Innovation of IT Outsourcing

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Abstract: Outsourcing has become a very common thing now a day and many clients are outsourcing their IT capabilities to different vendors. Different clients and vendors are looking in to different ways which can innovate the outsourcing process. Recently the outsourcing industry has gain a remarkable growth. The main purpose of outsourcing is to save cost but now clients are willing to pay more in order to achieve more value. There are a number of challenges which blocks the innovation in IT outsourcing,   challenges could be both internal and external. Sometimes the client companies tends to use the ad hoc approach to achieve innovation.   There are different steps which are needed to be followed in order to achieve innovation in the outsourcing process.

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Introduction

The outsourcing of IT capabilities has become a common thing and now a day different companies are looking for different ways through which the innovation can affect the outsourcing of IT for good. The innovation in IT outsourcing has become a challenge for the outsourcing industry. In the past few decades the innovation has affected different industries for good but innovation is a relatively new topic in the case of IT outsourcing (Moon, et al., 2010). Different client firms and looking for different ways to innovate new ways through which the efficiency of their outsourcing could be increased.

In the recent times the Outsourcing industry has shown tremendous growth. In the end of year 2010 the net worth of IT outsourcing was estimated to be around $270 billion according to the recent research it is perceived that the growth in IT outsourcing is around 5-8% per annum. Countries like China, Brazil, India and Russia are in the core front of providing such kind of services. These countries have emerging economies and high population which makes them best suited to provide IT outsourcing services. The concept of outsourcing is on increasing trend (Quinn, 2000). Most of the client companies uses multi-vendor outsourcing model in which a firm tries more than a vendor for the experiment purpose.

In recent times some innovations could be observed from the side of clients. The main purpose of outsourcing is considered to be low cost but recently the clients have changed their focus towards the value, most of the clients are looking for more value. According to a research the pricing has become a secondary objective for the clients. The IT outsourcing has entered in such a phase where the clients are now

more concerned about the value and quality of services as compare to the prices.

In the regard of such innovation the client companies should be looking to develop the tools which will eventually help them to calculate the return on their outsourcing investment. According to a research it is clear that most of the clients are not measuring their return on investment.

Challenges

The companies are valuing quality and value of the service more as compare to the prices, the clients also have raised their expectations from the vendors to add more innovations through which they could get more benefited (Bergfeld, 2009). Innovation could be defined as the new product or service offered to the clients or it could be described as a new process which is used to produce a product or service. Innovation can also be described as an aspect which is

new to the whole organization. There are different challenges associated with the innovation, whether it is associated with an external partner or an internal partner. The innovation could be disturbed by a number of internal factors and different external factors just helps in boosting that disturbance. One main example is that how both parties (client, vendor) agree to be involved in the whole process and how they distribute the partnership which could benefit both of them. Because of the outsourcing context some more additional challenges occurs in looking for the innovation. One of the major reason behind the failure is the uncertainty of the nature of innovation which is demanded by the side of client from vendor.

and also the inability to design a contract that is on the one hand mitigating client's exposure to be exploited by the vendor and at the same time offers compensation for

extra work and innovation delivered by the vendor. Most of the outsourcing contracts doesn't tends to accommodate such terms (Schmitt, 2015). Clients are also looking forward to different innovative ways from the side of vendors. Some major factors which tends to boost the innovation in outsourcing is limited resources and capabilities of the client companies. Client companies also lacks specialist talents and they also lacks the ability to manage the multiple risks factors thus they attract the talents in the non-specialized areas.

With the help of globalization more and more companies are becoming a global player in the IT sector and with such expansion it is becoming very important to adopt innovative ways to have a greater impact and different companies are looking forward with their relationship with vendors in such aspect. The main question is that with so many challenges how a

company could adopt innovation. Most of the times the client companies tends to use the ad hoc approach to achieve the innovation from the process of innovation. There are different downfalls of using this particular approach. This approach tends to damage the organizational learning and also cause the loss of knowledge of the organization. Such kind of approach also tends to restrict the company in creating such a culture in which the external contributions are welcomed by the company and in the end it could be very difficult for the company to measure the innovative process when the company is using the ad hoc process. According to different researches conducted on the field of outsourcing it is observed that the topic of innovation in outsourcing is mainly misunderstood. To cover this very reason following two questions are of utmost importance:

(i)   What are the expectations of the clients firms from the vendors and

(ii)   What are the main factors which affect the extent by which the innovation could be easily delivered in the outsourcing between two parties.

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According to a survey the multi sourcing outsourcing tends to deliver more innovative solutions (Oshri, 2010).
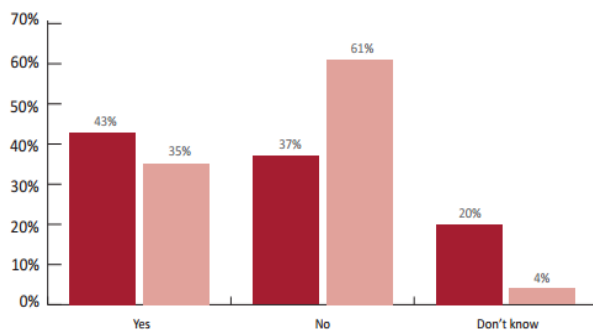
It is clear from the results that the C level executives tends to fail to compensate the investment made in the relationship with the vendor. Now most of the client companies are paying more to the vendors to compensate them and also to motivate them to innovate new and different ways to deliver the product or service. Following figure shows different steps which are important to achieve the innovation in outsourcing. It is also called as the innovation ladder. This figure shows 6 different steps which are needed to be followed in order to achieve innovation in the IT outsourcing industry.

Table 4: Do you measure the value or the innovation delivered by your vendor (CIOs and CFOs perspective)?
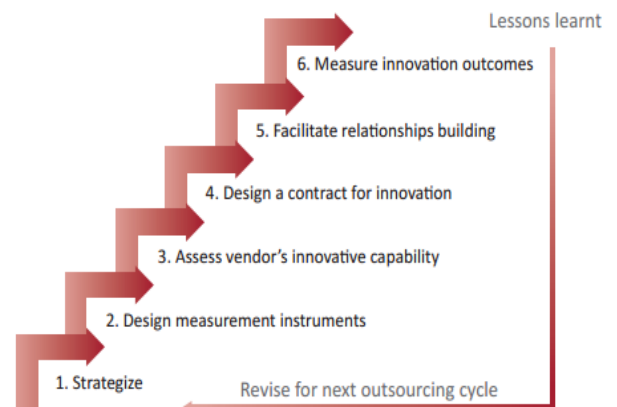
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