Pulling the Outside In: A Transactional Cost Perspective on IT Insourcing

Full Paper

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Abstract

This research applies transaction cost economics to conceptually investigate longitudinal change of IT outsourcing costs, and its impact on managerial sourcing decisions. I propose that the change of, and underestimation of actual IT outsourcing costs contribute to IT insourcing. Implications and recommendations for future research are provided.

Keywords

TCE, insourcing, outsourcing, and project management.

Introduction

Information technology outsourcing—the practice of transferring IT assets, leases, staff and management responsibility for delivery of services from internal IT functions to third-party vendors—has grown remarkably since Kodak’s landmark decision to outsource IT systems in 1989 (Hirschheim and Lacity 2000). This growth is projected to continue in the near future. The Gartner Group suggests that worldwide spending on IT outsourcing “will reach an impressive 3.5 trillion dollars by 2015, with a sustained growth of 3% per year” (Drew, Hale, Hahn, Atwal, Colleen, O’Connell, and Sumner 2014). In spite of the popularity of IT outsourcing, many organizations continue to rely on IT insourcing, which is defined as a firm’s reliance on an internal department to obtain IT services (Dibbern, Goles, Hirschheim, and Jayatilaka 2004). Additionally, several organizations have decided to terminate their outsourcing contracts, bringing these IT functions back in-house (Veltri, Saunders, and Kayan 2008; Whitten and Leidner 2006). For instance, General Motors (GM) terminated its $700 million yearly contract with Hewlett Packard to produce the same IT services in-house (Flinders 2013). A multitude of reasons—many of which relate to higher costs and a change in strategy—have been offered to justify the early termination of IT outsourcing contracts in favor of IT insourcing. Yet, little is known about how these contracts produced higher than expected costs. Although there is significant research devoted to IT outsourcing practices, no studies account for the change of IT outsourcing costs over time. Transaction cost economics (TCE) provides a useful theoretical framework for examining this phenomenon given that TCE has been widely used to examine IT governance structures (Ang and Straub 1998).

I have identified two gaps within the IT sourcing literature. First, researchers have not yet explained how the longitudinal change of IT outsourcing costs affect sourcing decisions. For example, we know that wages in China and India have risen 10-20 percent per year in the last decade, while wages in America and Europe have barely changed (The Economist 2013) but we know little about how these cost changes affect the decision to outsource or insource IT. Second, researchers have not yet explored whether managers initially underestimated IT outsourcing costs. To understand how cost affects sourcing decisions, it is first necessary to identify whether costs were correctly estimated. If underestimation of costs did occur, then it becomes essential to investigate the resulting sourcing decision implications. The focus of this research is to address the aforementioned gaps by answering the following research questions:

How are the actual cost factors different now (when IT insourcing decisions are being made) than they were back then (when IT outsourcing decisions were being made)?

Did managers underestimate IT outsourcing costs? If so, in what ways?
How do the change of, and the possible underestimation of IT outsourcing costs influence sourcing decisions?

Although several companies perceive IT insourcing as an appropriate choice, it is nevertheless a risk. The stakes of such a decision are high considering that internal IT projects have been documented to fail more frequently (65 percent) than external IT projects (28 percent) (Van Stratum 2006). Therefore, it is important to understand how those in charge actually arrive at the conclusion to stop IT outsourcing to institute IT in-house. The current study provides a contribution to the literature by explaining, from a cost perspective, how some executive leadership reversed their sourcing decisions. By examining possible underestimated costs and actual cost changes related to IT outsourcing, the current study also contributes to practice. I assist executive leadership in developing better sourcing decisions by exposing factors associated with higher than expected IT outsourcing costs.

The remainder of the paper is organized as follows. Part 2 explains TCE logic with respect to sourcing decisions. Part 3 investigates each of the cost factors in terms of “then” and “now”. Part 4 discusses underestimated production and transaction costs. Part 5 concludes the paper.

Transaction Cost Economics

TCE was developed to explain why particular assets are produced in-house with a hierarchical governance structure while other assets are purchased on external markets (Williamson 1981). TCE’s unit of analysis is the transaction, which occurs when a “good or service is transferred across a technologically separable interface” (Williamson 1981). Yet, to solely define a transaction as the exchange of a good or a service against payment is too narrow within the IT outsourcing context. Greiner (2008) proposes that each good or service is procured because it satisfies a business need. Similarly, each IT outsourcing contract is based on the client’s perceived business needs that the contract is intended to support. A narrow definition of “transaction” limits common IT activities, such as the training of IS personnel, or the purchase of hardware and software. This is problematic because both clients and vendors need to perform such activities to fulfill the client’s business needs. Thus, in this research, I define a transaction to include an IT outsourcing contract (with one or multiple projects) signed between a client firm and a third-party vendor that has the purpose of satisfying the client’s business needs. Although the contract corresponds to the transaction, what is actually being outsourced are the project attributes (e.g., hardware and software).

The central idea of TCE is to not only economize on production costs but rather on the sum of production expenses and transaction costs (Williamson 1981). Production costs include everything related toward creating and distributing the IT service (Malone and Yates 1988). For this research, production costs are operationalized through three components: hardware costs, software costs, and the costs of IS personnel (Ang and Straub 1998). Transaction costs are defined as the direct and indirect expenses of negotiating, monitoring, and enforcing explicit and implicit contracts between the client and the vendor (Tiwana and Bush 2007). The research focus is specific to project-level, production and transaction characteristics that could reverse executive leadership sourcing decisions. The key project characteristics under TCE’s umbrella are asset specificity, uncertainty, transaction frequency, bounded rationality, and threat of opportunistic behavior by the vendor.

Asset specificity is defined as the degree to which investments related to IT project attributes are specific to that particular project. The key idea of asset specificity is to think about its second best use. A low specificity asset is one that could be easily and productively used in many different projects. Williamson (1981) differentiates between three types of asset specificity: human, physical, and site specificity. Not all dimensions are equally important in all domains. Prior research in IT outsourcing, for example, focuses on only two dimensions: human and physical asset specificity (Greiner 2008). However, I suggest that site specificity—whether the client’s site is in near proximity to the vendor’s site to support low traveling costs—is important for IT outsourcing success. Thus, contrary to existing literature, this research focuses on all dimensions of asset specificity.

Human asset specificity concerns any unique knowledge or skill related to an IT outsourcing project that an employee develops through training or experience—in other words, learning by doing (Ang and Straub 1998). Physical asset specificity encompasses investments in physical hardware and software that relate to IT projects (Lamminmaki 2011). Usually, clients and vendors invest in hardware and software for a specific project and expect these tools to generate value over time. The absence of asset specificity implies that clients and vendors are able to easily re-sell hardware and software (in the event they decide to stop
using these tools for the project) before the end of its expected life, and for a value near its original price. Contrarily, physical asset specificity is high if clients and vendors are not able to re-use or re-sell hardware and software, implying an IT project loss. Site specificity is concerned with investments in physical locations that relate to IT projects. For example, having an iron smelting plant on the only available land near the iron mines is more advantageous than having an iron smelting plant 50 miles from the iron mines. In the first scenario the client does not need to pay transportation costs for moving the iron from the mine to the plant, while in the second scenario he clearly does. Evidently, if the mines run out of iron, the client in the first scenario is left with something for which there is no attractive second best use (i.e., high site specificity). Thus, site specificity is usually valuable because it implies that the client does not need to pay transportation costs or does not have the inconvenience of moving things or people a great distance.

TCE recognizes two different types of uncertainty: environmental and behavioral. Environmental uncertainty refers to the fact that the “environment is characterized by uncertainty with respect to technology, demand, local factor supply conditions, inflation, and the like” (Williamson 1985). Within an IT outsourcing context, environmental uncertainty refers to the inability to accurately forecast business requirements surrounding IT projects. Behavioral uncertainty, on the other hand, is based on the notion of opportunism and refers to the client’s difficulty in monitoring and evaluating whether the contracted third-party vendor has performed in accordance with the clauses specified in its IT outsourcing contract.

Frequency is defined as “the buyer activity in the market” (Williamson 1979). This essentially refers to the number of times a client seeks to initiate an IT outsourcing contract with a third-party vendor (Moura and Grover 2001). As aforementioned, a contract can include one particular project or multiple projects. Moreover, IT outsourcing contracts can be signed one-time, occasionally, or recurrently.

**Asset Specificity and Costs.** Williamson (1981) asserts that production cost advantages of markets decrease with higher asset specificity. Because we are not able to assume that hierarchies make and sell products outside their core proficiency as efficiently as the vendor, markets will have a production cost advantage over hierarchies—they are more likely to capitalize on economies of scale for low asset specificity products (Greiner 2008). The market is therefore able to sell products at more affordable prices than hierarchies are able to internally produce. An increase in asset specificity, however, favors the hierarchy because the market needs to specialize its investments and this reduces economies of scale. Thus, TCE expects the hierarchy production cost disadvantage to decrease with an increase in asset specificity (see Figure 1).

![Figure 1. Relationship between asset specificity and hierarchy production cost disadvantage (adapted from Williamson, 1981)](image)

For low asset specificity, buyers and sellers do not need to invest in specialized assets; therefore, they are less dependent on each other. Since they can easily switch partners when asset specificity is low, contractual safeguards are less necessary. Resultantly, the hierarchy transaction cost disadvantage is high (as shown in Figure 2); implying that it is easier to just buy the attribute on the market than to organize and make it in-house. Packaged hardware and software, for instance, are commodities often purchased on the market due to their low asset specificity (Thouin, Hoffman, and Ford 2009).
IS personnel knowledge and skill, on the other hand, is not a commodity. Employees can learn business knowledge and/or IT skills that are unique to a particular project (Wang 2002). Such an investment cannot be easily redeployed for a similar value because it is specific to the project. Thus, buyers and sellers are not able to simply switch partners, meaning that they will be locked into the contract. This lock-in increases the likelihood of vendor opportunism; suggesting that the client will need to invest more in contractual safeguards when asset specificity is high. Since contractual safeguards will need to be negotiated, monitored, and enforced, the market will incur higher transaction costs. Even without vendor opportunism, when there is higher asset specificity, whoever owns the asset is more at risk. Usually, in an outsourced situation, the vendor owns the asset—for example, the client outsources to a vendor who invests in hiring employees for contracted projects. Since the vendor assumes more risk, it will require a higher compensation for taking on the project. Thus, an increase in asset specificity decreases the hierarchy transaction cost disadvantage over the market (see Figure 2).

Figure 2. Relationship between asset specificity and hierarchy transaction cost disadvantage (adapted from Williamson, 1981)

Figure 3 illustrates a solid line representing the sum of the hierarchy transaction and production cost disadvantages. As long as the sum remains positive, markets will have an advantage over hierarchies. To the right of A, however, hierarchies will have an advantage over the market. TCE generally asserts that as asset specificity increases it becomes more likely that firms will insource IT projects.

Figure 3. Relationship between asset specificity and sum of the hierarchy production and transaction cost disadvantages (adapted from Williamson, 1981)

**Uncertainty and Costs.** Volatile environments increase transaction costs, given that they increase the difficulty and complexity of writing an IT contract. As unanticipated events emerge, contractual gaps may require adjustments (Williamson 1979). Renegotiating outsourced IT contracts can be expensive.
(Greiner 2008) and lead to relationship dissatisfaction (Goo, Kishore, Nam, Rao, and Song 2007). Transaction costs become even higher when contractual gaps are combined with behavioral uncertainty (Wang 2002). Even though IT outsourcing contracts usually specify the vendor’s responsibilities, systems’ completion dates and clients’ obligations are likely to become disputable as unexpected incidents unfold. For instance, customized software systems cannot be acquired by simply communicating performance and design requirements to vendors (Wang 2002). The specifications are often unknown ex ante. Even if specifications were known, design changes may occur during the system development process (Richmond, Seidmann, and Whinston 1992), leading opportunistic parties to interpret unspecified contract clauses to their own advantage during the re-negotiation phase.

Yet, behavioral uncertainty alone can lead to higher transaction costs. Clients’ low monitoring abilities may lead opportunistic vendors to act in self-interest, since these vendors are aware that clients cannot easily oversee their behavior. Such behavioral uncertainty makes additional safeguards necessary for clients (i.e., higher transaction costs); meaning that as behavioral uncertainty increases, it becomes more likely that firms will insource IT projects.

**Frequency and Costs.** TCE proposes that transaction frequency influences both transaction and production costs. More frequent transactions tend to be internalized because the “costs of specialized governance structures will be easier to recover for large transactions of recurring kind” (Williamson 1985). In other words, frequent transactions lower governance costs for hierarchies because of internal economies of scale. Thus, increases in the frequency to which IT outsourcing contracts need to be signed increase the likelihood of IT insourcing. A decrease in contract frequency, however, is likely to increase IT outsourcing. In the IT outsourcing context, clients capitalize on vendors’ economies of scale by signing long-term contracts (average of 4 years (Deloitte 2012)), and by including several projects in that contract (Heap 2003). Since the frequency to which IT outsourcing contracts are signed is quite low, prior research has often disregarded the influence of frequency in sourcing decisions (Dibbern, Goles, Hirschheim, and Jayatilaka 2004; Rindfleisch and Heide 1997). Consistent with existing literature, this research also disregards frequency as having a distinct impact on transaction costs.

**How are actual cost factors different now than they were back then?**

This paper assumes that packaged hardware and software costs are, on average, similar across the United States (US) and countries like India and China. Explicit in this assumption is that these costs have changed in a parallel way. A recent Deloitte (2010) report offers support to this assumption by finding packaged software prices to be similar across these countries. However, the same cannot be said about the longitudinal change in production costs that relate to IS personnel. In the next section, I will explore in detail how IS offshored labor has become more expensive over time.

**Production Cost—IS Personnel**

The labor (IS personnel) cost advantage that sent many organizations rushing overseas is ceasing. A decade prior, wages in emerging markets were a tenth of that in developed markets, which was seen as an opportunity too good to miss (The Economist 2013). However, software engineers’ salaries have been increasing rapidly. Wages in China and India, for example, have risen 10-20 percent a year in the last ten years, while wages in the US and Europe have barely changed (The Economist 2013). Moreover, the total cost of IT employees in India were about 80 percent less than in the US; now the gap is about 30-40 percent and narrowing rather quickly. There are, however, other countries (besides China and India) offering low wages. Yet, these nations, such as Vietnam and Indonesia, do not offer the same scale and efficiency as China and India (The Economist 2013).

Although IS personnel turnover rates have always been high in India (between 15-20 percent), such rates have further increased. According to Singh (2013), the Indian IT industry has been facing a climb between 10-20 percent in attrition rates in the last decade. Increases in already high turnover rates decrease clients’ incentives to continue IT outsourcing, as it eliminates expected labor cost savings and imposes unexpected production costs related to IS personnel double-wages, reduced output quantity, and transportation/traveling costs. High turnover indicates that clients must repeatedly engage in IS personnel training. In the US, executive leadership usually brings offshore developers to their headquarters to analyze technologies and architectures before these developers can head back (either to China or India) and begin their portion of the job (Overby 2003). During training periods, clients have to
pay offshore developers the prevailing US hourly rate, meaning that expected labor cost savings from IT outsourcing are non-existent when training is in place. Additionally, offshore employees need to work in parallel with in-house employees throughout training periods, implying that the training of IS personnel costs clients twice as much for each employee (offshore worker and in-house trainer). Not only that, but there is also an opportunity cost involved, since neither employee is producing any output during this period. If firms assume that they will only have to pay traveling costs for training new outsourced IT staff once, these costs will be projected as a one-time startup expense (transaction cost). Therefore, site specificity does not matter. With low turnover, previously trained IT staff members can train the few new employees as they are hired. But with high turnover, training becomes a frequent routine, implying that site specificity now matters. Having trainers geographically close to trainees saves transportation costs. Since the physical distance between India and the US is quite large, site-specificity is high; becoming a clear disadvantage for clients involved in IT outsourcing with India.

In short, IT outsourcing production costs increased in the last decade because salaries for offshored IS personnel have increased and turnover rates for those working in India have also increased.

**Transaction Cost—Contract Complexity**

Given the maturation of IT outsourcing markets and the introduction of standardized services such as cloud computing, many in executive leadership might assume that negotiating IT outsourcing contracts is getting remarkably easier. Surprisingly, this does not seem to be the case (Overby 2012). KPMG (2012) conducted a survey with outsourcing attorneys at 31 law firms and found that 41 percent of these attorneys believe that the complexity within negotiating and writing IT outsourcing contracts has actually been increasing. Stan LePeak, KPMG’s director of research for advisory services, explains the reasoning behind this counter-intuitive result:

> “As buyers gain more experience they continue to push the envelope in terms of scope, complexity of work outsourced, number and diversity of service providers utilized, geographical scope and mix of service delivery models. Complexity comes with the territory, ... So while the outsourcing market is maturing, it is not necessarily getting simpler, easier, or safer [to write outsourcing contracts].”

LePeak is suggesting that sophisticated buyers are outsourcing more complex jobs as a means to seek higher-value benefits. Such increases in job complexity are carried over to contracts, and while the IT outsourcing market is maturing, the writing of, and the negotiation of IT outsourcing contracts are actually more expensive now than they were before.

**In what ways have managers underestimated the cost factors of IT outsourcing?**

**Transaction Cost—Behavioral Uncertainty**

Another important aspect of IT outsourcing is the transaction costs associated with vendor opportunism (Tiwana and Bush 2007). Because IT outsourcing involves significant hazards of opportunism, managers are expected to protect themselves against it by investing in safeguards. Surprisingly, it seems that several clients initially overestimate the vendor’s abilities and as a result, underestimate the likelihood of vendor opportunism. As William Floyd, the CTO of Plano, noted:

> “We overestimated the abilities of the outsourcing company and they oversold their capabilities.”

Plano’s first experiences with IT outsourcing were mainly positive; in one instance, the work completed by the vendor exceeded Floyd’s expectations. Yet, that dramatically changed over time. Floyd decided to bring outsourced projects back in-house because he had initially overestimated the vendor’s abilities, and because the vendor executives oversold their capabilities, promising to produce a particular IT service at a quality they knew they could not deliver.

Misappropriation of intellectual property is another outcome resulting from vendor opportunism. Consider the following case as an illustration. In 2004, a supervisor at an Indian outsourcing firm confronted her employee for acting suspiciously at the workplace. Apparently, the employee was caught “stealing” source code alongside design documents. When confronted about it, the employee excused herself and disappeared (Sorey 2005). Since the incident, Jolly Technologies, Inc. (“Jolly”)—the American
company that was outsourcing to the Indian firm—has pleaded, without success, to Indian authorities to arrest the alleged thief. Jolly has further claimed that the Indian police asked for a bribe to start searching for the suspect. Unhappy with how the situation developed, Jolly decided to file a suit in India accusing the police of negligence, claiming that they refused to investigate the case. This story, as Sorey (2005) says, is “the tip of the IP iceberg.”

The natural response to possible vendor opportunism is to increase monitoring. If opportunism is more problematic than initially expected, clients will have to spend more time and money on monitoring than initially expected. Given that some executive leadership initially underestimated the likelihood of vendor opportunism, they consequently underestimated the amount of time and money needed to invest in monitoring the vendor’s behavior. As Ron Kifer, the VP of program solutions and management at DHL Worldwide Express, explains:

“There’s a significant amount of work in invoicing, in auditing, in ensuring cost centers are charged correctly, in making sure time is properly recorded … We have as many as 100 projects a year, all with an offshore component, so you can imagine the number of invoices and time sheets that have to be audited on any given day … We knew there would be invoicing and auditing but we didn’t fully appreciate the due diligence and time it would require.”

Production Cost—Cultural Differences

The underestimations of transaction costs related to behavioral uncertainty are not the only factor leading to higher IT outsourcing costs. Prior research has found that work-related cultural differences are one of the main reasons why IT outsourcing deals experience problems (Kvedaraviciene and Boguslauskas 2010). Work-related cultural differences are defined as disparities in decision-making, communication, and coordination styles that arise when the client and the vendor come from two different cultures. Diverse cultures tend to communicate differently, have different understandings of the same subject, and may hold different social norms. I assert that several managers underestimated the impact of work-related cultural differences on the performance of IT outsourcing. These managers were insensitive to a variety of different cultural backgrounds, and thus had little understanding of how to adapt their behaviors when contracting vendors from other cultures. This inability to culturally adapt led to frustration and poor communication between the parties. This, in turn, increased managers’ dissatisfaction with the project. As a consulting sales director at Oracle financial services software explains:

“A director of a leading cultural training institute in U.K. once told me of an incident where his (not yet then) client in U.K. was complaining “the Chinese don’t know how to work with us. The Indians don’t know how to work with us.” The director retorted, “Have you ever considered that you may not know how to work with them?” … These cultural differences impact interactions, communication, interpretation, understanding, productivity, comfort and commitment [between the parties].”

The implication of the above quote is that transaction partners of different cultures communicate poorly and as a result, perform below expectations. Such reduced performance is likely to shake the client’s commitment to the IT outsourcing relationship.

In sum, I argue that several managers who engage in IT outsourcing underestimate transaction costs related to behavioral uncertainty, and production costs associated with work-related cultural differences. These costs impose a tremendous burden on firms and are likely to contribute to the insourcing decision.

How do the change of, and the underestimation of the actual IT outsourcing cost factors influence managerial sourcing decisions?

Sum of Production and Transaction Costs

The balance depicted in Figure 4 follows TCE logic because it demonstrates that neither production costs nor transaction costs alone are likely to determine IT insourcing. Managers should only consider IT insourcing if the sum of both production and transaction costs are greater in the market when compared to the hierarchy.
Moreover, Figure 4 suggests that actual increases in IT outsourcing production costs, alongside underestimations of IT outsourcing transaction and production costs, make the sum of production and transaction costs of IT outsourcing higher than the sum of transaction and production costs of IT insourcing. This change thus explains why certain managers are deciding to insource IT projects.

The more important question, however, is whether the sum of the costs remains positive. I argue that, for many firms, the sum does not remain positive because each of these factors alone could be significant enough to make the sum of production and transaction costs of IT outsourcing higher than the sum of production and transaction costs of IT insourcing. The effect of these costs altogether is even stronger and more likely to swap the balance (please see Figure 5). As a result, I present the following conjecture:

**Conjecture 1:** Executive leadership is now insourcing IT because higher than expected costs related to the change of, and underestimation of “actual” IT outsourcing costs make the sum of production and transaction costs of IT outsourcing higher than the sum of transaction and production costs of IT insourcing.

Figure 4. Longitudinal change of IT outsourcing costs and its effect on managerial sourcing decisions

Figure 5 illustrates the longitudinal change in production and transaction costs with respect to asset specificity. It is evident that the sum of hierarchy production and transaction cost disadvantages “now” (Â“now”) is well to the left of the sum “then” (Â“then”). Thus, all firms that find themselves in the region between Â“now” and Â“then” will do better with IT insourcing.
The change of, and underestimation of actual costs related to IT outsourcing imply that, for IT outsourcing to be a better choice than IT insourcing, asset specificity needs to be lower than it was previously. Now, asset specificity must be to the left of “now” (instead of “then”) for the sum of production and transaction costs to be positive—hence, favoring the market. In fact, Deloitte (2013) conducted a study to investigate the drivers of IT insourcing; their results revealed that a majority of managers indicated cost reduction to be the major driver for insourcing. To say it differently, seventy-seven percent of managers who participated in Deloitte’s study believed that the sum of transaction and production costs of IT outsourcing was higher than the sum of the costs of IT insourcing. Moreover, Deloitte proposed that economic gains of IT outsourcing were less than expected (maybe because costs were initially underestimated), and that such lower expected gains alongside other costs factors may have influenced executive leadership to bring some or all of the previously outsourced work back in-house.

Conclusion and Future Research

In this study, I have used TCE logic to suggest that higher IT outsourcing costs may be driving the IT insourcing movement. The quotes used in this research are certainly not scientific evidence suggesting that other executives are facing the same issues with IT outsourcing. If one looks across industries, however, one sees that the companies from which the above quotes originate are not alone. Ford, Starbucks, and Caterpillar all have made or are making insourcing moves (Shacklett 2012).

The illustrations shown in Figures 5 and 6 represent an important evolution in our thinking about IT outsourcing costs. I believe that the interviews derived from the press serve to strengthen the argument that IT outsourcing costs have changed over time, and that these costs were indeed underestimated by executive leadership. Certain managers, when faced with higher costs, decided to engage in IT insourcing as a means to increase firm performance. It is my unproven assertion that, in general, many firms will also engage in IT insourcing when faced with higher than expected IT outsourcing costs as they also seek to improve firm performance.

The current study uses one theory to explain how higher than expected costs have reversed some IT outsourcing decisions. Yet, this should not prevent other researchers from examining this same
phenomenon from a multi-theoretical lens, or even from a different theoretical view. In particular, it would be interesting to apply institutional theory to investigate whether the IT insourcing movement is a fad. Are companies more likely to engage in IT insourcing just because of GM’s decision? Researchers should also apply the resource-based theory of the firm to consider whether IT insourcing will provide firms sustained competitive advantage through investments in internal knowledge development and innovation. Another fruitful area for future research is the impact of cloud computing on IT sourcing decisions. For example, is the cloud likely to increase or decrease the amount of IT outsourcing?

References


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