Financial hazard essay

? positive attitude towards BPO is assumed to positively influence ? intention to increase ? level of BPO.

Based on TRA, we define ? attitude towards BPO as ? overall evaluative appraisal, made by ? manager who is responsible for ? business procedure, of having that procedure outsourced to an external service provider. ? relationship between attitude and intention is based on TRA, which states that ? beliefs about an outcome shape ? attitude towards performing ? behaviour. Attitude, in turn, influences ? intention to perform ? behaviour and, ultimately, influences ? behaviour itself (Wixom and Todd 2005). So, ? more positive ? attitude towards BPO, ? greater ? intention to increase ? level of BPO will be.

This relationship has been empirically tested in numerous studies, especially those focusing on ? Technology Acceptance Model (Davis, Bagozzi and Warshaw 1989; Adams, Nelson and Todd 1992; Taylor and Todd 1995). Intention to Increase ? Level of BPO ? intention to increase ? level of BPO is ? ultimate dependent variable in our model. We regard it as ? manager's expression of support for ? outsourcing of ? procedure she/he is responsible for, barring unforeseen events (Ajzen and Fishbein 1980). We explicitly refer to an increase in ? level of BPO instead of asking for overall outsourcing of ? business procedure, as pre-tests showed that numerous managers have already outsourced smaller tasks of their processes. As laid out above, based on TRA, ? positive attitude towards BPO is expected to positively influence ? intention to increase ? level of BPO.

This relationship was successfully tested in ? studies mentioned in section 4. 2. 2. We are aware of ? difficulties that arise when predicting an actual outcome using ? intended behaviour, for example possible changes in influential factors in ? time between indicating an intention and performing ? behaviour (Ajzen and Fishbein 1980). So we regard intention predominantly as ? control variable to assess whether our research model accurately predicts changes in ? intention to increase ? level of BPO.

As Ajzen and Fishbein (1980, p. 5) put it: “(There will not) always is ? perfect correspondence between intention and behaviour. ” Intention is measured using ? following (reflective) indicators: Financial hazard is defined as ? hazard that ? actual costs might exceed ? planned/budgeted costs of ? outsourcing engagement. In other words: ? fear of ? manager that he will have to pay more for ? service than originally anticipated. To analyze this, Transaction Cost Economics (TCE) was chosen, based on Coase (1937) and Commons (1934).

? analysis of transaction costs allows one to explore efficiencies in hybrid governance structures, for example joint ventures, strategic alliances or franchises (Williamson 1991). Transactions are ? transfer of goods or services between institutionally separable interfaces (Williamson 1985), which entails specific costs since TCE assumes limited rationality and opportunistic behaviour (Dibbern et al. 2004). In ? BPO context, limited rationality refers to ? limited capabilities of ? outsourcer that render “ complete” contracts impossible. Opportunistic behaviour entails that this incapability could be exploited by ? service provider.

? lot of researchers have used TCE to analyze ? outsourcing decision by exploring ? existence and magnitude of transaction costs (Lacity and Hirschheim 1993; Ang and Straub 1998; Lammers 2004). If transaction costs do not outweigh ? production cost advantages of ? service provider, ? bank is likely to outsource. Though, ? question arises as to how this balance might change during ? outsourcing venture. If actual transaction costs overrun planned transaction costs, ? bank faces financial losses. From ? BFI manager's perspective, hazard mainly arises from unexpected transition costs and hidden costs during service delivery. Unexpected transition costs include unforeseeable set-up costs, redeployment costs, relocation costs or parallel-running costs (Earl 1996).

These costs are particularly caused by ? additional human resources needed to transfer ? processes (Cross 1995; Earl 1996). Hidden costs emerge if ? manager assumes that certain activities are included within ? outsourcing contract and they eventually turn out not to be, resulting in costly contract amendments (Lacity and Hirschheim 1993; Lacity and Willcocks 1995). Additionally, they refer to ? threat of opportunistic behaviour by ? service provider as stated by TCE. Underestimated costs are caused by inexperience or ? inability of ? bank to calculate ? business case correctly (Earl 1996). Severe unexpected switching costs emerge during ? exit phase (when ? contract ends and ? procedure can be back sourced or transferred to another provider) if this issue was not included upfront in ? outsourcing contract, and ? service provider requires fees which are beyond what is economically feasible for his support in transferring ? procedure. Aubert et al.

(1998) used TCE to show that switching costs are particularly high if there is (1) high asset specificity, (2) ? small number of service providers, and/or (3) great inexperience with contractual exit agreements. Performance HazardPerformance hazard (? hazard that ? service provided by ? outsourcing vendor will not be delivered as expected by ? bank) can be analyzed using TCE and Agency Theory (AT). AT treats ? difficulties that arise under conditions of incomplete and asymmetric information when ? principal (? bank) hires an agent (? service provider) (Eisenhardt 1989). From ? principal's perspective, these conditions entail continuous coordination and motivation issues. ? general assumptions of agency theory are (1) ? principal's inability to observe ? agent's behaviour and (2) opportunism of both ? principal and ? agent. Opportunism can be explained using two concepts: moral hazard and adverse selection.

Moral hazard emerges if ? agent acts to ? disadvantage of ? principal. Adverse selection is driven by ? agent's allegation of superior capabilities and produces ? problem of choosing ? " wrong" agent. As outlined by Aubert et al. (1998), adverse selection emerges when ? service provider does not have sufficient outsourcing experience, and is therefore unskilled in collaborating with ? bank.

Moral hazard induces ? hazard of service debasement (Aubert et al. 1998; Bahli and Rivard 2005).? service provider might reduce his effort in collaborating with ? bank and fail to improve ? procedure if he can use his superior resources in other client engagements instead. Additionally, there is also ? hazard of procedure multifaceted. As outlined by Aubert et al.

(1998), this hazard can be traced back to ? concept of asset specificity as inherent in TCE. If ? asset (procedure) is very specific and requires ? deep understanding of procedure requirements, it is difficult for ? service provider to sustain constantly high quality in procedure execution. Therefore, ? hazard of declining procedure quality due to procedure multifacetedities arises. ? misinterpretation of ? bank's wants and needs raises ? issue of communication mismatches (Earl 1996; Aubert et al. 1998; Gartner 1999; Willcocks et al.

1999; Aubert, Patry, Rivard and Smith 2001). What initially seems to be clear and unquestionable to one side might result in disputes and litigation due to contrary interpretation by ? other partner. This problem becomes particularly evident if ? bank requires services that have not been included in ? original contract.? special issue in BPO is ? hazard of data privacy (Gewald and Franke 2005), as ? service provider needs unrestricted access to ? client's sensitive data to be able to procedure it (Khalfan 2004). Contemporary incidents like ? theft of 40 million sensitive data files from ? service provider of Mastercard (Dash and Zeller 2005) illustrate ? importance of this topic. As BFI institutions very much rely on their reputation for keeping client data confidential (Harris 2002; Nugent and Raisinghani 2002), ? hazard of security breaches is assumed to be of high importance for ? overall performance hazard.