

Supplier Switching and Outsourcing: Credit Union IT Systems

Yukako Ono, Keio University

Abstract

Despite the wide notion that ex-post supplier switching costs limit a firm's incentive to outsource, few empirical study examines the link between a firm's supplier switching and procurement decision. In this paper, using the panel data on the US credit unions (CU)' IT outsourcing, I compare supplier switching behavior of CUs that partially outsource their IT system with that of the CUs that completely outsource their IT system. I also examine how a CU's ex-ante choice of procurement mode are influenced by possible costs of future supplier switching.

My empirical examination suggests that there are factors that commonly influences the utility of alternative vendors even after controlling for CU, vendor, and vendor-CU match specific factors, suggesting the existence of switching costs. Examining a cross-section variation of CUs' choice between partially or completely outsource their IT system, I find evidence that indicate the link between switching costs and ex-ante choice for procurement mode.

I also find that some CU characteristics are systematically associated with a CU's likelihood to switch its vendor, after controlling for the match quality between a CU and its vendor. Among CUs that partially outsource their IT system and therefore customize the system themselves to some degree, I find that larger CUs switch less, possibly because the software specific investments are greater for larger CUs. CU size is less relevant to vendor switching for CUs that use an IT system controlled completely by a vendor. The geographical location also seems to matter for supplier switching; switching seems to be easier for CUs in urban areas.