

Sourcing Decision as a Strategic Decision in Organizations: A Literature Review-Based Research

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Abstract

Organizations are increasingly dependent on their Information technology (IT) infrastructure to drive internal operational efficiencies and deliver enhanced customer experience externally. In today's world, information technology acts as a backbone for most of the business organization, both in domestic and multinational corporations. IT components include hardware, software, data, processes and people. People are integral part of information technology management and are typically involved in the operations and management of IT components. Sourcing decision of an organization deals with staffing and/or procurement of raw materials. Sourcing strategy can be global or domestic within the country of the organization. Our article is aimed at studying various human resources sourcing strategies in organizations such as outsourcing, offshoring, near shoring, reshoring, insourcing and how it is increasingly becoming more strategic decision in nature with its impact on organizational performance of meeting their strategic objectives. We adopted a narrative literature review method to research on existing literature on the topic and develop a conceptual base for future research. We find that sourcing decision is integral to an organization achieving its strategic objectives, thereby considered one of the strategic decisions in today's competitive and dynamic operating environment of organizations.

Keywords: *Information technology sourcing decisions, strategic decision characteristics, outsourcing, insourcing, strategic objectives of sourcing.*

Introduction

Organizations worldwide strives to sustain competitiveness in their operating markets and achieve desired performance, largely in terms of profit and market share achievements. Organizational direction, performance objectives and strategic decisions are fundamental to the achievement of set performance targets. Typically, board and top management set the direction and performance objectives for the organizations. Management staff at different hierarchical levels take decisions aligned to the strategic directions to run business operations. Some of the decisions are strategic in nature while others are routine decisions. Strategic decisions support in effective management of resources according to established protocols and clearly defined goals and are non-routine decisions (Allen C., D. and Coates, B., 2009). A strategic decision is important to an organization in terms of actions undertaken and the resources committed to enable actions and/or the precedents set (Mintzberg et al., 1976). Routine decisions, on the other hand are guided by set strategic goals and objectives. Similar to the strategic

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decision making, routine decision making involves defining goals, weighing alternative options, and developing suitable strategies for accomplishing the goals. (Gingrich & Soli, 1984). Managerial staff need substantial information to support the decision-making process. For strategic decisions, need for information and insights is much higher in comparison to routine decisions. Information technology, a buzz word in modern world is described as organizational capabilities achieved through use of computers, telecommunications and software applications. Information technology capability is aimed at providing the required data, information, and knowledge to processes and individuals in the organization (Attaran, 2003). Major components of information technology include hardware, software and data. Information Technology is characterized by the utilization of programmable devices to process information in the form of text, image, data sound, or control signals, required by both people and machines used in the organizations. IT enables an organization in aspects of data collection, storage, processing, transmission, archival, retrieval, and display. Information Technology is a collection of technologies related to electronics, computing, telecommunications, office machines and control engineering (Boaden & Lockett, 1991). Information technology plays an important role in businesses of all size and shape such as small, medium and large organizations, both domestic and multinational. Information technology is seen as an enabler of organizational business journeys addressing key dimensions such as solving complex problems and scalability for future business growth.

Sourcing of Information technology refers to acquiring or procuring various information technology services such as telecommunications, data management, application development, systems integration, application support, network management, data center management, and distributed computing services. IT sourcing decision is mainly concerned with “make or buy” decision, resulting in either insourcing or outsourcing of required IT services (Lacity et al., 2017). IT sourcing decision of choosing a sourcing option is more complex in reality (Carmel et al., 2016) and is also dependent on the sourcing structures that may span beyond the boundaries of an organization. The sourcing structures are influenced by the access to cheaper or cost effective talented resources of labour and can be in the forms such as domestic-insourcing, domestic-outsourcing, offshore-insourcing, and offshore-outsourcing (Mishra et al., 2020). Lacity (Lacity, 2002) remarks that for information technology sourcing decisions to be successful, it requires identification of IT needs by customers, understanding the IT sourcing space or market, and developing good contract-drafting and partner relationship building, management skills. We performed this narrative literature review-based research to find answers for two main research questions (RQ).

RQ1: How does Information technology sourcing decision qualify as a strategic decision in organizations?

RQ2: What is the contribution of IT sourcing decision to an organization’s strategic objective?

To research on the above research questions, we have structured this article as follows. First, we describe the narrative literature review method employed for this research. Second, we summarize insights from narrative review of existing literature. Third, we discuss on the findings to draw conclusions. Finally, we provide recommendations for future research on sourcing decisions on information technology. Our recommendations are also equally applicable to non-information technology sourcing decisions.

Research Methodology

Information technology sourcing strategies and organizational strategic decisions areas are of great research interest to scholars globally. Scholars continue to undertake detailed research on these areas, traceable to many decades. To resourcefully utilize the available literature on the topics, we chose

‘Narrative literature review’ method as our research method. We aim to develop a conceptual base on this interdisciplinary domain for further research.

As prescribed by the narrative literature review methodology, we chose and researched only on the relevant literature and evidence in-line with the context of the study. Narrative review method recommends extracting and utilizing only the relevant specific knowledge and information of interest from the existing literature on the topic (Paré et al., 2015). We adopted a structured data collection, data analysis and concept synthesis for the research. Our primary data collection source is the existing literature and body of knowledge on the research topics. A comprehensive literature search was performed on different electronic databases that contain relevant published articles on our research topics. We came up with appropriate keywords and additional words to search relevant articles in the database. We included only articles that were related to information technology sourcing and strategic decisions areas, as per our selection criteria. This selection criteria were mainly to keep the focus on the arguments that support integration of the topics, enable us to develop a conceptual base. We referred to 54 articles search from various repositories for our narrative literature research. We excluded the articles that were not related directly to the focus of the study. The narrative review method adopted for the research study is depicted in figure.1.

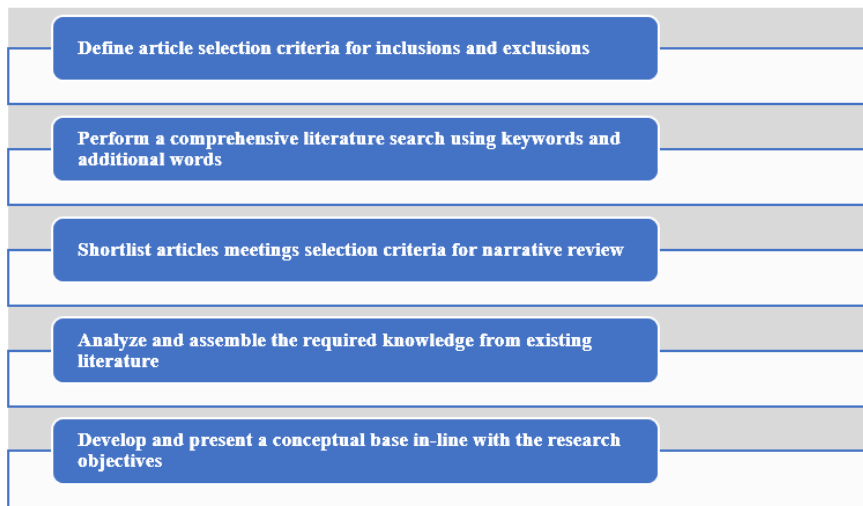


Figure 1. Narrative Review Method - Figure Source: Own elaboration on the Research Method

The narrative literature review method contributes to the scientific research domain by serving as a connecting bridge between the widely dispersed articles on a research topic of interest (Baumeister & Leary, 1997). The narrative method presents a well compiled summary literature to scholars and other interested readers.

The compiled literature serves as a reference for both theory creation and theory evaluation. By collating a vast amount of information together into a summarized readable form, the narrative review serve as a valuable aid for the educational community (Green et al., 2006).

Review of Literature

We undertook a literature review to study on the characteristics of strategic decisions, types of sourcing decisions in organizations and the strategic importance of the sourcing decisions.

Strategic Decisions and its Characteristics

Strategic decision-making is integral to the strategic management process in an organization as it encompasses the basic decisions that influence the future performance at any given time (Eisenhardt & Zbaracki, 1992). Decision-making is the one of the primary responsibilities of managerial staff in any type and size of organization (Nooraie, 2012). Strategic decision-making process enables an organization to align its internal operations with the external market conditions to manage challenges and maintain competitive position. This is absolutely critical as even a single poor strategic decision can get an organization to trouble and cause significant economic losses to the stakeholders (Mueller et al., 2007). Strategic decisions are concerned with the entire operating environment of the organization and have an influential impact in terms of both people and other resources of the organization. A decision goes through various stages such as framing of boundaries, constraints, setting of direction, developing alternatives, evaluating alternatives, choosing an alternative and implementing (Mintzberg et al., 1976). Stakeholders continuously monitor the events and trends happening around the operating environment of the organization, highlight the events that require a response in the form of a strategic decision (Nutt, 1998). Organization's leaders and top management team access the event and accordingly initiate the strategic decision-making process Strategic decisions are known to have a long-term influence on the supply chain performance of the organization, and they may need to be revisited after longer periods of time such as three or more years (Balaman, 2019). A strategic decision is concerned with an organization's long-term future and research studies have highlighted certain unique characteristics of strategic decisions that differentiate them from other types of organizational decisions such as routine and operational decisions.

According to Papadakis (Papadakis & Barwise, 1997) strategic decisions have five characteristics. First, strategic decisions are larger, long term, and riskier decision that are difficult to reverse once taken. Second, strategic decisions form a connect between organization's deliberate strategies and emergent strategies. Third, strategic decisions contribute significantly to organizational learning. Fourth, strategic decisions help in developing capability of individual managers. Fifth, strategic decisions are multifunctional in nature and span across academic disciplines. According to Wheelen and team (Wheelen et al., 2015) there are three main characteristics of strategic decisions. First, strategic decisions are "Directional" in that these decisions are setup to provide direction for other operational decisions and guide future actions of the organization. Second, strategic decisions are "Rare" in that they are different from usual decisions and have no reference standards defined to take clues from. Third, strategic decisions are "Consequential" in that they need investment in the form of resources and their dedicated efforts (Wheelen et al., 2015). Leiblein (Leiblein et al., 2018) emphasize on three characteristics unique to strategic decisions. First, contemporaneous decisions have interdependence among them. Second, decisions have interdependence with decisions of other economic actors. Third, decisions have interdependence across time. Strategic decisions include a pattern complementary interdependent choices resulting in value creation. The interdependence characteristics of strategic decisions associate with concepts of strategic, resource allocation, firm boundaries and competitive advantage. The characteristic of a strategic decision is summarized in figure.2.



Figure 2. Characteristics of Strategic Decisions - Figure Source: Own elaboration based on the literature review

Sourcing Decision Types

Sourcing decisions are important to an organization in maintaining their internal resource mix to sustain a competitive performance in their marketplace. World has seen many different sourcing decisions of organizations such as outsourcing, outsourcing variants such as near shoring, offshoring, reshoring and insourcing aligned to their business goals and needs. We undertook a brief review of existing literatures on widely used sourcing strategies in organizations such as outsourcing, near shoring, offshoring, reshoring and insourcing, particularly from a viewpoint of how the strategy is defined and the main characteristics. In the late 1980s, the term "outsourcing" was coined to describe the subcontracting of information systems (Espino-Rodriguez & Padrón-Robaina, 2006). Outsourcing as a term is traditionally defined as an external service provider providing non-core capabilities (Quinn & Hilmer, 1994) or supporting information system infrastructure (Loh & Venkatraman, 1992). Outsourcing is increasingly viewed as an international or domestic business agreement to gain competitive advantage by leveraging an external service provide for any of the support such as value-added functions, non-value added functions, and/or core competencies (Ishizaka et al., 2019).

Organizations commonly outsource information technology (IT) to gain advantage of utilizing globally available skilled and talented workforce in low-cost countries (Rahman et al., 2021). Offshoring is defined as an arrangement to source and coordinate business functions and tasks across national borders (Lewin et al., 2009). Offshoring is implemented either in the form of 'international outsourcing' wherein an activity is contracted out to a foreign service provider or by setting by a own subsidiary called 'a captive model (Musteen, 2016). Offshoring can be in the form of outsourcing, strategic partnership or captive offshoring (Slepniov et al., 2013). Outsourcing need not always be in the form of offshoring but typically offshoring as a sourcing decision is linked to the outsourcing strategy (Mudambi & Venzin, 2010). Near shoring is a form of international outsourcing of activities to countries at a medium distance from the outsourcing organization's headquarters (Slepniov et al., 2013). Scarce

literature on near shoring defines the phenomenon as the business of relocating activities to low-cost and close-by countries (Shamis et al., 2005). Near shoring as a sourcing decision is largely driven by factors such as access to markets, strategic assets and intellectual property rights regulation and not much on minimization of operational cost (Slepnirov et al., 2013). Reshoring is another phenomenon in the world of sourcing strategies which is relatively new, emerging (Fratocchi et al., 2014) and limitedly covered in research literature (Arlbjørn & Mikkelsen, 2014). Reshoring is defined as business phenomenon of taking back previously offshored operations (Arik, 2013) from another country to the home country of the organization (Gylling et al., 2015). Reshoring is also referred by other terms such as back shoring, on shoring or Back-reshoring (Wiesmann et al., 2017). Insourcing is a sourcing decision that is concerned with abandoning previously outsourced operation and bringing it back in-house within the organization (Damanpour et al., 2020). One of the formal definitions of insourcing in literature defines insourcing as a business phenomenon of transitioning back an outsourced operation to an external service provider (Cabral et al., 2014). Organizations typically proceed with insourcing decision when their previous outsourcing strategy has turned ineffective and unsuccessful in delivering desired outcomes (Damanpour et al., 2020). Insourcing decision necessitates additional staffing to take back activities. On the positive side, it provides an opportunity to take back hierarchical control of competencies and processes within the organization. Insourcing as a phenomenon is characterized by complete or partial termination of contractual support from the outsourced service provider and setting up of an alternate governance mechanism to manage insourced activities (Foerstl et al., 2016). Different types of widely used sourcing decision variants is presented in figure.3.

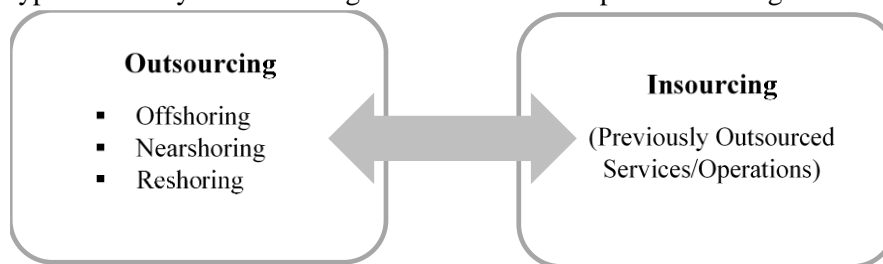


Figure 3. Sourcing Decision Types - Figure Source: Own elaboration based on the literature review

Sourcing Decisions and Strategic Importance

Procurement function in organizations is typically tasked with responsibility to manage sourcing and supply chain management aspects. This has contributed to procurement functions gaining more strategic importance within the organization (Yildiz Çankaya, 2020). This increasing importance of procurement functions is commonly observed in manufacturing organizations due to dynamic competitive market (M. Kim et al., 2015). In recent times, global disruption such as Covid-19 pandemic has further contributed to organizations considering sourcing decision as more strategic and critical part of organization's strategic decision-making process. The strategic importance is largely attributed to the organizational need for integrating various key activities such as operations, logistics, procurement, and marketing (Y. Wang et al., 2020). Sourcing as a separate function or part of procurement function is widely referred as "Strategic Sourcing" in recent times. Strategic sourcing is defined as an all-embracing process of procuring input supplies to run an organization's operations and manage suppliers to achieve organization's long-term objectives can be defined as a comprehensive process of buying all inputs to run a company's operations as well as managing suppliers, in order to achieve long-term objectives (Smeltzer et al., 2003).

Sourcing is also considered as strategic as it offers a framework for effective utilization of suppliers to achieve organization's strategic objectives and also as an aid for managers within the organization to have competitive advantage as a primary driver while making buying or sourcing decisions (su &

Gargeya, 2012). Business environments are becoming more complex and proactive sourcing decisions are considered critical to manage dynamic operating environments, risks and uncertainties faced by organizations (su & Gargeya, 2012). On the information technology side, sourcing decision is increasingly seen by organization to create business value. IT Outsourcing as the most common sourcing strategy is found to create business value contingent with the organization's core technology capabilities.

Organizations with better core technology capabilities is observed to benefit more from outsourcing in terms of business value (L. Wang et al., 2008). Research has shown Information technology (IT) to have moderation effects on the relationship that exist between the capabilities of supply chain and organizational performance (Oh et al., 2019). Research have claimed integrative information technology, supply chains and organizational performance to have positive association (H. J. Kim, 2017). Studies have also demonstrated sourcing decision of outsourcing to better organizational performance, possibly due to low cost of operations due to outsourcing (Awe et al., 2018). From an organizational learning perspective, outsourcing as a sourcing decision is observed to result in exploitative and exploratory learning (Koo et al., 2017).

Findings and Conclusions

Strategic decisions are fundamental to both survival and growth of organizations. A decision is classified as strategic or non-strategic decision by ranking it based on two key dimensions. First, the influence of the decision on the degree on commitment to be made. Second, the influence of the decision on the scope of the organization. This classification of decisions as strategic or non-strategic can enable an organization in prioritizing their decisions, commit resources and build capabilities (Shivakumar, 2014). The typical areas that warrant a strategic decision in organization include core values, growth, marketing, competitive analysis and change management. Change management is critical for organizational ongoing operations and success. Change management is a wide area and helps in building a dynamic organization that can be equipped to learn to handle challenges and opportunities as they face time to time. Change management in organizations deals with aspects such as policies, processes, systems and people enablement to keep it appropriate to manage dynamic global marketplace. Strategic decisions, as found from literatures have several unique characteristics such as they are long term decisions, riskier, bridge the gap between deliberate and emergent strategies, contribute to organizational learning, enable managerial capability development, multifunctional in nature, rare, directional, consequential, contemporaneous decisions interdependent among other decisions, economic actors and across time.

Regarding our first research question (RQ1), we find that information technology sourcing decisions demonstrate similar characteristics of a strategic decision. Sourcing decision, be it any variant of outsourcing such as near shoring, offshoring or reshoring or insourcing of previously outsourced operations is a complex decision (Rahman et al., 2021). Sourcing decision on outsourcing for example is riskier in terms of quality and potential cost increase due to geographical distance and cultural differences (Giunipero et al., 2019). Sourcing decisions are long term decisions in that once taken and implemented, is difficult to reverse it to another form of sourcing arrangement, for example outsourcing to insourcing or vice versa. Sourcing decision also meet criteria of being rare in terms of frequency of occurrence and not an operational day to day decision. Sourcing decision is directional from a

perspective in that it provides the direction for the organization on how to meet the resources and capability requirements of the organization in the short, medium and long terms. Direction from the sourcing decision can be to proceed with internal resourcing or in-house technology support management, outsourcing to a service provider within the country, near shore or offshore or even take back the operations from the outsource service provider or insourcing. All these types of sourcing decisions have their corresponding consequences in terms of financial performance, market performance, customer satisfaction and many other performance aspects. No strategy that is deliberately taken by an organization at a point in time to address organizational needs is permanent in nature and must emerge over time to meet the dynamics of market on an ongoing basis. Sourcing decision and strategy is no exception to this characteristic of strategic decisions. Sourcing decision like any other strategic decision works on bridging the gap between the deliberate sourcing strategies and the emergent strategies to handle dynamism of the operating environment. On the managerial capability development, managers take strategic decisions and continuously learn from them. Some decisions yield targeted outcomes, and some do not. Managers work constantly on building their capabilities to take better decisions as they learn from the decision-making process and get better at them. Sourcing decisions provide similar opportunities for managerial capability development to developing their sourcing strategies.

All types of sourcing strategies result in ongoing managerial capability development. Research have highlighted the managerial capabilities around sourcing decision of IT outsourcing contract management capabilities to deliver services and the relational capabilities to have an influential impact on the IT outsourcing success (Karimi-Alagheband & Rivard, 2020).

The literature review has strong supporting arguments that IT sourcing decision has significant contribution to an organization's strategic objective, which was our second research question (RQ2) of this research article. For instance, flexibility in information technology sourcing options and resultant decisions is increasingly enabling flexibility in the overall supply chain. Sourcing flexibility is observed to have strong relationship with delivery performance, and financial performance. Typically, sourcing flexibility is considered upfront during the service provider or supplier selection and evaluation process (Wagner et al., 2018). Research have shown information technology and information systems sourcing decisions are increasingly contributing to the continued growth of organizations and their responsiveness to market (Tsai et al., 2013). A recent meta-analysis-based research finds that sourcing decision variant outsourcing, particularly IT outsourcing contributes to improved organizational performance. The research further believes this significant contribution of IT outsourcing to organizational performance is mainly on the financial performance as implementation of IT outsourcing decision is comparatively less expensive as against implementing outsourcing in other operations of the organization (Awe et al., 2018). Several research efforts have focused on the sourcing decisions contributing to achieving strategic objective of meeting innovation goals of the organization. One such research argue that a "mediated multi-outsourcing" strategy can enable an organization with strategic innovations (Bui et al., 2019). Our literature review subsection focused on strategic importance of sourcing decision also found both information technology and overall sourcing decision of the organization to contribute to the strategic objective of organizations in terms of realizing enhanced business value, organizational learnings, financial performance, managing dynamic operating environments, risks and uncertainties faced by them.

Future Research Directions

This narrative literature review article has focused on two research questions on whether sourcing decisions qualify as a strategic decision in an organization and if it qualifies, the areas in which sourcing

decision significantly contributes to an organization meeting its strategic objectives. We have attempted to create a base conceptual understanding to further research on this topic. We make four recommendations for future research. These recommendations are equally applicable to both information technology and non-information technology sourcing decisions.

First, future research on sourcing decisions can focus on the strategic impact of such decisions individually on various performance measures such as financial performance, market performance, innovation, organizational learnings, resource capability enhancements and many other performance outcomes of importance to an organization in line with their strategic objective. Second, we recommend research on studying the relationship of sourcing decision on other strategic decisions of the organization due to interdependencies among decisions. Interdependencies among decisions is one of the key characteristics of strategic decisions. Third, recent information technology research efforts are observed to trend more towards emerging technology trends of cloud computing, data analytics, cyber security, internet of things, 5G and other recent developments. We recommend a comprehensive research studying on the influence on these emerging technology trends on the types of sourcing decisions such as outsourcing, different outsourcing variants and insourcing of previous outsourced support operations. Fourth, we recommend research efforts to study in detail on the influence of sourcing decisions on aspects such as organizational learning, managerial capabilities development, and resource cooperation at operational levels while implementing the sourcing decisions.

Limitations

We acknowledge that our narrative literature review method has few limitations. First, we cannot guarantee that our literature review has considered all the relevant articles published on the topic of study over the past years. Second, we acknowledge that the method followed for identification, categorization and codification of the articles could be little subjective. Third, we limited our research on the information technology sourcing decisions and strategic decisions topics covered by the existing literature.

Declaration of Conflicting Interests

No potential conflict of interest for this article.

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Author Biography

Ramesh Babu Chellappan, a Ph.D scholar in Management (Strategy) with Jain University, India, is a Management Researcher and Consultant. He has 20 plus years of professional management experience working with both Multinational Corporates and Startups. His areas of specialization and research interest include Strategic Management, International Business, Decision Sciences, Organizational Change and Transformation, Operations Management and Corporate Governance.

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global retailing behemoth, Wal-Mart Global. His career spanning 32 years is an eclectic mix of 17 years in large well known corporate as well as sunrise sectors like agri-business development, international trading, ecommerce and last 15 years in academia, skill development, coaching and mentoring, entrepreneurial consulting and currently entrepreneurship, family business and sustainability.

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