

The Effectiveness of Different IT Outsourcing Models on Cost, Quality, and Innovation

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Abstract

Outsourcing trades off efficiency advantages for decreased adaptability, therefore a business's capacity for problem-solving is required to minimise the trade-off between profitability and flexibility. To save money and time, non-core duties are assigned to outside contractors through outsourcing. In times of technological advancement, where efficiency and flexibility may conflict, it affects problem-solving techniques. Increased productivity, reduced loads from legacy systems, strategic application development, and improved customer satisfaction are all advantages of outsourcing IT services. The globalisation of the IT industry has fuelled a growing trend known as information technology outsourcing (ITO). Cost savings, difficulties in managing internal IT teams, and the availability of qualified employees all have an impact on the decision to outsource. Successful business operations depend on developing good client-vendor relationships based on prompt delivery, adherence to quality standards, and long-term collaborations. The study had considered sample of 232 respondents from IT industries of India to know the effect of different IT outsourcing models on Cost, Quality and Innovation and concludes that there is a significant effect of different IT outsourcing models on Cost, Quality and Innovation.

Key Words: - Information Technology, Challenges, Success, Outsourcing, Innovation, Costs

Introduction:

Due to the significant costs and difficulties involved in switching providers or switching back to in-house solutions, large organisations have been utilising IT outsourcing for around 20 years, and their continued prosperity is vital. Success requires finding low-cost, high-quality IT partners and expecting them to introduce fresh approaches and methods that will boost the company's value. However, the results in terms of innovation and additional value have frequently left companies unsatisfied. Research has therefore concentrated on enhancing innovative outcomes in IT outsourcing. (Weeks & Feeny, 2008)

The impacts of outsourcing on wages and entrepreneurship are explained by a model. When low technologically complicated processes are outsourced to the south, it saves money and increases profits for the northern country. When these extra profits are put back into research and development, innovation rates rise. In addition to having an impact on profitability, outsourcing also has a direct impact on innovation by enabling businesses to refocus their efforts on jobs that require more expertise. On the other hand, specialisation in key activities and pressure from the marketplace push domestic outsourcing. Outsourcing has a strategic purpose where companies encourage rivals to make lower quality investments. For foreign outsourcing, the desire to cut costs is anticipated to be more powerful. (Görg & Hanley, 2011)

Due to its benefits, including its low-cost labour, sophisticated IT industry, fluent English-speaking specialists, dependable communications and internet infrastructure, and advantageous time zone variations, India has become a well-known outsourcing destination. The expansion of India's business process outsourcing (BPO) industry has improved employment prospects, increased living standards, and changed perceptions of the nation's inventiveness and technological prowess. India's economy has changed from one centred on agriculture to one based on knowledge, strengthening its status as a prominent outsourcing centre, and greatly boosting overall national growth. (Jyoti et al., 2017)

Outsourcing helps with issues relating to efficiency, but it hinders adaptation, which is better handled internally. However, a company's capacity for problem-solving can lessen the compromise between profitability and flexibility. Outsourcing initially increases efficiency but has a detrimental impact on flexibility; nevertheless, this trade-off can be minimised by the company's capacity for absorption. (Weigelt & Sarkar, 2011)

Literature Review:

There are several viewpoints on creative thinking in IT outsourcing relationships. Customers tend to be more interested in new services or improvements to existing business processes, whereas suppliers view new technological capabilities as innovation. Utilizing a taxonomy, specific innovation initiatives are categorized. Innovation is described as the adoption of brand-new approaches, operational procedures, or technological developments with the aim of producing novel commercial results. Business process innovations significantly alter how work is done, while operational innovations incorporate improvements to technology without having an impact on business processes. Strategic innovations expand the market or improve

product/service offerings. The definitions place more emphasis on the client's perspective than the supplier's perspective. (Weeks & Feeny, 2008)

Today's world has come to recognize outsourcing and collaboration as viable business practices. In organisations, strategic outsourcing adoption tries to reduce costs. Initially motivated by the desire to cut costs, outsourcing increasingly includes other goals including achieving technological flexibility, resolving seasonal workforce issues, and enabling businesses to concentrate on their core capabilities. The primary emphasis of offshore outsourcing is on regulated and non-essential business activities in the manufacturing, IT, and business process outsourcing (BPO) industries. The ongoing cost pressure on US and European businesses, the decline of communications and information technology costs, significant improvements in Internet dependability and operation, the presence of offshore suppliers with improved abilities, the accessibility of high-quality onshore suppliers offering offshore services, and the potential to access low-cost, high-quality labour, particularly for labor-intensive duties, are all factors that have contributed to the explosive development of offshore outsourcing. (Chou & Chou, 2011)

Although information and communication technology (ICT) can improve a company's performance, efficiency demands complementing organizational reforms. ICT facilitates information flow, lowers expenses and so indirectly supports creativity. However, staff independence and communication are essential for efficient ICT use. Integrating ICT with process improvements and organisational changes boosts productivity. ICT promotes labour versatility, which increases the ability for innovation. The influence on innovation is uneven, however flexibility can be obtained through staff adaptation or outsourcing. (Hempell & Zwick, 2008)

The process of hiring outside vendors to deliver goods and services that were previously handled internally by an organisation is known as outsourcing. It is a method of strategic management designed to save money and time by assigning specialised service providers to perform non-core tasks. Customers and one or more suppliers enter a contract for the provision of services that were previously handled internally, and the suppliers take over those services. When business units or functions are transferred to outside service providers, the contracted party is given the power to supply the services in accordance with the terms of the service level agreements, which cover things like pricing, quality, and on-time delivery. The resource dependence theory asserts that organisations use inter-organizational tactics to

lessen adverse consequences and boost the efficiency of their overall strategies. The accomplishment of organisational goals depends heavily on these tactics. Specific goals, choosing the best outsourcing partners, having the necessary skills, careful planning, effective communication, and collaboration are just a few organisational strategies recognised as being important to the success of outsourcing projects. (Jyoti et al., 2017)

Outsourcing has an impact on problem-solving strategies during the early stages of technological innovation, which calls for efficiency and adaptability. While adaptability focuses on looking for new options, efficiency concentrates on improving currently available resources. Processes and organisational structures that promote efficiency can conflict with those that encourage adaptation. Different problem kinds necessitate various solution-search methodologies, depending on the complexity and structure of the challenge. Outsourcing highlights organised issues but may limit adaptability. Finding an equilibrium between effectiveness and capacity for change becomes difficult, though, as new technologies arise, and expertise is scarce. (Weigelt & Sarkar, 2011)

A company architecture known as strategic outsourcing develops when businesses rely on intermediary markets to bolster their current capabilities along the value chain. In addition to saving money, it adds value by using specialised resources. When deciding to outsource, internal production may be replaced with market capabilities, or market capabilities may be purchased rather than developed internally. When selecting whether to internalise or outsource, businesses evaluate the value of own talents and compare them to market alternatives. By utilising more efficient specialised capabilities, strategic outsourcing enhances business performance and can produce cost savings and economic benefit. (Holcomb & Hitt, 2006)

The global market requires companies to adapt their operations, and outsourcing has become a prevalent strategy. By outsourcing non-core activities, organizations can focus on their strengths, reduce costs, and respond better to market changes. Outsourcing involves assigning tasks or processes to outside businesses. Initially driven by cost reduction, it has evolved into a strategic approach to harness core skills and build partnerships with external partners. Over time, outsourcing has expanded from non-core to critical functions across various industries. Decisions about outsourcing must be planned, coordinated, and controlled using efficient project management methodologies. (Gunasekaran et al., 2015)

When organizations decide whether to outsource or internally provide their IT services, they face the challenge of mixed results in the research conducted using Transaction Cost Theory (TCT). In the field of IT outsourcing (ITO), there are now two distinct research areas: one looks at the factors that influence outsourcing choices and results, and the other looks at outsourcing relationship management. TCT has been widely utilised to explain ITO choices since it takes asset specificity, transaction frequency, and uncertainty into account. TCT-based studies, however, have produced inconsistent and unexpected findings. Explanations for these diverse outcomes include study method concerns, contextual circumstances, violations of TCT assumptions, and the potential of alternative theories. While researchers argue for the development of endogenous ITO theories, it is necessary to create a firm basis by thoroughly testing TCT's applicability. (Alagheband et al., 2011)

Outsourcing software development and IT services has become a frequent option for firms that value their core capabilities. Healthcare and insurance sectors favour allocating resources to their core services above internal software development. Businesses can increase productivity and efficiency by outsourcing to outside providers. Payroll processing, email, web services, call centres, and storage area networks are examples of frequently outsourced services. The burden of legacy systems can be reduced, strategic applications can be developed, globalisation can be utilised, a competitive edge can be gained, profits can be raised, and customer satisfaction can be improved. IT outsourcing companies compete fiercely by providing inexpensive value-added services, alluring proposals, cutting-edge technologies, and new business models. (Dhar, 2012).

Information Technology Outsourcing (ITO) has become a prominent trend because of the globalisation of the IT sector. To cut costs and concentrate on their core business functions, businesses choose to contract outsource IT tasks to external parties. Depending on how close the client and vendor are to one another, outsourcing can be classified as onshore, nearshore, or offshore. The decision to outsource is influenced by several things, including the need to cut costs, the difficulty of managing an internal IT team, and the availability of qualified personnel. There are several outsourcing models and pricing agreements, and the client-vendor relationship is vital to the success of the project. Factors such as prompt deliveries, adherence to quality standards, and long-term associations contribute to the creation of a strong relationship between client and vendor. (Jain & Khurana, 2015).

Effective partnerships and performance require mutual trust, especially when it comes to connections between suppliers and customers. It symbolises the degree of faith that individuals from one organisation have in the other. Unlike interpersonal trust, mutual trust extends to the organizational level. Mutual trust is essential in the outsourcing setting since interactions between the customer and service provider frequently go beyond what is required by the contract. Although trust is essential, it is not the only factor in determining the success of outsourcing, particularly in knowledge-driven industries like IT outsourcing. (Lee et al., 2008)

Objective

To measure the effect of different IT outsourcing models on Cost, Quality and Innovation.

Hypothesis

Null Hypothesis: There is no significant effect of different IT outsourcing models on Cost, Quality and Innovation.

Alternate Hypothesis: There is a significant effect of different IT outsourcing models on Cost, Quality and Innovation.

Methodology

The study had considered sample of 232 respondents from IT industries of India to know the effect of different IT outsourcing models on Cost, Quality and Innovation. A specially designed questionnaire was distributed to the respondents to collect the data using convenient sampling. The analytical and statistical tool, chi square test was used to get appropriate results.

Findings

Respondent's general details are shared in table below in which it is found that in total 232 respondents 67.2% are male and 32.8% are female. Among them 30.2% are below 36 years of age, 44.0% comes under the age category of 36-40 years and rest 25.8% are above 40 years of age. 15.5% of the respondents in relationship department, 27.1% in administration, 23.3% in finance and rest 34.1% in IT solution department.

Table 1 General details

Variables	No. of respondents	%age
Gender		
Male	156	67.2
Female	76	32.8
Total	232	100
Age (years)		
Below 36	70	30.2
36-40	102	44.0
Above 40	60	25.8
Total	232	100
Department		
Relationship	36	15.5
Administration	63	27.1
Finance	54	23.3
IT solution	79	34.1
Total	232	100

Table 2 Effect of different IT outsourcing models on cost, quality and innovation

Factors	Effect of different IT outsourcing models			Total
	Effect	Less Effect	Not Effect	
Cost	43	20	14	77
Quality	39	29	12	80
Innovation	46	10	19	75
Total	128	59	45	232
Value of Chi-square				11.3463
Degree of freedom				4
p value				.022936

Table above is showing that among 77 respondents, 43 says that different IT outsourcing models Effect the Cost of the company, 20 says there is Less Effect, and 14 respondent says that different IT outsourcing models Not Effect the Cost of the company. Among 80 respondents, 39 says that Quality of the work is affected by different IT outsourcing models, 29 says there is Less Effect and 12 says that Quality is Not affected by different IT outsourcing models. Among 75 respondents, 46 says that innovation in the company is affected by different IT outsourcing models, 10 says there is Less Effect and 19 says that innovation is Not affected by different IT outsourcing models. Hence, *null hypothesis is rejected, and alternate hypothesis is accepted which says that there is significant effect of different IT outsourcing models on Cost, Quality and Innovation.*

Conclusion:

IT outsourcing offers businesses both benefits and challenges. While cost savings and easy access to specialised resources are important advantages, maintaining quality and fostering innovation can be difficult. There's a great value in strategic decision-making, effective teamwork, and trust in outsourcing relationships. To maximize the possible advantages, organisations should carefully analyse their outsourcing strategies and concentrate on developing solid partnerships. The study was conducted to know the effect of different IT outsourcing models on Cost, Quality and Innovation and found that there is significant effect of different IT outsourcing models on Cost, Quality and Innovation.

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