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THE IMPACT OF INFORMATION SYSTEMS OUTSOURCING ON INTERNAL AND EXTERNAL FIRM KNOWLEDGE

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Abstract

The impact of information systems outsourcing on knowledge created within or between firms may be affected by the strategic value of assets outsourced, the number and effectiveness of communication channels between firms, and the embeddedness of firm specific knowledge in the processes or personnel outsourced.

Many benefits of outsourcing are inextricably linked to management's capability to manage knowledge within their organization and with the outsourcing vendor. Within the information systems outsourcing literature, I find a greater emphasis on losing knowledge rather than using outsourcing as a vehicle to gain knowledge. I identify four assumptions about knowledge that must occur for many benefits of outsourcing to be realized. These four types of assumptions are knowledge retention, redirection, application, and integration. Knowledge retention is the assumption that a firm will not have to expend additional resources to rebuild knowledge lost through outsourcing, but will retain sufficient knowledge within the firm. Knowledge redirection is the assumption that the knowledge resources retained can be redirected to core missions. Knowledge application is the assumption that managers of a firm can apply the skills, capabilities, or know-how of a vendor to their business. Knowledge integration is the assumption that the firm and vendor managers can create jointly new knowledge to be applied to either the firm or vendor's business. Hence, managers may need to consider not just the mitigation of losing firm knowledge but also how to retain, redirect, apply or integrate knowledge.

The strategic alliance literature considers the resource and knowledge-based views of the firm, suggesting inter-firm alliances are created to access knowledge from one another. Using insights from strategic alliance literature and the concept of absorptive capacity, I develop five propositions about the impact of information systems outsourcing on the ability to create knowledge inside and outside the firm.

Keywords: Information systems outsourcing, knowledge management, strategic alliances, knowledge-based theory