Exploring the Influence of Vendor Reputation in IT Outsourcing Decisions: A Transaction Cost Perspective

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Abstract

Past research indicates that firm reputation can be a valuable intangible resource by signaling unobservable quality about products, services, skills, and capabilities. Although we might expect firms facing IT outsourcing decisions to consider reputation as a means for assessing quality among potential vendors, the influence of reputation in so-called ‘make-or-buy’ decisions is not well understood. Toward addressing this gap, we draw from signaling theory to integrate the reputation concept into the transaction cost framework – the predominant perspective explaining firm boundary decisions – to explore the mechanisms through which vendor reputation influences client outsourcing decisions. We propose a moderated-mediation model in which vendor reputation encourages outsourcing by 1) attenuating the influence of transaction hazards on the threat of opportunism, and 2) strengthening the influence of transaction-promoting factors on the perceived benefits of outsourcing. We believe elaborating the mechanisms through which vendor reputation both substitutes for and complements established transaction attributes in outsourcing decisions potentially augments the established TCE framework in ways important for both theory and practice.

1. Introduction

The value of firm reputation has received considerable attention in organizational research, particularly in the strategic management literature. The extant literature suggests reputation – stakeholders’ perceptions about an organization’s ability to create value relative to competitors [22] – to be a valuable intangible resource that can provide the reputable firm with a unique and difficult to imitate source of competitive advantage [2]. For example, reputation can signal quality attributes that enable superior rents through premium-pricing strategies [24]. Evidence also suggests that executives consider reputation to be among the most important intangible resources [15].

Central to the concept of reputation is that it inherently reflects a measure of quality vis-à-vis other organizations [10, 11, 15, 12]. Thus, reputation can also influence decisions about the formation of interfirm relationships. For example, reputation can be an important factor in decisions about joint venturing [4], and there is evidence that firms generally prefer alliances with partners of good repute [12]. For outsourcing decisions, it seems reasonable that reputation may play a similarly positive role. That is, other factors notwithstanding, firms should be more likely to outsource IT development when reputable suppliers are available. However, few studies have explicitly examined the role of reputation in the context of outsourcing decisions. As such, a clear understanding of the precise mechanisms through which reputation impacts outsourcing decisions has not developed in the literature.

Toward addressing this gap, this paper attempts to integrate the reputation concept into the framework of transaction-cost economics (TCE) – the predominant theoretical approach for explaining firm boundary decisions [33, 34]. Briefly, TCE emphasizes the transaction-level characteristics of so-called “make-or-buy” decisions such that when the perceived costs of transacting with outside firms are relatively high, client firms will choose to organize activities within their hierarchies [34]. Despite the many insights developed around the framework and its prevalence among organizational researchers over the past two decades, recent evidence suggests that TCE may not sufficiently address the complexity of firm governance decisions [25, 23, 9]. In particular, the TCE perspective, as originally put forth by Coase [6] and later elaborated by Williamson [32, 34], focuses primarily on endogenous decision factors and largely ignores a variety of contextual factors that can influence governance-related decision-making. This somewhat oversimplified view of decision context may help to explain the equivocal empirical support for the TCE framework in past research [9]. Research incorporating such scope conditions into the TCE framework has been scarce; however, recent investigation highlights the potential significance of certain contextual factors within the
framework. Shervani, et al [25], for example, find that firms with high market power can reduce the impact of transaction costs on forward integration decisions. Similarly, for IT outsourcing, Tiwana & Bush [28] provide evidence that project technical complexity can actually increase the likelihood of outsourcing, contrary to the predictions of the conventional TCE framework.

In light of these considerations, we continue the effort to augment the basic TCE framework for understanding firm boundary decisions by exploring how the reputation of potential vendor firms interacts with transaction attributes to influence the client firm’s decision to outsource (see Figure 1). First, consistent with conventional interpretations of TCE, transaction characteristics are predicted to influence the decision to outsource through their effects on client perceptions of either vendor opportunism (for transaction hazards) or perceived benefits (for transaction characteristics that encourage outsourcing – henceforth, promoters). More importantly, we draw upon the signaling reputation literatures to theorize that vendor reputation moderates the influence of transaction characteristics, such that vendor reputation 1) attenuates the influence of transaction hazards and 2) enhances the influence of transaction promoters. Therefore, the principal objective here is to conceptually explore the mechanisms through which perceived vendor reputation both substitutes for and complements transaction attributes for firms facing outsourcing decisions, as articulated in the following research question:

**RQ: How do perceptions of vendor reputation complement and/or substitute for transaction attributes in outsourcing decisions?**

We examine this topic in the context of IT project outsourcing, defined as a contractual arrangement between firms in which a software development firm (i.e., the vendor) develops a custom application for a client firm [19]. IT project outsourcing is a risky and high-stakes endeavor, yet there is evidence of an increasing dependence on such strategies as a means of

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1 According to Poppo & Zenger [21], variables may be considered substitutes when the increased level of one attenuates the influence of the other. Complementary variables, in contrast, are characterized by a positive interaction effect.

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competitive necessity [28]. As such, developing a thorough understanding of outsourcing decision environments is a critical issue for IT managers. Following Tiwana & Bush [28], we focus on the transaction-specific factors that influence the client’s *initial* decision to outsource IT projects rather than the factors that may affect post-decision vendor selection, development, and maintenance processes.

Our research makes several potential contributions. First, by elaborating the multidimensional nature of the reputation concept, we build upon research investigating exactly “what reputation is and how it is formed” [22, p.1033]. Second, given the pervasiveness of TCE-based explanations of firm boundaries, integrating the reputation concept into TCE nomology may extend the framework to reveal insights on the formation of firm boundaries that have been heretofore obscured. Third, the concept of reputation has received limited attention in the IS literature and, in particular, studies addressing IT outsourcing. Given the proliferation of specialized application development firms across a variety of IT-intensive domains, assessing the relative quality among potential outsourcing partners has become increasingly challenging for IT managers. Thus, to the extent that potential vendor reputation mitigates the transaction-specific uncertainty surrounding IT outsourcing decisions, as we later argue, the current research may reveal insights that are potentially important for both theory and practice.

The remainder of the paper is organized as follows. We begin with a brief overview of the relevant insights drawn from the literatures on signaling theory, reputation, and TCE and develop some preliminary propositions for the substitutive and complementary roles of vendor reputation for transaction characteristics in IT outsourcing decisions. We then suggest some future research avenues, including a proposed methodology for investigating the predicted relationships. Finally, we offer some preliminary thoughts on the potential contributions of our research to theory and practice.

### 2. Theory Development

Signaling theory provides the primary theoretical basis for understanding reputational influences. The concept of signaling is fundamentally concerned with reducing information asymmetry between two parties [26, 27]. Specifically, signals can transmit information about *quality*, defined here as the “underlying, unobservable ability of the signaler to fulfill the needs or demands of an outsider observing the signal” [8, p.43]. Signals of high quality are relatively costly to produce for low-quality firms and, thus, are difficult to fake [8]. As such, costly signals are particularly...
valuable indicators of quality, since “true” high-quality firms are better able to absorb the associated cost compared to their low-quality counterparts [18]. Thus, for firms concerned with avoiding the pitfalls of adverse selection [7], signals can effectively mitigate signalee uncertainty created by information asymmetry by providing important information about signaler quality [27].

2.1. Reputation as a Signal of Perceived Quality

First, we argue that reputation acts as a signal of vendor quality among client firms considering outsourcing decisions. Reputation is defined as stakeholders’ perceptions about an organization’s ability to create value relative to competitors [22]. To the extent that positive reputations are both observable and costly to develop (i.e., difficult to fake), they can be highly effective signals of quality. Connelly [8], for example, suggests that reputation is merely a socially constructed term for quality, and there is evidence that signalees consider signaler reputation to be a reliable indicator of quality [4]. Past research also suggests that firms make concerted efforts to develop good reputations to signal underlying quality [7, 10]. Thus, we draw from this research to conceptualize the reputation construct as a measure of perceived quality – the degree to which stakeholders evaluate firms positively on a specific attribute [22].

While reputation is often treated as a broad and often nebulous firm-level characteristic, there is evidence that reputation is actually a multi-dimensional construct capable of signaling specific types of quality at various levels of analysis [22, 12]. Thus, we forgo broader conceptualizations of reputation, such as firm-level prominence based on media rankings [22], to emphasize the perceived quality dimension because of its potential to signal positive information about specific attributes, i.e., at the project level. This distinction is particularly important for our purposes, since quality measures are not equally salient for all projects. For example, vendor firms may be reputed to be experts in specific types of application development that may or may not be relevant to the requirements of client firms. As such, reputations based on overall quality may be poor indicators for assessing the specific capabilities required by evaluating firms. We believe our focus on perceived quality helps to isolate the relevance of vendor reputation for clients at the project level, while also limiting issues related to the “halo effects” of broader measures of reputation [5].

For outsourcing decisions, clients must attempt to distinguish levels of quality among potential vendors (or compare potential vendor capabilities with their own). As a means of mitigating the threat of adverse selection, then, vendor reputation can signal information about quality (e.g., of products, technical knowledge and skills, and partnership reliability) that would otherwise be prohibitively costly (or impossible) to ascertain [13]. As noted previously, since reputation is costly to produce for those firms lacking in quality-related characteristics [8], client managers are more likely to consider vendor reputation than other non-objective indicators (e.g., verbal assurances) in outsourcing and other inter-firm related decisions [4]. Thus, reputation may be an important decision factor for managers attempting to assess quality among outside firms.

Our argument for the salience of reputation in outsourcing contexts is consistent with evidence that reputation plays an important role in decisions surrounding similar inter-firm relationships. Past research, for example, has demonstrated the positive influence of partner-firm reputation in joint venturing decisions [12]. Similarly, Bergh, et al has suggested, “(joint venture) partners with higher reputations tend to be trusted more, they are not expected to behave opportunistically, and contracting with them poses lower transaction costs” [4, p.624]. Additional research also suggests that vendor reputation is a key factor in explaining the conditions surrounding the formation and maintenance of inter-firm relationships [31]. For example, studies have shown that reputation facilitates post-outsourcing decision processes by signaling trustworthiness and cooperation [17] to firms who otherwise may find it difficult to evaluate and discriminate among potential partners due to uncertain or incomplete information [35]. Efforts to empirically test such propositions, however, have been limited, and the extant literature does not appear to include rigorous research on how reputation affects the initial decision to outsource projects (IT or otherwise).

Thus, in general, reputation potentially influences outsourcing decisions by decreasing the uncertainty surrounding the quality of potential vendors. Therefore, we argue that vendor reputation is likely to be included among a confluence of factors considered by IT managers facing outsourcing decisions. Within the TCE framework, then, we would expect perceptions of vendor reputation to interact with other transaction attributes in outsourcing decisions. Before elaborating these relationships, we first describe TCE and identify its key constructs to develop the underlying framework of our proposed model.

2.2. Transaction-Cost Economics

As noted earlier, transaction-cost economics (TCE) has been the predominant theoretical lens for
understanding outsourcing decisions, including those related to IT development, whereby the decision to outsource is primarily driven by a desire among managers to realize significant cost savings [34]. Transaction costs are defined as “the direct and indirect expenses of negotiating, monitoring, and enforcing contracts between firms” [28, p.263]. The crux of TCE emphasizes the notion that transactions (i.e., the transfer of goods or services) align with governance structures (e.g., market-based, hierarchy, or hybrid forms) in such a way as to minimize the costs of engaging in those transactions [33, 34, 9]. Transactions that incur (or are expected to incur) high costs are likely to be organized within the firm hierarchy, while those with relatively lower costs are more likely to be outsourced to firms within the market domain [34].

While the general theoretical tenets of TCE have been well established in the literature, there is less agreement on how transaction costs should be conceptualized and measured at the project level. Two broad approaches are evident in the literature [9]. Based on the early work by Williamson [32], a majority of TCE research has emphasized the specific characteristics that are presumed to increase transaction costs, including asset specificity, uncertainty, frequency [32], relative cost advantage, threat of opportunism, and project complexity [28]. In contrast, others have focused on higher-level conceptualizations in which an aggregate of transaction costs themselves is measured directly [9]. Since the objective of the current study is to explicate the precise mechanisms through which attribute-specific reputation influences IT outsourcing decisions, we adopt the former approach by investigating the impact of vendor reputation on established transaction attributes presumed to influence the perceived transaction costs for client firms. Specifically, we identify the project-level attributes of strategic importance of the project, project technical complexity, and client perceptions of the threat of opportunism among vendor firms as our primary TCE constructs of interest.

2.2.1. Transaction attributes

First, outsourcing arrangements expose client firms to potential vendor opportunism, wherein vendors intentionally fail to fulfill project obligations or otherwise take advantage of clients during or after project development [28]. To alleviate this threat, client firms must undertake measures to safeguard their interests. Since these measure usually involve costly and complex governance mechanisms [34], clients are discouraged from entering into sourcing agreements when the threat of opportunistic behavior among potential vendors is high. Thus, TCE predicts the threat of opportunism to negatively influence the likelihood of outsourcing.

Second, the strategic importance of the project to the client firm has been derived [28] from a central transaction attribute identified in the TCE literature, asset specificity [34]. Asset specificity refers to the degree to which assets used in support of the transaction can be redeployed without sacrifice of productive value [34]. As asset specificity increases, the transaction costs associated with market-based governance increases. This is because assets that are highly specific require efforts to minimize or avoid the contracting hazards and bilateral dependencies with vendor firms. Thus, TCE predicts that transactions with high asset specificity are likely to be integrated within the firm.

Outsourced IT projects requiring customized applications from vendors are inherently asset specific, since the project is likely to be idiosyncratic to the client firm [28]. As such, Tiwana & Bush [28] model strategic importance as a proxy for the degree of asset specificity; that is, customized applications, while asset-specific, can be either critical to client firm competitiveness (strategic) or routine and non-critical (non-strategic). Thus, consistent with TCE predictions of the influence of asset specificity, strategic importance is predicted to have a negative effect on the likelihood of outsourcing through its influence on the perceived threat of opportunism. Since the focus of this study – IT project outsourcing – is identical to theirs, we adopt a similar approach, both for the conceptual reasons they outline and to facilitate integration between the studies.

Finally, IT project technical complexity based on its size, scope, or technical novelty [28, 36] can also increase transaction costs, since complex projects require high levels of coordination, integration, and control to address client-vendor knowledge asymmetries and, thus, the potential for vendor opportunism. Thus, similar to the strategic importance of the project, conventional TCE-based reasoning suggests project technical complexity to positively influence the perceived threat of vendor opportunism, which in turn decreases the likelihood of outsourcing.

Our selection of the above transaction-specific characteristics is primarily motivated by their salience to our research objective, as well as their pervasive use in past TCE research. That is, both asset specificity and the threat of opportunism are widely recognized as central components of TCE, a notion that David & Han [9] confirm in their meta-analysis of TCE-based research. Thus, their inclusion in the current study reflects an attempt to establish a conceptual bridge to

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2 Although Tiwana & Bush [28] did not find a significant effect for strategic importance on the likelihood of outsourcing, their post-hoc analysis revealed several significant interactions with other transaction attributes. We have predicted a similar result for the interaction of strategic importance with perceived quality.
the existing TCE literature. Similarly, project technical complexity has also been examined within the TCE framework [16], and there is evidence that the concept is particularly relevant for assessing transaction costs associated with IT project outsourcing [28]. We elaborate these notions in the following section outlining our preliminary propositions.

3. Propositions

3.1. The basic TCE framework

The foregoing discussion outlines the basic framework of our proposed research model (Figure 2). Consistent with the fundamental tenets of TCE, the project-level attributes of strategic importance and technical complexity are conceptualized as transaction hazards, which are expected to negatively influence the likelihood of outsourcing. Also in line with TCE-thinking, we suggest that the mechanism through which these influences emerge is through the mediating role of the perceived threat of vendor opportunism. Thus,

**Proposition 1:** The perceived threat of vendor opportunism mediates the negative relationship between transaction hazards (i.e., strategic importance and technical complexity) and the likelihood of outsourcing.

3.2. Transaction hazards and the substitutive role of vendor reputation

As noted earlier, signaling theory suggests that reputation, through its ability to signal quality attributes, reduces uncertainty among stakeholders of the reputable firm [3]. Within the general framework of TCE described above, then, reputation is expected to mitigate the influence of transaction hazards for outsourcing decisions. That is, since reputation is likely to be both an observable and reliable signal of vendor quality (as discussed previously), it potentially reduces the uncertainty associated with threats of opportunism. For both strategic importance and IT project complexity, then, we would expect the perceived quality of vendors to increase the likelihood of outsourcing by attenuating the positive influence of these transaction hazards on the perceived threat of vendor opportunism. Thus,

**Proposition 2a:** Vendor reputation increases the likelihood of outsourcing by attenuating (i.e., substituting for) the positive influence of both strategic importance and IT project complexity on the threat of opportunism.

3.3. Project technical complexity and the complementary role of vendor reputation

As we alluded earlier, the project technical complexity construct is particularly relevant in the domain of IT project outsourcing in that it highlights two conflicting interpretations of TCE. As Tiwana & Bush note,

“As a project grows in complexity, two opposing tensions come into play: on one hand, the depth of skills needed to cope with a complex technical project requires deeper specialized expertise, motivating outsourcing, while, on the other hand, greater control is desirable by managers, motivating internalization” [28, p. 266].

While empirical work in the manufacturing context (e.g., Masten [20]) has found project complexity to be a transaction hazard (i.e., motivating internalization), Tiwana & Bush [28] suggest that complexity in the context of IT projects differs from project complexity in manufacturing and other contexts since IT applications are likely to require highly specialized skills that reside outside of client firm boundaries. In such cases, the potential benefits of leveraging the specialized knowledge and skills of vendors are expected to eventually supersede the high coordination and integration costs typically required for complex projects. The authors explain,

“Overall, we expect that as project complexity increases, the benefits that managers perceive from utilizing a specialist vendor will outweigh the perceived costs from loss of direct control. Therefore, as project complexity increases, the net effect will be that managers will be more likely to outsource development” [28, p.267].

Thus, Tiwana & Bush predict and find support for a positive relationship between IT project complexity and the likelihood of outsourcing. Moreover, the authors suggest that the positive influence of project complexity on the likelihood of outsourcing is not mediated by the perceived threat of opportunism, but rather the perceived benefits of utilizing a specialist vendor. When viewed as such, the conceptualization of project complexity shifts from that of a transaction hazard to a transaction promoter through its positive influence on perceived benefits. To accommodate this alternative perspective, we include in our model the dimension of perceived benefits of outsourcing as an alternative mediator through which project technical complexity positively influences the likelihood of outsourcing.

Again, since vendor reputation, through its ability to effectively signal quality, reduces the uncertainty...
associated with assessing vendor technical skills and capabilities, it is likely to influence the degree to which project technical complexity increases the perceived benefits of outsourcing. Specifically, we argue that the perceived quality reflected by vendor reputation enhances the positive relationship between IT project complexity and the perceived benefits of outsourcing, which in turn increases the likelihood of outsourcing:

**Proposition 2b:** Vendor reputation increases the likelihood of outsourcing by strengthening (i.e., complementing) the positive influence of IT project complexity on the perceived benefits of outsourcing.

![Figure 2. Proposed Research Model](image)

### 4. Future Research

We begin our discussion of future research opportunities by outlining a proposed methodology for testing the research model developed above. Following a description of conjoint analysis, construct operationalization, and rival explanations, we briefly identify some additional research areas that may emerge from current efforts.

#### 4.1. Proposed methodology for the current study

#### 4.1.1. Conjoint Analysis – Overview and Motivations

To test our above propositions, we propose a field experiment using conjoint analysis administered to IT managers involved in IT outsourcing decisions. Conjoint analysis is a multi-attribute judgment analysis technique based on Information Integration Theory (e.g., Anderson [1]) that involves a posteriori decomposition of the respondent’s decision process [30]. The technique is useful for assessing the relative importance of independent variables, and the analysis of results across sub-groups can reveal significant interactions among them. The primary benefit of conjoint research design is that it combines the control of a laboratory experiment with the external validity of a survey [30, 28]. The technique requires respondents to assess various decision scenarios (i.e., conjoint profiles) in which the independent variables (i.e., attributes) can be freely manipulated in order to examine each of their contributions (i.e., part-worth utility) to the overall value of the dependent variable (i.e., overall utility). For the current study, attributes refer to the decision criteria reflected in transaction attributes (strategic importance, project technical complexity) and the reputation dimension (perceived quality), the dependent variable is the likelihood of outsourcing, and the conjoint profiles reflect variations in the levels of the three decision criteria.

Following other examples using the technique in IS research [30, 28, 29], we propose conjoint analysis over traditional surveys for several reasons. First, conjoint analysis designs have been utilized in other studies on IT outsourcing in the IS literature and have produced interesting and insightful results. Second, the approach is particularly suited for theory testing [14], as proposed here. Third, the use of hypothetical scenarios in conjoint analysis eliminates the threat of social desirability bias, which could arise if managers were asked to recall actual instances of (potentially poor) decision-making. Finally, we are also interested in decomposing the utility of multiple attributes (in outsourcing decisions), an approach for which conjoint analysis design has been primarily developed.

#### 4.1.2. Conjoint profiles and measures

Each of the three attributes (strategic importance, project technical complexity, and perceived quality) to be included in the conjoint profiles is operationally defined based on examples drawn from the reputation and TCE literatures. Strategic importance measures the degree to which projects are critical to the competitiveness of client firms. Project technical complexity measures complexity of the project based on its size, scope, or technical novelty. Perceived quality taps into perceptions about the degree to which client firm managers evaluate vendors positively on output quality and required technical skills for specific projects. Formal definitions will be initially provided to the respondents. Consistent with other studies using conjoint designs in the IS literature, each attribute will be assigned a high or low value. As currently specified, our model yields 8 profiles (2³), which is expected to be a reasonable number for surveying IT managers in the
field. A field pretest of the profiles will be conducted to assess the face validity and clarity of definitions provided. The threat/benefit and likelihood of outsourcing criterion variables will be measured using semantic differential scales. The mediators are intended to measure a respondent’s perceptions of the potential threats of opportunistic behavior among vendors and the potential benefits of vendor partnership. Following Tiwana & Bush [28], the dependent variable – the likelihood of outsourcing – measures the extent to which the respondent 1) would recommend project outsourcing and 2) believed that outsourcing the project was attractive from his or her organization’s perspective.

4.1.3. Rival explanations

The possibility of rival explanations of the likelihood to outsource IT projects may be addressed through the selection of appropriate control variables, dictated here by established theory. Aside from strategic importance and project complexity, TCE specifies a number of attributes that may influence decisions to outsource, including the bounded rationality of client managers and the relative cost advantages of vendor firms for a given project. Moreover, other theoretical perspectives suggest additional factors that influence outsourcing decisions, including outcome measurability (agency theory) and requirements volatility (the knowledge-based view). Finally, certain firms may have a predisposition to outsource based on their past experiences and organizational routines favoring outsourcing practices. Controlling for these (and potentially other) variables should help to isolate the effects of the factors included in our research model.

4.2. Additional future research

We believe the current research may encourage several additional promising areas of future research related to IT project outsourcing. First, as noted earlier, empirical evidence suggests that the conventional TCE framework may obscure the complexity of outsourcing decision environments. We have attempted to partially address this issue by incorporating a well-known attribute – vendor reputation – into the TCE-based decision framework. Future research may adopt a similar approach in an effort to better capture how various factors typically excluded from TCE influence the formation and maintenance of inter-firm relationships.

Second, in addition to reputation, firms may rely on a variety of signals to transmit information about quality. The relative importance of various signal types, in outsourcing or other contexts, has received little attention in IS research. Thus, examining the salience of signals – independently and in combination – within various contexts would appear to be a fruitful topic for future research.

Finally, rapid changes in technology and development strategies are likely to influence the ways in which clients and vendors approach IT outsourcing arrangements. For example, whether TCE adequately explains the proliferation of platform-based ecosystems (e.g., Apple’s iOS) characterized by a single-owner platform surrounded by numerous, external, and highly specialized application developers is, as yet, unclear. Theoretical development aimed at explaining these emerging organizational structures may uncover important issues in the domain of IT project governance.

5. Potential Contributions

The currently proposed research represents a preliminary conceptual exploration of the influence of perceived vendor reputation on client outsourcing decisions. We have attempted to develop testable propositions and outline a viable methodology for future empirical investigation as a framework for the next phase in our research agenda. Although drawing definitive conclusions at this time is, of course, premature, we offer some general thoughts as to how future findings may potentially contribute to theory and practice.

First, we address recent criticisms of the TCE framework by incorporating a scope condition – vendor reputation – recognized as a key determinant of firm capabilities but largely ignored in the extant TCE literature. Thus, as previously suggested, the current research is in line with similar efforts to augment the TCE framework. Second, examining the influence of reputation within the TCE framework is an attempt to synthesize the disparate but intuitively complementary research streams developed around reputation studies, signaling theory, and transaction costs. That is, both scholars and practitioners are likely to acknowledge that the reputations of potential partners do somehow factor into decisions about outsourcing. In general, the results of our conjoint analysis may potentially reveal how IT managers view the relative importance of vendor reputation vis-a-vis other decision factors. Furthermore, the work here proposes a parsimonious framework for exploring the underlying mechanisms of

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3 As noted in Tiwana & Bush [28], using additional attribute levels (e.g., low, medium and high) exponentially increases the number of potential profiles, which could result in surveys that are prohibitively demanding of respondents. It is possible that a fractional-factorial conjoint design could reduce the number of profiles to a reasonable number; the approach will be considered once design parameters are finalized.
outsourcing decisions that account for the simultaneous effect of vendor reputation and transaction characteristics. Emphasizing the perceived quality dimension of reputation facilitates the decomposition of reputation influences that are obscured at broader levels of abstraction. Third, the reputation concept has received little attention in the IT outsourcing and broader IS literatures. As such, the current research suggests a theory-based approach for further integrating insights on reputation into IS research. This study contributes to the ongoing research on IT outsourcing as researchers continue to address the growing dependence of clients on vendors with specialized capabilities.

In practice, the ongoing proliferation of specialized IT firms engaged for development projects increases the degree of complexity of decision processes for IT managers of client firms facing outsourcing decisions. The reputations of potential vendors, particularly in regards to specific project requirements, may become increasingly important as a means for efficiently and effectively assessing vendor quality. For vendor firms, the study may help to clarify the importance of reputation as it pertains to project- and/or transaction-specific characteristics. Thus, it may help to focus efforts among vendor firms to enhance their reputations in more effective ways. As such, the ideas introduced here and developed in future research on the topic may provide insights about the role of reputation that resonate among managers steeped in TCE thinking.

Given the pervasiveness of TCE-based explanations of firm boundaries, decomposing the influence of certain reputation dimensions at the transaction level may facilitate theory development and inform research design. More broadly, integrating the reputation concept into TCE nomology may reveal insights on the formation of firm boundaries that have been heretofore obscured. We hope that the research proposed here reflects an incremental, yet valuable, step towards such theoretical synthesis.

6. References


