E-Business Strategy, Sourcing and Governance is based on the premise that it is difficult, if not impossible, to manage a modern business or public organization without at least some knowledge of the planning, use, control, and benefits of information technology. Managers need to have an understanding of strategy development, including the current technology situation, the current and desired business situation, the need for changes, the application portfolio, and organizational and human resource issues in the area of information technology.

E-Business Strategy, Sourcing and Governance was written after several years of management education, training, and research. I have been conducting management education at the graduate and undergraduate levels in Norway and abroad. For example, the Master of Management program in Information Technology Management & E-Commerce that the Norwegian School of Management BI runs at Fudan University in China covers most of the material included in this book. I have also been conducting management training in organizations such as the telecom company Telenor. I have been conducting management research in areas such as key issues in technology management, critical success factors, knowledge management, leadership roles of technology managers, project management, outsourcing, and strategy implementation.

While this book is an updated text on current business-IT challenges, it is also tailor-made for courses at the master’s level in China, Singapore, Egypt, and
other countries where the Norwegian School of Management BI runs educational programs. In these programs, there will be more emphasis on strategic planning, e-business, IT sourcing, IT governance, and other topics that are covered in this new book.

Some areas of the book are better at covering the necessary material — for example, the outsourcing and governance chapters. This is done to expand our thinking of e-business strategy. However, many areas of the first chapters discuss topics very briefly and typically include only one reference as a source for what is being said. This is done to limit the presentation of general e-business material that is found in so many other textbooks.

Some readers will be disappointed with the second chapter. They would like to find more enthusiasm for emerging technologies and business models. However, from a business strategy perspective, even the second and third waves of e-business will foster both failures and successes, depending on the extent of realistic expectations and ambitions.

Some readers will find that many theories are reviewed but none is clearly highlighted as superior or “the way to go,” so I am not sure how practical these parts of the book can be for a manager. It is my hope and belief, however, that practicing managers will be able and willing to appreciate good management theories.

This book is intended to discuss current topics (strategy, sourcing, and governance) in the e-business domain. These are important topics today. However, “e-business domain” is a vague concept, and it is expanding as you read, which has led me to discuss strategy, sourcing, and governance in a more general business context.

I am not sure that this is a book on e-business, as you would expect. It is, in a way, primarily a book on business, which, of course, includes e-business. This is maybe the only way e-business can be successful, by integrating e-business strategy into the larger picture of business strategy.

This is a book about how to manage information technology (IT). It is concerned with the planning, use, control, and benefits of IT in business and public organizations. It is not about information technology per se.

The main perspective in this book is change management. If a company stands still, it will not survive. To survive a company must be proactive rather than reactive. It must be proactive to external threats and opportunities and to internal strengths and weaknesses. The world around us is changing.

In general, we first have to find out what we would like to achieve, then we should discuss how we could go about achieving it.
1. **What** would we like to achieve?
2. **How** can we do it?

The same is true for an information system. We first have to find out what kind of information is needed, and then we can discuss how to provide it and how technology can help. The important lesson here is that **What** comes before **How**: The focus of an information system is always first on information (what), and then on technology (how).

However, technology also gives us new opportunities. Therefore, we do have to know the technology. So we can expand the sequence by **what** before **how** before **what**:

1. **What** kind of information is needed? **What**
2. **How** can IT provide it? **What** > **How**
3. **What** else are we able to achieve using IT? **What** > **How** > **What**

In this book we present a procedure for developing and implementing IS/IT strategy. Chapter III presents strategy analysis, while Chapter IV covers strategy choice and Chapter IV discusses strategy implementation. These chapters cover the procedure of strategic planning.

We also need content in strategic planning. Content is provided in Chapter I about theories of the firm, Chapter II about electronic business, Chapters VII to XII about IT sourcing and Chapters XIII to XVIII about IT governance.

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**Overview of Book Chapters**

*Chapter I. Theories of the Firm* provides a framework for understanding and analyzing modern business performance. According to the resource-based theory of the firm, performance differences across firms can be attributed to the variance in the firms’ resources and capabilities. Resources that are valuable, unique, and difficult to imitate can provide the basis for firms’ competitive advantages. In turn, these competitive advantages produce positive returns.

*Chapter II. E-Business* is the core chapter on electronic business, how it is evolving, and what decisions are to be made by executives concerning business models and infrastructure services. A business model can be defined as
the method by which a firm builds and uses its resources to offer its customers better value than its competitors do and to take money doing so. It details how a firm makes money now and how it plans to do so in the long run. The model is what enables a firm to have a sustainable competitive advantage, to perform better than its rivals in the long-term do. An e-business model can be defined as a description of the roles and relationships among a firm’s consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants.

Chapter III. IS/IT Strategy Work introduces the Y model for strategic planning. In the Y model, stages 1 to 3 cover analysis, 4 and 5 cover choice, and 6 and 7 cover implementation. Stage 3 is a so-called gap analysis, and looks at the difference between the desired and actual situation. This stage also includes prioritizing. Stage 4 is a creative session as it calls for ideas and proposals for alternative actions. Stages 5 and 6 are typical planning stages. The final stage 7 is important because we can learn from performing an evaluation.

Chapter IV. Strategy Analysis introduces a number of methods to analyze the current and desired business situation. Methods included are concerned with benefits of IS/IT, stages of IS/IT growth, IS/IT in management activities, IS/IT in business processes, IS/IT support for value configuration, strategic integration, IS/IT support for knowledge management, IS/IT in e-business, and IS/IT enabled business transformation.
Chapter V. **Strategy Choice** introduces criteria and methods to be applied when making strategic IS/IT decisions, concerning both future applications and development approach. When needs for change have been identified and proposals for filling gaps have been developed, alternative actions for improving the current situation can be developed. New IS/IT can be developed, acquired, and implemented in alternative ways. Several decisions have to be made when a new IS/IT is chosen. Such decisions are called systems development strategy, and they are illustrated later when we discuss IT governance as allocation of decision rights.

Chapter VI. **Strategy Implementation** discusses enablers and barriers to successful implementation of e-business strategy. IS/IT strategy implementation can be defined as the process of completing the projects for application of information technology to assist an organization in realizing its goals. However, implementing an IS/IT strategy is not simply the act of implementing many projects and individual systems. Instead, implementing such a plan demands a gestalt view in the planning of individual systems. A gestalt view represents the implementation of the plan philosophy, attitudes, intentions, and ambitions associated with IS/IT use in the organization. It may include decisions about the IS organization and the implementation of IT architecture.

Chapter VII. **Sourcing Management** is the first chapter in the second part of the book concerned with sourcing of IS/IT services. An important point is made in this book about how strategy was absent from early e-business attempts. The first part of this book describes how strategy might be present. To establish and maintain a distinctive strategic positioning, an organization needs to follow six fundamental principles concerned with right goal, value proposition, value configuration, trade-off, fit, and continuity. One of the strategic choices often overlooked is concerned with IT sourcing. IT sourcing decisions are influenced by trade-off, fit and continuity principles.

Chapter VIII. **Sourcing Theories** presents a number of management theories that can be applied to our understanding of sourcing decisions. 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.

Chapter IX. **IS/IT Outsourcing** discusses opportunities and threats when outsourcing, as well as vendor value proposition, and outsourcing phases. 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 become an undeniable trend.

Chapter X. Sourcing Markets presents different areas for sourcing, such as infrastructure, applications, and processes. The paradigm shift in the possibilities of communication that the Internet and telecommunications revolution has brought about has opened up a plethora of opportunities in outsourcing business processes. Business process outsourcing involves transferring certain value contributing activities and processes to another firm to save costs, to focus on its areas of key competence, and to access resources. The possibilities of disaggregating value elements in terms of business processes for creating value in them at the vendor’s premises and final aggregation and synthesis at the client organization are explored and exploited in business process outsourcing. Business process outsourcing includes enterprise services (human resources, finance and accounting, payment services, and administration), supply management (buying processes, storing processes, and moving processes), demand management processes (customer selection, customer acquisition, customer retention, and customer extension), and operations.

Chapter XI. Sourcing Practices is concerned with performance and outcome from sourcing arrangements. Termination of an IT outsourcing arrangement involves strategic decision-making. General studies of strategic decision making show how rapidly strategic decisions are made in small firms operating within high-velocity environments, and how decision speed is linked to performance. Fast decision makers use more, not less information than do slow decision makers. The former also develop more, not fewer, alternatives, and use a two-tiered advice process. Conflict resolution and integration between strategic managers are also critical to the pace of decision-making. Finally, fast decisions based on this pattern of behaviors lead to superior performance.

Chapter XII. Offshore IT Outsourcing discusses why offshoring has become so popular and the benefits and pitfalls. The shifting geography of business processes can be defined as the third wave of geography-related change in the design and operation of corporations. During the first wave, the improving transportation infrastructure of the 20th century enabled corporations to seek effective production capabilities in increasingly far-flung locations that provided access to new markets and tangible resources, land local factories, mines, and production workers. During the second wave, as capital markets became global and interconnected in the latter half of the 20th century, corporations began to capitalize on vibrant global financial markets for both debt and equity. Now we are in the midst of a third wave, in which digitized busi-
ness processes like order processing, billing, customer service, accounts and payroll processing, and design and development can be carried out without regard to physical location.

Chapter XIII. IT Governance as Resource Mobilization is the first chapter in the third and final part of this book concerned with governance. In many organizations, information technology has become crucial in the support, the sustainability, and the growth of the business. This pervasive use of technology has created a critical dependency on IT that calls for a specific focus on IT governance. IT governance consists of the leadership and organizational structures and processes that ensure that the organization’s IT sustains and extends the organization’s strategy and objectives.

Chapter XIV. IT Governance as Allocation of Decision Rights discusses important aspects of who, what and when in decision-making. The first decision in the systems development strategy map is concerned with use of resources. Over the last two decades, the availability of standard application packages has risen. In most application areas, there are standard packages available today. Most organizations have changed from an in-house development strategy to a standard package strategy. Acquisition of standard application software is a very widespread strategy, especially among small and medium-sized companies that cannot afford large in-house staff for systems development.

Chapter XV. IT Governance as Strategic Alignment discusses alignment between business strategy and IS/IT strategy. While the business strategy is the broadest pattern of resource allocation decisions, more specific decisions are related to information systems and information technology. IS must be seen both in a business and an IT context. IS is in the middle because IS supports the business while using IT.

Chapter XVI. Implementing IT Governance presents implementation mechanisms for effective governance. Enterprises implement their governance arrangements through a set of governance mechanisms: structures, processes, and communications. Well-designed, well-understood, and transparent mechanisms promote desirable IT behaviors. Conversely, if mechanisms are poorly implemented, then governance arrangements will fail to yield the desired results.

Chapter XVII. IT Outsourcing Governance develops an extended governance model for successful outsourcing relationships. The overall objective of this chapter is to concentrate on the important issues of strategy, structure, and management of IT outsourcing arrangements. Using well-known theoreti-
cal perspectives described earlier in this book, a governance model for successful management of IT outsourcing relationships is presented. IT outsourcing governance can be defined as specifying the decision rights and accountability framework to encourage desirable behavior in the IT outsourcing arrangement, where resources are transferred from one party to the other in return for resources controlled by the other party. Governance is not about making specific decisions — management does that — but rather determines who systematically makes and contributes to those decisions. Governance reflects broader principles while focusing on the management of the outsourcing relationship to achieve performance goals for both client and vendor. Governance is the institutional framework in which contracts are monitored, adapted, and renewed. Effective outsourcing governance encourages and leverages the ingenuity of the vendor’s and client’s people in IT usage and ensures compliance with both enterprises’ overall vision and values.

Chapter XVIII. Knowledge Management in Governance discusses the importance of knowledge transfer and alternative strategies and stages for knowledge management technology. The knowledge-based view of the firm has established itself as an important perspective in strategic management. This perspective builds on the resource-based theory of the firm. The knowledge-based view of the firm implies that information systems are designed to support knowledge management in organizations. Knowledge management can be defined as a method to simplify and improve the process of sharing, distributing, creating, capturing, and understanding knowledge in a company. Knowledge management is description, organization, sharing, and development of knowledge in a firm.

Chapter XIX. Case Studies are introduced at the end of the book for student term papers and class discussion. Rolls-Royce is a case from the manufacturing sector. UPS Logistics and Maersk Logistics are cases from the maritime industry. Telecom Italia Mobile, Netcom and Colt Telecom Group are cases from the telecom industry.

I hope you enjoy reading my book. Any comments you may have are appreciated. Please e-mail me at petter.gottschalk@bi.no.

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Oslo, Norway, August 2005