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Does it Matter the Loss of Tacit Knowledge in IT Outsourcing? A study in a Swedish Governmental Agency

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Abstract

There is an extensive scientific research on the disadvantages of losing competencies in IT Outsourcing (ITO). In this study we have looked exclusively at "tacit" knowledge (knowledge that is hard to transfer to another person practically or in writing) and a analyzed the skill lose in ITO in a medium-sized, governmental agency in Sweden. The tacit knowledge of the primary processes and how the information systems are used in the organization, are considered to have significant value for ITO decisions. The research problem is the lack of knowledge about how loss of tacit knowledge influences ITO. To address the problem a case study research has been used as research method and the data was collected through interviews with decision makers in a Swedish governmental agency in the process of outsourcing their IT. The study has found a few justifications for keeping tacit knowledge of secondary processes in-house, only in organizations with a high uncertainty. In fact, for highly specified primary processes, it is of advantage to keep tacit knowledge in-house. Otherwise, the focus should be on standardization and the use of best practices. The results of this research could provide guidelines to IT managers of other governmental agencies in Sweden that are having a similar organization size.

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1. Introduction

Information Technology Outsourcing (ITO) is defined by Leimeister [1, pp. 20-21] as “handing over to one or more third party vendors (i.e., legally independent) the provision of some or all of an organization’s IS functions such as, e.g., IT assets, activities, people, processes, or services for a contractually agreed monetary fee and period of time”. Nowadays, IT outsourcing is a business strategy for many companies and will continue to increase in the near future. According to a study done in 2016 by [2] 45% of the companies in Sweden want to outsource more and only 6% of the companies wish to outsource less. The study done by [2] has examined 1000 outsourcing contracts of companies from Nordic Countries and has found that in Sweden access to resources is a great motivator to cost savings and that the business transformation is the fastest growing motivator. According to Bona [3] the outsourced service is often more efficient, but then, the providers need to make a profit too; which means that saving money will not be always a successful option. Among other main drivers for ITO apart from cost reductions, is the ease of covering special competencies and the ability to focus on the core business. In fact, the Swedish authorities encourage ITO as long as the data security is not compromised. No official statistics has been found about how many Swedish governmental agencies are outsourcing IT but most of the larger authorities in Sweden have considered IT outsourcing for their IT infrastructure. As we have noticed, covering special competences are also a very important driver for ITO. Therefore, this research has looked to find if the loss of tacit knowledge matters in ITO. Researchers like [4], [5], [6], [7], [8] have performed studies in the field of tacit knowledge and the ITO context. However, none of them has described the decision process regarding tacit knowledge in ITO using transaction cost theory in the case of a governmental agency. This study aims to fill this gap. In this study, we are considering the issue of security of critical nationwide data, confidence in the authority and problems raised by recall and transfer of data between the provider of IT services and the client that in our case is a Swedish governmental agency through the loss of tacit knowledge. The research problem to address in this study is the lack of knowledge about the loss of tacit knowledge (caused by ITO) in a Swedish governmental agency that impacts their business success. To address this problem and get a better understanding of the consequences of losing tacit knowledge in ITO, the following research question has been raised: “What considerations should be taken regarding the tacit knowledge, held by the personnel, by outsourcing IT“. In the following sections of the paper is presented the research background, research methodology, results, discussion and conclusions.

2. Research Background

2.1. Knowledge Management

Research in knowledge management can be dated first to the beginning of 1990, as observed by Serenko [9] in 2010. Chaparral Steel was one of the first companies to employ a knowledge-focused management. They introduced the new management in 1975 [10]. The importance of managing knowledge to improve an organizations’ competitive edge, was seldom used until the mid-1980s. By then, articles and reports about knowledge management started to be publicly available [10]. In 1990, Prahalad and Hamel [11] called the attention to the value for an organization of looking beyond the traditionally independent, strategical business units. Instead, the competitive organization should focus on building competencies and use them as efficiently as possible. In their study, Prahalad and Hamel [11] compare the employees’ knowledge with the funds of a firm: “The benefits of competencies, like the benefits of the money supply, depend on the velocity of their circulation as well as on the size of the stock a company holds”. The intangible nature of knowledge makes its classification very complicated. Instead of discussing in philosophical terms, a pragmatic definition of knowledge is proposed by Kjellin [12] when he compares knowledge and information. He argues that: ”The main difference between information and knowledge is that knowledge describes a way to reach a goal“ [12]. Information here is considered rather passive, whilst knowledge is active within a context and a connected purpose. There are two types of knowledge: tacit and explicit [13]. What in the everyday speech is called "know how" is considered as being tacit; on the other hand, "knowing- about" is regarded to be explicit. The different knowledge