TRANSACTION COST THEORY, THE
RESOURCE-BASED VIEW, AND INFORMATION
TECHNOLOGY SOURCING DECISIONS: A RE-
EXAMINATION OF
LACITY ET AL.'S FINDINGS

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Abstract

This paper re-examines findings on information technology outsourcing. Using the resource-based view, instead of transaction cost theory, explains several anomalies found in previous studies. Results also support the claim that specialization is an adequate proxy for strategic value, and not for asset specificity, as argued in some prior studies.

Résumé

Cet article réexamine des résultats obtenus dans des études précédentes sur l'impartition des services informatiques. En utilisant l'approche par les ressources au lieu de la théorie des coûts de transaction, les auteurs sont à même d'expliquer plusieurs anomalies relevées dans des études précédentes. Les résultats supportent l'affirmation que la spécialisation est un indicateur valable de la valeur stratégique, mais pas un indicateur valable de la spécificité des actifs, tel que des études précédentes l'avaient affirmé.

Keywords

transaction cost theory, resource-based view, information technology outsourcing, asset specificity, asset specialization, strategic resource, case research, secondary data analysis

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Introduction

In a study of 61 information technology (IT) sourcing decisions made in 40 U.S. and U.K. organizations, Lacity and Willcocks (1996) used transactions cost theory (TCT) (Williamson 1985) to try to account for the decision made. They focussed on two aspects of the decision: (a) whether the choice was to insource or outsource, and (b) if the decision was to outsource, the type of contract put in place by the organization with the outsourcing vendor. For 40 of the 61 decisions, the success or failure of the outsourcing decisions was known. For these 40 decisions, Lacity and Willcocks concluded (p. 241) that TCT “explained only five sourcing decisions and generated 35 anomalies.” They sought to interpret these anomalies from two perspectives. First, they argued that TCT proponents might account for the anomalies by arguing that measures of critical variables were invalid. Second, they argued that TCT opponents might use the anomalies to show TCT provided a poor explanation of IT sourcing decisions. They concluded their paper by arguing (p. 241): “We hope that this paper serves to stimulate debate among the information technology academic community on the applicability of using transaction cost theory as an explanator of information technology sourcing decisions. We believe this debate is important because adoption of theories from other disciplines needs to be critically examined within our own discipline.”

Lacity and Willcocks’ results have important theoretical and practical implications. From a theoretical viewpoint, their work raises serious concerns about the validity of TCT, at least in an IT sourcing context. Yet TCT is widely regarded as a classic contribution to the study of organizations, economics, and law and, in particular, to sourcing decisions. TCT should not be dismissed lightly, therefore. From a practical viewpoint, IT outsourcing still constitutes a multi-billion dollar business (Tettelbach, 2000). TCT represents one of the few coherent bases that managers can use when they make sourcing decisions. Managers need to know, therefore, whether they should discard it and find new theories to aid their decision making.

In this paper our goal is to contribute to the debate that Lacity and Willcocks seek to motivate. Specifically, we have two objectives. First, we argue that Lacity and Willcocks may not have a valid measure of a critical dimension of TCT—namely, asset specificity. Thus, the anomalies they identify in their study may reflect that they have used a problematical measure of asset specificity rather than a flaw in TCT. Second, we argue that their measure of asset specificity may, in fact, be a better proxy for another dimension of assets—namely, an asset’s strategic value to an organization. In this light, we use data obtained by Lacity, Willcocks, and Hirschheim to

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1 Theories, by definition, cannot provide perfect prediction of the phenomena that are their focus. If TCT can only account for 12.5 percent of the sourcing decisions investigated by Lacity and Willcocks, however, its usefulness is questionable.
test a competing explanation for sourcing decisions. Specifically, we use the resource-based view (RBV) of the firm (Barney 1991) to try to account for whether the organizations decided to insource or outsource all or part of their IT function. Where we have sufficient details in Lacity, Willcocks, and Hirschheim’s data, we find that the RBV provides a good “fit” for the sourcing decision that occurred.

**Overview of Transaction Cost Theory**

TCT has been developed to facilitate an analysis of the “comparative costs of planning, adapting, and monitoring task completion under alternative governance structures” (Williamson 1985, p. 2). The unit of analysis in TCT is a transaction, which “occurs when a good or service is transferred across a technologically separate interface” (Williamson 1985, p. 1). Transactions costs arise for *ex ante* reasons (drafting, negotiating, and safeguarding agreements between the parties to a transaction) and *ex post* reasons (maladaptation, haggling, establishment, operational, and bonding costs). Decision-makers must weigh up the production and transaction costs associated with executing a transaction within their firms (insourcing) versus the production and transaction costs associated with executing thetransaction in the market (outsourcing). If they choose to use the market, they must then determine the appropriate type of contract to use.

Williamson (1985) argues that two human and three environmental factors lead to transactions costs arising. The two *human* factors are:

1. **Bounded rationality**: Humans are unlikely to have the abilities or resources to consider every state-contingent outcome associated with a transaction that might arise.

2. **Opportunism**: Humans will act to further their own self-interests.

The three *environmental* factors are:

1. **Uncertainty**: Uncertainty exacerbates the problems that arise because of bounded rationality and opportunism.

2. **Small numbers trading**: If only a small number of players exist in a marketplace, a party to a transaction may have difficulty disciplining the other parties to the transaction via the possibility of withdrawal and use of alternative players in the marketplace.

3. **Asset specificity**: The value of an asset may be attached to a particular transaction that it supports. The party who has invested in the asset will incur a loss if the party who has not invested withdraws from the transaction. The possibility (threat) of this party acting opportunistically leads to the so-called “hold-up” problem.

Williamson argues that three dimensions of a transaction affect the type of governance structure chosen for the transaction: asset specificity, uncertainty, and frequency. As asset specificity and uncertainty increase, the risk of opportunism increases. Thus, decision-makers are more likely to choose a hierarchical (firm-based) governance structure. As frequency increases, the compara-
tive advantage of using market governance structures decreases because the costs of hierarchical governance structures can be amortized across more instances of the transaction.

**Transaction Cost Theory and Lacity and Willcocks' Data**

Lacity and Willcocks (1996; p. 218) use only asset specificity and frequency to determine which governance mode should have been chosen according to TCT for the IT transactions undertaken by their sample of firms. For some reason, they did not consider the effects of uncertainty (presumably they were unable to measure uncertainty). Particularly at the margin, however, TCT predicts that the level of uncertainty is likely to affect whether a decision-maker chooses to outsource or insource. Lacity and Willcocks recognize, therefore, that the effects of uncertainty may account for some of the anomalies they found.

To measure *frequency*, Lacity and Willcocks allowed participants to specify a transaction as either occasional or recurrent. In most cases the choice made seems appropriate (e.g., data center operations were recurrent). In some cases, however, the choice is questionable. For example, systems development is designated as an occasional transaction. If an organization regularly engages in systems development work, however, the transaction is more likely to be recurrent. Again, Lacity and Willcocks recognize that a problematical measure of frequency may account for some of the anomalies they found.

Our major concern, however, is with Lacity and Willcocks’ measure of *asset specificity*. Williamson (1985, p. 52) is unequivocal about the primacy of asset specificity in TCT: “The principal dimensions with respect to which transactions differ are asset specificity, uncertainty, and frequency. The first is most important and most distinguishes transaction cost economics from other treatments of economic organization, but the other two play significant roles” (our emphasis). Having a valid and reliable measure of asset specificity, therefore, is central to undertaking robust tests of TCT.

The following excerpts from Lacity and Willcocks (1996) illustrate the bases they used to designate whether an asset had generic, mixed, or idiosyncratic specificity (in all cases below, our emphasis):

- Participants from FIRMS 18, 29, and 32 view data center operations as a support commodity rather than a strategic asset requiring *specialized knowledge*. We therefore classified these transactions as non-specific (p. 218).

- When participants perceived that transactions required *specialized knowledge*, we classified the transaction as “idiosyncratic” (p. 219).

- Because participants in half of the sourcing decisions used an entire information technology department as a unit of analysis rather than treating information technology activities separately, we characterized the 14 total outsourcing and 15 total insourcing decisions as “mixed recurrent.” Participants perceived that some information technology functions involved in the transaction, such as some new system development projects, required highly *specialized skills* while they perceived that other information technology functions, such as data processing, were standard (p. 219).
In short, if the assets supporting a transaction were *specialized*, Lacity and Willcocks designated them as *specific* (mixed or idiosyncratic). Moreover, where organizations took a decision of total outsourcing or total insourcing, their assets were deemed to be at least *partly specialized* and therefore designated as *mixed specificity*.

We argue, however, that the *specialization* dimension of an asset is not the same as the *specificity* dimension of an asset. In this regard, Williamson (1985, p. 53) is explicit in terms of what he means by *specificity*: “Transactions that are supported by durable, transaction-specific assets experience ‘lock in’ effects, on which account autonomous trading will usually be supplanted by unified ownership (vertical integration).” The essence of asset specificity, therefore, is that lock-in effects occur, which potentially lead to hold-up problems. One party invests in an asset to support a transaction with another party. The asset would have little or no value if it were used to support a transaction with another party. Or it might not be possible to use it to support any other transaction. It is *specific* to a particular exchange because it sustains its value only in the context of that exchange. If parties who have not invested in the asset have the option of going elsewhere to obtain the good or service provided via the transaction, they can act opportunistically. For example, by threatening to leave the partnership, they can force the price of the transaction down to the point where the party who owns the asset just covers their operating costs. They obtain no return on their initial capital investment in the asset.

Specialization, on the other hand, refers to “the process by which different individuals, functions, divisions, or organizations invest in different kinds of skills and assets so that, over time, each develops a comparative advantage over others in a specific kind of activity” (Jones 1998, pp. 9-10). The essence of specialization is that the functions performed by an asset (person, machine, work team, firm, etc.) can be performed by only a subset of all assets. Given that no asset can perform all functions, all assets are specialized to some extent. The focus, however, is the *cardinality* of the subset. As the cardinality decreases, the subset becomes increasingly specialized.

An asset that is specialized, however, is not necessarily specific. For example, consider a surgeon who specializes in some abstruse aspect of oncology, perhaps to the point where she or he has only a few peers in a major city (or country). The surgeon is highly specialized, but no hold-up problem exists. If a patient engages in a transaction with the surgeon and then threatens to withdraw, the value of the surgeon’s specialized skills is unlikely to drop dramatically. The patient cannot prevent the surgeon engaging in transactions with other patients. Similarly, if a hospital or clinic engages in a transaction with the surgeon and then threatens to withdraw, no hold-up problem arises.

Conversely, an asset that is specific is not necessarily specialized. For example, consider the often-quoted example of a specific asset in TCT—namely, an oil pipeline built by one company to supply an oil refinery owned by another company. If the company that owns the refinery can obtain supplies of crude oil elsewhere, it can hold up the company that owns the pipeline. The value of the pipeline will drop significantly if it is not used to provide crude oil to the refinery. The pipeline may have been constructed, however, using generic technologies. The comparative advantage of the pipeline over other sources of crude oil arises from site specificity and not specialized technologies. If the company that owns the refinery threatens to obtain crude oil
supplies elsewhere even though prices may be higher, the value of this site-specific comparative advantage can be quickly eroded.

In some cases, however, specialization and specificity are intertwined. For example, managers may be more valuable to an organization to the extent they have specialized knowledge about the organization (e.g., its history, operating procedures, culture). If a manager were to leave the organization, however, other organizations might deem only some part of this knowledge to be valuable (that which also has generic elements). The organization and the manager face a joint hold-up problem. To entice the manager to acquire specific, specialized knowledge, the organization must be willing to compensate the manager for the risk associated with investing in knowledge that has no value outside the organization. Having invested in the knowledge, the organization can then hold up the manager by decreasing her or his compensation. The manager can also hold up the organization, however, by threatening to leave. The organization then has to consider the loss in value that will occur with having less knowledgeable managers and training new managers versus paying the extra compensation demanded by the manager.

![Figure 1: Classification of Assets](image)

In summary, an asset may be neither specialized nor specific, specialized but not specific, specific but not specialized, and both specialized and specific (Figure 1). In the context of TCT, recall that only the latter two types of assets bear on the sourcing decision.
Table 4 of Lacity and Willcocks (p. 222) shows the anomalies in the 40 sourcing decisions they studied. Potentially, misclassification of asset specificity might have resulted in their deeming the following decisions to be anomalous in the context of TCT:

1. **Insourcing successes that should have been failures**
   - Decision 38a: classified as non-specific; might have been idiosyncratic.
   - Decisions 12c, 17, 19, 20, 21, 22, 27a classified as mixed; might have been idiosyncratic.

2. **Outsourcing, classical contract failure that should have been a success**
   - Decision 39a classified as non-specific; might have been mixed or idiosyncratic.

3. **Outsourcing, neo-classical contract successes that should have been failures**
   - Decisions 1, 10a, 23, 25b, 26a, 28b, 29, 30a, 33bc, 34b, 36, 37ab, 38b classified as non-specific occasional or recurrent; some might have been mixed or idiosyncratic occasional.

4. **Outsourcing, neo-classical contract failure that should have been a success**
   - Decision 27b classified as mixed or idiosyncratic occasional; might have been non-specific occasional or recurrent or mixed or idiosyncratic recurrent.

5. **Outsourcing, relational contract failures that should have been successes**
   - Decisions 2b, 7a, 8a classified as mixed recurrent; might have been non-specific occasional or recurrent, mixed occasional, or idiosyncratic occasional or recurrent.

In summary, the following anomalies (25.7 percent of the anomalies) could result from a misclassification of specificity only: 38a, 12c, 17, 19, 20, 21, 22, 27a, 39a. Similarly, the following anomalies (54.3 percent) could result from a misclassification of either specificity or frequency (or both): 1, 10a, 23, 25b, 26a, 28b, 29, 30a, 33bc, 34b, 36, 37ab, 38b, 27b, 2b, 7a, 8a. Thus, up to 80 percent of the anomalies that Lacity and Willcocks identified could result from a misclassification of specificity. For this reason, we argue that Lacity and Willcocks’ conclusions about the applicability of TCT to IT sourcing decisions need to be treated cautiously.

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2 In their interpretation of these anomalies from a TCT perspective, Lacity and Willcocks (pp. 223-226) indicate that some may also be attributed to high uncertainty, lack of a production cost advantage in the market, unavailability of alternative suppliers, or opportunistic behavior by a union as well as misclassification of specificity.

3 Lacity and Willcocks (p. 224) indicate that the transaction for Firm 19 might have been idiosyncratic.

4 Lacity and Willcocks (p. 225) indicate that the transaction (payroll and financial systems) might have been “more specific than participants perceived.”

5 Lacity and Willcocks (p. 223) indicate that these may be mixed-specificity transactions.
Overview of the Resource-based View of the Firm

Lacity and Willcocks’ use of the specialization dimension rather than specificity dimension of assets when analyzing their cases, however, may be fortuitous. The level of specialization of an asset may be a reasonable proxy for whether the asset constitutes a strategic resource to an organization. Strategic resources are the focus of a major theory\(^6\) that competes with TCT to account for the sourcing decisions made by organizations—namely, the resource-based view (RBV) of the firm.

While TCT focuses on the costs associated with conducting exchanges between two separable entities, the RBV concentrates on those factors that enable firms to gain a competitive advantage. Its proponents (e.g., Barney, 1991; Mata, Fuerst, and Barney, 1995) observe that some companies appear to earn sustained, abnormal returns. They argue this outcome arises because they have access to key resources (Barney 1991). These strategic resources share four characteristics. They are valuable, rare, imperfectly imitable, and have no easy substitute.

These four characteristics in combination enable a firm to protect a competitive advantage. Unless the resource is valuable, competitive advantage will not arise. By definition, valuable resources generate high returns. If the resource is not rare, many competitors can obtain it. Thus, the advantages obtained through using the resource cannot be sustained. Strategic resources are also difficult to imitate. Factors like causal ambiguity, social complexity, and history can prevent a competitor from fully understanding how a set of resources leads to competitive advantage, thereby impeding replication of the resources. For example, Wal-Mart has earned above-average returns for more than ten years (Wal-Mart, 2000). Nonetheless, the products sold by Wal-Mart are not unique, the technology it is using is widely available, the layout of its stores is observable, and its strategy has even been published (Stalk, Evans, and Shulman, 1992). With all this information, competitors are still struggling to find the right mix of resources and actions. Finally strategic resources must be difficult to substitute. If substitution is possible, a competitive advantage cannot be sustained (Barney, 1991).

The value of different resources affects the boundary decisions of a firm (Barney, 1999). Firms will try to retain in-house activities that take advantage of their strategic resources. Outsourcing these resources would deprive organizations of their competitive advantage and subsequent abnormal returns (Duncan, 1998). Where resources are not strategic, however, they will look to outsource them.

Resource-based View and Lacity et Al.'s Data

As we foreshadowed above, we hypothesize that evidence of specialization may be a better proxy for the existence of strategic resources in an organization rather than the existence of specific assets. The reason is straightforward. An organization is unlikely to undertake specialized

\(^6\) Some scholars argue that the RBV in its current state does not constitute a theory (e.g., Priem and Butler 2001). We concur with many of the concerns expressed about RBV. Nonetheless, for the sake of simplicity in our exposition, we will afford the RBV the status of a theory.
investments in assets to support a transaction unless they give it competitive advantage. Otherwise, it might justifiably rely on the marketplace to support the transaction.

This hypothesis motivates two research questions. First, does the RBV provide a useful account of IT sourcing decisions? Second, if so, is there evidence to support the view that specialization provides a better proxy for strategic resources than asset specificity?

As an initial attempt to answer these questions, we used casework published by Lacity, Hirschheim, and Willcocks (Lacity and Hirschheim, 1993, 1995; Lacity and Willcocks, 1996, 1998). These cases are probably the most-cited in the IT outsourcing literature. We sifted through them to find indications of strategic value in order to test the RBV. For the subset of cases where we concluded the RBV provided useful insights, we then re-analyzed the cases to evaluate whether they provided evidence that asset specialization was a better proxy for the existence of strategic resources. The following two subsections describe our analyses.

**Some Tests of the Resource-Based View**

The case studies described in Lacity and Hirschheim (1993, 1995) and Lacity and Willcocks (1996, 1998) were not conducted to evaluate strategic value. Thus, information about this dimension is limited. Nonetheless, based on the descriptions provided, strategic value could be inferred for 10 cases (Table 1). For these cases, the success or failure of the sourcing decision taken could also be determined.

To illustrate the nature of our analyses, consider Firms 1, 18, 25, and 29 in Table 1. Lacity and Willcocks (1996, p. 219) indicate these firms engaged in transactions requiring (or not requiring) specialized knowledge. The specialized knowledge described by the authors is much closer to the concept of strategic value than asset specificity. It is knowledge that managers want to keep from competitors or the general public. Similarly, the references to generic assets are presented in the context of “lack of strategic value or competitive advantage” and not assets that could be redeployed without substantial loss of value.

In summary, the results provide strong support for the RBV. Three cases (Firms 1, 25, 29) describe successful selective sourcing decisions that are consistent with the predictions of the RBV. Activities having high strategic value are insourced. Activities having low strategic value are outsourced. Three cases (Firms 3, 16, 19) illustrate successful insourcing of activities with high strategic value. Four cases (Firms 18, 15, 17, 18b) share a pattern of insourcing low strategic value activities. In all cases, managers were dissatisfied. In three of these cases, note that the in-house team reduced IT costs, hoping to satisfy managers. In each case, however, managers still felt that outsourcing would have been preferable. This outcome indicates that factors other than short-run, tangible costs influence the sourcing decision. Larger issues, like support for an organization’s strategic competencies, need to be addressed.
<table>
<thead>
<tr>
<th>Case Source</th>
<th>Strategic Value</th>
<th>Governance Mode</th>
<th>Outcome</th>
<th>Support for RBV?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>Application development is described as requiring specific business expertise, and the internal department possesses significant business expertise (p. 219). [high strategic value]</td>
<td>Selective sourcing. Application development is done in-house. Data centre is outsourced.</td>
<td>Success. Lower costs on outsourced activities.</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 18</td>
<td>Firm 18 described its data centre operations as a commodity: <em>Competitive advantage and things like that did not enter into the reason for data processing... receiving the service much like when you flip on a light switch and get electricity</em> (p. 219). [low strategic value]</td>
<td>Insourcing. Managers expected lower costs. (Lacity and Willcocks 1998).</td>
<td>Failure. Costs remained the same</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 25</td>
<td>Activities like color matching are described as skilled, and knowledge is seen as strategic. Managers want to keep this knowledge confidential. Significant business expertise is required to build applications (p. 219). [high strategic value]</td>
<td>Selective sourcing. Activities that are described as having high strategic value are done in-house. Telecoms are outsourced</td>
<td>Success</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 29</td>
<td>Systems supporting trading and back-office operational support are described as “marketplace leaders.” They are perceived as requiring significant business expertise to develop (p. 219) [high value]</td>
<td>Selective sourcing. Data centre is outsourced. Control is kept on strategic systems.</td>
<td>Success</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 3</td>
<td>IT services are described as “part of the solution” to the company problems (p. 80). The CIO is also member of two important committees (corporate research and operating) and is seen as influential (p. 76-80). [high strategic value]</td>
<td>Insourcing</td>
<td>Success</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 15</td>
<td>IS managers suffer from lack of senior management support (p. 47). The culture of the company makes it difficult to align IS strategy with corporate strategy (p. 40). IS is not considered as strategic to the business (p. 47). [low strategic value]</td>
<td>Insourcing</td>
<td>Failure. While costs are down, higher managers are still unhappy.</td>
<td>Yes</td>
</tr>
<tr>
<td>Firm 16</td>
<td>Lacity and Hirschheim (1995)</td>
<td>CIO was able to develop an IS strategy and to show the strategic value of IS, especially to the president (p. 56). Technology is now seen as a means to “deliver its mission of instruction, research, and service” (p. 57). [high strategic value]</td>
<td>Insourcing</td>
<td>Success. Consolidation, cost savings and unified vision.</td>
</tr>
<tr>
<td>Firm 17</td>
<td>Lacity and Hirschheim (1995)</td>
<td>Misalignment of IS goals with corporate goals (p. 60). IS is not perceived as a strategic component of the corporation and is not taken seriously by senior management (p. 72). [low strategic value]</td>
<td>Insourcing</td>
<td>Failure. While costs are down, higher managers still think outsourcing would have been better.</td>
</tr>
<tr>
<td>Firm 18b</td>
<td>Lacity and Hirschheim (1995)</td>
<td>IS is not looked at as a strategic asset or resource (p. 85). The IS manager has tried to sell the concept of strategic system to management without success (p. 85). [low strategic value]</td>
<td>Insourcing</td>
<td>Mixed results. Costs are really lower, but senior managers’ views have not changed and IS manager still feels under threat of outsourcing.</td>
</tr>
<tr>
<td>Firm 19</td>
<td>Lacity and Hirschheim (1995)</td>
<td>IS is seen as a strategic tool in the future developments of the company (telecommunications) (p. 100). It is a change from initial perception. [high strategic value]</td>
<td>Insourcing</td>
<td>Success – even if some measures have not been implemented, cost reductions are greater than anticipated. Managers are now viewing IT positively.</td>
</tr>
</tbody>
</table>
Specialization as a Proxy for the Existence of Strategic Resources

Because we found support for the RBV, we again re-analyzed Lacity and Willcocks’ (1996) data. We tested the hypothesis that specialization is a better proxy for strategic value than asset specificity. The entries in Table 4 of Lacity and Willcocks (1996) were re-interpreted in the following way: all transaction labelled as non-specific (non-specialized) were deemed to be low strategic value; and all those labelled as mixed were deemed to have some level of strategic value. Recall, the RBV predicts that low strategic value activities will be outsourced, and high strategic value activities will be insourced. The occasional or recurrent character of the activities (frequency) was not considered. This dimension is not salient to sourcing decisions in the RBV. Moreover, how frequency should be used is unclear. For example, an IS development project might be a one-time activity (occasional). Nonetheless, an organization might be developing software on a regular basis. Thus, software development is a recurrent activity for the organization.

The results we obtained provide encouraging support for the RBV. Among the generic transactions, 16 were outsourced successfully. Only two contradicted the RBV. One was insourced successfully, and the other was outsourced unsuccessfully. Consistent with the RBV, seven specialized/high-value transactions were insourced successfully, and six were outsourced unsuccessfully. Contrary to the RBV, nine decisions were outsourced successfully. Of these nine, however, two used relational contracts, which is a way for a firm lacking important strategic competencies to gain them via some kind of partnership (Barney, 1999).

In short, 72.5 percent of sourcing decisions were classified correctly using the RBV and specialization as a proxy for strategic value. This result is important. Strategic value has been notoriously difficult to measure. Some authors have even argued that lack of an operational definition for strategic value could lead to tautological predictions under the RBV (Priem and Butley, 2001). By using specialization as a proxy for the strategic value of a resource, researchers may be better placed to use the RBV to generate propositions that can be falsified.

Conclusions

Lacity and Willcocks (1996) invite researchers to engage in a debate that is both interesting and important. As they rightfully point out, TCT is fraught with imprecise constructs that are difficult to operationalize. Similar criticisms apply to the RBV. It is important to further refine measures of strategic value, asset specificity, and specialization. All are linked to rareness, but they can lead to contrary predictions about the desirability of asset ownership.

Re-analyzing Lacity, Willcocks, and Hirschheim’s cases leads to an important conclusion. TCT and the RBV compete to explain the sourcing decision. If both lead to the same predictions, they cannot be differentiated empirically. If this were the outcome, they are probably presenting the same concepts using different words. We obtained different results, however, when we analyzed the cases from TCT and RBV perspectives. Thus, we have a prima facie case that the two theories can be differentiated empirically. Moreover, our results indicate that specialization better proxies for strategic value and not asset specificity.
References


