

2005

Interorganizational Knowledge Management in a BPO

Diswadip Ghosh

University of Colorado at Denver, bghosh@yahoo.com

Judy Scott

University of Colorado at Denver, judy.scott@ucdenver.edu

Follow this and additional works at: <http://aisel.aisnet.org/amcis2005>

Recommended Citation

Ghosh, Diswadip and Scott, Judy, "Interorganizational Knowledge Management in a BPO" (2005). *AMCIS 2005 Proceedings*. 338.
<http://aisel.aisnet.org/amcis2005/338>

This material is brought to you by the Americas Conference on Information Systems (AMCIS) at AIS Electronic Library (AISeL). It has been accepted for inclusion in AMCIS 2005 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact elibrary@aisnet.org.

Interorganizational Knowledge Management in a BPO

Biswadip Ghosh

University of Colorado - Denver

bghosh@yahoo.com

Judy E. Scott

University of Colorado - Denver

judy.scott@cudenver.edu

ABSTRACT

Organizations are pursuing the outsourcing of business processes (BPO) to offshore locations. However, current research has shown that an organizational learning gap between the client and vendor organizations leads to less than expected benefits. While networking and other distributed technologies provide a foundation for outsourcing, knowledge management (KM) can be used to bridge these gaps in BPO relationships. This exploratory research uses case studies to identify KM practices being used in BPO to build theoretical guidelines for the optimal KM focus area given combinations of BPO strategy and management models. The preliminary results indicate that the KM focus needs to shift from emphasizing structural capital towards a focus on customer or human capital as the BPO strategy becomes more core to the client's value chain and the management model becomes partnership oriented. The results have implications for applying KM to increase BPO effectiveness.

Keywords

Knowledge Management, Business Process Outsourcing.

INTRODUCTION

The concept of transferring the operational ownership and execution of one or more business processes is referred to as BPO. Examples of BPO are seen in several industries including finance, healthcare, technical support, etc. Both core and supporting (non core) processes in a client firm's value chain are being outsourced to offshore vendors. The offshore BPO market is the fastest growing segment of the overall IT outsourcing market and is projected to grow 60% year over year (Trapper, 2003).

Current reports from actual outsourcing case studies indicate that many organizational goals remain unfulfilled. Lacity and Willcocks (1998) found that the risks of an outsourcing effort can be significant. The study reported that only 54% of the outsourcing agreements that they surveyed realized cost savings. A survey of a subset of firms that have undertaken BPO activities suggest several concerns related to outsourcing to offshore vendors (Trapper, 2003). These concerns include: (i) fear of loss of control, (ii) fear of reduced service levels, (iii) perceived inflexibility/lack of responsiveness (iv) inadequate outsourcer knowledge of client's business, (v) organizational mismatch between client and vendor and (vi) lack of transparency into the details of the outsourcing contract.

While the risks and challenges are significant in an offshore outsourcing relationship, management practices can play a major role to improve the effectiveness of these arrangements (Willcocks, Lacity, and Kern, 1999). Using case studies, Rottman and Lacity (2004) identified 20 best practices that can be used to overcome the difficulties. While this study did not specifically study KM practices, yet KM initiatives such as balanced scorecard metrics, real time dashboards and identifying subject matter experts were part of the list of 20. Therefore, a more detailed study of KM practices in BPO is much needed.

RESEARCH GOALS

KM has been at the foundation of interorganizational learning, such as evidenced by the KM practices in the disk drive industry (Scott, 2000). Therefore the goals of this study are to identify specific KM practices that can be applied to offshore BPO scenarios to improve effectiveness. Specifically, this research will

1. List the challenges faced by client firms in a BPO and identify any KM practices that are being used.
2. Categorize the KM practices by their focus on human/customer/structural capital.
3. Perform cluster analysis to plot KM practices versus BPO strategy and management models.

4. Predict an optimal KM focus based on the BPO strategy and management models employed in the BPO.
5. Develop recommendations for specific KM practices to follow and the optimal KM focus to adopt based on the firm's BPO strategy and their BPO management model.

INTERORGANIZATIONAL KNOWLEDGE MANAGEMENT

Information Technology has been a strong foundation of offshore outsourcing. Technologies like voice over IP (VoIP), broadband networks and distributed application environments have furthered the concept of technology driven outsourcing (Sambamurthy, et. al., 2003). KM systems and practices are used to manage the creation, storing, sharing and reuse of knowledge (Davenport, De Long and Beers, 1998). The use of KM tools and systems such as portals, workflows and data mining can allow knowledge transfer at the strategic and operational levels so desired by the BPO firms. In fact, a study of IT outsourcing by Willcocks, Hindle, Feeny and Lacity (2004) reveals that the prospects for meaningful knowledge management and value creation are quite promising.

Carmel and Agarwal (2002) defined different types of BPO strategies - offshore bystander, offshore experimenter, proactive cost focus using outsourcing of non-core processes and proactive strategic focus with outsourcing of core processes. The client firm's strategy for outsourcing is based on their view of the long term role of BPO Lacity and Willcocks (1998) define different management models being used to manage BPO ranging from strong to weakly coupled models – partnerships, technical supply and pay-per transaction.

Argote (1999) reports that knowledge transfer between organizations are affected by four factors that include the characteristics of the organizations and their relationship, the type of knowledge and the transfer process. Ko, Kirsch and King (2005) found that the more arduous the relationship, the less knowledge transferred, while greater the shared understanding, greater the knowledge transferred. Clearly, the management model selected for the BPO will be governed by the client's BPO strategy. Likewise, the KM focus will depend on the chosen BPO strategy and management model.

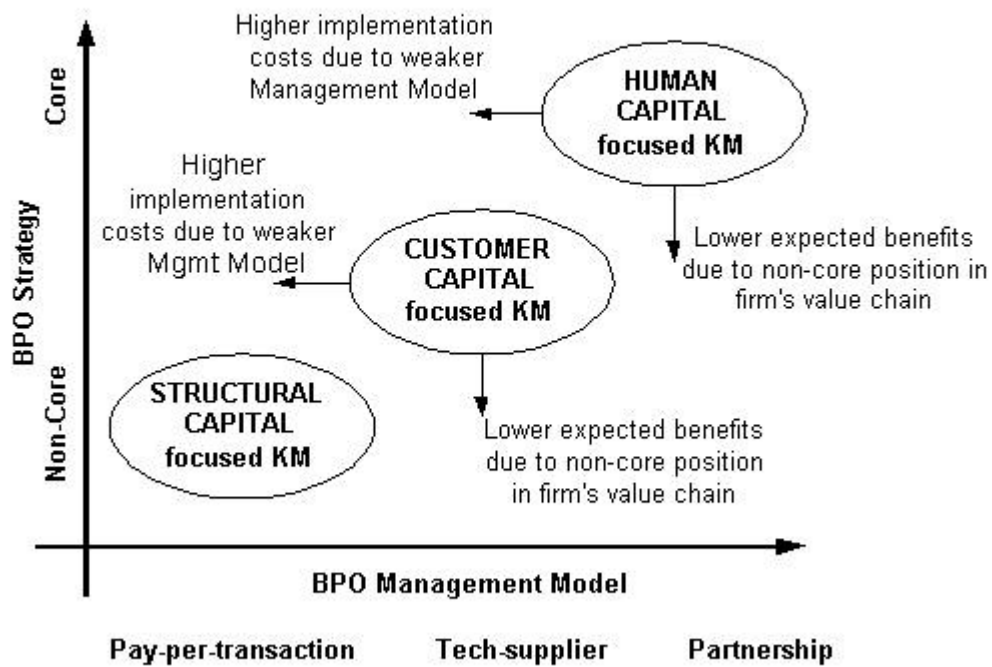


Figure 1. Focus of KM practice based on BPO strategy and management model

Additionally, Malhotra, Gosain and El Sawy (2005) report that supply-chain partners engaged in interlinked processes can achieve rich knowledge exchange. Appropriate inter-organizational partnership configurations need to be implemented to achieve a tradeoff between operational efficiency and knowledge exchange, which is influenced by the closeness of the relationship mechanisms. A modular process approach (e.g. technical supplier, pay-per transaction) leads to more operational knowledge flow; while interlinked processes (e.g. partnerships) require more breadth of knowledge transfer (Bensaou and Venkatraman, 1995).

Stewart (2001) identifies three focus areas for KM practices – (1) structural capital, (2) human capital, and (3) customer capital. The KM practices focused on structural capital allow the subunits of an organization to exchange operational knowledge through established channels that can be easily reconfigured. KM practices focused on human and customer capital require a personalization approach to KM and are needed for creating and harnessing implicit knowledge. The later are more difficult to implement and only produce benefits when paired with a partnership management model.

Structural capital focused KM practices will succeed in a weakly coupled management model, while human and customer focused practices need stronger client vendor partnerships. A human capital focused KM initiative will be expensive to implement when a pay-per transaction management model is in place; resulting in less expected benefits. Likewise, a human capital focused KM initiative may not provide enough benefits to the client firm to justify the implementation costs in a non-core BPO strategy resulting. This is illustrated in Figure 1.

RESEARCH MODEL AND HYPOTHESES

The authors posit that the KM Focus must be matched to the BPO Strategy and BPO Management Model to optimize the BPO KM ROI (return on investment), which is equal to KM benefits minus KM implementation costs. The research model is shown in Figure 2. The BPO strategy impacts the selection of the BPO management model. The combination of the BPO strategy and management models lead to the choice of the optimal KM focus as assessed by the KM ROI. The KM ROI is calculated by taking the difference between KM benefits and KM implementation costs.

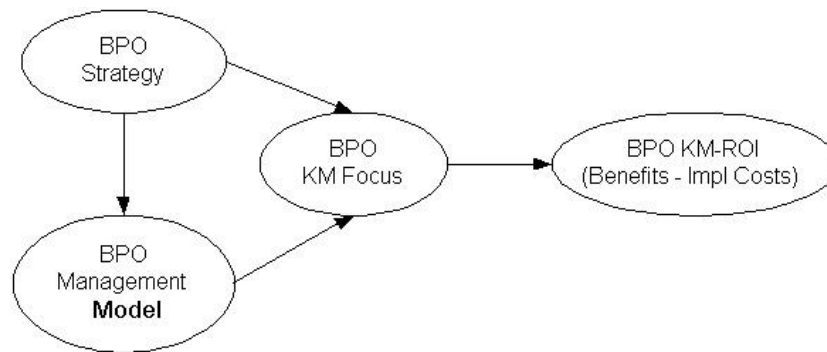


Figure 2. BPO KM Practice Research Model

The hypotheses of this study are:

H1 –Client firms following a core BPO strategy and strong BPO management models must pursue human capital focused KM practices to maximize KM ROI.

H2 –Client firms following a core BPO strategy and weaker BPO management models must pursue customer capital focused KM practices to maximize KM ROI.

H3 –Client firms following a non-core BPO strategy and weaker BPO management models must pursue structural capital focused KM practices to maximize KM ROI.

RESEARCH METHODOLOGY

Case Studies

Case studies of several organizations that have undertaken BPO are being compiled to develop a list of KM practices. The organizations form a convenience sample of contacts from a local IT professional organization. If the contact indicated their involvement with a BPO and willingness to participate in the study, then they were interviewed. The interviews are unstructured, but included some questions as below:

1. What BPO activity is being pursued?
2. What is the BPO strategy and management model?
3. What KM practices are being pursued to improve BPO effectiveness?

Survey

The second part of this research involves collecting empirical data from several additional organizations currently pursuing BPO using a questionnaire. The list of KM practices collected from the case studies will be listed on the survey. The organizations will mark each KM practice they are using in BPO. Additionally, data on the firm's BPO strategy and management model and the benefits and implementation costs of the KM practice will be collected using the survey.

The key BPO knowledge management strategies will be discovered for each BPO configuration using cluster analysis. The BPO configurations are described in two dimensions - BPO strategy and BPO management model. The KM practices will be plotted in a 2D concept mapping space with BPO strategy on the y-axis and the BPO management model on the x-axis. To validate the hypotheses, the plotted KM practices having optimal KM-ROI will show the clustering as illustrated in Figure 1.

CASE STUDY 1 – CORE STRATEGY, PARTNERSHIP MODEL, HUMAN CAPITAL

A technical support organization that outsourced some of their customer support processes was the first case study. The BPO included the front line call receipt, trouble ticket creation and all interactions with the end customer. The organization is following a proactive strategic focus with the outsourcing of core work processes. The management model is a partnership model.

The organization reported a significant product knowledge gap among the employees of the outsourcing vendor and the onshore (U.S.) support associates. The interviewee, an operations manager, noted that this knowledge gap created misunderstanding among end customers, who felt “they were kept in the dark” during significant network outages.

The organization pursued the deployment of KM and text mining to only deliver the knowledge that would be “safe” in the hands of the staff at the BPO vendor. A system was set up to assist the BPO vendor create written and verbal responses to the customer without creating legal disclosure issues. This KM asset falls into the human capital focus area due to its purpose of “enriching” the vendor's operations personnel.

CASE STUDY 2 – CORE STRATEGY, PAY-PER TRANSACTION MODEL, CUSTOMER CAPITAL

A networking product development organization that outsourced the test and product trial management processes was studied. The client firm setup a center of excellence to support their standards testing and management of regional trials in surrounding countries. Goals cited by the client include alleviating cultural issues, time zone differences in running product trials and testing the products closer to their potential installation sites. The organization is following a proactive strategic focus with the outsourcing of core processes and a pay-per transaction management model.

Within weeks of setting up the BPO, the client firm experienced a sharp reduction of customer feedback from the trial sites that were managed by the BPO vendor. The interviewee, a director of product introductions also mentioned that end customers reported missing a direct relationship with the client during the product trial phase.

KM was adopted in the form of a web portal to allow customers to submit feedback to product development and if necessary, setting up a voice call to discuss issues with a product development contact. Clearly this initiative falls in the domain of harnessing customer capital.

CASE STUDY 3 – NON-CORE STRATEGY, TECHNICAL SUPPLIER MODEL, STRUCTURAL CAPITAL

The third study was a software development organization that had outsourced parts of the development of an integrated network management package to an offshore IT outsourcing vendor. The client firm's goals were to be able to utilize the highly specialized expertise of the vendor to help it develop some portions of the software package. However, significant parts of the project are still being developed internally. The interviewed project manager cited the need for coordination among the "onshore" and "offshore" teams. However, the project manager reported a lack of project status availability and crucial coordination information due to the distance of the development teams. The BPO followed an offshore experimenter strategy with a technical supply management model

The manager reported setting up dashboards that allow status to be entered, updated and visible in real time. These KM tools are allowing the exchange of project status among sub teams. This is a KM initiative in structural capital.

DISCUSSION AND ONGOING RESEARCH

The three case studies have grounded the theoretical foundations. Additional case studies are being collected, and then the survey will be formulated and conducted. Contributions of this research will be to identify the KM focus that best matches selected BPO strategy and management models such that KM ROI and BPO effectiveness is optimized. The research will be of interest to KM practitioners and researchers by cataloging a set of KM practices that can address BPO specific organizational issues.

REFERENCES

1. Argote, L. (1999) *Organizational Learning: Creating, Retaining and Transferring Knowledge*, Kluwer Academic Publishers, Boston.
2. Bensaou, M. and Venkatraman, N. (1995) Configurations of Interorganizational Relationships: A Comparison between U.S. and Japanese Automakers, *Management Science*, 41, 9, 1471-1492.
3. Carmel, E. and Agarwal, R. (2002) The Maturation of Offshore Sourcing of Information Technology Work, *MIS Quarterly Executive*, 1, 2, 65-76
4. Davenport, T.H., De Long, D.W. and Beers, M.C. (1998) Successful Knowledge Management Projects, *Sloan Management Review*, 43-57.
5. Ko, D.G., Kirsch, L.J. and King, W.R. (2005) Antecedents of Knowledge Transfer from Consultants to Clients in Enterprise System Implementations, *MIS Quarterly*, 29, 1, 59-85.
6. Lacity, M.C. and Willcocks, L.P. (1998) An Empirical Investigation of Information Technology Sourcing Practices: Lessons from Experience, *MIS Quarterly*, 22, 3, 363-408.
7. Malhotra, A., Gosain, S. and El Sawy, O. (2005) Absorptive Capacity Configurations in Supply Chains: Gearing for Partner-Enabled Market Knowledge Creation, *MIS Quarterly*, 29, 1, 145-187.
8. Rottman, J.W. and Lacity, M.C. (2004) Twenty Practices for Offshore Sourcing, *MIS Quarterly Executive*, 3, 3, 117-130.
9. Sambamurthy, V., A. Bharadwaj, A. and Grover, V. (2003) Shaping Agility Through Digital Options: Reconceptualizing the Role of Information Technology in Contemporary Firms, *MIS Quarterly*, 27, 2, 237-263.
10. Scott, J.E. (2000) Facilitating Interorganizational Learning with Information Technology, *JMIS*, 17, 1, 83-115.
11. Stewart, T. (2001) *The Wealth of Knowledge: Intellectual Capital and the Twenty-First Century Organization*, Nicholas Brealey, London.
12. Tapper, D. (2003) *Worldwide and US IT Outsourcing Services 2004-2008 Forecast*, IDC, document #28975.
13. Willcocks, L.P., Lacity, M.C. and Kern, T. (1999) Risk mitigation in IT outsourcing strategy revisited: longitudinal case research at LISA, *Journal of Strategic IS*, 8, 3, 285-314.
14. Willcocks, L.P., Hindle, J., Feeny, D. and Lacity, M.C. (2004) IT and Business Process Outsourcing: The Knowledge Potential, *Information Systems Management*, 7-15.