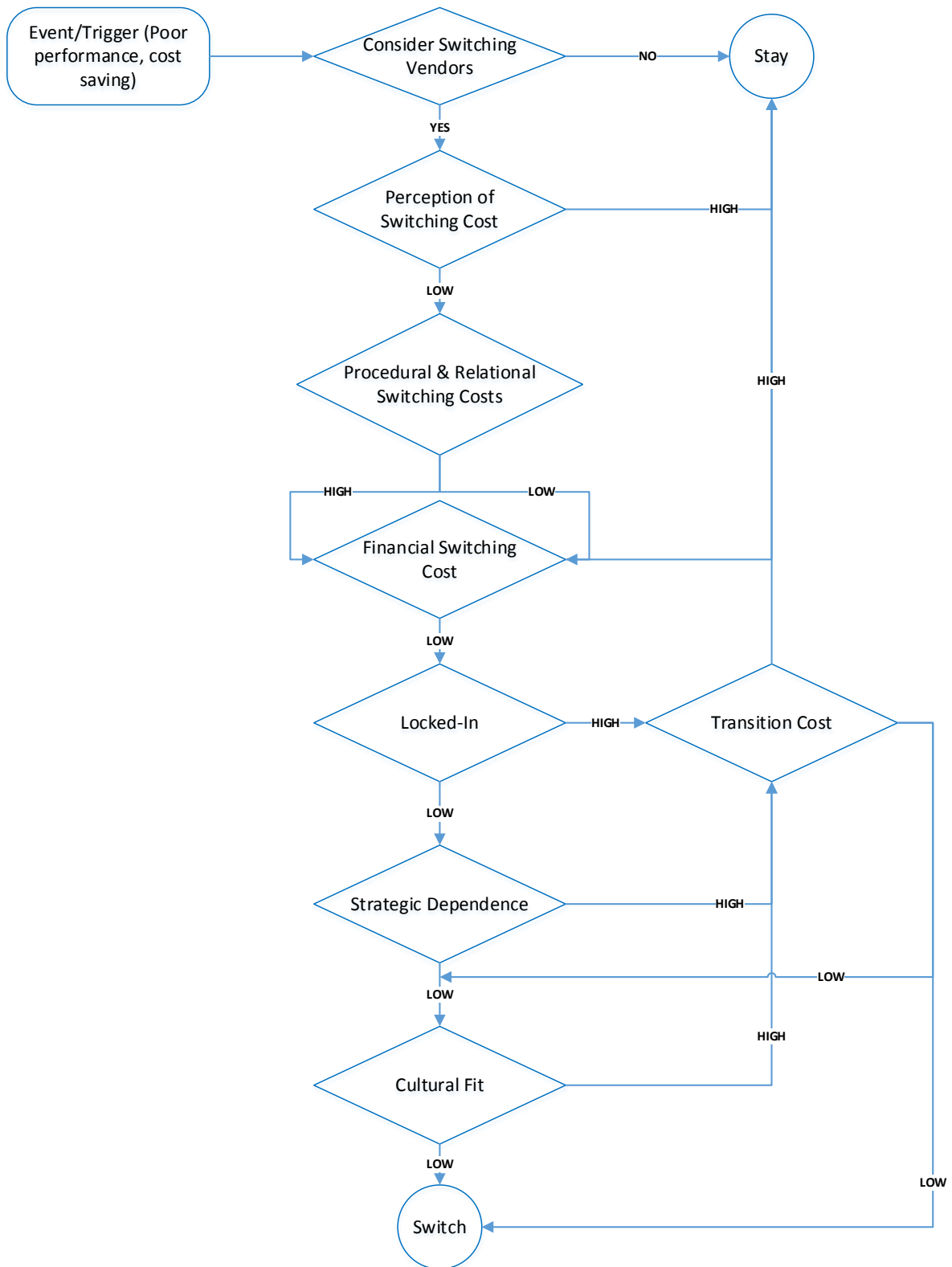


Figure 10: Vendor Replacement Decision Flow

This study also contributes to the broader issues around outsourcing and the implications for risk management when relational switching costs are regarded as having a lower priority than financial switching costs. The emphasis on financial switching costs as the determining factor during the vendor replacement decision process increases the operational risk of the success, longevity, quality, and duration of the outsourcing contract, as relationships are the core of successful outsourcing contracts. Not considering this could make a financial decision that appears sound initially become a disaster when the high costs required to terminate a non-functioning IT outsourcing contract and relationship are considered.

The study's findings highlight the divergence between the move to strategic outsourcing and the continued emphasis placed on financial switching costs. Strategic outsourcing relies heavily on successful relationships, as good relationships improve the longevity and satisfaction of IT outsourcing engagements (Sharma et al., 2008) and create a level of flexibility during day-to-day operations. This study highlights that high-quality relationships negate the urge to continually refer to specific contractual details because of the trust, commitment, and companionship that develops during lasting relationships. Not considering relationship switching costs to be as equally important as financial switching costs can jeopardise multi-year outsourcing engagements, and hinder the ability of organisations to develop the partnership with their vendors into a strategic one.

The challenge here is overcoming the intra-organisational discrepancy in views on the importance of switching costs: senior executives and business managers place higher priority on financial aspects, while IT executives emphasise the procedural

and relational costs. Balancing the interests and objectives of the various parties has implications for the governance structure of organisations in terms of the design of the processes and structures used for decision-making. In both of the case studies, a generic vendor replacement process was used for evaluating IT vendors. This discrepancy in attitudes and perspectives indicates that an IT-specific process may be needed. Unlike vendors of most other services, the services provided by IT vendors can have both operational and strategic aspects. As IT becomes embedded in more organisational processes, it is more likely that an increasing number of IT decisions will have broader strategic implications for organisations, implying the need for a broader appreciation of the types of switching costs that should be considered relevant. Once they are identified, the challenge is incorporating these intangible costs into outsourcing decisions. If they are borne by operational employees, they may not be visible to senior management and thus not included in discussions on outsourcing. However, such costs will still affect organisations by, for example, increasing employee stress levels, burnout, and turnover, which may lead to a loss of knowledge and relationships.

This study will benefit IT practitioners by detailing the relational switching costs they will face if they decide to change their IT outsourcing vendor and the study specifically identifies the relational switching costs (Table 11) which people are not even aware exist but which impact the success of the outsourcing engagement. It produces a model that clarifies the IT vendor management steps for managers, and demonstrates how learning can expedite their IT vendor management function. Additionally, this study details the vendor replacement decision-making process (Figure 6) which can be followed by practitioners. It creates the awareness of the

importance of relational switching costs for the successful operations of an IT outsourcing contract. The awareness can be used to improve the robustness of the vendor-switching decision process, by not only considering financial switching costs but also by taking a longer-term view of the outsourcing contract and incorporating relational switching costs into the decision, thereby enhancing the probability of success for the entire engagement.

DISCUSSION

The existence of most businesses are driven by their ability to secure a profit and their top priority is to keep producing profit or to decrease cost. If this notion is extrapolated to the vendor-switching decision process, then one can understand how financial switching costs are one of the key contributing factors. While the short-term view of financial costs or savings are easy to identify, the long-term effect of relationships, strategic alignment, and cultural fit is harder to quantify (Lacity et al., 2011).

Within the case study interviews, the discussions around the decision to switch vendors ([Chapter 5: Reasons for Considering Switching](#)) usually started off as financial discussions, and most of the participants described financial switching costs as the factors that were measured, compared, discussed, and which then led to the final decision. The mind-set was one of cost-benefit analysis and economic value (Lui, 2006). This mind-set was focused on the decision to switch vendors ([Chapter 5: Vendor Replacement/Retention Decision](#)) and tried to find the most quantitative

measures to base a switching decision on, as well as the most quantitative measures to defend any decision. Interestingly, opinions across the different participants' roles (senior management and middle management) concerning the major deciding factor for switching vendors was very consistent. This could be because middle managers report directly to senior and executive managers who make the decisions, and the decision-makers' goals of improving the financial position of the organisation is adopted by their direct reports.

However, at the next level down, the operational managers, who are somewhat disconnected from the senior and executive decision-makers, looked at their environment and prioritised the activities ([Chapter 5: Impact of Switching Costs](#)) that would make them successful. Their success relies on quality operational service delivery, which in turn relies on the relationship and dependencies they have with the outsourcing vendor. Because of this, they might consider the relationship to be more important ([Chapter 5: Switching Costs Comparison](#)) during decision-making than purely the financials.

The importance of the customer-vendor relationship, strategic alignment, and cultural fit were not disputed by any of the participants; rather, these were highly regarded as they play a critical role in the long-term success of the decision to switch vendors. The executive, commercial, and business unit managers had a greater appreciation of strategic alignment ([Chapter 5: Strategic Dependence](#)) as their roles require a level of strategic management. In contrast, the technical, operations, and service delivery managers had a greater appreciation of cultural fit because they are more closely engaged with the operational resources of the vendor.

The divergence in the emphasis placed on the issues related to switching vendors depended on the roles, the priorities and the success factors associated with those roles. For example, senior managers are responsible for the financial position of the organisation and thus regarded financial switching costs ([Chapter 5: Switching Costs](#)) as the most important factor. Additionally, senior managers utilise strategies to maintain and improve the financial position of the organisation and therefore considered strategy alignment as an important factor. On the other hand, operational managers are concerned about operations and service delivery and thus regarded activities that can maintain and improve operations as important. Therefore, they considered relationships and procedural factors ([Chapter 5: Switching Costs](#)) as important and if they had the opportunity to make the vendor replacement decision, they would priorities these activities.

Cultural fit ([Chapter 5: Cultural Fit](#)) is important for building and maintaining successful relationships and the operational managers considered this as equally important as strategic alignment. Resource dependence theory suggests that power struggles exist within organisations, and that the priorities of executive managers trump the priorities of managers and employees lower in their hierarchy because they are higher up in the organisational hierarchy and thus control more resources.

The relationship becomes even more important as some firms shift from transactional to strategic outsourcing because long-term and stable relationships are important to reduce the uncertainty of the future. Outsourcing might be shifting to strategic levels and even strategic outsourcing engagements require operational

management. The operations of a strategic outsourcing contract will still rely heavily on relationships but the decision to replace a strategic vendor will still be financial. One reason could be because decision-makers are mainly concerned about the financial position of the organisation, and believe that any IT service that can be purchased can be equally well-provided by a number of vendors. Thus, this study found that the types of outsourcing contracts are not a factor in whether relational switching costs impact the decision to replace vendors. Regardless of the type of outsourcing contract, financial issues are the main determining factor.

The challenge to incorporate these factors into any decision-making process is a concrete mechanism to measure their value in a non-subjective manner (Lacity et al., 2011). Only when such a mechanism is created, socialised, and understood by practitioners, will these factors start contributing to the decision-making process.

The theoretical implications suggest that out of the three types of switching costs (financial, procedural, and relational) described by Burham et al. (2003), only financial switching costs effect the eventual decision to switch vendors. Relational and procedural switching costs are important in the operational management of the outsourcing contract but that occurs after the decision to switch vendors has been made. Without the existence of processes and relationships (i.e., procedural and relational switching costs), outsourcing engagements are likely to not do well. Switching decisions based purely on financials include a presumption by senior management that their operational staff will solve any process or relationship problems to make the outsourcing engagement work. This attitude increases the risk of operational failure ([Chapter 5: Risk of Transitioning](#)) because staff anxiety may

outweigh any savings obtained, jeopardising the quality of the operations and services. Anxiety is created by uncertainty and social exchange theory suggest that uncertainty can be mitigated through strong relationships (Ural, 2007).

The broader issue partially identified in this study is that relationships are present in all aspects of business within an organisation and between inter-organisational ventures. Relationships are key to any successful engagement but they are often overlooked or are not considered as critical, as is the case in this study. One reason for this could be because we are exposed to relationships on a day-to-day basis and because of the constant exposure, the value of a relationship can be taken for granted. However, without a relationship, no engagement will be successful and inter-organisational ventures without strong relationships will not yield any advantage for any party. In fact, inter-organisational engagements without a strong relationship will be a disadvantage for either organisation as it creates a burden (having to co-operate and collaborate without any positive outcome) as well as not providing any added value.

The practical implications suggest that although the decision is made on purely financial grounds, it is wise to include process and relationship in the decision-making process as a small percentage of the total score. The risk of assigning a large score to the procedural and relational aspects is that the current vendor has a distinct advantage of retaining the contract compared to other vendors, as they have already developed the procedural and relational capital required to run the outsourcing engagement. The possible reason for the lack of procedural and relational consideration is due to the fact that no mechanism exists where the

customer can measure the incumbent vendor's ability to develop working procedural and relational capital in order to successfully run the day-to-day operations. This takes us full circle back to the financial switching costs which out of the three types of switching costs are the only ones that can be quantified and compared and are thus the best measure to base a decision on even though there is a lack of procedural and relational considerations. When the decision is made on financial grounds, the major assumption is that the day-to-day operations are guaranteed to be successful; however, this has been shown to not be the case and is the cause of the many vendor replacements and the millions of dollars of loss. It is important to note that the relationship can start off very superficially and that the strength of the initial relationship relies largely on the financial benefit to the vendor. TCT suggests that opportunism and self-interest play a critical role (Bahli & Rivard, 2003) and this can explain the initial superficial relationship; however, when a relationship matures, SET starts to play more of a role and trust and commitment take over (Ural, 2007) and the superficiality starts to diminish.

LIMITATIONS

The first limitation in the study is that it was limited to a specific set of outsourcing contracts. Except for the enterprise resource planning (ERP) contract, most of the services are infrastructure related, such as data centre, network connectivity, server and desktop services, and printing and mobile services. Application development and software outsourcing contracts can be studied to examine the generalisability of the findings. One aspect worth taking note of here is to consider the broader IT industry. If there are too few competitors for a particular service in a specific location,

then switching vendors may be a non-issue. In other words, the IT industry could be a boundary condition for the study.

The second limitation is that both organisations are based in New Zealand and this could potentially impact the findings due to their specific culture and operating procedures. A broader study could include large organisations from other countries to enhance the findings in general. Cultural differences would be of specific interest as these can be compared to the findings of this research. Third, the study focuses on organisations that utilise IT as an enabler in the retail, transport, and infrastructure industry. A wider industry cover, combined with organisations that utilise IT as revenue drivers, could enhance the findings.

Qualitative research can be seen as a limitation because it relies on the researcher's ability to perform the research without being influenced by bias and it is more difficult to apply rigor to the findings. Understanding and accepting qualitative research can be more difficult and because the researcher is present during data gathering, confidentiality and anonymity can be a problem. Additionally, categorising, visually presenting, and making sense of a large volume of data can be time consuming and difficult.

Personal bias can affect the validity and reliability of findings. Although personal bias was acknowledged throughout the process of this study, the critical reflection relied on the analysed data as well as the history and experience of the researcher, which may have affected the interpretation of the findings. Additionally, although the

thought process throughout the data analysis and interpretation phases was clear and consistent, the thought process was not documented.

Also, this study utilised the point of view of the participants, which may be seen as a limitation:

1. The recollection of the participants may have been fatigued, contradictory, or incorrect.
2. The case-study participants were from the retail, transport, and infrastructure industry and may or may not be representative of the global market.
3. The case study participants were residing in New Zealand and this again may or may not be representative of the global market
4. Only the views of participants from the customer firms were sought. To enhance the robustness of the findings, individuals from IT vendor firms should have been interviewed for their take on switching costs.
- 5.

FUTURE RESEARCH

In Chapter 2 (Section 2.3), several gaps in the field were identified. This study was only able to answer these questions partially, leaving the following for future research:

1. *Considering the entire decision-making progression over time:*
 - a. *When and how do relational switching costs impact the decision?*
 - b. *What impact do they have during the different stages of decision-making, such as intelligence gathering, analysis & planning, selection, action, and evaluation & monitoring (Simon, 1960)?*

This study discussed how relationships impact the vendor replacement decision. By focusing on the vendor replacement decision, the study did not answer how the customer-vendor relationship impacts every decision that is made on the way to the eventual vendor replacement/retention decision. Answering this question requires comprehensive data on the end-to-end vendor replacement process. Every decision, starting from the decision to consider switching vendors, right through to the transition to the new vendors, must be monitored, including monitoring the new vendor's progress. The relational factors need to be measured and evaluated at every decision point.

Moreover, this study focused on the initial replace/retain decision, not the secondary decision, that is, whether to "backsource" or to switch to a different vendor, leaving the latter for future extensions of this research.

2. Do relational switching costs affect all types of IT outsourcing engagements?

This question was partially answered in that relationships were considered important from an operational perspective for all the contracts that were evaluated in this study. As this is only a subset of the contracts that exist in the market place, a study of a larger pool of contracts is required. A majority of the contracts analysed in this study are infrastructure-related. Increasing the diversity of outsourcing contracts being studied, for example, by including application development, software implementation, and maintenance contracts, would strengthen the results. Additionally, the size of the contracts can be varied as this study focused on large and expensive outsourcing engagements. It would be interesting to compare the decision-making process and

main factors impacting the decision in smaller outsourcing contracts in order to verify the consistency of this research.

Although the study focused on information technology outsourcing, the findings may be relevant for the outsourcing of other knowledge-centric functions, business process outsourcing, payroll outsourcing, project outsourcing, legal services, and project management. The study's findings may also be useful for longer term IT planning, as they will clarify the intangible costs (Lacity et al., 2011) that should be taken into account when firms consider future business relationships.

3. Does learning from past experience reduce the impact of relational switching costs?

In this study, relationships did not affect the decision to switch vendors. As financial switching costs were the major deciding factor, it is unlikely that learning from past experience would impact the decision any differently from a strategic perspective (where the decisions are made). This question has not been answered in this study and can potentially make a valuable contribution to the literature.

A possible avenue for extending the study would be to align it with research on the decisions of IT managers to escalate or de-escalate their commitment to vendors when their projects are not doing well (Keil, 1995; Pan, Pan & Flynn, 2004; Staw, 1976). Research in this field has provided a variety of individual-level explanations for the phenomenon, such as loss aversion, self-justification, and impression management, and it is worth examining the extent to which such individual attributes

interact with various combinations of switching costs to influence vendor replacement/retention decisions.

This study could be enhanced by testing its propositions in a broader group of organisations from different countries. This would potentially broaden the findings as well as highlight differences in culture and how the relationship is valued within different countries and different cultures. This would provide an opportunity to compare relationships and cultures across countries to establish a more generalised perspective on the relational effect on vendor replacement.

Additionally, this research could be repeated within New Zealand or within other countries with a quantitative approach. Although the findings are expected to be similar, a quantitative research would remove the researcher's personal bias component.

In terms of switching costs, the study underlined three topics where further research was required. First, the review of the field highlighted that little attention had been paid in the literature to examining how technology choices or decisions influence the importance of the different types of switching costs. Second, the responses of the participants pointed to the existence of subtle trade-offs in terms of off-setting one type of switching cost for another. Three examples are: a) the burden of vendor lock-in was compared with the financial costs of changing vendors; b) the financial costs of switching IT providers was matched against the procedural costs of doing so; and c) strategic dependence could be beneficial but could conversely become a locked-in situation. There is thus a need for research on identifying trade-offs among switching

costs, and understanding the consequences of choosing one option versus the other. Third, the stark differences in perceptions of the importance of switching costs across hierarchical levels points to a need to review the literature on outsourcing to identify the profile of respondents. If the dominant roles of the participants in these studies were senior managers, they would have very different understandings of what matters in outsourcing compared to if they were account managers or commercial managers. Thus, it is worth reviewing outsourcing studies to examine which group has been targeted the most frequently and whether the differences in the profile of survey respondents affected the results. The outcome of this review could be combined with the first point made in this paragraph about the impact of IT type on switching costs to better conceptualise the phenomenon of switching costs in IT outsourcing.

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APPENDIX A: RESEARCH ON SWITCHING COSTS

Author	Definition	Switching Costs	Switching Cost Description	Theory Used	Industry	Sample	Findings/Contribution
Klemperer, 1987	None specified	1. Learning cost 2. Transaction cost 3. Contractual cost	1. Time/effort in learning new routines 2. Time/effort/money moving to a new vendor 3. Cost of discontinuing a contract	None specified	Consumer purchasing	Conceptual paper	When switching costs are present, early market share is important
Farrell & Shapiro, 1988	"Switching costs are created by relation-specific assets of a buyer who changes suppliers"	1.No specific costs	N/A	None specified	Consumer purchasing	Conceptual paper	Switching costs may promote entry into a new market as unattached buyers can be secured.
Weis & Anderson, 1992	Switching cost is the overall cost of switching.	1.Hiring and retaining cost 2.Management system upgrades 3.Contractual costs 4.Relationship	1. Finding and retaining skilled resources 2. Upgrades to previous (now unusable) management systems 3. Contract discontinuation cost 4. Loss of affectionate personal bonds	Channel distribution theory	Electronics manufacturing	Survey sent to 1209 companies, with 258 returned questionnaires.	Because of switching costs, powerful incentives to switch and high dissatisfaction do not lure managers to switch.

Ping, 1993	"Switching cost, the perceptions of the magnitude of the additional costs required to terminate the current channel relationship and secure the alternative."	1.Costs related to time, effort, money, and grief in switching vendors	1. Costs related to time, effort, money, and grief in switching vendors	Channel relationship theory	Hardware retailers	Field survey of 600 store owners with 288 responses.	Switching costs promote loyalty. Switching intentions are indirectly related to investments and switching costs.
Morgan & Hunt, 1994	Terminations costs include switching costs as a sub-category.	1.Relationship cost	1. Loss of an affectionate personal bond	Commitment-Trust theory	National tyre dealers	Questionnaire survey with 204 respondents.	Commitment relates to relationship termination.
Heide & Weiss, 1995	Time and effort in switching	1.Technology compatibility 2.Relationship	1. Technology integration with other existing services/technologies 2. Changes to vendor routines	Uncertainty resolution theory	Computer purchasing	Questionnaire survey sent to 466 individuals with 219 respondents.	Switching is inhibited by rapid technology change. Switching costs restrict switching.
Klemperer, 1995	None specified	1.Technology compatibility 2.Transaction cost 3.Learning cost 4.Uncertainty cost 5.Benefit loss cost	1. Technology integration with other existing services/technologies 2. Time/effort/money moving to a new vendor 3. Time/effort in learning	None specified	Consumer purchasing	Conceptual paper	Switching costs raise the price and reduce the competition.

		6. Psychological cost	<p>new routines/information</p> <p>4. Cost associated with the unknown</p> <p>5. Loss of privileges</p> <p>6. Psychological cost of switching brands</p>				
De Ruyters et al., 1998	“Switching costs can be defined as the costs involved in changing from one service provider to another.”	<p>1. Effort</p> <p>2. Time</p> <p>3. Money</p>	1. Cost related to time, effort, money	Channel relationship theory	Health, theatre, fast food, retailers, parks	Personal interviews with 612 customers.	High switching costs drive loyalty.
Nielson, 1996	“Switching costs refer to investment actions taken by a customer that inhibits changing suppliers.”	<p>1. Transaction cost</p> <p>2. Relationship-specific assets</p> <p>3. Brand loyalty cost</p> <p>4. Hiring and retaining cost</p>	<p>1. Time/effort/money moving to a new vendor</p> <p>2. Assets specific to current vendor</p> <p>3. Psychological cost of switching brands</p> <p>4. Cost of finding and retaining skilled resources</p>	Inter-organisational exchange relationship theory	Chemical industry	Questionnaire survey sent to 191 firms with 54 returned.	<p>Trust and co-operation are related to relational costs.</p> <p>Risk is related to the level of hard asset investment.</p>
Jones et al., 2000	“Perceived switching costs	<p>1. Relationship cost</p> <p>2. Search costs</p>	1. Loss of personal affectionate bonds	Cost-benefit and relationship	Banking and hairstylists	Survey of 3000 residents with	The relationship between intent to

	are consumer perceptions of the time, money, and effort associated with changing service providers.”	3.Learning costs	2.Cost of finding a new supplier 3.Cost of learning new routines/systems	framework		434 respondents.	switch and satisfaction is moderated by switching costs.
Sharma & Patterson, 2000	“Switching cost is conceptualised as the perception of the magnitude of the additional costs required to terminate the current relationship and secure an alternative.	1.Economic costs 2.Relationship cost 3.Search costs 4.Uncertainty cost	1.Money associated with moving to a new vendor 2.Loss of affectionate personal bonds 3.Cost in finding a new supplier 4.Cost of uncertainty with new vendor	Channel relationship theory	Financial industry	One-on-one interviews with 25 individuals.	Switching costs moderate trust and satisfaction.
Jones et al., 2002	“Switching cost can be defined as the economic and psychological costs associated with changing from one	1.Lost performance 2.Uncertainty cost 3.Pre-switching search and evaluation 4.Post-switching behaviour and cognitive cost	Perception of: 1. Lost benefit/privileges 2. Lower performance 3. Time/effort evaluating and gathering information 4. Time/effort learning new routines 5. Time/effort/expense	Cost-benefit model	Banking & Hairstylist	Survey sent to 3,000; 487 surveys were returned.	Switching costs are positively associated with the repurchase intention. Lost performance costs are the strongest. Industry differences are witnessed in the

	alternative to another.”	5.Setup cost Sunk cost	communicating needs and information to vendor 6. Previously incurred investments/costs in establishing relationship				perception of switching costs.
Chen & Hitt, 2002	Perceived disutility from switching vendors.	1.Contractual costs 2.Relationship-specific investment 3.Technology compatibility 4.Brand loyalty cost	1.Cost of discontinuing a contract 2.Changing from vendor specific assets/systems 3.Technology compatibility with other existing systems 4.Psychological cost of switching brands	Random utility framework	Online brokerage industry	Website tracking of 25,000 households.	Switching behaviour is affected by firm characteristics (product line & quality), system usage and system quality. Switching behaviour is not affected by demographics.
Burnham et al., 2003	“Switching costs are the onetime costs that customers associate with the process of switching from one provider to another.”	1. Economic risk cost 2. Evaluation cost 3. Learning cost 4. Setup cost 5. Benefit loss cost 6. Monetary loss cost 7. Personal relationship cost 8. Brand	1.Cost of accepting uncertainty 2.Time/effort in search and analysis of new vendor 3.Time/effort of acquiring new skills 4.Time/effort of setting up operations with a new vendor 5.Loss of benefits/discounts	Self-perception theory	Consumer credit cards	Survey sent to 575 consumers, 296 responded.	The presence of switching costs support service continuation.

		relationship cost	6. Onetime financial outlays in adapting to new vendor 7. Loss of personal affectionate bonds 8. Loss of brand association				
Whitten et al., 2006	“Switching costs are defined as relationship-specific investments between buyers and suppliers.”	1. Uncertainty cost 2. Post-switching behaviour and cognitive cost 3. Setup cost 4. Hiring and retraining cost 5. Management system upgrade costs 6. Lost benefit cost 7. Search and evaluation cost 8. Sunk cost	1. Unknown performance levels 2. Time/effort in learning and adapting 3. Time/effort/money in preparing for operations with new vendor 4. Acquiring technical talent 5. Changes to management routines 6. Loss of benefits/privileges 7. Time/effort/money in finding a new vendor 8. Non-recoverable time/money/effort associated with the old vendor	Transaction cost theory, Social exchange theory	IT Outsourcing	Survey sent to 6000 executives, 160 responded.	Prohibitive switching costs may prevent managers from switching from unsatisfactory practices.
Jones et	“Switching costs	1. Procedural	1. Time/effort/hassle	Loyalty,	Banking, TV &	Online survey	Procedural, social, and

al., 2007	may be defined as the sacrifices or penalties consumers feel they may incur in moving from one provider to the next."	switching cost 2. Social switching costs Lost benefit switching cost	involved in switching 2.Potential loss of personal relationship Potential loss of special discounts and benefits	commitment, and prospect theory	mobile providers, physicians, hairstylists, and retail stores.	of 863 respondents.	lost benefit switching costs increase commitment and repurchase intention.
Whitten, 2009	"Switching costs are the relational-specific investment between buyers and suppliers.	1.Uncertainty cost 2. Post-switching behaviour and cognitive cost 3. Setup cost 4. Hiring and retaining cost 5. Management system upgrade cost 6. Lost benefit cost 7. Search & evaluation cost 8. Sunk cost	1.Unknown vendors creates uncertainty 2.Time/effort in learning and adapting 3.Costs in preparing for operations 4.Finding appropriately skilled resources 5.Change in management routines 6.Loss of benefits/ privileges 7.Time/effort/expense in finding a new vendor 8.Non-recoverable time/money/effort associated with the old vendor	Transaction cost theory	IT Outsourcing	Survey sent to 160 application development managers, 41 responded.	High switching costs promote continuation. Firms with lower switching costs do chose more easily to switch vendors.

Whitten et al., 2010	“Switching costs are experienced when terminating a business relationship and securing an alternative.	<ol style="list-style-type: none"> 1. Sunk investment 2. Lost performance 3. System upgrades 4. Uncertainty cost 5. Induction-retraining-performance 6. Personnel-replacement cost 7. In-house learning cost 	<ol style="list-style-type: none"> 1. Unusable routines for working with old vendor 2. Loss of special benefit 3. Upgrades of management systems 4. Doubt in ability of new vendor 5. Personnel performance levels 6. Candidate search & information transfer 7. Time/effort with hands-on learning 	Transaction cost theory Resource based theory Organisation learning theory	IT Outsourcing	Field survey sent to 163 top IT managers, 42 responded.	Outsourcing continuation is preferred with back sourcing the least favourite. Lock-in is a real danger with high switching costs.
Barroso & Picon, 2012	None specified	<ol style="list-style-type: none"> 1. Benefit loss cost 2. Personal relationship loss cost 3. Economic risk cost 4. Evaluation cost 5. Setup cost 6. Monetary losses 	<ol style="list-style-type: none"> 1. Loss of special benefits/privileges 2. Loss of personal affectionate bonds 3. Cost of accepting uncertainty 4. Time/effort/money in finding a new vendor 5. Time/effort/money in preparing for operations with new vendor 6. Onetime financial outlays in adapting to new 	None specified	Insurance sector	Personal interviews and online survey, 785 customers of 74 companies.	Benefit loss, relationship loss, and economic risk contribute most to the perception of switching costs. The harder it is to measure switching costs, the stronger the lock-in.

			vendor				
Molina-Castillo et al, 2012	“Switching costs are the one-time costs that consumers incur when they switch from one product to another.”	1.Search cost 2.Transaction cost 3.Learning cost 4.Loyal consumer discounts 5.Consumer habit 6.Emotional cost	1.Time/effort/money in finding a new vendor 2.Time/money/effort moving to a new vendor 3.Time/effort with learning no routines 4.Loss of benefits/privileges 5.Habit of using a particular supplier 6.Loss of personal affectionate bond	Hypothesised relationship	Chemical, machinery, electric, and transport industry.	Cross-sectional survey sent to 1200 people, 255 responded.	Switching costs do not improve performance. Perceived switching costs for pioneering products are higher than for follower products.

Table 14: Previous Studies on Switching Costs in IT Outsourcing

APPENDIX B: INTERVIEW QUESTIONS:

Experience

1. Describe your organisational structure.
2. Describe your department and how it fits into the organisation (function and role).
Number of staff in department.
3. Describe your role and responsibilities within the current organisation.
How long have you been in this role?
4. Describe your previous roles and responsibilities.
For how long were you in these roles?
5. Describe your experiences with IS outsourcing.

Switching Costs

1. What do you understand by the terms “switching costs”, and “relational switching costs”?

Vendor Switching

1. Have you ever been involved in vendor switching within your current organisation or previously? If yes, what was your involvement?
2. What prompted the organisation to consider switching vendors?
3. Describe the decision-making process involved in retaining or replacing a vendor.
4. What challenges did your organisation face when deciding whether to switch vendors?
Was it a difficult or easy decision, why?
5. What switching costs were considered during the process?
6. What relational switching costs were considered during this process?
7. What impact did relational switching costs have on the eventual decision?
8. Which switching costs had the greatest influence on the decision?
How was their importance decided?
9. How were these switching costs overcome or mitigated?

10. Were switching costs measured in any way?

11. What criteria were used to compare different switching costs?

What challenges were faced when prioritising switching costs?

Relationship

1. In your opinion, is the relationship between customers & IS vendors important?

Why?

2. What value does your organisation place on relationships with its vendors?

3. In your opinion, is your organisation “locked into” any of its IS vendors? Why or why not?

Strategy & Culture

1. How strategically aligned do you perceive your vendors to be with your organisation?

Does the level of strategic alignment between your organisation and its vendor affect your perception of the switching costs your organisation faces with these vendors?

2. How close is the cultural fit between your organisation and its IS vendors?

Does the level of cultural alignment between your organisation and its vendor affect your perception of the switching costs your organisation faces with these vendors?

Additional

- Are there any documentation, emails, meeting minutes, RFPs, evaluation criteria, and so on that you are willing to share with me?
- Are there any other possible participants you know of?