Archetypes of IT Outsourcing Strategy

Michael Schott

Johann-Matthias Schworm

Manuel Styrsky
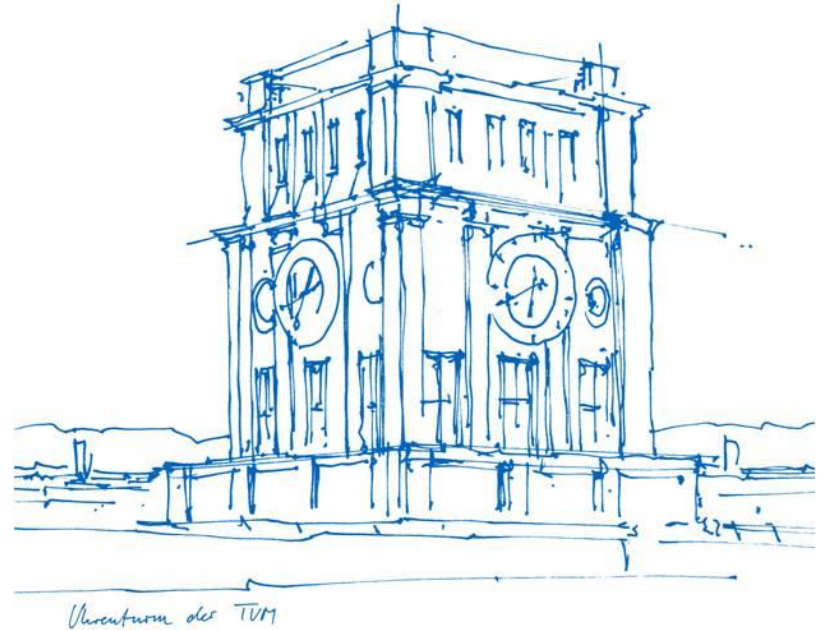
Kevin Kusterer

Hannes Simon

Technical University of Munich

Chair for Information Systems

Zoom, 22. Jan 2021

Uhrenturm der TUM

Agenda

1 **Theories on Inter-Organizational Relationships**

Explanation of the three different theories transaction cost economies theory, resource dependency theory and social exchange theory

2 **Archetypes of IT Sourcing**

Definition of IT sourcing archetypes according to Lee et al. (2019)

3 **IT Sourcing Strategy of GlobalSports**

Explanation of GlobalSports IT sourcing strategy of high vendor competition, high vendor cooperation, critical enablers

4 **Assessment: IT Sourcing Concept of Forced Coopetition**

Assessment of IT sourcing concept of forced competition from the client's perspective

5 **Discussion**

Is the line between operational and dynamic capabilities blurry? Do they depend on whether they promote change? Does GlobalSports' IT sourcing concept enhance their dynamic capabilities?

6 **Questions & Answers**

Feel free to ask any questions.

① Theories on Inter-Organization Relationships

- Overview

- Transaction Cost Economics Theory
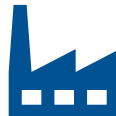
- Resource Dependency Theory

- Social Exchange Theory

Overview [1]

- Theories as grounding for developing archetypes (combinations!) (cf. ②)

- Cope with complexity of interorganizational relationships

- Provide key mechanisms for attaining outsourcing success

- One of key elements for forming IT Outsourcing Strategy

- Commonly adopted

- Form basis for understanding client vendor relationship

TCET
transaction cost
economics theory

RDT
resource
dependency theory

SET
social
exchange theory

TCET [1]

- TCET: Transaction Cost Economics Theory

- Strategy aims at economic benefits via reducing (transaction & production) costs

- Economies of Scale

- Risk: Higher coordination costs

- Difference in goals of client and vendor

    → partnership not suitable (fee-for-service or buy-in-contract instead)

- Short-term contracts for short analyzing circles

- Degree of outsourcing: no statement

- Number of vendors: no statement

RDT [1]

- RDT: Resource Dependency Theory

- Require critical resource from vendor

- But: reduce dependency (keep competitive advantage)

- Critical resources should be controlled internally

    → Degree of outsourcing: selective

- Short-term for dependency decrease

- Buy-in contract

- Long-term contracts may enable assurance of critical resources

- Number of vendors: no statement

SET [1]

- SET: Social Exchange Theory

- Administration of interorganizational links

- Cooperation of client and vendor

- Interchange fundamental for success

- Strategic benefits over cost efficiency

- Long-term contracts: facilitate forecasting, risk reduction

- Degree of outsourcing: no statement

- Number of vendors: no statement

② Archetypes of IT Sourcing

- Social Archetypes

- Economic Archetypes

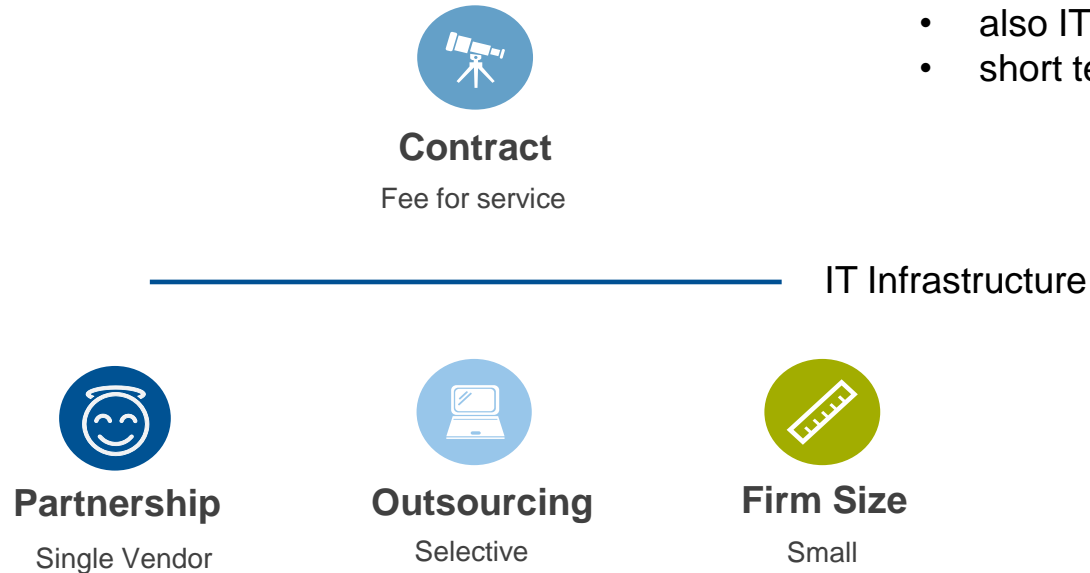- Hybrid Economic and Social Archetype

Configurations for Strategic or Economic Benefits [1]

Outsourcing Elements	A1/B1	A2/B2	A3/B3	A4/B4	A5	A6	A7
Table 5. Configurations for High Economic Benefits (A1~A7) and High Strategic Benefits (B1~B4)							
Degree of IT Outsourcing	Total	Total	Total	Selective	Selective	Selective	Selective
Relationship Type	Partnership	Fee-for-Service	Fee-for-Service	Fee-for-Service	Fee-for-Service	Fee-for-Service	Fee-for-Service
Period of Outsourcing	Long	Long	Long	Long or Not-long	Not-long	Long or Not-long	Not-long
Number of Outsourcing Vendors	Single or Multiple	Multiple	Multiple	Single	Single	Single	Single
Outsourced IT Type	App. or Infra.	Infra.	App. or Infra.	Infra.	Infra.	App.	App. or Infra.
Firm Size	Large or Not-large	Large or Not-large	Not-large	Not-large	Large or Not-large	Large	Large

Combination

Economic Archetypes[1]

Except:
- Large firms:
    - also IT applications
    - short term contract

Contract

Fee for service

———————————————— IT Infrastructure

Partnership

Single Vendor

Outsourcing

Selective

Firm Size

Small

Social Archetypes[1]

Partnership

Friendly, cooperative

Contract

Long Term

Outsourcing

Total

Firm Size

Regardless

Hybrid Economic and Social Archetype[1]

Partnership

Multiple Vendor

Contract

Long term / fee for service

IT Infrastructure (Small Firms: IT Applications)

Outsourcing

Total

Firm Size

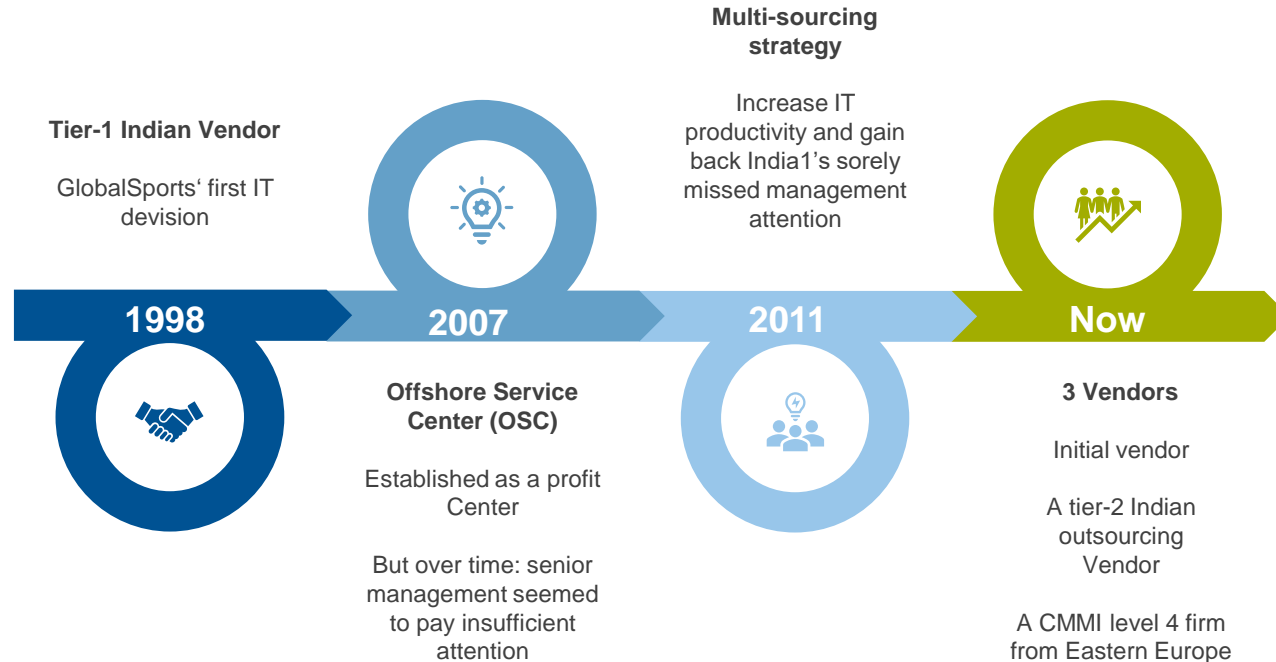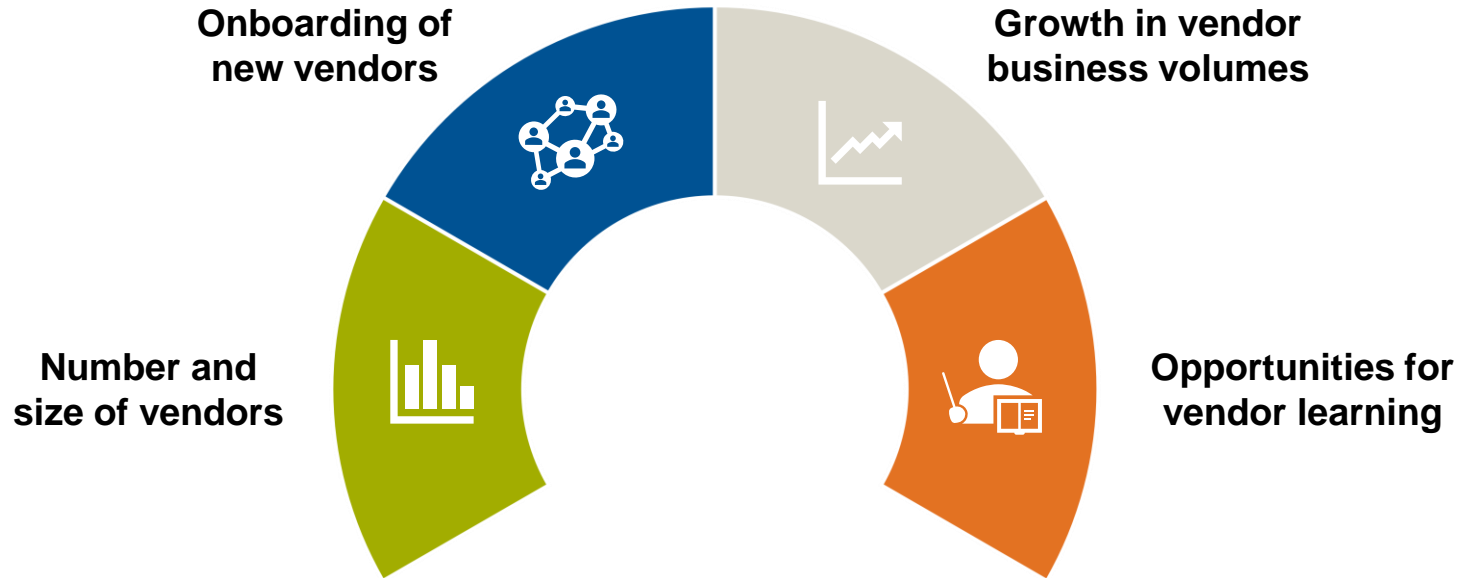Regardless
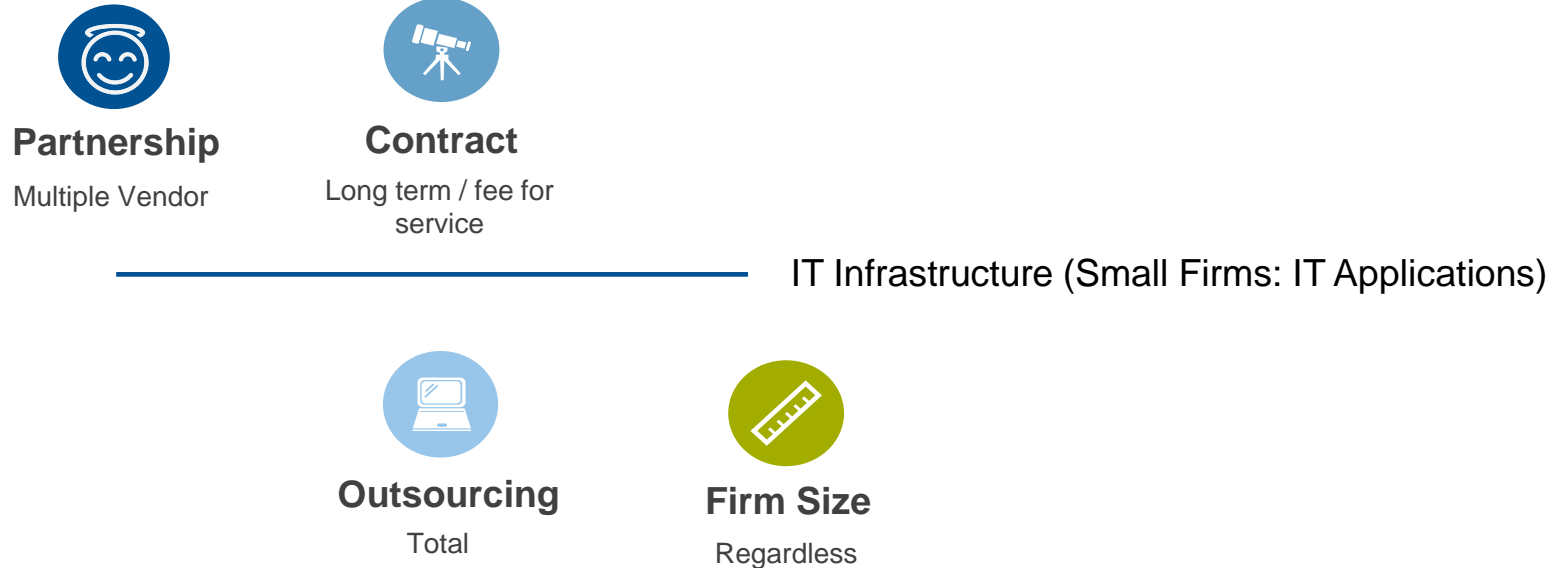
③ IT Sourcing Strategy of GlobalSports

- Context of GlobalSports

- Critical Enablers

- GlobalSports: IOR-Theories

- Mapping to Archetype

GlobalSports IT Context[3]

Tier-1 Indian Vendor

GlobalSports' first IT devision

Multi-sourcing strategy

Increase IT productivity and gain back India1's sorely missed management attention

1998

2007

2011

Now

Offshore Service Center (OSC)

Established as a profit Center

But over time: senior management seemed to pay insufficient attention

3 Vendors

Initial vendor

A tier-2 Indian outsourcing Vendor

A CMMI level 4 firm from Eastern Europe

Critical Enablers for High Competition & High Cooperation[3]

Onboarding of
new vendors

Growth in vendor
business volumes

Number and
size of vendors

Opportunities for
vendor learning

GlobalSports: IOR-Theories[1],[3]

GlobalSports	TCET	RDT	SET
Long term contracts	❌	✔	✔
Multiple vendors	⊖	⊖	⊖
Degree of outsourcing: total	⊖	❌	⊖
Outsource resource	❌	✔	⊖
No Common Goal	✔	✔	❌
Buy-in contract	✔	✔	❌
Administration of interorganisational tasks	✔	⊖	✔

→ **Hybrid Economic and Social Archetype**

Good Fit ✔
Indifferent ✔
No fit ❌
No statement ⊖

Mapping to Archetype: Hybrid Economic and Social Archetype

Partnership

Multiple Vendor

Contract

Long term / fee for service

IT Infrastructure (Small Firms: IT Applications)

Outsourcing

Total

Firm Size

Regardless

④ Assessment: IT Sourcing Concept of Forced Coopetition

- Advantages

- Disadvantages

Advantages[3]

Advantages of Forced Coopetition – Clients Perspective		
Cost • Cost reduction • Best value for money • Additional benefits	**Personnel** • Various options for qualified IT-personnel from different vendors • Choice of best possible outcome	**Risks** • Transfer risks to the vendors
Technology • Technology of multiple vendors available • Option to use best technology • Long term partnerships allow for synergies and economies of scale	**Finances** • Higher bargaining power • Less investments	**Communication** • Direct interactions with vendors • Easier monitoring of vendors • Many negotiation opportunities (vendor bidding)

Disadvantages[3]

| Disadvantages of Forced Coopetition – Clients Perspective		
Cost • Switching costs	**Personnel** • Less control over personnel	**Risks** • More privacy risks due to dependency on various vendors • If vendors' interests align, risk of cartel-like structures
Technology • Commitment to outsourcing vendors technology could reduce bargaining power	**Finances** • Higher investments due to onboarding of new vendors	**Communication** • More collaboration and communication necessary

⑤ Discussion

- Capabilities

- Differentiation between Capabilities
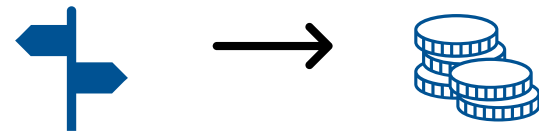
Capabilities[2]

Operational Capabilities

- Make living by using the same technique on the same scale
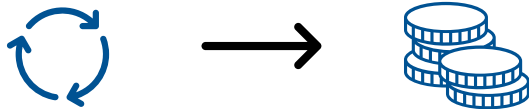
Dynamic Capabilities

- Make living by altering techniques

Differentiation between Capabilities[2]

- Change is always occurring: Hard to distinguish between them based on whether they support what is perceived as change
- Can't be distinguished whether they support:

	Radical Change	vs	Non-Radical Change	

	New Businesses	vs	Existing Businesses	

- Some capabilities can be used for both operational and dynamic purposes

Discussion

Does GlobalSports' IT sourcing concept enhance their dynamic capabilities?

Discussion

Are the three theories of inter organizational relationships mutually exclusive?

Discussion

Do you think forced coopetition is a good approach
for an established business from a client perspective?

⑥ Questions & Answers

Thank you.

References

[1]: Lee et al. (2019): Holistic archetypes of IT outsourcing strategy: A contingency fit and configurational approach, In: MIS Quartely, Vol. 43, No. 4 (2011), pp. 1201 -1225.

[2]: Helfat, C. E.; Winter, S. G. (2011): Untangling dynamic and operational capabilities: Strategy for the (n)ever-changing world, In: Strategic Management Journal, Vol. 32 (2011), pp. 1243-1250.

[3]: Wiener, M., Saunders, C. (2014): Forced coopetition in IT multi-sourcing, In: J. Strateg. Inform. Syst., http://dx.doi.org/10.1016/j.jsis.2014.08.001