Chapter 3
The Knowledge and Learning Potential of Outsourcing

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ABSTRACT

This chapter consists of a review of 42 refereed articles on outsourcing in relation to knowledge management and learning. Among the knowledge and learning potentials of outsourcing in organisations are to focus on core competencies, organisational learning, shorten production cycles, improve quality, and enhance innovation. Outsourcing can also have negative outcomes, such as knowledge loss, competences drainage, organisational learning problems, diminished trust, poorer services, hidden cost, and reduction in innovation. The findings of the review were summarised in a number of hypotheses and two conceptual models that highlight the contribution of outsourcing to either competitive advantage or disadvantage. The chapter can assist managers to seek competitive advantages out of outsourcing of activities while avoiding detrimental outsourcing effects.

INTRODUCTION

Outsourcing of manufacturing and service activities is an accelerating trend (Bustinza et al., 2010; Iqbal and Dad, 2013; Kumar et al., 2010). Outsourcing usually refers to a process of transferring certain activities of a firm to third party providers within

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a country or offshore location (Iqbal and Dad, 2013). According to the literature, frequent rationality for outsourcing is cost reduction, such as labour costs, less-restrictive work rules abroad, transport, travel, reduced capital expenditure, cheaper raw materials, and other costs. This also refers to indirect costs which might be decreased, for example by reducing staff, simplifying infrastructure, and applying stricter cost control (see Kremic et al., 2006; Lacity et al., 2008; Di Gregorio et al., 2009; Quinn, 1999; van Gorp et al., 2007). Cost driven outsourcing is relevant to transaction cost economics (Williamson, 1979) which focuses on the costs related to monitoring performance, managing contractual obligations, and supervising staff. As a result of specialization and economy of scale, outsourcing can earn a company sufficient savings to perform business functions more economically than other companies carrying out the same functions.

Another reason for outsourcing is more strategic in nature. Here the focus is on the core competencies of organisations other firms have difficulty in copying. This direction is due to the intense competition which forces organisations to reassess and redirect their scarce resources towards their core business functions in order to enable them to expand successfully to worldwide reach. The emphasis on a strategy-driven outsourcing model is linked to the resource-based view of the firm. This examines those resources and capabilities of companies that enable them to generate above-normal rates of return, as well as a sustainable competitive advantage (Barney, 2001). Rare and precious resources, not easily copied, are regarded as core competencies. Such resources should be supported, while others are considered more suitable for outsourcing (Barney, 1991). Quinn (1999) maintains that these critical resources or capabilities tend to be knowledge-based service activities or systems at which the company excels and which are of particular importance to the customers. Another widely cited rationale for outsourcing is to gain access to unique resources, skills, talents, and capabilities possessed by other firms, such as the latest technology and infrastructure. Greater flexibility in managing demand swings, and reducing company risk by sharing it with suppliers are also mentioned as motives for outsourcing (see Kremic et al., 2006; Di Gregorio et al., 2009; Lacity et al., 2008; Quinn, 1999; Tam et al., 2007; Vietor and Veytsman, 2005).

The decisions behind outsourcing tend to change the value chain, production processes, and organisational design. Alterations in the production process or the organisation of a business, in which other actors take part, can result in both new challenges and novel opportunities. Although the outsourcing process has been extensively studied (see Edvardsson and Durst, 2014; Iqbal and Dad, 2013; Lacity et al., 2011; Williams and Durst, 2018), there is still only a limited body of knowledge on the consequences of outsourcing on corporate knowledge management and organisational learning.
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