Chapter VI

Outsourcing Knowledge

Introduction

With changing business environments, the locus of value creation is no longer within the boundaries of a single firm, but occurs instead at the nexus of relationships between parties. With the growing importance of pooling knowledge resources, knowledge management will have to transcend organizational boundaries. Based on current research literature, this chapter develops research propositions to study causal aspects of knowledge management systems supporting IT outsourcing relationships. Perspectives from the research literature applied in this chapter include knowledge transfer, strategic intent, knowledge management technology stages, intangible assets, resource-based theory, vendor value proposition, value shop and knowledge strategy (Gottschalk & Solli-Sæther, 2006).

Research propositions in this chapter suggest that knowledge transfer is the most important knowledge process in an IT outsourcing relationship. Increase in knowledge transfer between vendor and client will improve partnership quality in IT outsourcing relationships; a higher level of strategic intent for IT outsourcing requires a higher stage of knowledge management systems, and vendor and client need to be at the same technology stage of growth to be able to successfully communicate with each other through knowledge management systems.

Furthermore, a codification strategy is more dependent on knowledge management systems than a personalization strategy in knowledge transfer between vendor and client in an IT outsourcing relationship; the external structure is the most important structure for successful knowledge transfer in IT outsourcing relationships. The need

for knowledge management systems in an IT outsourcing relationship increases as vendor and client mobilize strategic resources in their relationship, and the need for knowledge management systems in an IT outsourcing relationship increases as the vendor increases his complementary competencies. Finally, vendor value shop performance in selecting and implementing the best solution for the client is dependent on the extent of client knowledge transfer, and knowledge management systems in outsourcing relationships are less important when the client is an expert-driven business.

With changing business environments, the locus of value creation is no longer within the boundaries of a single firm, but occurs instead at the nexus of relationships between parties (Malhotra et al., 2005). Enterprises have to rely on business partners to share knowledge and continually respond to change. With the growing importance of pooling knowledge resources, knowledge management will have to transcend organizational boundaries to include sourcing partners. However, the focus of previous research studies has mainly been on intra-organizational knowledge management. This chapter attempts to direct the attention of knowledge management researchers toward inter-organizational interfaces.

As mentioned in the previous chapter, several researchers emphasize the important role of knowledge for inter-organizational learning and innovation (e.g., Alard & Holsapple, 2002; Inkpen & Tsang, 2005; Ko et al., 2005; Malhotra et al., 2005; Wasko & Faraj, 2005). Garud and Kumaraswany (2005) argue that knowledge has emerged as a strategically significant resource for the firm. Accordingly, knowledge creation and transfer becomes a key factor to gain and sustain a competitive advantage (Sambamurthy & Subramani, 2005). The main objective of a knowledge management system is to support the creation, transfer and application of knowledge in organizations (Feng et al., 2005).

An IT outsourcing relationship is an inter-organizational arrangement for the exchange of IT services after the transfer of IT assets from the client to the vendor (Koh et al., 2004). In an outsourcing setting, knowledge, which earlier existed internally in an organization, is moved to an external organization (Bahli & Rivard, 2005). Accordingly, changes in the knowledge transfer requirements are viewed as the single most important challenge to knowledge management systems in an outsourcing arrangement. Therefore, the focus of this chapter is how the requirements for knowledge management systems change when an organization has entered into an IT outsourcing relationship with another organization.

This chapter makes an important contribution to the field, as there has been a missing link between know-what and know-how concerning cause and effect relationships between knowledge management systems and IT outsourcing arrangement. Know-what has stressed the importance of knowledge in outsourcing relationships. Knowledge can be descriptive (know-what), procedural (know-how) or reasoning (know-why) (Fahey et al., 2001; Holsapple & Singh, 2000). This chapter makes a

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