

Chapter 3

Critical Success Factors

We have identified a total of eleven theories that help explain why IT outsourcing is occurring worldwide. These theories were presented in the previous Chapter 2. Based on these theories, we develop eleven critical success factors in IT outsourcing, one for each theory. These factors are presented in the first section of this chapter. We developed the following research question: *How do practitioners rank critical success factors based on outsourcing theories?* To study this research question, we developed a survey instrument and conducted a survey among business organizations. Results from this survey and discussion of the findings are presented.

In the second section of this chapter, we conceptualize the outsourcing of IT services as an electronic business activity, where the vendor electronically provides IT services to the client. The idea is that the purchasing of IT services is a business-to-business (B2B) relationship, which leads to outsourcing implications in terms of services that the vendor has to provide to its customers. Thus, we will in the second section look at critical success factors in electronic business infrastructure as an example of issues that need to be addressed.

Critical Success Factors

Table 1. Possibilities and limitations in IT outsourcing based on theories

Theory	What should be outsourced?
<i>Neo-classical economic theory</i>	All IT functions which an external vendor can operate at lower costs than the company.
<i>Transaction cost theory</i>	All IT functions where benefits for the company are greater than the transaction costs. Benefits include increased revenues and reduced costs.
<i>Contractual theory</i>	Only IT functions where the company can expect and secure that vendor and customer will have the same contractual behavior. Common contract behavioral patterns include role integrity, reciprocity, implementation of planning, effectuation of consent, flexibility, contractual solidarity, reliance, restraint of power, proprietary of means and harmonization with the social environment.
<i>Agency theory</i>	Only IT functions where the agent (vendor) and the principal (client) have common goals and the same degree of risk willingness and aversion.
<i>Theory of firm boundaries</i>	All IT functions that satisfy several of the other theories, mainly resource-based theory and transaction cost theory.
<i>Theory of core competencies</i>	All IT functions, which are peripheral to the company's production of goods and services for the market.
<i>Resource-based theory</i>	All IT functions where the company does not have sufficient strategic resources to perform in a competitive way. Strategic resources are unique, valuable, difficult to imitate, exploitable and difficult to substitute.
<i>Partnership and alliance theory</i>	Only IT functions where the company can expect and secure a partnership and alliance with the vendor that imply interdependence between the partners based on trust, comfort, understanding, flexibility, co-operation, shared values, goals and problem solving, interpersonal relations and regular communication.
<i>Relational exchange theory</i>	Only IT functions where the company easily can develop and secure common norms with the vendor. Norms determine behavior in three main dimensions: flexibility, information exchange, and solidarity.
<i>Stakeholder theory</i>	Only IT functions where a balance can be achieved between stakeholders. Stakeholders relevant in IT outsourcing include business management, IT management, user management and key IT personnel at the client, and business management, customer account management and key service providers at the vendor.
<i>Social exchange theory</i>	Only IT functions where each of the parties can follow their own self-interest when transacting with the other self-interested actor to accomplish individual goals that they cannot achieve alone and without causing hazards to the other party.

THEORY-BASED CRITICAL SUCCESS FACTORS

Comparing organization and management theories, in terms of what they recommend for outsourcing, we found that some theories indicate possibilities for outsourcing (theory of core competencies, resource-based theory, transaction cost theory, neoclassical economic theory and theory of firm boundaries), while others indicate limitations (contractual theory, partnership and alliance theory, relational exchange theory, social exchange theory, agency theory and stakeholder theory).

According to neo-classical economic theory, all IT functions which an external vendor can operate at lower costs than the client company should be outsourced. Similarly and according to core competence theory, all IT functions which are peripheral to the client's production of goods and services for the market should be outsourced. Applying stakeholder theory as another example, only IT functions should be outsourced where a balance can be achieved between stakeholders. Stakeholders relevant in IT outsourcing include business management, IT management, user management and key IT personnel at the client, and business management, customer account management and key service providers at the vendor. An overview of possibilities and limitations in IT outsourcing based theories is shown in Table 1. From different theoretical perspectives, recommendations are made of what should be outsourced.

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