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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

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Chapter X

Sourcing Markets

IT Infrastructure Sourcing

According to Gartner (2004b), IT infrastructure consolidation and standardization characterized the largest multibillion IT outsourcing contracts during 2003 and 2004 and are expected to continue for the next several years. These contracts are not just exercises in cost reduction necessitated by economic doldrums, but they are also intended to advance clients toward becoming enterprises that are more efficient.

The foundation of an IT portfolio is the firm's information technology infrastructure. This internal IT infrastructure is composed of four elements as was illustrated in Figure 2.3. The presentation of Weill and Vitale's (2002) work on infrastructure services indicated the number and complexity of services that constitute the IT infrastructure in an organization to enable electronic business. Successfully implementing e-business initiatives depends on having the necessary IT infrastructure in place. E-business initiatives can be decomposed into their underlying atomic e-business models, which can have quite different IT infrastructure requirements.

It is important for outsourcing vendors providing IT infrastructure services to understand which atomic e-business models are represented in the firm's anticipated e-business initiative. Senior customer management has to design a process to involve vendor management in e-business strategizing, both to get IT input into business strategy and to provide the vendor with an early warning of what infrastructure services will be critical.

A conservative estimate for the extent of commoditization of adoption of real-time delivery offerings is about 5 percent of the total IT infrastructure outsourcing market. This is conservatively forecast to grow to about 20 percent within the next five years. Liberal estimates would be 10 to 30 percent.

Business process outsourcing is the factor likely to have the greatest influence over commoditization and maturity of IT infrastructure outsourcing. Business process outsourcing may largely eliminate the IT element in decision making for business unit managers and corporate-level executives looking for cost reduction. Enterprises are more likely to have separate IT and business process contracts than a business process contract that subsumes IT, but this is expected to shift over time with business process outsourcing maturity (Gartner, 2004b).

The creation and maintenance of a robust, enterprise-wide IT infrastructure might distinguish firms' ability to utilize IT. IT infrastructure is a critical resource of the firm. A more sophisticated infrastructure might represent a competitive advantage. IT infrastructure sophistication refers to the extent to which a firm has diffused key information technologies into its base foundation for supporting business applications. Theoretically, the resource-based view regards IT infrastructure as a strategic option. An option is a resource, whose possession enables firms to exploit emerging opportunities better than its competitors. Firms holding stronger options are positioned to obtain greater organizational advantage and create superior products and services from those assets (Armstrong & Sambamurthy, 1999).

Sophisticated infrastructure enhances the business degree of freedom by enhancing intra-organizational connectivity (across departmental units throughout the enterprise) and extra-organizational connectivity (with key external business partners). Further, a sophisticated infrastructure provides the flexibility to alter business strategies in response to competitive pressures (Armstrong & Sambamurthy, 1999).

IT Infrastructure as a Resource

One reason for outsourcing is access to resources. According to the resource-based theory of the firm, outsourcing is a strategic decision, which can be used to fill gaps in the firm's resources and capabilities (Grover, Teng et al., 1998). While the resource-based approach traditionally focuses on an internal analysis, a resource dependency theory focuses on the external environment of a firm and argues that all organizations find themselves dependent on some elements in their external environments.

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 location but also its competencies. The ability to leverage distinctive internal and external competencies relative to environmental situations ultimately affects the performance of the business (Peppard et al., 2000).