Chapter 11
Managing the Risk of Knowledge Transfer in Outsourcing Organizations

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ABSTRACT
The rhetoric of outsourcing as well as the importance of organizational knowledge have both been popular issues thoroughly examined in contemporary business literature. Still, combinatory studies on the effects of outsourcing, positive or negative, on the creation and maintenance of organizational knowledge and the related risks and consequences of outsourcing, remain scarce. Given the popularity of both fields of organizational analysis we consider the lacking of combinatory studies as striking. In this paper, we present the findings drawn on a multiple case study analysis of four medium size pharmaceutical companies, all of them having implemented outsourcing strategies. The chapter attempts a categorization of risk sources during the outsourcing initiative, proposes mitigating actions and organizes the findings of the research on the case companies by proposing a model of ‘vicious cycle’ suggesting that outsourcing, if not managed successfully, eventually leads to the addiction of the organization to ‘buy’ expertise and knowledge in spite of knowledge acquisition. While we identify the conflicting strategies and rhetoric, we also attempt to come up with a set of guidelines, which could help organizations avoid the knowledge negative side effects of outsourcing.

BACKGROUND
It was the early 80’s when outsourcing began to receive significant attention by both the research community and industry practice as a result of a management switch of focus towards vertical disintegration. After a long lasting period of management literature exploring vertical integration (Bain, 1968; Williamson, 1975; Harringan, 1984,1986; Grossman & Heart, 1986) the merits of ‘buy’ rather than ‘make’ started to gain increasing interest. Williamson (1975) heralded the trend towards vertical disintegration, followed by authors such as Walker and Weber (1984), Kumpe and...

Since then and till now, outsourcing has gained exponential growth of the scientific interest. As argued in Johnson (1997:4-6), the term ‘outsourcing’ can be considered as a big umbrella covering all forms of contracted work provided by outsiders and implies all forms of assigning work to outsiders such are formal outsourcing, out-tasking and sub-contracting. The use of outsourcing has been constantly increasing in the last decades (Hendry, 1995; Takeishi, 2002), especially in terms of outsourcing IT functions (Quinn, 1992), logistics, financial auditing, consulting and human resources management (Vanson, 2001). Busi and McIvor (2008) in their efforts to set the outsourcing research agenda attempted to scan the Internet and the ISI Web Of Knowledge database for instances of the term outsourcing and compare these numbers with those returned from a query of both sources on the term ‘Supply Chain Management’. Though, they admit this is not a scientifically sound approach, they believe that their results provide a valuable insight into the interest outsourcing has generated in the ‘real world’ as opposed to that which has generated in the scientific world, and the imbalance existing between research-led and industry-led contributions in the literature in this area. Their main arguments to support their approach was that WWW can be considered as a digital representation of real world trends while ISI Web of Knowledge is one of the most comprehensive databases of scientific articles. To update their argument we ran a quick scan of internet sources using Google, Google Scholar and ISI Web of knowledge which returned approximately 32,000,000, 261,000 and 2,700 results respectively. These updated figures confirm the gap between practice and theory in favour of practice; still they narrow its breadth by including Google Scholar a far less discriminating scientific database than ISI Web of Knowledge.

Despite the wide spread of the outsourcing concept in contemporary literature, Gilley and Rasheed (2000) argue that there is still much debate on the concept’s definition. According to Embleton & Wright, (1998), outsourcing is the use of outsiders and contracted work or the use of an external agent’s services in order to fulfil operations that should normally take place ‘in-house’. In Harland et al., (2005) a broad definition is used, inspired by Gilley and Rasheed who argue that outsourcing is the act of procuring something that was either originally sourced internally or could have been sourced internally notwithstanding the decision to go outside. This includes arrangements and concepts such as contracting out, subcontracting, make or buy etc. In this chapter, we will use the generic definition of Power et al., (2006) who argue that outsourcing is made up of two words, ‘out’ and ‘sourcing’, where sourcing refers to the act of transferring work, responsibilities and decision rights to someone else. Thus, outsourcing is the act of transferring work, responsibilities and decision rights to an entity outside the enterprise.

Summarizing the key elements from literature (Johnson, 1997; Hendry, 1995; Yakhlef, 2002) we would argue that outsourcing has the following characteristics: it is considered as a management tool, it places an emphasis on what is to be done rather than how it will be done, work takes places mainly or entirely off site, supplier provides all resources and the employee relations are managed by the supplier. It therefore becomes arguable that outsourcing is mainly based on contractual agreements and does not qualify as strong synergistic relationships which evolve into dynamic and strong ties among organizations (in the Nohria & Eccles, 1991 sense). On the contrary outsourcing should be mainly seen as a client-customer relationship where the mutual short-term satisfaction of both parties is essential (Johnson, 1997:}
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