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Managing IT-outsourcing
a research overview

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Agenda

- Managing IT outsourcing – setting the boundaries
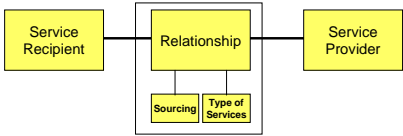
- Transaction Cost theory
- Agency theory
- Resource based View
- Incomplete Contract theory

- Resume

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Managing IT outsourcing – setting the boundaries

- Managing IT outsourcing is the relationship between a service recipient and service provider(s) for the service provisioning of IT services[1]:

Service Recipient	—	Relationship	—	Service Provider
		Sourcing / Type of Services		

- The decision making process is excluded : no 'make or buy'
- Including the organizational, economical and social impact of outsourcing
- Including globalization: offshore outsourcing

1) Based on: E. Beulen and P. Ribbers. (2003) A case study of managing IT outsourcing partnerships in Asia. Communications of the Association for Information Systems, volume 11, article 21, March, pp. 357-376.

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Transaction Cost theory

- **Transaction Cost theory: tradeoff between "make" or "buy" decisions;**
- **Focus on transaction costs of "buy" decisions.**

Findings:

The transaction costs in IT outsourcing relations many different kinds of expenditures: for **finding and selecting** the right trading **partner** (which includes the costs of information exchange and of determining the client's needs), for negotiations, financing, distribution, **monitoring**, invoice settlement and the many after-sales aspects that arise from doing business. Also included are **operations risk costs**, which arise from the possibility that one's partner may misrepresent the situation, withhold information or underperform; and **opportunism risk costs**, referring to partners wanting to renegotiate after the other side has already made certain investments, or simply because there are few alternatives.

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Agency theory

- **Both parties behave rationally and have rational expectations;**
- **The agent's actions generate the principal's profit and success;**
- **The parties' interests diverge;**
- **The principal-agent relation is characterized by information asymmetry.**

Findings:

Outsourcing companies can never **fully judge the quality** of their potential suppliers, nor **their real intentions**. It is therefore important that they mitigate the risks of the selection stage by gathering as much independent information about them as possible.

Once the contract has been signed and the products or services are delivered, the recipient must make sure these tasks are carried out in his best interests. The agent, however, has a **major information advantage** – which is not surprising, as this is probably one of the reasons for outsourcing in the first place – so **his actions are difficult to assess**.

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Resource based View

- **Enterprises are considered collections of competences and capabilities that must be maintained and developed;**
- **The resource-based view therefore focuses on internal characteristics as factors for companies' competitive success.**

Findings:

Outsourcing all other activities may be a good strategic move, because one can then **concentrate on the core competences and achieve a leaner, more flexible organization** that can respond quickly to the inevitable but unpredictable changes in its environment. Since the resource-based view offers **insight into which resources are of critical importance**, it helps determine which resources should kept or acquired. In a similar vein, the resource dependence theory looks at external resources, and **considers ways to cope with the risks of one's dependence for them on outside providers**. Resource theories help determine whether one should or not outsource certain processes and capabilities.

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Incomplete contract theory

- **It is almost impossible to set up a contract that includes everything;**
- **Many things change during the contract period that are unforeseen;**
- **The concept of ex-post negotiations, including a procedure for reaching agreement about issues that are as yet unclear.**

Findings:
The problem of incomplete contracts is made worse by the **market dynamics facing both recipients and providers**. Contracts, therefore, must be flexible and adaptable, which puts an even greater stress on the importance of contract management. Changes in the partnership's context necessitate '**relational contracting**'. This entails that apart from formal contacts, informal conferencing is an important element in controlling one's partnership.
In IT outsourcing partnerships, context changes are caused by **business management changes or technological developments**.

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Resume

- Managing IT outsourcing is research area in the Information Systems field.
- As presented, many economic theories can be applied.
- In additional organizational and social theories like Resource Dependency theory and the Institutional theory can be applied.

Curriculum Vitae

Erik Beulen, PhD, is employed at Tilburg University in the Netherlands as an assistant professor, and is also employed as a senior manager with Accenture. He obtained his Ph.D. from Tilburg University. His research concentrates on outsourcing, offshore outsourcing, governance and the management of outsourcing relationships. His papers have been published in journals such as European Management Journal and Communications Association for Information Systems and the proceedings of the HICSS and ICIS. Erik has contributed chapters in editorial books of Wendy Currie, Wim van Grembergen and Erran Carmel. He is the author and co-author of five Dutch language books on the subject of outsourcing and offshore outsourcing. In 2006 Erik co-authored book on outsourcing with Routledge, UK.
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