



Chapter VIII

The CIO Sourcing IT Services

Introduction

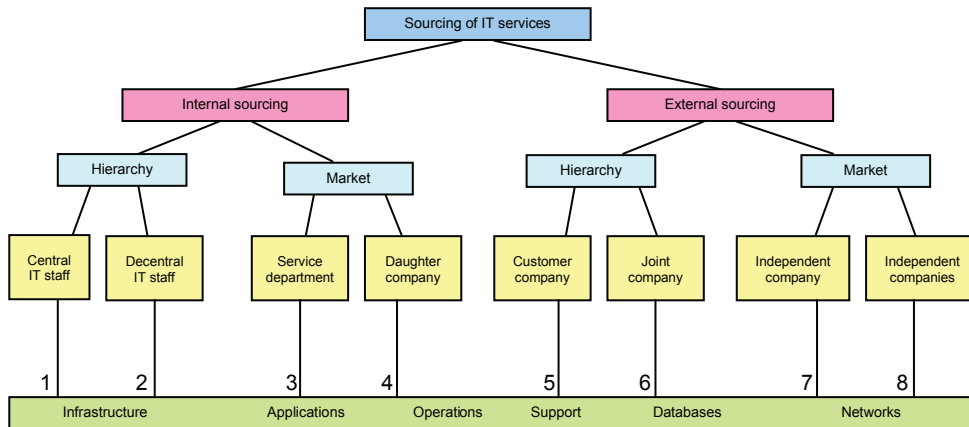
CEO compensation can influence outsourcing of information technology. Hall and Liedtka (2005) found a relationship between CEO self-interest and IT outsourcing decisions. Sourcing decisions such as IT outsourcing influences the position of the CIO and, hence, the CIO's potential to become the next CEO.

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 have emerged. This variety is illustrated in Figure 8.1. 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

Figure 8.1. Sourcing options



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 versus 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.

The Internal market as illustrated with numbers 3 and 4 in Figure 8.1 has a different sourcing logic. The concept of the internal market is not new. The concept was first perceived to have radical implications eliminating superior-subordinate relationships, organizing all activity in terms of self-responsible profit centers, determining compensation objectively, eliminating internal monopolies, allowing freedom of access to information, and establishing a corporate constitution (King & Malhotra, 2000).

These appear to be less radical in today's environment of matrix organizations, self-managed teams, and re-engineered business processes. However, the notion of internal markets is not as simple as first suggested. The internal market is a mecha-

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