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Sourcing Trends Predictions – An Analysis of Regions and Strategies

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Abstract

This paper aims to highlight historical trends regarding information systems (IS) sourcing, as well as glimpsing into the subject's future. Depending on economic growth, industrialization and changes in the political climate, certain countries have become either less or more attractive as destination countries for IS sourcing. As outsourcing strategies becomes more mature, especially in the IS sector, organizations are choosing different paths and regions for their endeavours. In the recent years the trend in IS sourcing has been to move IT operations closer to home and nearshoring has been the strategy option of choice for many organizations post termination of their offshore ventures. Regarding sourcing trends will we most likely see an increase of a multisourcing strategy which could be labelled as outsourcing as a service, including multiple vendors for interdependent services. In reality this means that organizations will be using a strategy that combines outsourcing, insourcing, offshoring, nearshoring and cloud services such as software as a service, and that implies that multisourcing and how to configure the multisourcing option will be a crucial task for many organizations in the near future.

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1. Introduction

After the emergence of IT outsourcing post Kodak's venture with IBM in 1989 an ever longing search for markets suitable for outsourcing knowledge work started [1]. In the early 2000's, Brazil, Russia, India and China (BRIC countries) seemed to be the leaders in the race for high skill and low wage workers in both information technology outsourcing (ITO) and business process outsourcing (BPO) [2]. However, the further we have moved into the 21st century these BRIC countries began to have problems with keeping wages down [3] with a new emerging middle class that demanded a better living for themselves. With cost saving being one of the primary forces for outsourcing operations to lower wage countries in response to this the outsourcing industry has been witnessing an increased amount of back-sourcing or choosing options closer to home such as nearshoring/onshoring or rural sourcing to gain control with insignificant cost increase. Proposing a new target region has been an issue for the outsourcing industry: Africa has been the target for Chinese outsourcing expansion, but this region will not suit all types of outsourcing. Regions with high skill and low wage workers are few and far between. Further, regions that are categorized as low wage countries often face civil, economic and political unrest from time to time. Hence these countries have been deemed to have too many risk factors present for long term ITO outsourcing but are commonly exploited in BPO outsourcing – most frequently in manufacturing outsourcing.

In the sourcing and outsourcing literature and publications it is common to see the authors making predictions not only of the next region that will supposedly dominate in sourcing ventures but also which supposed sourcing strategy organizations will use for the next years. In this paper we aim to explore publications ranging from the 1989 Kodak case up until 2016 to find common trends that have held up over time in order to analyze and discuss reasons why some predictions did not pan out as the authors intended or did not facilitate as trends in sourcing at all.

In the next section we provide definitions on some sourcing terms, followed by presenting the approach we had doing the research which mainly was a study on literature aiming at identifying trends and predictions on next sourcing trend. Section 3 present the results of the review on sourcing literature focusing on regions and strategies related to sourcing trends. In section 4 we analyze and discuss our findings, which we then in the final section suggest some concluding remarks on. In the final section we also suggest some directions for future research.

2. Sourcing definitions and research approach researching sourcing trends

Sourcing, when mentioned in mass media often refers to a specific type of sourcing – namely that of offshoring – a word that often is used in a negative sense which in turn has led to sourcing having mainly negative connotations. The word sourcing is a catch-all word which encapsulates multiple sub phenomena or models; each is different from the last while keeping a common denominator; sourcing always involves a client who employs a service over a specific amount of time.

Lockström [4] defines sourcing as: “the process of searching, selecting and managing suppliers as a means for securing a continuous supply of factor inputs for the value creation mechanism.” When defining sourcing, one might use a definition in line with the above quote in order to encapsulate all the areas that can be sourced by an organization. In order to avoid further confusion, we shortly present definitions of some relevant subcategories below:

Domestic outsourcing: A client company 'A' contracts a vendor company 'B' who is located in the same nation as the client in order to provide A with a specific service over a specific time frame, for a specific cost, all defined in the contract written between A and B [5].

Offshore outsourcing: Similar to the above scenario. In this model, however, the vendor organization is located in another country in reference to the client organization.

Domestic insourcing: An organization relocates manpower to a specific unit within the organization (internally) in order to develop or provide the organization with a certain service over a specific time frame.

Backsourcing: Relocating a previously outsourced service or function back from the vendor organization to the client organization.

Multisourcing: One client organization sourcing functions to multiple vendor organizations.

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