

Knowledge transfer and organizational learning in IS offshore sourcing

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Abstract

Offshore sourcing is the trend where companies look for cheaper offshore resource options to reduce their baseline costs. This involves the retrenchment of more expensive onshore resources to be replaced with cheaper offshore resources. A key activity is the transfer of knowledge from the onshore resources to the offshore resources. This paper is written from an organizational learning perspective, looking at how a global IS department in a multinational bank went about transferring its business application support and development experiences to another insourced location. Specifically, we examine how knowledge is transferred for the five IS body of knowledge (BOK) areas, namely, technology, application domain, IS application, organizational and IS development process knowledge. We find that whilst some areas of the IS BOK are easily grafted, some require intense vicarious and experiential learning using rich media, whilst others are more difficult to transfer. The findings extend the literature on knowledge transfer and organizational learning in the context of the IS BOK.

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1. Introduction

A study by A.T. Kearney Inc, a management-consulting firm, cites that “U.S. financial companies plan to move more than 500,000 jobs to other countries, cutting operating costs by more than \$30 million”. A company looking towards cheaper offshore locations for their sourcing requirements is a new phenomenon motivated by a company’s need to cut costs. In a survey done by Deloitte Consulting Pte. Ltd. [1], they revealed that the world’s top 100 financial service providers have plans to relocate operations offshore, translating into

a bottom line annual cost savings of US\$138 billion or US\$1.4 billion each by 2008. British Airways found that it saves nearly US\$23 million a year for every 1000 jobs it relocates to India [2].

Due to pressures on the organization’s cost base and shortage of onshore skilled resources [3–5], two options are available—outsourcing offshore and/or insourcing offshore. Outsourcing is the process of turning over part or all of an organization’s functions to external service providers so as to achieve economic, technological and strategic advantages [6]. Insourcing, on the other hand, includes in-house capabilities as well as contracts that call for the market to provide resources, but with the premise that it is under the buyer’s management and control [7]. Outsourcing and insourcing are not new

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phenomena [8,9], but looking offshore for a cheaper source has been gaining momentum in the 2000s as organizations look towards resource costs arbitrage. In the 1990s, this could have been another instance of globalization, where companies decide where to grow and place their new jobs. But in the 2000s after the dotcom-bubble burst, companies were replacing more expensive onshore resources with cheaper offshore resources. This replacement maybe as high as 65% of a whole department, as in the case that we have studied.

Depending on the knowledge content of the job being replaced, successful knowledge transfer from the onshore to the offshore resource is vital. Particularly in the area of IS technology support and development, there is a need for the offshore staff to acquire and master existing knowledge on the application quickly, to get quick access to domain knowledge for which the software is being developed and to know “who knows what” so as to tap onto this knowledge. Knowledge transfer has been described as a process where information and skills between entities are systematically exchanged [10]. There are individual and collective knowledge [11] that must be transferred from the onshore staff to the offshore staff. Tacit knowledge [12], with its personal quality and stickiness [13], is harder to formalize and communicate as it is deeply rooted in action, commitment and involvement in a specific context. It is also locally specific and harder to gain access to from a distance [14]. The offshore organization has to rapidly learn and apply all the knowledge that the onshore resource has accumulated over the years, in a rather short project time frame of three to 6 months. As we see more companies moving towards offshore locations, the knowledge that cannot be transferred will be lost. This case study looks at how the IS department of a multinational bank—who insourced more than 65% of its work to two offshore locations—went about transferring its business application knowledge.

Using an organizational learning lens, this paper aims to study how an IS (business application) technology department in a multinational bank went about transferring knowledge from the onshore location to the offshore location. The two research questions are: given the short time frame of three to 6 months, how did the organization manage the learning experience of transferring the majority of its application support and development knowledge across countries and what were the learning processes involved that enabled successful massive knowledge transfer from onshore to offshore teams.

This case contributes to the understanding of how IS technology knowledge is transferred and learnt in

an offshore insourcing scenario. It also extends the understanding of the IS body of knowledge (BOK) [15] from an organizational learning and knowledge transfer perspective. In the next section, a literature review on knowledge transfer and organizational learning will be presented. This is followed by the case description and its findings. We then conclude and suggest implications of our study.

2. Literature review

In outsourcing articles, there is frequent focus on transfer of assets, in particular, staff [16]. Although this is common, it is however not an essential part of outsourcing [17]. Transferring staff into the outsourcing organization does however solve a major issue, namely, transferring the knowledge inherent in the in-house staff to the external staff. However, in the case of offshore sourcing, the transfer of staff is unlikely. Onshore staff typically will not accept a lower salary or being relocated offshore. In a field study on the transfer of knowledge from one manufacturing establishment to another within the same organization, Galbraith [18] provided quantitative evidence that out of the 32 attempts of knowledge transfer, 10 of them failed and were terminated. Of the 22 remaining attempts, there was a mean productivity loss of 34%. The tacit property of knowledge is often singled out as a core attribute of knowledge with respect to its transferability [11]. Therefore, if an organization wants to capitalize on the low labour cost in offshore locations, it must understand how to facilitate knowledge transfer successfully so as to minimize knowledge and productivity loss of the offshore staff.

Knowledge transfer has been studied in a variety of hybrid modes of governance, namely, within a single company [19–21], alliances, joint ventures, licensing arrangements, independent firms and mergers and acquisitions [22]. However, the literature review revealed little research directed at knowledge transfer in an offshore sourcing phenomenon in an IS context, where the bulk of onshore staff are replaced with offshore resources, resulting in knowledge loss.

There are three dimensions of knowledge, as conceptualized by Winter [23] and further expanded by Garud and Nayyar [24]. They are simple versus complex, explicit versus tacit, and independent versus systemic. Winter [23] considered each dimension to be a continuum along which knowledge could be located, with each dimension evoking different issues in the transfer process with different amounts and nature of information required to describe it. The three dimensions of knowledge can be conceptualized in De Long and Fahey's

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