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THE IMPACT OF ADVISORY SERVICES ON CLIENTS AND VENDORS IN IT OUTSOURCING ENGAGEMENTS

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Research in Progress

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Abstract

Information technology outsourcing (ITO) continues to be an important market and research topic in 2016. The client-vendor relationship has been identified as one of the key driver to foster successful outsourcing engagements. But another stakeholder besides client and vendor that presumably highly influences this relationship is neglected in ITO research so far: the advisor. This research-in-progress paper propose to investigate how and why advisory services impact the relationship of clients and vendors and the project success in ITO engagements. To answer our research question, we build on principal-agent theory and social exchange theory as our theoretical lenses to explain the impact of advisory services on the client-vendor relationship. We develop our preliminary research model with three hypotheses and introduce our research design using a case study-based, mixed-method approach. Our planned outcome is a model explaining the role of advisors for improving ITO success. We conclude with an outlook about our next steps and the study's planned contributions.

Keywords: Information Technology Outsourcing, Client-Vendor Relationship, Advisory Services, Advisors, Project Success, Principal-Agent Theory, Social Exchange Theory, Research Design

1 Introduction

Information technology outsourcing (ITO), the subcontracting of an organization's information technology-related tasks to an external vendor, continues to be an important part of contemporary organizations' information technology (IT) strategy (Gartner 2015; Lacity et al., 2016). Current market analysts estimate the global market for ITO to have a total volume of $286 bn. USD in 2016, with an additional expected growth rate of 5.7% for 2017 (Gartner 2016).

The ITO client-vendor relationship is well acknowledged for being a key contributor to overall ITO success (Ang and Straub 1998; Levina and Ross 2003; Pannirselvam and Madupalli 2011). Within the rich body of knowledge on client-vendor relationships (e.g., Kern 1997; Kern and Willcocks 2000; Lee and Kim 1999), different elements have been investigated such as control or trust (Heiskanen et al., 2008), and formal contracts and the concept of relational governance (Gopal and Koka 2012).

At the same time, while the client-vendor relationship's importance is acknowledged, another stakeholder besides client and vendor that presumably highly influences this relationship is neglected in ITO research so far: the *advisor* (Bapna et al., 2016; Lacity et al., 2016). A current market forecast expects the technology consulting market for "IT Strategy and Governance" with a total volume of $8.6 bn. USD in 2016, with an additional expected growth rate of 8.3% for 2017 (Gartner 2016). Such advisory services help clients develop a sourcing strategy, select sourcing locations, develop requests for proposals, evaluate provider bids, negotiate contracts, assist in transitions, build retained capabilities, or review outsourcing relationship health (Lacity et al. 2016). The role of advisors has rarely been studied academically in ITO, yet clearly they are likely to be highly influential because of normative influences (Lacity et al. 2016). But a recent study showed that even though less than 5% of contracts

go through advisory services, the impact of such services are associated with significant positive contract outcomes for clients and higher revenue for vendors (Bapna et al., 2016). Although the activities of advisory services are well-known, how and why advisory services affect revenue and contract outcome is still a "black box", and it is important to examine the specific mechanisms through which advisory services affect ITO success (Bapna et al., 2016).

Hence, building upon the amount and diversity of past studies about client-vendor relationship models (Goles and Chin 2005; Kern and Willcocks 2002) and upon calls for further research on the role of advisors (Bapna et al., 2016; Lacity et al., 2016), we investigate more closely the role of advisors in affecting the client-vendor relationship as well as different sourcing outcomes. Hereby, our research is going to answer the following research question:

RQ1. How and why do advisory services impact the relationship of clients and vendors in ITO engagements?

RQ2. How and why do advisory services impact the success of ITO engagements?

To answer our research question, we build on principal-agent theory (Jensen and Meckling 1976; Williamson 1979) and social exchange theory (Blau 1964) as our theoretical lenses to explain the impact of advisory services on the client-vendor relationship. We propose to investigate the different dimensions of a client-vendor relationship in order to understand which dimensions are affected by the advisory services as well as how and why the advisory services have an impact on the affected dimensions. Building upon a case-based research design, we plan to analyze qualitative as well as quantitative data for the comprehensive analysis of advisory services within ITO projects. Our planned outcome is a model explaining the role of advisors for improving ITO success.

The remainder of this research-in-progress paper is organized as follows. In section 2, we describe the related work and theoretical background on ITO and the client-vendor relationship, advisory services as well as our theoretical lenses. In the following section 3, we state our hypotheses based on findings from the literature and develop our baseline research model. In section 4, we describe our planned research design and approach, and finally give an outlook about our further steps and our study's planned contributions in section 5.

2 Related Work and Theoretical Background

2.1 Information Technology Outsourcing Success

Defining the success of ITO engagements is multi-level by nature, and various authors use different definitions and frameworks for explaining and evaluating ITO success within their research (Koh et al., 2004; Mathew and Chen 2013; Poston et al., 2010; Rai et al., 2009). We build on the well-cited and ground-breaking study by Lee and Kim (1999) on ITO client-vendor relationship quality, which used the concepts business perspective and user perspective to measure ITO success. Business perspective is hereby described by three terms: (1) strategic benefits ("ability of a firm to focus on its core business by outsourcing routine information technology activities"), (2) economic benefits ("ability of a firm to use expertise and economies of scale in human and technological resources of the service provider and to manage its cost structure through unambiguous contractual arrangements"), and (3) technological benefits ("ability of a firm to gain access to leading-edge IT and to avoid the risk of technological obsolescence that results from dynamic changes in IT"). The user perspective, on the other hand, describes the success rate of an ITO engagement from an end-user perspective, described as "the level of quality of offered services". Both business and user perspective represent the client perspective, where the business is represented by the organization and the user is represented by the employees, which use the outcome of the project.

2.2 ITO Client-Vendor Relationship Quality

One of the salient concepts that have emerged to describe the ITO process is the client-vendor relationship. A *client-vendor relationship* in ITO is defined as "an ongoing, long term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive IT activities, processes, or services with understanding that the benefits attained by each firm are at least in part dependent on the other" (Goles and Chin 2005). It is a key success factor for achieving a positive and therefore successful outsourcing outcome (Lacity et al., 2010; Levina and Ross 2003).

Building on this, the concept of *ITO client-vendor relationship quality* is defined as the "degree of connectedness between a client and a vendor in an aim to achieve specified goals" (Winkler et al., 2008). Client-vendor relationship quality itself is a multi-dimensional concept, and numerous studies focusing on developing a comprehensive ITO client-vendor relationship model for predicting quality and success (e.g., Blumenberg et al., (2008); Goles and Chin (2005); Kern and Willcocks (2000); Lee and Kim (1999).

Here as well we build on Lee and Kim (1999) and their partnership quality model. The model describes how partnership quality positively affects outsourcing success and how specific determinants such as participation, information sharing, age of the relationship, and cultural similarity affect the development of partnership quality in general. Partnership quality is defined by the concepts of trust, business understanding, benefit and risk share, conflict, and commitment. Building upon this work as a cornerstone, other studies showed how interaction determinants such as strategic fit and communication, structural determinants such as knowledge sharing routings, contractual determinants (e.g., contract completeness), and contextual determinants (e.g., interdependence and service complexity) affect relationship quality (Blumenberg et al., 2008). However, the role of advisors has not been investigated in the context of client-vendor relationships.

Other well-known studies in ITO apply theories and frameworks such as social exchange theory, transaction cost theory, or contract theory to develop explanatory models (Goles and Chin 2005; Kern and Willcocks 2000). For example, Kern and Willcocks (2000) use a conglomerate of five subdimensions contextual quality, agreement quality, governance quality, interaction quality, and behavioral quality. The contextual quality is related to "specific objectives and expectations (e.g., financial, business, technical and political), which in turn reflect the antecedent conditions" of the client-vendor relationship (Kern and Willcocks 2000). What is missing is a conceptualization of the effects of advisory services on these dimensions.

In sum, while the literature repeatedly points out that client-vendor relationship quality is important for ITO success in terms of cost reductions (e.g., Lee and Kim 1999), external influences on or support for such client-vendor relationships by advisors are not taken into account in these relationship models. Although recent empirical results show a positive impact of third-party advisory services on the ITO success, we know next to nothing about the impact on client-vendor relationships, or the theoretical mechanisms for this positive relation (Bapna et al., 2016).

2.3 Advisory Services in Information Technology Outsourcing

Striking examples for such a third party in ITO engagements are advisory firms such as Quint Wellington Redwood, Avasant, Ernst and Young, PriceWaterhouseCoopers, or Deloitte (http://www.iaop.org/content/19/165/3880). Such advisors usually offer services to perform activities such as vendor capability assessment, price discovery facilitation, client-vendor matching and contracting, or contract monitoring (Bapna et al., 2016).

However, scant knowledge on the effects of advisory services exists. Most research on advisors has been done in mergers and acquisitions, investigating such phenomena as compensation (Kesner et al., 1994), opportunism (Lee 2013), or expertness (Chen et al., 1993). It is known that advisors can have

positive as well as negative effects on decisions in a project. For example, advisors bring in expertise and experience from other projects, which help to reduce legal and knowledge barriers (Kesner et al., 1994). In contrast to this, advisors have control over the information exchange in projects and they have the possibility to manipulate decisions. For example, Kesner et al., (1994) show that advisors in investment banking may have an incentive to raise premiums in merger and acquisition deals due to a higher compensation for themselves. Other studies employ agency theory, for example, to investigate knowledge asymmetry in business exchanges with hired professional service companies (Sharma 1997).

In an ITO context, the only available study until today shows that less than 5% of ITO contracts involve advisors, but that the presence of advisors in ITO engagements is associated with significantly higher revenues for the vendors and positive contract outcomes for the clients (Bapna et al., 2016). However, the causal reasons and mechanisms for this remain unexplained. To the best of our knowledge, there are no studies to date that examine the how and why of this influence for ITO success, neither for cost reductions nor for any innovation outcomes. As of yet, the role of advisors in ITO remains underinvestigated, un-conceptualized, and not-theorized.

To recap, client-vendor relationship quality is presumed to have a considerable influence on the ITO success, as have the third-party advisory services. However, the impact of the advisors that specifically leads to a more successful ITO outcome is still unexplored, and the mechanisms how this influence work remain unexplained.

2.4 Conceptualizing Advisory Services in Information Technology Outsourcing

In order to conceptualize the activities of client, vendor, and advisors, we apply two theoretical lenses – principal-agent theory and social exchange theory (SET). There is a rich body of knowledge in the ITO literature using these two theories (Bahli and Rivard 2003; Ho et al., 2003; Kern and Willcocks 2000; Lee and Kim 1999). On the one hand, we build on principal-agent theory as an economic theory because it explains the governance and contract aspects of ITO client-vendor relationships (Jensen and Meckling 1976; Williamson 1979), and supposedly should also help to understand the client-advisor / advisor-vendor relationships. On the other hand, any relationship in ITO can be understood as a contractual-based exchange relation (Kern and Willcocks 2000). This emphasizes the exchange aspects of the relationship, which are the building blocks of SET. But each relationship (e.g., the relationship between client and vendor as well as between client and advisor) has individual exchange aspects and individual goals. The duality of both theories resonates with our understanding of an ITO client-vendor relationship and its relation to ITO success.

Principal-agent theory tries to explain the difficulties that occur under conditions of incomplete and asymmetric information when a client (the principal) is contracting an outsourcing vendor (the agent) (Jensen and Meckling 1976; Williamson 1979). According to the theory, the agent should work in the interest of the principal, but each party in the relationship has their own goals such as profit gain. Therefore, the principal has costs to monitor the agent to fulfil the contract and meet the principal's interests (Sappington 1991). However, there are three involved parties in ITO that we are interested in: client, vendor, and advisor. Thus, we have two separate principal-agent relationships, (1) between client and vendor and (2) between the client and the advisor. The client is most commonly the principal in both relationships but the expectations of the vendor and the advisor could differ considerably because of different roles (e.g., advisor as supporter, vendor as delivery unit).

To shed more light on both relationships in detail, we suggest to employ SET. SET itself is one of the most influential conceptual paradigms in organizational behaviour, explaining relational aspects between different parties, for example, as series of interdependent transactions (Blau 1964; Emerson 1962). Past research using SET argues that the interdependent transactions between exchange partners "have [under specific circumstances] the potential to generate high-quality relationships" (Cropanzano

and Mitchell 2005), the circumstances being unclear. SET understands the ITO relationship as a dynamic process with interactions between both parties (Kern and Willcocks 2000; Lee and Kim 1999). It is a system of actions and reaction between client and vendor as well as client and advisor trying to overcome their information asymmetries (Cook 1977).

3 Hypotheses Development and Research Model

In the following, we introduce our preliminary baseline model, with which our study intends to start. The positive relationship between ITO client-vendor relationship quality and ITO success is generally known (Koh et al., 2004; Lee and Kim 1999). Therefore, as our baseline relationship based on prior studies covering the subject, we will evaluate the effect of ITO client-vendor relationship quality on ITO success based on the dimensions of the client-vendor relationship discussed in Section 2.2. Therefore, we argue:

> ***Hypothesis 1.*** *A higher ITO client-vendor relationship quality has a positive impact on ITO success.*

Even though only 5% of the ITO projects use the support of third-party advisory services, existing studies show the benefits of the external support resulting in better ITO outcomes (Bapna et al., 2016). But the studies on advisors do not theorize how positive effects on ITO success occur. By controlling for a number of project, client, and vendor characteristics through their activities, the presence of an advisor has been shown to also influence project success (Bapna et al., 2016; Lee 2001). Therefore, we argue:

> ***Hypothesis 2a.*** *Third-party advisory services have a positive impact on ITO success.*

However, our main argument as regards the mechanisms behind is that advisors do not only have a direct effect of ITO success, but that this effect is also being mediated by an indirect effect on the ITO client-vendor relationship. Based on principal-agent theory and SET, we argue that the client uses the performance of the advisor to decrease the amount of incomplete and asymmetric information between the client and the vendor, and that this also fosters the client-vendor relationship quality. For example, third-party advisory services may impact the system of actions and reactions by enforcing the client in being more involved in such relationships (Gable and Chin 2001). Exemplary activities of the advisor are managing and influencing the bidding process (Hong and Shum 2002; Li and Zheng 2009), aligning the contract between client and vendor based on the advisor's experience and knowledge (Susarla 2012; Susarla et al., 2010), or monitoring the interaction including the contract between client and vendor (Bailey and Bakos 1997). Such activities refer to the dimensions of the client-vendor relationship quality (e.g., agreement quality, interaction quality). The client learns from the experience and knowledge of the advisor and uses it for a more equal relationship to the vendor.

Other studies show that typical activities of advisors such as knowledge sharing also have a positive impact on the ITO success. For example, Lee (2001) combined the concept of knowledge sharing with client-vendor relationship quality and demonstrated that knowledge sharing has a direct effect on the outsourcing success and an mediating effect over the client-vendor relationship quality. Therefore, our main hypothesis is:

> ***Hypothesis 2b.*** *Third-party advisory services decrease the amount of incomplete and asymmetric information between the client and the vendor and therefore have a positive impact on client-vendor relationship quality.*

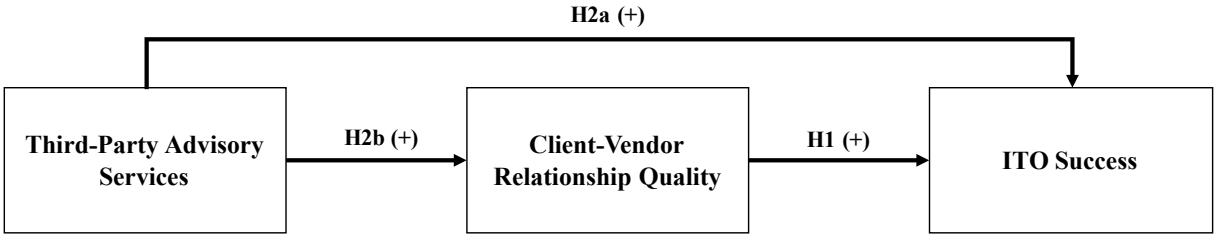

Figure 1. Initial Baseline Research Model

4 Research Design and Approach

We propose a case study-based, mixed-method research design due to two reasons. First, our study aims to investigate a complex real-world phenomenon, that is, the impact of the client-vendor relationship on ITO success and especially the influence of third-party advisory services in such relationships. Case studies are especially suited for exploring new conceptual arguments and complex real-life phenomena, where context is key (Siggelkow 2007; Yin 2003). Second, the phenomenon of third-party advisory services has not been well research and is not readily and easily accessible; existing studies show that less than 5% of ITO engagements use advisory services (Bapna et al., 2016). So any access at all, most likely through several single cases, needs to be considered (Yin 2003).

Despite sometimes articulated reservations, case studies are well-suited for theory testing (Dubé and Paré 2003; Lee 1989a; Lee 1989b; Sarker et al., 2013). Specifically, our study will strive to use multiple cases in order to answer our research question and test our baseline model. Multiple cases are also a way of contrasting different context and yet-to-be determined boundary conditions of our model, allowing to adapt or expand its concepts – or even to radically change it, resulting in a completely new model (Yin 2003).

As regards sampling of suitable cases, we identified three criteria for our case selection: (1) besides the client and vendor, a third-party advisor has to be involved in the ITO projects; (2) client and vendor should engage in intensive interactions – indicating possible activities regarding the five dimension of the client-vendor relationship – to ensure that the theoretical phenomenon is significant; and (3) the top management of the organizations should support our study in order to gain a deep insight in the project with access to relevant informants, documents, meeting minutes, interpersonal interactions, on-site visits, surveys and questionnaires, and so forth.

4.1 Data Collection

We already started our data collection and data analysis. Our goal is to identify as many cases as possible up to a total number of 8 due to predict similar results (literal replication) and to predict contrasting results for anticipatable reasons (theoretical replication) (Yin 2003: p. 54) as well. At the moment of finalizing this paper, we have already four confirmations for gaining project access.

We will employ a mixed-method design (Creswell 2013; Venkatesh et al., 2013; Venkatesh et al., 2016) and strive to combine multiple data collection methods, including qualitative data sources (e.g., interviews, observations, and archival sources) as well as quantitative evidence (e.g., questionnaires, coded observations, log files). Interviews protocols, observation protocols, measurements, guidelines, questionnaire items, and procedures for case study conduct will be developed. Interviews will be designed based on a set of pre-planned questions to cover the subject area, and a coding scheme for qualitative data based on the final research model will be constructed. The interview guidelines will nonetheless leave room for probing questions or deviations in order to uncover insights counter to or different from our baseline model.

Based on Miles et al., (2014) and following recommendations by Venkatesh et al., (2013), we will use a design that consists of a first qualitative, open and explorative phase to shape and refine the baseline

model, followed by a second quantitative phase with questionnaires, and a final qualitative phase for testing findings. This approach seems to be appropriate for our research approach because of the phenomenon itself, and because we would like to explore the impact of third-party advisors on the client-vendor relationship and its impact on the ITO success by querying project leaders or key project team members. If the first phase yields very unexpected findings or that are counter to the baseline model, we will adjust the model accordingly for the second and third phase. While trying to answer our research question, we will also strive for a panel study with data collection in multiple points in time. In the end, we plan to corroborate our findings by interviewing key project members again. During the first and third phase, we will collect additional documents such as major deliverables, meeting minutes, and so forth to triangulate and for gaining another view on the project beside the interviews and questionnaires.

We will follow established guidelines in creating our qualitative protocols and quantitative measurement instruments (e.g., Moore and Benbasat 1991; O'Leary-Kelly and J. Vokurka 1998; Saldana 2009). For the initial operationalization of our three concepts ITO success, client-vendor relationship quality, and third-party advisory services, we build on existing operationalizations identified in the literature. For example, we plan to reuse the operationalization of the client-vendor relationship quality from Lee and Kim (1999) and Oshri et al., (2015) or ITO success from Rai et al., (2009). The same procedure applies to potential control variables.

4.2 Data Analysis

We expect that our cases involve more than one unit of analysis (embedded case studies). This occurs when, within a single case, attention is also given to a subunit or subunits. Although the specific ITO projects represent the main unit of analysis, the individual project team members represent a subunit. Any subunit is part of/or embedded in the larger system (i. e., project) and it is important to understand the subunits in the larger system (Yin 2003, p. 49).

First, in phase 1 we will follow established guidelines for testing theory with case studies in our analysis (Dubé and Paré 2003; Lee 1989a; Lee 1989b; Sarker et al., 2013; Yin 2003). For example, the analytic strategy will use content analysis and common coding schemes for the qualitative data based on the research model, which are employed during pattern matching, comparing an empirically based and subsequently coded pattern with a predicted one based on the model. The patterns are related to the dependent and independent variables of the model. If the results are as predicted, we can draw a solid conclusion about the model. We will also use recommended techniques such as the use of rival explanations for pattern matching of independent variables, explicit explanation building, time-series analysis where possible, and logic models of chains of events over time and of cause-effect patterns, predefined before the analysis based on the research model. At least three or more researchers or research assistants will perform all codings independently to increase validity. Specifically, it is planned to use the software MaxQDA. Furthermore, key informants will review draft case study reports and explanations.

Based on the qualitative data, primarily we take a closer look at the roles of advisory services and its change over time based on the project phase and project activities. We will investigate different project phases and major project events based on the approach of Heiskanen et al., (2008). Although at the current stage we do not expect to engage into deeply theory development, we will not rule out other concepts and changes to our baseline model a priori. If the data in phase 1 leads us to conclude that changes are necessary, we will follow established guidelines for developing theory based on our case studies (Eisenhardt 1989; Miles et al., 2014).

Second, the quantitative data in phase 2 will be used to validate and generalize our findings. Depending on the gathered data and an a priori power analysis, either univariate, bivariate, or multivariate data analysis techniques will be used (Straub et al., 2004). For example, data will be analysed using confirmatory factor analysis (CFA) to assess the measurement model in terms of factor loadings, as

well as convergent validity and discriminant validity. Common method variance (CMV) will also be assessed to ensure that covariance among variables is not a result of the method used to collect data. The research model and hypotheses will be tested using regression analysis or covariance-based structural equation modelling (SEM) techniques (Byrne 2013), depending on the constructs of the final research model and the final measures.

Third, the qualitative data collected in phase 3 (interviews, observations) as well as the supportive documentation (e.g., project status reports) will be used for triangulating, enhancing, and validating the quantitative data by applying content analysis and meta-analysis approaches (Miles et al., 2014). Guidelines for mixed method approaches will be used in combining both analyses (Creswell 2013).

5 Outlook and Conclusion

In the next steps, we will finalize our set of case studies for further analyzes. In parallel, we prepare the data collection by operationalizing our used concepts client-vendor relationship quality, ITO success, and third-party advisors service based on existing literature for use in interview guidelines, coding schemes, and questionnaires. Furthermore, we will add additional reasonable factors wherever possible and when it creates benefits for our examination. We will use control variables that previously have been used in other studies.

We will start with our data collection (e.g., interviews, questionnaires, and so forth) gradually with the final identification of our case studies. As of today, we have confirmations for four case study. Depending on the projects, we expect this phase to last until the mid of 2017. Afterwards, we will start with our data analysis.

Our study aims to contribute to three different streams of research. First, we expand the role of third-party advisory services in the environment of information technology, especially for ITO. We analyze the advisor's performance and identify typical activity patterns of the advisor. Second, we will contribute to the research gap of explaining how and why third-party advisory services influence the client-vendor relationship (Bapna et al., 2016; Lacity et al., 2016). We would like to better understand what value advisors add to a client-vendor relationship and therefore to the overall ITO success. Third, we will show how both base theories contribute to our triangular setup of the client, vendor, and advisor. For example, the principal-agent theory has been used mostly for a single relationship between a client and vendor. We add the role of the advisor to this relationship and therefore except to show the validity of the theory in network relationships.

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