

## Outsourcing of knowledge in change and renewal processes

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**Abstract**—This paper is an attempt to present the concept of organizational transformation with the use of the strategic renewal theory oriented towards organizational learning. It is indicated that enterprise renewal processes constitute the basis for organizational changes enabling evolutionary development towards implementing enterprise learning mechanisms. A new aspect occurring in this presentation is the discussion of the benefits which might be brought for the organization by the use of external resources (outsourcing tools) for the purpose of enhancing renewal processes.

### I. INTRODUCTION

IN THE last decades, the dynamics of the turbulence in environmental changes occurs simultaneously with the development of the latest technologies (and in particular along with the considerable acceleration in the development of the digital technologies). Therefore, entrepreneurs are forced to focus their activities on various types of transformations primarily aimed at the organization's keeping pace with the changing environment. One of interesting forms of such transformations of the recent years is the strategic renewal concept [4], [3]. Cognitive components of the strategic renewal concept based on which enterprises strive for transforming into learning organizations are described in the study [14]. The authors additionally point to the possibility to intensify renewal processes by using the knowledge coming from organization's external resources through implementing tools such as outsourcing, and in particular Knowledge Process Outsourcing.

According to Prahalad and Krishnan, “in the new innovation era, it is the capability of introducing and improving flexible transparent business processes allowing continuous changes in selecting resources  $R=G$  in the interest  $N=1$  that will determine the advantage of companies” [12, p. 34] (these principles will be discussed in the further part of the presentation).

For the sake of this idea, organizations should give up storing all needed resources and initiate the implementation of programs for accessing specialized global suppliers, and one of the cheap and effective manners of sharing/using resources is outsourcing.

### II. STRATEGIC RENEWAL IN THE CONTEXT OF THE CLASSICAL THEORY OF CHANGE

Strategic renewal is an interesting concept of evolutionary development of organizations of the recent years, which refers to various aspects of the enterprise's operation. The foundation of renewal is the theory of change but the renewal itself has not been unambiguously defined to date. It is frequently identified with the theory of change in the relevant literature [3, p. 13]. Among the first who made an attempt at distinguishing change from renewal were R. Agarwal and C. Helfat [1, p. 281]. They defined the notion of renewal as “the process, content and effect of transformation or exchange of the characteristics of organization which have a significant impact on long-term operation perspectives.” Following this interpretation, it should be assumed that renewal is a much broader phenomenon than change and refers to the foundations of survival or development of the organization. Change, in turn, is a mere component of renewal [4, p. 33]. Such a viewpoint was adopted also by J. Skalick, who defines strategic renewal as a fundamental change with a broad scope, one being a form of response to fluctuations of the environment and all phenomena inside the organization that decrease its effectiveness level [15, p. 18].

The common plane of change and renewal is their process. While in the case of change its process nature does not arouse doubts, in the case renewal the process aspect is related with elaborating new attributes the significance of which is strategic for the organization [4, p. 35]. However, renewal ought to be understood as a process whereby changes generating qualitatively new bases for implementing modern enterprise development concepts occur.

Both change and renewal are based on a common plane, that is the process. While in the case of change its process nature does not arouse doubts, in the case of renewal the process aspect is related with elaborating new attributes the significance of which is strategic for the organization [4, p. 35]. Renewal ought to be understood as a process whereby changes generating qualitatively new bases for implementing modern enterprise development concepts and innovation occur.

It is indicated that renewal processes cannot be one-time processes in the moment of an organizational crisis but they

should be continuous processes which systematically renew the enterprise by bringing it to the state of equilibrium and at the same time ensuring its development.

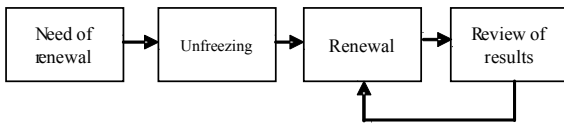


Fig. 1. The model of the infinite renewal process with feedback  
Source: own work

In the ideal renewal model presented in Fig. 1, the once initiated renewal process should last infinitely in the organization. After diagnosing the need of renewal (internal impulse) in the enterprise, the permanent unfreezing stage occurs only once and then the organization becomes a plastic body in the constant unfreezing state. The infinite renewal process begins in this stadium, being interrupted only with the review of results.

A significant complementation of the above model is the aspect of renewal initiation. It is maintained that the initiator of the renewal process should be an impulse coming from inside the organization. Only such a stimulus can be strong and effective enough to commence an effective renewal process. The probability of renewal initiation effectiveness by forces coming from the environment of the organization seems to be negligible since each of such actions will be treated as an obligation rather than as one's own action, which has an advantage in the form of significantly weaker resistance forces than in the case of external initiation from the very beginning.

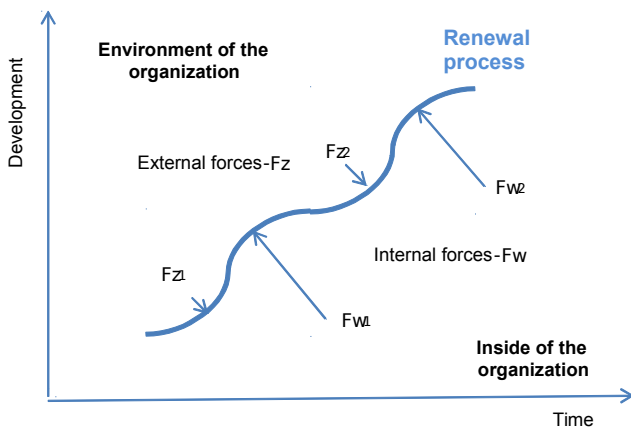


Fig. 2. The renewal process against forces from the inside and the outside of the organization  
Source: own work

When discussing the component of the renewal process initiation from inside the organization, it needs to be indicated that such an impulse is possible only when the organization has reached an appropriate organizational maturity level. In enterprises with no or a low organizational maturity level, the renewal impulse will never occur.

Strategic renewal in the presented model (Figure 1 and 2) is a method of continuous and systematic introduction of changes and of formation of the organization without the necessity to defeat change resistance forces every time. At the same time, it introduces a new quality of the organization's operation. Renewal imposed by an internal impulse becomes the property of the organization's members. Introducing innovative solutions seems to be difficult without renewal, and even impossible in numerous cases.

### III. MECHANISMS OF ORGANIZATIONAL LEARNING OF ENTERPRISES AS THE RENEWAL PROCESS

Information and knowledge are currently the basic resources in the micro- and macro-economic approach. The speed of obtaining information and the ability to learn fast are among the main factors ensuring competitive advantage. The above principles are used by the learning organization concept. Learning organizations broaden their creative capacities such that they can create their future effectively. Working in such organizations involves the continuous knowledge improvement process and the use of experiences rather than mere performance of tasks [14]. A common term for this type of enterprises is an intelligent organization. The basis for the operation of this type of companies is building a community of specialists (knowledge workers) who communicate well with each other and are capable of continuous transformation of the enterprise, its products and themselves for the purpose of satisfying market requirements and challenges formulated by the society. Intangible resources, including in particular knowledge, are most important in such an organization [10, p. 103].

The learning organization concept is a response to the continuously changing environment, technological changes and growth of employee competences and requirements; at the same time, it is closely related to the enterprise innovation strategy, which is possible owing to a properly pursued enterprise renewal process.

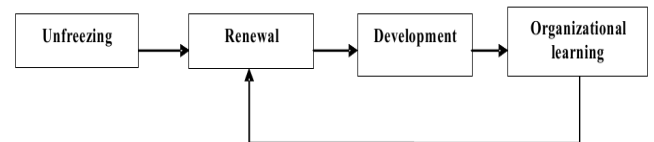


Fig. 3. The renewal process model towards organizational learning.  
Source: own work

The learning organization concept and, literally, organizational learning is a natural consequence of strategic renewal.

Innovativeness is a creative process and, like every process of this kind, it begins with an idea, is followed by incubation, and ends with illumination, that is a qualitatively new idea that solves the formulated problem. From the viewpoint of learning organizations, such a process begins with implementing organizational changes, is followed by strategic enterprise renewal, and ends with implementing structural mechanisms of learning organizations (Fig. 4) [6].

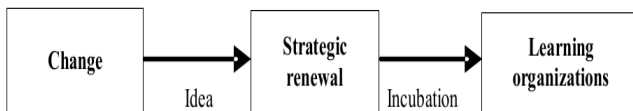


Fig. 4. The implementation model of the organizational learning process – from changes to strategic enterprise renewal.  
Source: [6]

It needs to be indicated that implementing structural changes in the organization that facilitate the enterprise development towards organizational learning is a component of strategic renewal. Strategic enterprise renewal is a phase of “incubating” organizational development, the effect of which should be qualitative improvement of organizational effectiveness of the enterprise that facilitates information flow management in the organization called synergy or supercompensation effect. The enterprise capacity to implement renewal processes is a necessary condition for the enterprise to be able to build its organizational potential towards organizational learning [6].

#### IV. OUTSOURCING TOOLS – CURRENT APPLICATIONS AND TRENDS

According to Prahalad and Krishnan [12, pp. 31-31], “the principal significance for firms to be ahead of their competitors is a sense of the achievable and the use of innovations coming from laboratories of institutions operating on the global scale and small new firms... The nature of financial, human and technological resources outgrows the firm and its legal boundaries. Today, resources are global. Attention needs to be focused on access and influence rather than on ownership and control.” Prahalad and Krishnan provide the following principles to be followed by the organizations which wish to build competitive advantage:

- N = 1 and
- R = G.

N=1 states that “value is based on unique, personalized experiences of consumers.” That is, even companies serving 100 million consumers need to focus on individuals.

R=G, meanwhile, argues that since no company can hope to satisfy the varied expectations of so many consumers, it must diversify how it operates. “All firms will access resources from a wide variety of other big and small firms—a global ecosystem,” write Prahalad and Krishnan. In other words, companies' internal focus should be on gaining access to resources, not necessarily owning them [12, pp. 27-28].

Globalization provides enterprises with easier access to more numerous labor force resources and employment of a greater number of employees with a more specialized education, which contributes to increasing the quality of the provided work and the number of innovations in many cases. Outsourcing and offshoring development results from the fact that more and more organizations strive for improving their competitiveness by relocation of goods and services. Outsourcing and offshoring more and more frequently concern knowledge-based processes aimed at supporting innovative operation of the organization [5, p. 48].

Oshri, Kotlarsky and Willcocks, who have been observing the outsourcing market for years now, notice that various new types of global supply models have been emerging. The major difference between the models lies in:

- whether the function is used by a business unit dependent on the parent company or an external supplier (or jointly by both entities), and
- whether the function is used by the enterprise on-site (in the registered office) or off-site (outside the registered office – in the country where the organization is based (on-shore), in a neighboring country (nearshore) or in a distant location (offshore) [9, p. 25].

The ongoing growth in the outsourcing market has major implications for management. Organizations have to develop new capabilities supporting the ever-changing business models in their sourcing engagements. Understanding how and where value is created in sourcing engagements becomes another challenge. Dependency on external partners has increased. Providers of outsourcing services are becoming more aware of clients' growing demand to realize innovation and transformation from outsourcing engagements and they are refocusing their efforts to deliver value to clients by improving their performance management systems and by seeking to extend their offerings [17, pp. 1-2].

One can observe a trend towards outsourcing relationships becoming increasingly managed and leveraged as strategic assets. New forms of sourcing deals are required for collaborative innovation to succeed.

In today's knowledge-based economy, one of the major sources of competitive advantage has been the ability of the firm to transfer external knowledge efficiently and effectively. Knowledge transfer can be defined by as activities of exchanging explicit or tacit knowledge between two agents, during which one agent receive and apply the knowledge provided by the other agent. The agents could be an individual, team/department or an organization. In the literature, knowledge transfer has been given various but related labels such as knowledge sharing, knowledge flows, knowledge acquisition and knowledge mobilization [2, p. 1].

One of the knowledge acquisition options by taking advantage of external resources is using such centers as Knowledge Process Outsourcing. KPO centers are established dynamically worldwide. A trend proving the increasing comprehensiveness of business processes served from Poland is also noticeable. At the same time specialization of many centers increases – consisting in serving more advanced processes (market research, business analyses, etc.). Thus, a “subsector” called knowledge process outsourcing is being slowly formed in Poland. On the global scale, it is characterized by a significantly faster growth than the entire BPO (Business Process Outsourcing) sector, which means a chance for Poland to develop in this area mainly due to the held resources of qualified employees, appropriate communication infrastructure and political stability. Owing to the qualified staff and good academic centers, and not only low labor costs, Poland has been becoming an attractive place for locating this type of projects for a few years now [13, p. 46].

## V. OUTSOURCING OF KNOWLEDGE AS AN ACCELERATOR OF CHANGES TOWARDS ENTERPRISE RENEWAL

Outsourcing as a strategic component of renewal should facilitate organizational learning, and for this purpose the organization deciding to outsource must set clear goals for outsourcing collaboration. Collaboration in a strategic sourcing context is pro-active working together and risk sharing, in flexible integrated ways, to achieve high performance on longer, mutually rewarding commercial goals [17, p. 129].

Whitley and Willcocks suggest four fundamental practices behind effective collaborative innovation [based on 17, pp. 143-144]:

- **Leading.** Leadership shapes and conditions the environment in which requisite contracting, organizing and behaving can occur. Leadership also changes the approach to risk in order to share and manage down risk and manage in opportunity.
- **Contracting.** New forms of contracting are required to secure successful collaborative innovation. Such contracts share risk and reward in ways that provide incentives for innovation, collaboration and high performance to achieve common goals.
- **Organizing.** Organizing for innovation requires more co-managed governance structures and greater multi-functional team working across those organization and people responsible for delivering results. Team working now requires the ability to collaborate within a client organization, between client and supplier and between suppliers in multi-supplier environments.
- **Performing.** Leading, contracting and organizing in these ways provides incentives to change existing modes of performing and enables collective delivery of superior business outcomes. Collaborative innovation is most effective when it generates high personal, competence-based and motivational trust among the parties. High trust is a key component and shaper of the collaborative, open, learning, adaptive, flexible and interdependent performance style required and open communication that help in knowledge diffusion.

These four elements have a temporal sequence as shown in Figure 5.

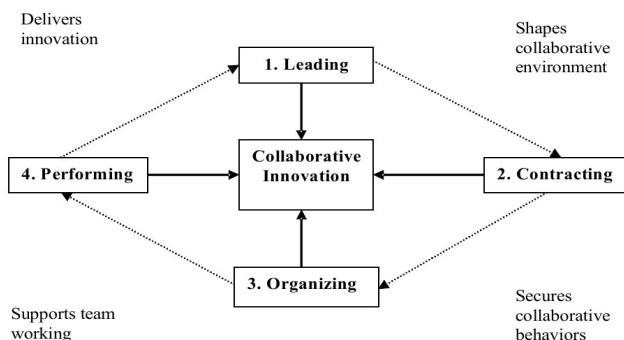


Figure 5. The process of collaborative innovation  
Source: [17, p. 144].

Knowledge management in IT outsourcing relationship should enable creation and utilization of intellectual capital, that, in Willcocks opinion, should be generated through the interplay between such essential elements as [9, pp. 111-112]:

- structural capital (that refers to the codified bodies of semipermanent knowledge that can be transferred and the tools that augment the body of knowledge by bringing relevant data or expertise to people),
- human capital (which represents the capabilities of individuals to provide solutions to customers),
- customers capital (that is linked to shared knowledge, or the value of an organization's relationships with the people with whom it does business)
- and social capital (for example: trust, loyalty and reciprocity within a community - the values created from social networks), which helps bring these elements together.

As outsourcing often disrupts and reduces social capital by disembedding people, systems, and institutional knowledge from the client organization more attention should be paid to cultivating social capital. Social capital can have a considerable impact on effective knowledge transfer between outsourcing parties. It allows outsourcing partners reduce cultural barriers, understand common goals and strengthen network stability and ties.

According to the authors, organizations should take advantage of outsourcing such that it supports renewal processes and organizational learning to the highest possible extent. For this purpose, on the one hand, the organization ought to ensure easy access to the required information to both parties to the contract, and on the other hand it should not burden employees with excessive formalization but it needs to stimulate creativity and involvement in activities related to achieving the goals of the outsourcing project/contract.

Concepts such as outsourcing can accelerate renewal process since:

- they contribute to innovation growth when they concern processes related to innovation activities;
- they facilitate the improvement of the quality and effectiveness of processes and services owing to access to better/cheaper resources;
- they enable the introduction to new markets (if the supplier comes from a different country);
- they enable expanding the network of relations – they increase the structural capital of the organization.

From the viewpoint of knowledge management, an attempt might be made to describe outsourcing as [11, p. 394]:

- a manner of acquiring specialized knowledge and skills which the organization does not have;
- a form of stabilization of the knowledge related to the operation of selected areas in the organization (if the organization cannot handle e.g. the fluctuation of the IT staff, outsourcing could in a way secure the organization against a possible loss of critical employees);

- a guarantee of keeping pace with technological development (in this case, the outsourcing contract should provide for appropriate terms and conditions imposing the obligation of continuous development and improvement of services on the service supplier);
- a replacement of the internal know-how with the same type of knowledge from the outside.

Selecting the appropriate sourcing model is one of the critical aspects in the outsourcing planning.

It is worth emphasizing here that the selection of the optimum organization operation model is conditioned on numerous factors, such as: the held intellectual capital, the sector of activities, the phase of the organization’s lifecycle, etc. Hence, every organization needs to make an independent decision on which of the operation options can have the most beneficial impact on the enterprise development and monitor on an ongoing basis if the selected model is still optimum in the context of strategic renewal.

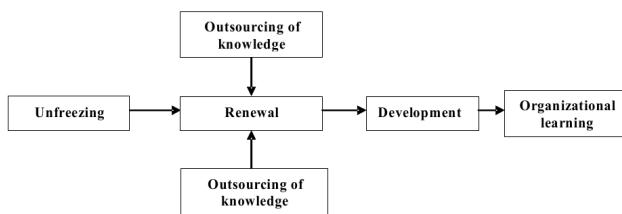


Fig. 6. The universal model of organizational learning through renewal and outsourcing of knowledge  
Source: own work

The enterprise deciding on outsourcing ought to make an attempt to build such trust and create conditions facilitating knowledge sharing between employees and suppliers so that the organization’s tacit knowledge could be co-created by external companies. It increases the probability that, along with broadening employee knowledge and experience, owing to continuous improvement, the outsourcing process will mature, which in turn will be reflected in the acceleration of organizational renewal processes.

## VI. CONCLUSION

The execution of the strategic renewal process initiated inside the organization and pursued based on the exclusive use of internal resources of the enterprise is an appropriate action. However, it is indicated that the quality and thoroughness of renewal can be considerably increased by the application of external resources. In order to obtain the enhancement effect of the discussed process, it is suggested to use an outsourcing tool which has been effective in practice for years. Outsourcing, like many other modern management concepts, is a response of enterprises to the dynamically

changing conditions of the environment as well as the new management trends that are being formed. Outsourcing is a complex enterprise management tool and its impact might involve numerous aspects of the enterprise operation.

Outsourcing creates a new type of strong correlations between partners, which do not arise from legal provisions. A successful collaboration cannot be ensured exclusively by contracts. Various unpredictable events might occur during the implementation of the project and therefore it is good when collaboration with the external supplier(s) is based on trust, respect and informal business coexistence principles.

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