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INCORPORATING A SOCIAL PERSPECTIVE TO THE ADOPTION OF APPLICATION SERVICE PROVIDER MODEL

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Abstract

The confluence of several developments in technology and trends in the business environment has led to the emergence of new outsourcing model, the Application Service Provider (ASP). Most practitioner studies focus on the financial and non-financial benefits of the ASP model. In this research, a different approach is taken. We highlight how adoption of ASP model is likely to be influenced by social perspectives outlined in the outsourcing literature.

Keywords: ASP model, social perspectives in outsourcing

Introduction

A new model for IT outsourcing services is emerging – the Application Service Provider Model (ASP). Typically, the ASP remotely hosts and maintains a packaged application for its customers. The customers do not have to license the application from the software vendor or upgrade it, thus resulting in large savings in total cost of ownership. The ASP market is expected to grow rapidly over the next three to five years. Depending on who is doing the predicting and how ASP services are defined the estimated growth rates vary from 80% compound (J. C. Bradford and Co. 2000) to 400% (Forrester Research 1997).

Most managerial studies and case examples point to the benefits, both financial and otherwise, of the adoption of the ASP model. In doing so, they take a snapshot of the outsourcing decision at a given point in time. However, in the ASP context, as in other areas of traditional IS outsourcing, history and ongoing relationships influence adoption and use. In this paper we draw upon social perspectives in outsourcing literature to present a model of ASP adoption and use over time.

The Significance of the Social Context: The Application Service Provider Model

An ASP manages and delivers application capabilities to multiple entities from a data center across a wide area network (ASP industry Consortium). An ASP may provide a variety of outsourcing services including packaged software applications, data center services and network connectivity, application hosting, maintenance, upgrade and disaster recovery. The ASP services are part of broader IT outsourcing services. However the social context of ASP adoption is different. One difference is that the ASP converts a software product into a software delivery service. In moving from a product to a service it is the quality of the service delivery process that needs to be optimized on a continuous basis as compared to the quality of the product that is optimized at the time of production. Hence factors such as network uptime; reliability and security are ongoing concerns in the ASP context. ASP sourcing, unlike conventional IS outsourcing, however is a one to many relationship.

Solutions in traditional IS outsourcing are customized for one client. In the ASP model, packaged applications either may not be customized at all or may be customized to a limited extent or for vertical industry markets. The social context of a one to many relationship is different from that of a one to one relationship. Security breaches can have a much larger impact when the data of multiple competitors is stored at the same site. However lack of significant customization, systems integration or addition of other value added services, can turn the relationship more towards an arms length market exchange.

Social Exchange Theory

Benefits of the adoption of ASP model include, but are not limited to, lower total cost of ownership, lower upfront investment in software, scalability of applications over time, better IT expertise, state of the art technology and better accessibility (Bradford 2000, Waineright 1999, Cherry Tree & Company 1999, Yu 2000). Economic theories of outsourcing treat each sourcing decision as independent (Richmond and Seidmann 1993). This may have limited relevance when organizations have to recurring transactions with each other over a period of time (Nam et. al. 1996).

The buyer and seller continuously adapt to each other over time. The social exchange theory is used to analyze this adaptation. According to social exchange theory trust and power are mechanisms of adaptation (Blau 1964, Emerson 1962). When trust exists between the buyer and the supplier they will continue to mutually adapt to each other. One party in the relationship is likely to adapt to the other if it is dependent on the other. Dependence can be created by factors internal to the relationship such as product complexity, or factors external to the relationship such as market structure (Hallen et. al. 1991).

ASP characteristics such as sponsors, reputation, ongoing relationship, market power, and capital investments would influence the social exchange between the ASP and customer organizations. It would also influence the level of trust between the parties and the perceived risks in entering the relationship. Based on social exchange theory it can be argued that:

- The greater the level of trust between the ASP provider and the customer, the greater the probability of ASP adoption.
- The greater the length of relationship between the ASP vendor and the customer, the more likely the customer is to use the vendor for hosting applications.
- The greater the strength of sponsors, and size of capital investments and market power of the vendor, the more likely the customer is of using it for ASP hosting.
- The greater the extent of value-added services offered by the ASP vendor, the greater the likelihood of continuation of relationship.
- The greater the information exchange between the ASP vendor and the customer, the more the likelihood of continuation of relationship.
- The more mission critical the hosted applications, the greater the likelihood of continuation of relationship.

Conclusion and Directions for Future Research

As the ASP industry matures and more complex, mission critical applications are hosted, or more value-added services are added to the ASP portfolio, the importance of social context in ASP adoption is likely to increase.

The implications of social exchange theory for different types of applications and organizations in the ASP context need to be further delineated. The adoption of off-the-shelf packages from ISP's by small to medium sized enterprises may not have significant implications for the adoption of ASP model. However systems integrators and consultants who have different set of social dynamics in their interaction with, for example, larger organizations also populate the ASP industry. As the research progresses, a model of ASP adoption will be developed, and an empirical study conducted to validate the model.

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