MANAGING KNOWLEDGE RESOURCES IN OFFSHORE OUTSOURCING FIRM

Noradiva Hamzah (Corresponding author)
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM, Malaysia
E-mail: adibz@ukm.my

Aini Aman
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM, Malaysia

Ruhanita Maelah
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM, Malaysia

Rozita Amirudin
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 UKM, Malaysia

ABSTRACT

The purpose of this paper is to investigate how offshoring outsourcing company manage its knowledge resources. This study involves in-depth open ended interviews and observations in an offshoring outsourcing support centre in Malaysia. The findings highlights that the firm studied emphasis on internally and externally knowledge in its knowledge acquisition activity, and the knowledge developed is external and informal.

Keywords: knowledge resources, offshoring outsourcing, interviews

INTRODUCTION

The twenty-first century is the century where knowledge has become the pre-eminent economic resources (Stewart, 2002; Grant, 2002; Bukh et al., 2001). Stewart (2002) argues that the knowledge resources have become more important to companies than financial and physical assets. Furthermore he also argues that in order to prosper in this century, new management techniques, new technologies and new strategies are needed to exploit these knowledge resources. Knowledge resources include ideas, practices, talents, skills, know-how, know-what, relationships and innovations (Stewart, 2002) that arise from creation of knowledge-based assets. It is a major challenge to companies nowadays on how to produce and process knowledge. Offshore outsourcing describes the relocation by a company of a business process from one country to another. The reasons why companies would go for offshore are varied. Generally, companies go offshore because the potential cost savings, with rising price of skilled labor locally.

Some companies usually relocate its operational process such as manufacturing or supporting process such as accounting because they want to: control or to reduce costs – they can find cheaper labor with the same level of quality, to improve business focus – by directing a part of the work, company will gain flexibility and is able to focus on its core competencies, to unfulfilled needs – company cannot find what it looking for locally, to manage risk – company does not prepare with a good risk management strategy, thus it needs to hire an expert company, and to hire better employees – being able to contact good professionals. Offshore outsourcing relies heavily on labor and capital. That is how offshore outsourcing effects economies depend on how easily capital and labor can repurpose. Labor mobility also plays a major role, when computers and the internet mode work electronically portable, the forces of free market resulted in a global mobility of work in the services industry. Most theories that argue offshore outsourcing eventually benefits domestics workers assumes that those workers will be able to obtain new jobs, even if they have to obtain employment by down pricing themselves back into the labor market (by accepting lower salaries) or by retraining themselves in a new field. For foreign workers, they will benefit from new jobs and higher wages when the work moves to them.

But, knowledge is created locally where tasks are attended and knowledge might not be developed in a similar way when offshore service context is used to replace a domestic context. Thus, knowledge management is vital in achieving the potential benefits of offshore outsourcing. The major challenge to the offshore outsourcing firms is to produce and to process knowledge. In order to compete, these firms must have the ability to create value, be agile and sensitive to the market. They must have the capacity to retain, develop, organize and utilize their knowledge assets. This study examines on the knowledge management practices at offshore outsourcing support centre in Malaysia. The objective of this study is to investigate how offshoring company manage its knowledge resources. By recognizing that the nature of offshoring company activities rely heavily on its knowledge workers, this study posits that these assets should be managed appropriately in order to generate superior income and achieve strategic competiveness.

LITERATURE REVIEW

The importance of knowledge

Knowledge can be acquired and renewed. Knowledge is difficult to define (Sveiby, 1997), constantly changing (Boisot, 1998; Speigler, 2000) and its effectiveness is difficult to measure in practice (Liebeskind, 1996). According to Jones, Hershes amd Moesel (2003), new knowledge can be derived from a multitude of sources including customers, suppliers, trade organizers and even from a multitude of sources including customers, suppliers, ready organizers and even friendly competitors when possible. Knowledge becomes visible when knowledge workers put into practice lessons learned over time. It is a hidden asset until the knowledge workers release and use it. Knowledge workers carry knowledge as a powerful resource which they posses. According to Bukowitz and William (1999), the knowledge that the workers have or do not have may be precious to the organization.

Lee and Yang (2002) refer knowledge workers as those who posses competitiveness, knowledge and skills for the company. If these workers leave the company, their knowledge will go with them. In this knowledge era, most workers work using their brains and minds rather than their hands (Lee and Yang, 20020. Therefore recruiting knowledge workers is a key activity to a company. It is important to understand how knowledge is formed and how people and organizations learn to use knowledge in a company. There are two type of knowledge: explicit knowledge and tacit knowledge Hall and Andriani, 2002; Kamiki and Mphahlele, 2002). Explicit knowledge is articulated knowledge and it can embodied. This includes the words we speak, the books we read, the reports we write and the data we compile. Meanwhile, tacit knowledge includes the intuition, perspectives, beliefs, and values that people form as the result of their experience (Hall and Andriani, 2002; Kamiki and Mphahlele, 2002; Sveiby, 2001; StOnge, 1996).

According to Choi et al. (2006), due to the growing importance of knowledge as a critical resource, managers need to focus more on how to manage it efficiently. Knowledge can only generate value when it is accessible and utilized, and this can only be achieved through knowledge management.

What is Knowledge management

In this global and knowledge economy era, knowledge is considered to be an important economic resource and is replacing financial and physical capitals (O'Donnell et al., 2003; Usoff, 2002, Choi and Lee, 2002). Therefore, in order to compete, companies must have the ability to exploit and manage knowledge embedded in their companies. The resourced-based view of organizations considers knowledge as part of a company's resources (Marino, 1996; and Grant, 1996). Polanyi (1967) originally identified that there are two types of knowledge: explicit knowledge and tacit knowledge. Generally there are five elements of knowledge management activities; knowledge acquisition, knowledge innovation, knowledge storage, knowledge dissemination and knowledge application (Choi and Lee, 2001).Knowledge acquisition activities are related to the location, creation or discovery of knowledge (Darroch, 2003). According to Lee and Yang (2000), acquisition activities usually take place through scanning, focused search and performance monitoring. Meanwhile, knowledge innovation is the storage where the acquired knowledge is refined and subjected to interpretation. Pentland (1995), argues that knowledge innovation involves developing new content or replacing existing content within the company's tacit and explicit knowledge. Knowledge is innovated through social and collaborative processes and through individual's cognitive processes. According to Nonaka and Takeuchi (1995) there are four modes of knowledge transformation involve in knowledge innovation activities: socialization, internalization, combination, and externalization (Nonaka and Takeuchi, 1995; Nonaka, Reinmoeller and Senoo, 1998; Lee and Yang, 2000).

The socialization mode refers to conversion of tacit knowledge to new tacit knowledge. This mode is usually carried out through social interactions and shared experience among organizational members. Meanwhile the combination mode refers to the creation of new explicit knowledge and synthesizing existing explicit knowledge. The externalization mode refers to converting tacit knowledge to new explicit knowledge. And the internalization mode refers to creation of new tacit knowledge from existing explicit knowledge. All these four modes are highly interdependent and intertwined. Knowledge storage refers to the process of choosing a repository of knowledge once it is acquired and created. Knowledge storage constitutes an important aspect of effective organizational knowledge management), and it includes knowledge residing in various component forms (Stein and Zwass, 1995; Walsh and Ungsan, 1998). .According to Davernport and Prusak (2000), there are three types of knowledge repositories: external knowledge, structural internal knowledge, and informal internal knowledge. Knowledge dissemination activities refer to the storing of the acquired knowledge which is subsequently to be refined by companies' members. This activity can be carried out either by integrative or interactive repository of knowledge. It occurs at various levels: between individuals, from individuals to explicit sources, from individuals to groups, between groups, across groups, and from group to the company (Alavi and Leidner, 2001). Knowledge application is the stage when knowledge is translated into actionable knowledge (Lee and Yang, 2000).

Knowledge management refers to identifying and leveraging the collective knowledge in helping the company to compete (von Krogh, 1998), and most of knowledge management practices have of the three aims: to make knowledge visible and show the role of knowledge in a company, to develop a knowledge-intensive culture by encouraging and aggregating behaviors, and to build a knowledge infrastructure in a company (Davenport and Prusak, 1998). Knowledge management is crucial to increase innovativeness and responsiveness in a company (Hackbarth, 1998). Interestingly, most companies believed that much of the knowledge they needed existed inside the company, but that identifying that knowledge is existed, finding it and leveraging it remained problematic to them (Cranfield University, 1998).

Knowledge management and offshore outsourcing

There is a general lack of substantial and clear indication in the literature regarding the extent of knowledge gain or loss as a result of shoring. By signing or doing off shoring, firms expect to reduce their overall costs, focus on their core competencies and gain superior technical resources. Among all reasons to offshoring, the one that has emerged has the prime reason in recent years is to gain competitive advantage through partnership by sharing information and knowledge (Aubert, Rivard and Poliny, 2004; Barthelemy, 2001). Knowledge sharing among different organizations is not an easy task. According to Nonaka and Takeuchi (1995), knowledge sharing is based on organizational context and thus that knowledge cannot easily be transferred among organizations within different countries, structures and goals. Therefore, for successful knowledge sharing, service receiver and provider should have a clear common vision and goals, as well and belief that their partners will act opportunistically. This may be termed as partnership quality (Lee and Kim, 1999). Another key element of successful knowledge sharing is an organizational ability to learn or acquire the needed knowledge from other organizations.

RESEARCH MODEL

Knowledge embedded assets can only generate value when it is accessible and utilized. Therefore, knowledge management is needed in order to tap, utilize and harness manage these assets (du Plessis, 2005; Choi and Lee, 2002; Mouritsen et al., 2002). An organization's efforts to manage knowledge will lead to a relatively higher business performance (April, 2002; Harrison and Sullivan and Teece, 2000). This study relates the knowledge management to the company success. Zack (1999), noted that it is important to manage knowledge effectively. The state of enterprise knowledge has generally depends on the level and quality of human capital including various networks of experts, formally or informally created throughout the organization. Knowledge-sharing is developed through interplay among them over time and within the context of specific corporate environment.

A good knowledge management is needed in order to optimize value creation. Previous studies found that there is a relationship between knowledge management practices and organizational performance (Zack, McKeen, and Singh, 2009; Choi, Poon and Davis, 2006; and Liu et al., 2004).This study uses five elements of knowledge management activities: knowledge acquisition, knowledge innovation, knowledge storage, knowledge dissemination and knowledge application introduced by Choi and Lee (2001) as a basic in explaining the knowledge management practices in the company studied.

According to Davenport and Prusak (1998), organizational performance of a company will improve through locating and sharing useful knowledge. Zack, McKeen, and Singh, (2009); Choi, Poon and Davis, (2006); and Liu et al., (2004) found that there is a direct relationship between knowledge management and organizational performance. Zack, McKeen, and Singh, (2009) study also found that knowledge management practice has indirect relationship to the financial performance. Meanwhile, study carried out by Tanrivedi (2005) found that knowledge management has a positively relationship to financial performance measure. There are a few studies found that knowledge management has a positive relationship to a non-financial performance measure (Mukherjee et al., 1998; Francisco and Guadamillas, 2002; and Lapre and Wassenhove, 2001).

By recognizing the importance of knowledge resources to a company, this study posits that these resources should be managed appropriately in order to generate superior performance (organizational and financial) and to achieve competitiveness. This study adopted the model introduced by Zack, McKeen, and Singh, (2009), in order to investigate the knowledge management practices in offshore outsourcing company. Figure 1 depicts the research model used in this study.

Figure 1: Knowledge Management Practices Associated with Performance

Knowledge Management Practices	→	Performance
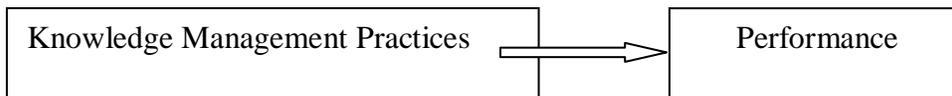
(adopted from Zack, McKeen, and Singh, (2009),

METHODOLOGY

The objective of this study is not to search for a conclusion based on statistical generalizations, but rather, the findings are meant to enhance the understanding of knowledge management practice by Offshoring Companies. Science this area is quite new in Malaysia, case study is the most appropriate method to employ. There has been very little research undertaken on this topic and this study is main exploratory, therefore, this study is carried out through case study approach. This study involves in-depth open ended interviews and observations in an offshoring outsourcing support centre in Malaysia (Alpha). This study interviews key people of the company. There were 10 interviews conducted. This is to provide a deep understanding of the knowledge management practice of Company Alpha. Interviews were semi-structured and were guided by a set of general themes focusing on issues at contact, contract and control stages. Interviews would typically last for around an hour and a half. The interviews were transcribed and coded manually using the categories of the theoretical frame to guide analysis. After transcription of interviews, identification of issues, interpretations and identification of themes were carried out through a process of multiple individual readings of the transcripts followed by intensive periods of discussions between the researchers. These discussions were supported by our reading of relevant literature and understanding of the issues theoretically.

Company Background

Alpha was founded in 2000 with headquarters in London, UK. It had main offices in Atlanta, USA and Kuala Lumpur, Malaysia, and support offices in Sofia, Bulgaria and Bangalore, India. The business model of Alfa consisted of a network of buyers and suppliers. The idea is to streamline the process of Electronic Invoicing. Buyers are receiving invoices and suppliers are sending invoices. In 2010, Alpha had about 80,000 suppliers and 200 buyers globally. Alpha took the supplier's invoices electronically, convert them into a format that can be used to feed data directly into the accounts payable, accounting system of the corporate buyer. Once the corporate buyer agreed and came on board, they would be prepared for technical implementations to make sure that they were ready to receive the invoices. Alfa need to enroll the suppliers of the corporate buyers in the roll out stage. In January 2010, Alpha already had 38 staffs in Malaysia and 300 staffs globally. Alpha Malaysia reported to Alfa in the UK. General Manager of Alfa normally came to Kuala Lumpur once in three months. Alpha Malaysia currently is consisted of several key departments: Sales and Implementation, Mapping, Customer Support, Project Management, Web Development, Web Support,. There were ten staffs on average in each department.

Results

Knowledge management Activities	Practices in the company
a. Knowledge Acquisition	• Feedbacks received from customers were used to enhance the quality of the services provided. • Have program manager to map the customers' needs and requirement. • Company has the central team in London, and this team communicates to various offices globally. And this is the way the company allocates works. • There is also in-house training program for the employees and sometimes staffs are sent to UK or Us for training (external training). • Also provides on-the-job training. • 'orientation of what to expect on the job'.
b. Knowledge Storage	• Have 'general decision guideline'. -database • Have training manual and well documented.
c. Knowledge Dissemination	• Keep a 'sort of open culture'. • Respect all employees and they are free to give view and opinion. • Informal communication through email. • Have weekly group meeting. Have review on the team performance.
d. Knowledge Innovation	• Informal and formal sharing knowledge within group such as weekly meeting and e-mails.
e. Knowledge Application	• Improving quality of services provided.

Table 1 summarises the knowledge management practices of Alpha. For knowledge acquisition activity, this company focuses on extracting knowledge from internal and external resources. The company send its' employees to attend training either at United Kingdom or United States. As quoted by the General Manager, *'generally on-job training, it is done all in-house. Occasionally we will send people on external training..... but we prefer the sort of on-the-job training...'* Usually the training is conducted by headquarter and is attended by members globally. The company also conducted in-house training and normally it is on-job training type. As quoted by the Web Service Manager, *'we do give them some training to get used to our system, what to expect and such...' ' ....we give some sort of orientation. Orientation is done from different department...'* The entire training program is well documented.

The company also gathers new knowledge and ideas from feedback received from customers. All the feedback and suggestion is documented. Feedback and suggestions from customers are used to increase the quality of the services provided. The company also has program manager to map the customers' needs and requirement. This is important in order to ensure that customers' expectations are met. As quoted by the General Manager, *'we are looking to deliver value to both the buyers and suppliers..'* Interestingly the communication between the company and its customers is through telephone communication. As quoted by the Senior Sales Officer, *' ..we will communicate through phone calls and we don't actually meet our customers..'*

This study also found that Alpha rely more on formal internal knowledge. Working teams are highly encouraged to use 'company's General Decision Guideline' in order to fix problems that need immediate action and response. They are not empowered to use their own justifications and knowledge. There are no creativities and innovativeness involved when accomplishing tasks. They have to follow the customers' and suppliers' needs and requests. As quoted by the General Manager, *'...the sales people will help the suppliers to choose which solution, then they get past to implement team and the implementation team will work with them. They will get the files and give to the mapping team and then come back to the implementation team...'* This study also found that group discussions, e-mails and intranet are normally used to disseminate knowledge among the group members. They practice working in teams and this helps to stimulate knowledge innovation through knowledge-sharing among group members. As quoted by the Finance and Human resource Manager, *'guys do work here have a few team. We have sales team, implementation team and mapping team...'* As quoted by Web Service Manager,

'...when we get them to do a task, we will email to the whole group first and let them know how they are going to tackle the task. ..we will see that is they are on the right path, or someone else might contribute to improve or make the task better...' The study also found that Alpha practices interactive approaches where knowledge and information are disseminated through formal and informal channel. As quoted by the General Manager, '*we keep a very sort of open culture and its very much a open model. We will respect you and give you freedom.'.. ' ...make it a good place to work... We are flexible as we can...'* The company also has an informal weakly meeting. As quoted by the Support Manager, *'..,my weekly meeting is a bit different. I will spend half an hour just to chit chat, not doing anything. No review on their performances. ..we just talk about something whatever is happening.. I just want my team can communicate with each other.'*

DISCUSSION AND CONCLUSION

The study found that knowledge acquisition activity in this company is externally and internally focus. According to Holsapple and Joshi, (2002), external sources include customers, competitors, suppliers, consultant and other third parties. For this company, it relies heavily on its customers and the relationship between the two is quite closed. But, interestingly, according to the interview with the General Manager, they never meet their customers. All communications are trough telephone. The internal sources are from the training organized in-house and also training organized by headquarters at UK and partners at US. There is not much environmental scanning activities carried out to acquire external knowledge. The evidence obtained indicates that the knowledge acquisition activity in this company is directed largely towards the search for customers' satisfactions and requirements. This company always search for customer preferences and ensure that its services are in line with the customers' needs and expectations. For knowledge storage activity, evidence obtained in this study reveals that the knowledge developed is external and informal. It does not put emphasis on developing individual knowledge. The knowledge developed through thee training is related to their tasks. The evidence from this study also indicated that there is not much opportunity given to the employees to increase their skills and knowledge.

For example, the in-house training program focuses only on the knowledge specific related to their jobs. Knowledge (such as trainings and General Decision Guideline) are formally documented and subsequently heavily used as the main reference. The trainings and General Decision Guideline are used in order to ensure consistency over time.

According to Rogers (2000), sharing knowledge can create synergy, productivity and increase efficiency. The evidence from the case studied indicates that this company employs more interactive application repository tacit knowledge. Tacit knowledge is acquired by experience, by learning and by doing (Hall and Adriani, 2000). However, there are not much 'live' interactions practices in Alpha. The informal communication is only through communication and weekly group meetings. The weekly meetings are conducted mainly to deliver information about the progress of work and some of the knowledge is available upon request.

The evidence from the study reveals that knowledge innovation activity in Alpha is conducted through the process of socialization and internalization of tacit knowledge. The socialization process takes place when employees share experiences and knowledge through teamwork and on-the-job-training. The internalization process takes place through learning by doing. For knowledge innovation activity, this company practices a lot of combination process where knowledge is combined through meetings, e-mails and telephone conversation. For the knowledge application activity, this company focuses more towards improving quality of services provided. This company builds close relationship with its customers and always tries to meet customers' preferences.

This study explained the knowledge management practices in an offshore outsourcing company. Future research could reconfirm these findings and generalize them over population by using large samples. This could be done by using quantitative research and statistical test. Even though this study used model introduced by Zack, McKeen, and Singh, (2009), but this study did not investigate the relationship between Alpha's knowledge management practices and its performance because this study is not to confirm or dispel prior theories.
Top managers in offshore outsourcing companies can use these findings to devise a proper plan to guide the company in managing their knowledge resources. These findings can assist the managers on how they can better leverage their knowledge resources in order to respond successfully to the increasingly competitive environment.

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