

Chapter 7

Knowledge Transfer

In an outsourcing setting we find that knowledge, which earlier existed internally in an organization, is moved to and exchanged with an external organization (Bahli & Rivard, 2005). Therefore, changes in the knowledge transfer requirements are viewed as the single most important challenge to knowledge management and knowledge management systems in an outsourcing arrangement. A relevant approach to outsourcing relationships from the knowledge management literature includes intellectual capital management, as presented in the beginning of this chapter. Then, we continue presenting how knowledge transfer might influence outsourcing success. Finally, clients' and vendors' need for knowledge transfer and knowledge exchange in IT outsourcing relationships is discussed.

INTELLECTUAL CAPITAL MANAGEMENT

In an outsourcing relationship, the vendor will need to manage its intellectual capital so that clients experience efficient and effective knowledge transfers. One of the key authors in the area of intellectual capital is Sveiby (2001) who has developed a knowledge-based theory of the firm to guide in strategy formulation. He distinguished between three families of intangible assets with the outsourcing vendor.

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The *external structure* family consists of relationships with customers and suppliers and the reputation (image) of the firm. Some of these relationships can be converted into legal property such as trademarks and brand names. The value of such assets is primarily influenced by how well the company solves its customers' problems, and there is always an element of uncertainty here. The *internal structure* family consists of patents, concepts, models, and computer and administrative systems. These are created by the employees and are thus generally owned by the organization. The structure is partly independent of individuals and some of it remains even if a large number of the employees leave. The *individual competence* family consists of the competence of the professional staff, the experts, the research and development people, the factory workers, sales and marketing – in short, all those that have a direct contact with customers and whose work are within the business idea.

Competence is a term introduced here. Competence can be defined as the sum of knowledge, skills and abilities at the individual level. With this definition, we say that knowledge is part of competence, and competence is part of intellectual capital.

These three families of intangible resources have slightly different definitions when compared to the capital elements. The external structure seems similar to relational capital; the internal structure seems similar to structural capital, while the individual competence seems similar to human capital. Given three families of intangible assets, it is possible to identify nine knowledge transfers, within a family and between families, as explained by Sveiby (2001):

1. *Knowledge transfers between individuals* concern how to best enable the communication between employees within the organization. The strategic question is: how can we improve the transfer of competence between people in the organization? Activities for intellectual capital management focus on trust building, enabling team activities, induction programs, job rotation and master/apprentice scheme.
2. *Knowledge transfers from individuals to external structure* concern how the organization's employees transfer their knowledge to the outer world. The strategic question is: how can the organization's employees improve the competence of customers, suppliers and other stakeholders? Activities for intellectual capital management focus on enabling the employees to help customers learn about the products, getting rid of red tape, enabling job rotation with customers, holding product seminars and providing customer education.
3. *Knowledge transfers from external structure to individuals* occur when employees learn from customers, suppliers and community feedback through ideas, new experiences and new technical knowledge. The strategic question is: how can the organization's customers, suppliers and other stakeholders improve the competence of the employees? Activities for intellectual capital management focus on creating and maintaining good personal relationships between the organization's own people and the people outside the organization.
4. *Knowledge transfers from competence to internal structure* concern the transformation of human capital into more permanent structural capital through documented work routines, intranets and data repositories. The strategic question is: how can we improve the conversion of individually held competence to systems, tools and templates? Activities for intellectual capital management focus on tools, templates, process and systems so they can be shared more easily and efficiently.
5. *Knowledge transfers from internal structure to individual competence* is the counterpart of the above. Once competence is captured in a system it needs to be made available to other individuals in such a way that they improve their capacity to act. The strategic question is: how can we improve

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