



## **Chapter VII**

# **Sourcing Management**

An important point is made about how strategy was absent from early e-business attempts. The first part of this book described how strategy might be present. To establish and maintain a distinctive strategic positioning, an organization needs to follow six fundamental principles concerned with right goal, value proposition, value configuration, trade-off, fit, and continuity (Porter, 2001). One of the strategic choices often overlooked is concerned with IT sourcing. IT sourcing decisions are influenced by trade-off, fit, and continuity principles.

IT sourcing is related to the previously discussed topics in various important ways. First, the resource-based theory influences the choice of sourcing options, as sourcing is dependent on the availability of IT resources from internal and external sources. Second, e-business has specific requirements for IT infrastructure services depending on e-business models, and these requirements will typically be met through sourcing of IT services. Furthermore, decisions concerning IT sourcing belong in the strategic IS/IT planning process at the middle stages of the Y model. Finally, while e-business represents an answer to the question “what” the organization wants to do, sourcing represents an answer to the question “how” the organization can do it.

More and more companies move into IT sourcing combinations that require proactive management, leading to an increased need for IT governance. This is the topic of the third and final part of this book.

## IT Sourcing Options

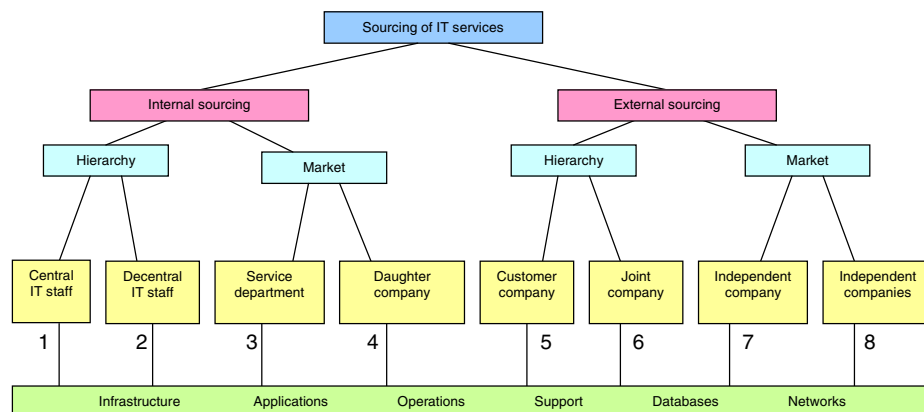
IT sourcing is concerned with defining, planning, and managing how an enterprise deploys internal and external resources and services to ensure the continuous fulfillment of its business objectives. A variety of sources has emerged. This variety is illustrated in Figure 7.1. Here we find internal sourcing and external sourcing. Both can be managed either through organizational hierarchy or through market mechanism.

In general, organizations have three basic alternatives for acquiring technological know-how. They can (1) develop the technology independently, (2) acquire another company that already has the technology, or (3) enter into a technology-sourcing arrangement. If a firm lacks the capabilities needed to develop a technology independently and other organizations already have the technology, management can consider external sourcing. There is a continuum of external sourcing methods based on the level of mutual commitment between the firm that has the technology (the source firm) and the firm that desires the know-how (the sourcing firm). These methods range from arms-length licensing contracts, through more tightly coupled co-development partnerships and joint ventures, to the outright acquisition of the source firm (Steensma & Corley, 2001).

Steensma and Corley (2001) focused on the two polar extremes in their study of technology sourcing: market contracting through licensing vs. the use of firm hierarchy through acquisition. The polar cases are basic particles from which more elaborate arrangements are constructed. Hierarchy implies that the sourcing firm can hierarchically control the technology, personnel, and other assets of the IT function and apply it to its current needs at its discretion.

Internal market as illustrated with numbers 3 and 4 in Figure 7.1 has a different sourcing logic. The concept of internal market is not new. The concept was first perceived to have radical implications eliminating superior-subordinate relationships, organizing all activ-

Figure 7.1. Sourcing options



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