Exploring Signaling Roles of Service Providers' Reputation and Competence in Influencing Perceptions of Service Quality and Outsourcing Intentions

Chung-Lun Wei, National Chung Hsing University, Taichung City, Taiwan

Chien-Ta Ho, National Chung Hsing University, Taichung City, Taiwan

ABSTRACT

With the advancement of technology, the utilization of information technology/information systems (IT/IS) is increasingly important in enhancing productivity. Thus, IT/IS outsourcing has become a crucial issue for companies. When faced with an unfamiliar outsourcing service market, and particularly when initially outsourcing, client companies experience uncertainty. Employing the signaling theory, the study proposes one intrinsic cue (competence) and one extrinsic cue (reputation) for outsourcing service providers to evaluate service quality, value, and the subsequent outsourcing intentions of clients. The results demonstrate that suppliers' competence and reputation are influential signals for perceived service quality, which in turn affects perceived value and outsourcing intentions. Moreover, suppliers' reputations are found to have a greater impact on perceived service quality than suppliers' competence; the latter has a direct effect on perceived value, while the former does not. The implications for theory and practice are also discussed, as are suggestions for future research.

KEYWORDS

Competence, Outsourcing Intention, Perceived Service Quality, Reputation, Signal

INTRODUCTION

The development and progress of technology has facilitated the utilization of information technology/information systems (IT/IS) to enhance productivity for companies. Over the past few years, the IT/IS spending of global companies has continuously increased (Gartner, 2015), and outsourcing has driven more than half of the total outsourcing market (Deloitte, 2014). Thus, IT/IS outsourcing is pivotal in company operations. On the other hand, IT/IS applications have become crucial in increasing a company's competitive advantage in the industry (Cross, 1995). An exceptional IT/IS outsourcing service provider can enhance competitiveness and has significant influence on company performance (Agrawal et al., 2006). As enterprises may not be familiar with outsourcing service providers, for example, their services and competences, they must face uncertainties and risks (Biong, 2013; Gonzalez et al., 2013). Outsourcing service contracts in particular are usually long-term, and their impacts can be particularly profound (Chang et al., 2012; Schneider & Sunyaev, 2016).

Additionally, studies have demonstrated that companies often experience service quality problems in IT/IS outsourcing (Deloitte, 2014; Michell & Fitzgerald, 1997; Park & Kim, 2005). Meanwhile, some researchers have suggested that service quality can be regarded as the first criterion to assess outsourcing providers (Ma et al., 2005). Service quality problems often cause controversies between suppliers and customers during outsourcing implementation, which can lead to contract termination, with a waste of resources (Aubert et al., 2012; Michell & Fitzgerald, 1997). Accordingly, assessing outsourcing suppliers' service quality before contracting can prevent an unnecessary loss of resources, and will improve performance in IT/IS outsourcing.

However, what information can be obtained about service quality prior to a client company's purchase of outsourcing services? How effectively does this information signify the service quality and value of suppliers? The signaling theory is essentially involved in mitigating uncertainties and lowering information asymmetries between two parties (Connelly et al., 2011). A signal is a cue that a vendor employs to deliver information to a client regarding a product or service's quality (Rao et al., 1999). Attributes that signal quality are divided into intrinsic and extrinsic cues (Wells et al., 2011; Zeithaml, 1988). While intrinsic cues are product attributes, and cannot change without altering the fundamental nature of the product itself, extrinsic cues are product-related attributes that are not a part of the product (Zeithaml, 1988). By this definition, a service provider's reputation can be regarded as an extrinsic cue, and professional service competence as an intrinsic cue. Therefore, it is helpful to apply signaling theory to investigate how these cues can be employed to signal service quality and value when a company is unfamiliar with outsourcing providers. Hence, this research proposes the following questions:

1. Do IT/IS outsourcing service providers' reputation and competence legitimately signal perceived service quality and value to affect purchasing an outsourcing service?
2. What is the difference between an IT/IS outsourcing service's intrinsic cue (i.e., competence) and an extrinsic cue (i.e., reputation) to signal perceived service quality and value, and subsequently, outsourcing intention?

From the service providers' perspective, the extent of IT/IS outsourcing has become varied, and competition for customers has increased due to such technology developments as the Internet of Things, big data, and cloud computing (Deloitte, 2014). Accordingly, drawing favorable attention from their target customers becomes a critical survival mission for IT/IS outsourcing service providers, and especially for new provider companies, or new departments separated from existing companies that are just entering the market. An investigation of IT/IS outsourcing service providers' reputation and competence as signals of perceived service quality and value will not only contribute to our theoretical understanding of how these signals influence operations in a business-to-business (B2B) setting, but will also provide practical implications.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Signaling Theory

A signal can deliver a vendor's information to a client, who will then investigate and evaluate the validity and credibility of a vendor's qualities (Mavlanova et al., 2012). Signals are particularly helpful prior to purchase in situations of information asymmetries, with limited or hidden information available for the buyer (Connelly et al., 2011). Spence (1973) demonstrated how an education signal impacted job markets for an employer's consideration of applicants. As the employer is unfamiliar with these job applicants, information asymmetries arise; therefore, the employer can verify educational levels to signal the quality of job candidates. Signaling theory serves to interpret the behaviors and

22 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/article/exploring-signaling-roles-of-service-providers-reputation-and-competence-in-influencing-perceptions-of-service-quality-and-outsourcing-intentions/216973

Related Content

Validating the End-User Computing Satisfaction Instrument for Online Shopping Systems
Chung-Tzer Liuand Yi Maggie Guo (2010). *Computational Advancements in End-User Technologies: Emerging Models and Frameworks (pp. 291-308).*
www.irma-international.org/chapter/validating-end-user-computing-satisfaction/38098

Office Computer Systems in Healthcare: Use and Assessment
Judy L. Wynekoop (1996). *Journal of End User Computing (pp. 22-30).*
www.irma-international.org/article/office-computer-systems-healthcare/55725

The Transformation Model
Kathleen P. King (2008). *End-User Computing: Concepts, Methodologies, Tools, and Applications (pp. 1915-1921).*
www.irma-international.org/chapter/transformation-model/163868

Learners at the Wheel: Novice Programming Environments Come of Age
Judith Good (2011). *International Journal of People-Oriented Programming (pp. 1-24).*
www.irma-international.org/article/learners-wheel-novice-programming-environments/53807

Gatekeeper Networks, Knowledge Inertia, and Knowledge Performance in Business Incubators
Wenqing Wu, Minhan Zhai, Jiayue Liuand Xuang Huang (2023). *Journal of Organizational and End User Computing (pp. 1-33).*
www.irma-international.org/article/gatekeeper-networks-knowledge-inertia-and-knowledge-performance-in-business-incubators/333634