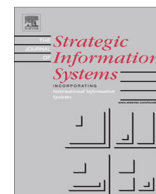




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Transaction Cost Economics on trial again: A commentary on “The Role of Transaction Cost Economics in Information Technology Outsourcing Research: A Meta-Analysis of the Choice of Contract Type”

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Introduction

We welcome the opportunity to comment on “The Role of Transaction Cost Economics in Information Technology Outsourcing Research: A Meta-analysis of the Choice of Contract Type”. We think [Schermann et al. \(2016\)](#) offers the IS community an opportunity to debate not only Transaction Cost Economics (TCE) in the context of Information Technology Outsourcing (ITO), but also provides an opportunity to debate the larger issue of fair theoretical appropriations. We structure our commentary as follows. First, we briefly comment on the value of the empirical findings in [Schermann et al. \(2016\)](#). Second, we raise the question, “What is a fair theoretical appropriation?” We present three arguments relevant to fair theoretical appropriations and assess [Schermann et al. \(2016\)](#) relative to the arguments. Overall, our aim is not to “win” the debate or to comment on one isolated review article, but to invoke a thoughtful conversation within the IS community.

[Schermann et al. \(2016\)](#)'s empirical findings

To appear in a top IS journal, papers must make a substantial contribution to knowledge. In our view, [Schermann et al. \(2016\)](#) make a substantial contribution by summarizing the effects of five variables on contract choices used to govern ITO relationships spanning three decades of empirical work. [Schermann et al. \(2016\)](#) coded and investigated the effects of five independent variables (IVs)—technological uncertainty, requirements uncertainty, technological complexity, organizational complexity, and project size—on contract type (CT) (fixed price or time & materials). In their meta-analysis these five variables were further coded as “task uncertainty”. They assessed the effects of these IVs on CT over two time periods, before and after 1999. Although some readers may contest how [Schermann et al. \(2016\)](#) coded some of these constructs, their choices are fully transparent. They showed readers in Appendix 3 how they chose to code the constructs contained in the 28 articles. Other researchers are free to make alternative choices and re-run the analyses.

[Schermann et al. \(2016\)](#) found that technological uncertainty and technological complexity had no statistically significant effects on contract type in either time period. This is an intriguing finding, as a number of theoretical perspectives suggest that high levels of technological uncertainty and technological complexity would favor time & materials contracts over fixed-price contracts. The authors also found that higher levels of technological uncertainty, organizational complexity, and project size (as they defined these variables) were positively related to the choice of time & materials contracts over fixed price contracts before 1999, but not after. Something interesting is clearly happening empirically! Thus, the findings, even in isolation from a theoretical explanation, make a contribution to knowledge.

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Schermann et al. (2016)'s theoretical claims

Schermann et al. (2016) seek to make a theoretical contribution beyond the empirical findings. Schermann et al. (2016) position the paper as an assessment of TCE and aim to continue the debate on TCE that was initiated in Karimi-Alagheband et al. (2011) and in Lacity et al. (2011). The initial debate papers agreed that the empirical results of TCE tests in the context of ITO were mixed. The debate papers differed on how researchers should proceed. Karimi-Alagheband et al. (2011) argued that ITO researchers needed to apply TCE more faithfully. We argued that ITO researchers were asking too much of TCE—the ITO phenomenon was more complex than can be accommodated by TCE alone. We argued that empirical ITO research had matured to the point where IS researchers should be building an endogenous ITO theory. (We wish to clarify that in our paper, we never called TCE “obsolete”—that is Schermann et al. (2016)'s word choice.) Schermann et al. (2016) performed a meta-analysis on one particular relationship: task uncertainty's effect on contract choice and claim their empirical findings support both Karimi-Alagheband et al. (2011) and Lacity et al. (2011).

The focus of our commentary is to assess whether Schermann et al. (2016) gave TCE a fair trial. Schermann et al. (2016) state in the introduction, “We adopt meta-analysis to investigate the two explanations in the specific context of the relationship between task uncertainty (TU) and the choice of contract type (CT) in the ITO literature. We choose this relationship because TCE makes specific and unambiguous predictions about the choice of CT as a function of TU.” They also state, “TCE predicts that the frequency with which TM contracts are chosen instead of FP contracts is a positive function of TU.” These claims initially perplexed us. Having read most of Oliver Williamson's TCE writings, we did not see where Williamson ever mentioned “task uncertainty”, let alone lay claims to “task uncertainty” being an important determinant of contract choice. Thus, we raised the question: Did Schermann et al. (2016) fairly appropriate TCE? Just because Williamson did not identify “task uncertainty” as a key transaction attribute, does that suggest that “task uncertainty” cannot be considered a transaction attribute under TCE's theoretical umbrella? Maybe Williamson is not the litmus test. Hundreds of other scholars have called upon TCE to guide their research, so is task uncertainty a legitimate modification or extension of TCE? While pondering these TCE-specific questions, a larger and more provocative question emerged:

What is a fair theoretical appropriation?

In this section, we bring readers along the journey we took to think through this question. We stepped away from the specific issue of TCE appropriation and explored some “easier” questions first. We ask ourselves: Who created the theory of evolution by natural selection, the theory of general relativity, and the theory of psychoanalysis? Off the tops of our heads, we identified Charles Darwin as the creator of theory of evolution by natural selection, Albert Einstein as the creator of the theory of general relativity, and Sigmund Freud as the creator of psychoanalysis. But even a superficial investigation readily reveals that theories like these have messy origins.

Let's consider the example of the theory of evolution by natural selection more closely. Darwin (1859) is generally credited as the originator of the theory of evolution by natural selection. But in reality, the theory of natural selection had a muddled origin; predecessors and contemporaries, mostly notably Alfred Russel Wallace, also had the idea of natural selection (Stott, 2012). Theories also evolve. Scientists have further articulated the theory of evolution by natural selection since the discovery of genes and heredity (e.g., Huxley, 1942). The theory has also been revised to challenge the tempo of change by natural selection (e.g., Gould and Eldredge, 1977). Thus, when appropriating a theory of evolution by natural selection, one must first state which version of the theory is being used—Darwinian, neo-Darwinian, Punctuated Equilibria, etc. Generalizing that statement, we argue:

Argument 1: A fair theoretical appropriation requires that one clearly establishes which version of the theory is being appropriated.

Following that argument, we now return to Schermann et al. (2016). Which version of Transaction Cost Economics did Schermann et al. (2016) claim to appropriate? Schermann et al. (2016) appear to be appropriating Williamson's version of TCE to focus on governance features, as the authors cite Williamson (1991a, 2008). For Williamson, the main tenet of TCE “is to align transactions, which differ in their attributes, with governance structures, which differ in their costs and competencies, in a discriminating (mainly, transaction cost economizing) way” (Williamson, 1991a, p. 79). Williamson's TCE clearly focuses make-or-buy decisions on the constructs of transaction attributes, governance structures, and costs. Williamson posited that four transaction attributes (asset specificity, uncertainty, frequency, and ease of measurement) influence the choice of three types of governance structures (market, hybrid, and hierarchy) to minimize two types of costs (production costs and transaction costs, i.e. governance costs). Williamson also articulated two behavioral assumptions (bounded rationality and opportunism) (Williamson, 1991a,b, 1996).

Focusing on uncertainty because Schermann et al. (2016) do, Williamson (1991a) defined uncertainty as a disturbance: “Uncertainty could take two forms. One is that the probability distribution of disturbances remains unchanged but that more numerous disturbances occur; A second is that disturbances become more consequential (due, for example, to an increase in the variance) (Williamson, 1991a, p. 291). In other works, Williamson further distinguished uncertainty into behavioral and environmental uncertainty. For Williamson, behavioral uncertainty means that people may behave opportunistically with “strategic non-disclosure, disguise or distortion of information” (Williamson, 1985, p. 57). Environmental uncertainty is

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