Adopting a knowledge outsourcing strategy

Although there are a great many KM success stories, problems in KM implementation are beginning to receive wider attention. It has been estimated that 84 per cent of KM projects exert no significant impact on the adopting organization. This could be attributed to the failure at some stages of the KM implementation process.

Even with the limited number of published cases of KM failure, a picture of the nature of the problems faced by organizations during KM implementation has begun to emerge:

- lack of clear KM vision and strategy;
- misalignment of KM strategy to business goals;
- absence of a learning culture within the organization;
- no incentives for knowledge creation and reuse;
- negative attitudes towards knowledge sharing;
- absence of continuous top management support;
- technology infrastructure and scalability issues in KM systems; and
- inadequate resourcing.

Significantly, many of these problems can be traced to the internal workings of the organization. For example, the absence of a learning culture and negative attitudes towards knowledge creation and reuse by employees reflect organically-engrained problems that are difficult to be uprooted. These problems could be mitigated if the dysfunctional internal workings of the organization can somehow be dissociated from the KM process. One possible solution is to outsource a part of the KM process to a third-party external to the organization.

Outsourcing concepts

IT outsourcing is a business transaction which involves contracting or selling an organization's IT assets, people and activities to a third party supplier. Several different forms of outsourcing include systems development outsourcing, business process outsourcing, offshoring, service provision and more recently, utility computing. However, the motivations for outsourcing remain largely the same and have traditionally centred on cost reduction although the advantages of outsourcing in terms of access to scarce expertise, faster time to market, and higher quality products and services, are now also being recognized as key drivers.

An organization's decision to outsource must take into account several factors including the strategic value of IT to the organization, its current portfolio of IT projects, and the way in which IT is currently structured within the organization.

With a rapidly expanding outsourcing industry in the 1990s, the scope and nature of outsourcing began to attract more attention. The term “selective outsourcing” has been used to denote the need for companies to properly select and outsource specific IT activities rather than outsource wholesale. Business functions which are differentiators need to be distinguished from those which are more like commodities, making the case that IT functions that support critical differentiators should be kept in-house.
The relationship between client and vendor is seen as a critical determinant of outsourcing success. Clients and vendors often have different perspectives on the same outsourcing relationship, with clients viewing the relationships as hierarchical while vendors view them as a market structure. Trust has also been identified as a key element of outsourcing relationships. There are several factors which influence the efficacy of an outsourcing relationship, particularly at the post-contract stage, including governance, performance management, contract management, working relationship management and knowledge management.

As outsourcing failure becomes more frequent, the risks of outsourcing come under greater scrutiny. Types of outsourcing risk include:

1. possibility of weak management;
2. inexperienced staff
3. business uncertainty;
4. outdated technology skills;
5. endemic uncertainty;
6. hidden costs;
7. lack of organizational learning;
8. loss of innovative capability;
9. dangers of an eternal triangle;
10. technological invisibility; and
11. fuzzy focus.

Hidden costs can be attributed to four main stages of outsourcing, namely:

1. vendor search and contracting;
2. transitioning to the vendor;
3. managing the effort; and
4. transitioning after outsourcing.

The definition of explicit service level agreements (SLAs) is seen as an important component of outsourcing contracts. However, SLAs are often articulated in technical rather than business terms, which can often result in service dissatisfaction from users and customers. Given the long-term nature of outsourcing relationships, contracts need to be sufficiently flexible so that they are able to evolve over time in tandem with changes in business strategy, technology strategy and the marketplace.

More recently, outsourcing has been conceived as a form of strategic partnership, and a way of achieving business transformation. The selection of the right outsourcing partners is therefore a critical process.

There are twelve core capabilities for screening outsourcing vendors, which fall into three groups:

1. Delivery competency – relating to the vendor's ability to respond to the client's operational needs.
2. Relationship competency – relating to the vendor's willingness to align with the client's goals over time.
3. Transformation competency – the ability of the vendor to meet the client's needs for service improvements.

By benchmarking vendor capabilities against an organization's strategic intent, a company can establish outsourcing partnerships that are most likely to succeed in meeting business objectives.

Case study

Fenton University (FU) is a higher-education enterprise privately owned by a consortium of international, research-intensive universities. FU's mission is to create a new kind of learning experience, delivered entirely online and in a flexible manner, which would provide
students with a global classroom where they could interact with other students from all
over the world. So long as students have access to the internet, they would be able to
access the learning resources.

FU offers graduate programmes designed for part-time students who are in full-time
employment. FU began offering its first full programme, the MBA, in July 2003, and a
Masters in Information Systems Management in 2005. To date, FU has attracted over one
thousand students residing in more than 50 different countries.

Online courseware development

Students are granted access to FU's online course via the internet. The online courseware
comprises course notes and graphics in webpage format, teaching cases in PDF format
drawn from sources such as Harvard and Ivey Business Schools, and interactive exercises
and animations in Flash format embedded within webpages.

The project manager and Instructional Design (ID) team are directly employed by FU.
However, the content author, content reviewer and QAS serve as external experts who
provide specific services to FU on a contractual basis. The process of online courseware
development is a lengthy one, typically lasting between eight to 12 months, and involves
several steps and iterations.

Benefits and suitability of KO

FU could not have achieved the rapid pace of online courseware development in the three
year period without adopting a KO strategy. Through KO, FU is able to:

• gain access to a pool of academic expertise on a flexible basis;
• develop a large amount of online courseware without the financial burden of hiring
a large full-time faculty; and
• reduce the time-to-market of FU's programmes since multiple online courseware
can be developed in parallel.

The secondary benefits of KO include better financial management for the institution, a
scalable workforce and the ability to develop materials with an international flavour through
the use of content author and content reviewers from around the world. This does not
necessarily mean, however, that KO is suitable in all organizational settings. The
conditions under which KO might be considered a favourable KM strategy are as follows:

• lack of in-house expertise, or unavailability of in-house experts;
• availability of external knowledge providers who are able to satisfy an organization's
knowledge needs; and
• a favourable business case in which the cost-benefit of KO is positive in light other
available alternative options.

Consequently, there are several implications for organizations that are planning KM
initiatives which may lead them towards adopting KO. First, organizations need to assess
the resource implications of any KM initiatives, and the likely impact of such initiatives on
employees who may already be inundated with work. Second is the availability of external
knowledge providers. The more specialized and proprietary an organization's knowledge
needs are, the more difficult it may be to locate appropriate external knowledge providers.
The "market" for knowledge is not new – consultancy firms, for example, are essentially in
the business of providing knowledge services although they are rarely considered as an
integral part of an organization's KM initiative. Academic institutions could also serve as
potential external knowledge providers. Third is the assessment of the cost-benefit of KO.
The costs associated with KO not only include the obvious costs of paying the knowledge
provider, but also the ongoing costs of managing the KO relationship with the knowledge
provider. KO costs must be compared with the costs of using internal resources to create
knowledge assets.
Knowledge insourcing v. outsourcing

Mentioned earlier, the processes in KM implementation follow a general pattern of:

- creating and capturing knowledge;
- packaging knowledge in a way that allows it to be reused by others; and
- distributing knowledge.

KO does not fundamentally alter this process, but it does have particular significance, particularly in the way an organization creates and captures knowledge.

Organizations are essentially faced with a choice between knowledge insourcing and knowledge outsourcing. In knowledge insourcing, employees might contribute tips to a lessons learnt database or share work experiences by participating in a discussion forum on the Intranet. Such knowledge is often highly contextual to the products and services offered by the organization, its organizational structure, or business processes. In addition, such knowledge is typically broad-based, where employees have wide latitude to contribute knowledge related to a whole range of problems within the organization.

Knowledge outsourcing on the other hand takes place when knowledge is generated by providers external to the organization, typically under some specific contractual arrangement. Such knowledge tends to be less contextual and proprietary in nature and can be produced without significant prior knowledge about the organization’s setting or its internal workings. However, such knowledge also tends to be more narrowly focused and specific to a problem area.

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