IDEA GROUP PUBLISHING
701 E. Chocolate Avenue, Suite 200, Hershey PA 17033-1240, USA
Tel: 717/533-8845; Fax 717/533-8661; URL-http://www.idea-group.com

ITB11936

This chapter appears in the book, E-Business Strategy, Sourcing and Governance
by Petter Gottschalk © 2006, Idea Group Inc.

Chapter VIII

Sourcing Theories

In Chapter I, general theories of the firm and value configurations of firms were introduced. Here we return to more theories. While theories and value configurations in Chapter I were introduced to develop e-business strategy, more theories are introduced here to understand the specifics of sourcing in general and outsourcing in particular. We want to understand why companies choose IT outsourcing in the middle of the Y model.

We know that many companies choose IT outsourcing based on an analysis of core competencies. As we shall see, there are, however, many other theories that can be applied and that may provide both convergent and divergent answers to an outsourcing question. An example of divergent answer would be the theory of core competencies suggesting that non-core IT can be outsourced, while the resource-based theory suggests that non-core IT should be kept in-house if we have strategic IT-resources (valuable, non-imitable, non-substitutable, non-transferable, combinable, exploitable and available).

Theories of the Firm

Theory of Core Competencies

Based on the notion of core competency, issues of sourcing should hinge on the degree of criticality of a specific component or business activity to an organization. An extreme case would be for a company to strip itself down to the essentials necessary to deliver to customers the greatest possible value from its core skills — and outsource as much of the rest as possible. By limiting or shedding activities that provide no strategic advantage, a company can increase the value it delivers to both customers and shareholders and, in the process, lower its costs and investments (Ang, 1993).

Core competencies theory suggests activities should be performed either in house or by suppliers. Activities, which are not core competencies, should be considered for outsourcing with best-in-world suppliers. Some non-core activities may have to be retained in house if they are part of a defensive posture to protect competitive advantage. Although some authors indicate characteristics of core competencies, most of the literature on this subject seems tautological — core equals key, critical, or fundamental. Employees in non-core functions (even if not facing outsourcing) may feel excluded by the organization because they are a non-dominant discipline. For example, information technology employees working on Web based legal services in a law firm may feel excluded by lawyers in the firm. In the public sector, there may be particular uncertainty about what is core; and it has been suggested that government may aim to discover its core competencies via a residualisation process — outsourcing until and unless the shoe pinches, or a political backlash is triggered (Hancox & Hackney, 2000).

An organization may view IT itself as a core competence. It seems that most successful companies have a good understanding of IT's potential. However, some organizations outsource IT even though they see it as core and delivering competitive advantage. This may be because IT can be considered core at the corporate level, but some of its aspects, at lower levels, might be commodities. Thus the complexity of IT, and its (at least in part) core nature, may make the contracting out of IT a particularly challenging exercise. The ability to define IT requirements and to monitor their delivery by third parties may be some of the core IT competencies that any organization must have if it is to outsource IT successfully. It can even be argued that the very acts of specifying and managing supply contracts can themselves give competitive advantage (Hancox & Hackney, 2000).

Resource-Based Theory

The central tenet in resource-based theory is that unique organizational resources of both tangible and intangible nature are the real source of competitive advantage. With resource-based theory, organizations are viewed as a collection of resources that are heterogeneously distributed within and across industries. Accordingly, what makes the performance of an organization distinctive is the unique bland of the resources it possesses. A firm's resources include not only its physical assets such as plant and

Related Content

Planning Based Service Composition
Maja Vukovicand Peter Robinson (2011). *Electronic Business Interoperability: Concepts, Opportunities and Challenges (pp. 210-241).*
www.irma-international.org/chapter/planning-based-service-composition/52155

Modeling Emotive and Cognitive Origins of Consumer's Purchase Choices and Patronage Decisions
Sajad Rezaei, Maryam Emamiand Naser Valaei (2019). *International Journal of E-Business Research (pp. 71-92).*
www.irma-international.org/article/modeling-emotive-and-cognitive-origins-of-consumers-purchase-choices-and-patronage-decisions/224967

Analyzing the Privacy of a Vickrey Auction Mechanism
Ismael Rodriguezand Natalia Lopez (2006). *International Journal of E-Business Research (pp. 17-27).*
www.irma-international.org/article/analyzing-privacy-vickrey-auction-mechanism/1862

Reasons for Avatar Gender Swapping by Online Game Players: A Qualitative Interview-Based Study
Yu-Jen Chou, Shao-Kang Loand Ching-I Teng (2014). *International Journal of E-Business Research (pp. 1-16).*
www.irma-international.org/article/reasons-for-avatar-gender-swapping-by-online-game-players/119178

Sourcing Management
Petter Gottschalk (2006). *E-Business Strategy, Sourcing and Governance (pp. 140-145).*
www.irma-international.org/chapter/sourcing-management/8728