Chapter 18
Making Decisions in IS/IT Outsourcing: A Dynamic Perspective

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ABSTRACT
Making decisions in an IS/IT outsourcing project is complex and the outcome is unpredictable. Prior research on IS/IT outsourcing decisions simply assumed the decision-making process is rational, comprehensive and independent that is not descriptively accurate, and thus, cannot be prescriptively useful in such a complex environment. In order to gain a deeper understanding of decision-making in IS/IT outsourcing processes, this chapter creates an outsourcing decision framework, derived from a dynamic perspective, to illustrate the decision-making process and how the decisions impact outsourcing results. An in-depth case study methodology is used to interpret an e-strategy transformation outsourced project. The analysis indicates interwoven decisions, knowledge as power, decision-makers’ cognition, and ideologies should be the focus of future studies on IS/IT outsourcing.

INTRODUCTION
Beginning in 1990, outsourcing became a key approach to manage IS/IT. The Gartner Group has estimated that the market for outsourced IS/IT services reached $280 billion in 2005, and would expand to $410 billion by 2007. However, there are considerable intractable and unforeseen risks in outsourced IS/IT projects (Taylor, 2006), and making decisions therein is complex and unpredictable.

Much of the research on IS/IT outsourcing decision-making are based on economic theories (i.e., transaction costs, resource dependency, and agency theories) or critical success factors to solve outsourcing motivation, scope, performance, or insourcing/outsourcing “problems” (Lacity & Willcocks 1995; Watjatrakul, 2005). These studies have derived largely from economists’ view of “rational” decision-making. They assume the
decision maker is a rational economic man (Simon, 1947) who can plan comprehensively, decide independently, and make the value-maximizing choice.

Most of all, they illustrate a single perspective from outsourcing clients, while excluding the vendors’ views. Ironically, more and more research shows that outsourcing activities are influenced by institutional, social-political environment, or organizational structure constraints (Allen et al., 2002; Ang & Cummings, 1997; Loh & Venkatraman, 1992). Moreover, more studies have suggested that the relationships between outsourcing companies and vendors impact outsourcing decisions and results (Kern & Willcocks, 2002; Sabherwal, 1999; Levina & Ross, 2003). Thus, the concepts which portray the IS/IT outsourcing decision-making process as rational, comprehensive, independent are not descriptively accurate, and perhaps not even prescriptively useful in such a complex environment. A more dynamic view of decision-making is required to illustrate real situations (Pettigrew, 1990).

To obtain a deeper understanding of IS/IT outsourcing decision-making, this chapter adopts the dynamic perspective of strategic choice domain, links to IS/IT outsourcing literature, then creates an IS/IT outsourcing decision framework. Through this framework, this study analyzed an e-strategy transformation outsourced project, and determined additional managerial insights and theoretical directions for IS/IT outsourcing.

The remainder of this chapter is organized as follows. Section 2 reviews IS/IT outsourcing decision-making literature, and identifies the gaps. Section 3 explores the dynamic perspective concepts of choice strategic literature, and then creates an IS/IT outsourcing decision framework. Section 4 discusses the research approach and methodology, and presents the case study for analysis with the developed framework. Finally, conclusions and discussions are given in Section 5.

**LITERATURE REVIEW**

In this section, this chapter reviews three perspectives from the IS literature on outsourcing. It describes their differences on assumptions, their considerations to how decision makers make decisions and how decisions impact outsourcing results (See Table 1). Through this review, we indicate the theoretical gaps to explain current complex IS/IT outsourcing decisions phenomenon.

**Prescriptive Perspective**

Prescriptive perspective assumes that management can clearly define all issues, analyze all types of outsourcing, and make decisions that result in maximum benefits for the organization. In literature related to IT outsourcing decisions, researchers have a tendency to evaluate special assets and transaction frequencies according to the theory of transaction costs in order to define IT outsourcing strategies and scopes. They define lower cost and higher efficiency issues of outsourcing firms by neoclassical economic and resource dependency theories, they decide the scope of outsourcing by core competition, resource-based, management innovation theories, and strategic intentions; they evaluate the firms’ agency costs and risks according to agency costs; and elaborate contract contents according to contract theories to avoid any opportunism of the firm (Aubert et al. 2004; DiRomualdo et al. 1998; Lacity et al. 1995; Lacity et al. 1996; Watijatrakul 2005).

These researches assume management outsourcing decisions, when made according to the rules, will result in maximum benefits and successful outsourcing projects; however, different studies have led to contradictory findings. For instance, the research of Aubert et al. (1996) on 10 large-scale firms in different industries found that the uniqueness of assets could define outsourcing decisions; Ang and Straub (1998) studied outsourcing decisions in several banks and showed that