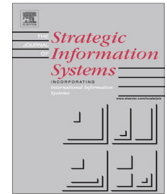




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## Editorial

# Editorial: Understanding strategic innovation in IT and business process outsourcing



## What is strategic innovation in outsourcing?

With maturity of the outsourcing industry, many firms consider outsourcing of Information Technology (IT) and IT-enabled business services as a strategic imperative. In the growing body of literature on outsourcing, this strategic perspective has been reflected in several papers published recently in *Journal of Strategic Information Systems* and other Information Systems (IS) journals (e.g. [Aubert et al., 2012](#); [Karimi-Alagheband et al., 2011](#); [Lacity et al., 2010, 2009](#)). Viewed as an integral part of business strategy, outsourcing engagements, partnership and alliances offer client firms multiple sources of competitive advantage, among them innovation. While in the earlier days of outsourcing, mainly incremental and operational innovation was expected from suppliers, recent years have witnessed an elevation in clients' expectation regarding innovation ([Oshri et al., 2015](#)). Nowadays, innovations in outsourcing partnerships are aimed to deliver strategic impact and expected to improve the firm's business performance. In the outsourcing context, *strategic innovation* is achieved when a supplier designs and implements a solution for a client that completely transforms the client's approach to develop products or deliver services (see [Fig. 1](#)). Such transformation may take place at the operational and/or strategic level and can be in the form of a back-office transformation or by offering a new service to customers.

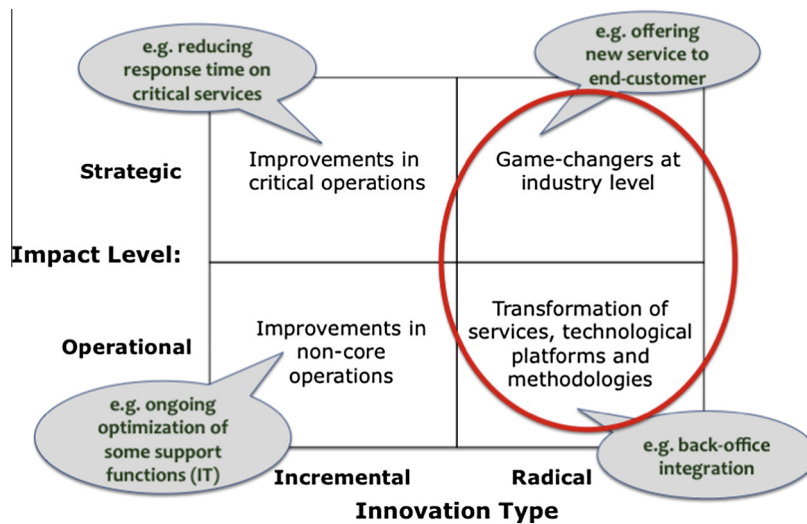
Examples of such strategic innovations in outsourcing include Infosys developing new marketing platform that is using social networks for Diageo<sup>1</sup> or IBM-Vodafone revolutionary supply chain platform to deliver anti-malaria medication in Africa for Novartis.<sup>2</sup> Such strategic innovations are not necessarily captured in the outsourcing contract, though they tend to emerge over time through ongoing service-based outsourcing engagements. Nonetheless, many outsourcing contracts tend to have a generic innovation clause included in which client firms expect innovation from their suppliers.

## Why study strategic innovation in outsourcing?

Clearly, the study of innovation in organizations is not new and by now there has been an abundant evidence of innovation achieved by firms through either intra-firm or inter-firm settings. Further, the organizational innovation literature has indeed grown to offer numerous frameworks as well as theoretical lenses that examine and advise on the conditions under which innovation can be achieved. However, it is still the general convention that most firms tend to excel in incremental innovations and struggle to achieve radical innovations. Such observations are also relevant for the context of outsourcing. For example, [Weeks and Feeny \(2008\)](#), whose *IT operational* and *business process* innovation typologies are incremental innovations and *strategic innovations* correspond with the definition of radical innovation, show that the vast majority of innovations achieved in outsourcing projects are mainly incremental. Further, when examining cases of strategic innovations in outsourcing, they conclude that both client and supplier tend to struggle to successfully innovate. Similar observations are reported by [Quinn \(2000\)](#) and [Lacity et al. \(2010\)](#) who confirm the emphasis on incremental innovation in outsourcing engagements by highlighting that the main drivers to outsource include improvements in processes and ser-

<sup>1</sup> Infosys developed and implemented a marketing platform for Diageo (a global premium drinks company) that enabled Diageo to centrally manage brands through multiple social media channels, such as Facebook, Twitter and others (radical innovation in Diageo's marketing and brand management approaches, their core growth strategy). See press release: [www.infosys.com/industries/consumer-packaged-goods/case-studies/Pages/new-digital-consumer-connections.aspx](http://www.infosys.com/industries/consumer-packaged-goods/case-studies/Pages/new-digital-consumer-connections.aspx).

<sup>2</sup> See press release: [www-03.ibm.com/press/us/en/pressrelease/29022.wss](http://www-03.ibm.com/press/us/en/pressrelease/29022.wss) and [www.malaria.novartis.com/innovation/sms-for-life/](http://www.malaria.novartis.com/innovation/sms-for-life/).



**Fig. 1.** Examples of innovation in the outsourcing context: typology based on innovation type and impact level (The red oval highlights examples of strategic innovation.). (For interpretation of the references to color in this figure legend, the reader is referred to the web version of this article.)

vices (Diromualdo and Gurbaxani, 1998), achieving change (Linder, 2004) and improvements of the delivery time (Khan and Fitzgerald, 2004).

Yet, the road to achieving strategic innovation through outsourcing relationship is not easy. Several IS scholars attempted to understand innovation in outsourcing context, looking for something more than incremental operational improvements (e.g. Lacity and Willcocks, 2013, 2014; Levina and Vaast, 2008; Whitley and Willcocks, 2011). These studies provided a number of examples where innovation attempts took place in outsourcing settings, with various degree of success. The reported factors, such as status differences (Levina and Vaast, 2008) and the lack of appropriate incentives for both client and supplier, may inhibit the sides from developing collaborative innovation through outsourcing (Lacity and Willcocks, 2014). Further, our recent study (Oshri et al., 2015) took a quantitative approach attempting to understand the role that relational and contractual governance plays in achieving strategic innovation through outsourcing. In particular, we found that (1) relational governance is central to achieving strategic innovation through outsourcing and (2) a partnership contract, when included in the client contract portfolio alongside a fixed-price or time and materials contract, magnifies the positive effect of the client-supplier relationships on the possibility to achieve strategic innovation, but no effect for fixed-price and time and materials contracts, as stand-alone contracts.

As outsourcing engagements are grounded in a formal contract that dictates the terms upon which fees will be exchanged for service, creating and delivering innovation, which is difficult to specify, scope and often manage, present a challenging task. Furthermore, the mentality and behavior of innovators are often different to those who deliver outsourcing services. For example, innovators may be perceived to be entrepreneurial, pursuing emerging ideas and motivated by novelty while service providers are more institutional, structured, and in most cases driven by profit. Such tensions may give rise to opportunities to advance our understanding regarding the intersection of strategic innovation and outsourcing engagements. In particular, examining how strategic innovation should be understood within the outsourcing context by assuming the existence of such tensions, dichotomies, differences in mentalities, business objectives, behaviors, organizational arrangements and settings, contractual arrangements, relational governances and attitudes, and performance indicators, from both vendor and client sides, may assist advancing our understanding of this phenomenon.

### Strategic innovation in outsourcing in this special issue

While this Special Issue has called to address challenges clients firms and suppliers face when seeking strategic innovation through outsourcing engagements, it turned out that there is still a limited research on such settings. Our initial screening of submitted articles indicated, many papers submitted to this Special Issue had a very light touch of innovation (if any), while mainly focusing on the conventional outsourcing issues. As a result, only a small number of papers that centered on strategic aspects of innovation in outsourcing context have eventually entered the review process.

It is surprising that today, when practitioner-oriented events and outlets constantly talk about importance of innovation, academic research falls so far behind. We believe that this Special Issue and a few recent studies that motivated us to initiate this Special Issue will create exposure and interest among academics to understand better strategic innovation in outsourcing context and implications of this growing phenomenon to theory and practice.

The first paper included in this Special Issue, “Exploring and Managing the ‘Innovation through Outsourcing’ Paradox” by Aubert, Kishore and Iriyama is a conceptual paper that investigates “innovation through outsourcing” paradox. The authors

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