Abstract. Supply Chain professionals (SCP) and senior executives are facing new challenges in the new world of global outsourcing of knowledge-based services. These services include managing outsourced customer service, software, and R&D. Supply Professionals are abruptly asked by senior management to find vendors for a particular task to be outsourced, draw up contracts, and transition the task and thereafter be at least partially responsible for the delivery quality, price, and many other tasks including innovation and new product development from the service provider. Our research suggests that it is really important for supply management professionals to be closely involved at the transition of the outsourced task and the early part of the provider relationship. Such early involvement in setting up the working relationship with the provider will facilitate projected cost savings and also sustain the quality of purchased services. Above all, such early involvement of supply management will enable the effective management of the supply chain intellectual property and sustain innovation generation in the upstream knowledge services supply chain.

Background. As outsourcing moves from low-end services to knowledge-based services, public outcry has grown about American job losses. In the heat of this debate, questions such as how companies can effectively establish an outsourcer-provider relationship with an eye toward sustaining competitive advantage via innovation generation and intellectual property protection by American firms are not adequately discussed by research scholars or popular magazines. Our presentation aims to fill this important gap by providing insights on the topic of outsourcer-provider relationships to achieve long-term competitive advantage to thrive during the rapid growth in the global outsourcing of knowledge-based services.

For a number of outsourcing companies and providers, the nature and extent of outsourcing is a new challenge that can bring about drastic changes. These changes have far-reaching implications for the innovative capabilities of organizations, their ability to cope with change, and their performance, as well as for knowledge management and learning within organizations. For example, outsourcing of knowledge-based services will influence how firms share knowledge, disseminate knowledge, and utilize knowledge to achieve operational efficiency and generate innovation. It will also influence how organizations learn and store knowledge for future use.

Managing Intellectual Property and Generating Innovations. The presentation provides a managerial summary of our existing academic research papers on outsourcing, innovation
generation, and knowledge management that have been recently published. For example, Roy, Sivakumar and Wilkinson (2004) focuses on innovation generation in vertical, upstream supply chain relationships; Sivakumar and Roy (2004) focuses on providing a conceptual framework of knowledge management in supply chain management; Roy and Sivakumar (2004) and Roy and Sivakumar (2005, working paper) focus specifically on the outsourcing relationship in the context of global outsourcing of knowledge-based services.

A significant portion of our presentation focuses on the transition stage in the outsourcing of knowledge-based services. Firm-level outsourcing phenomena can be conceptualized as progressing in several stages: (1) a firm decides to outsource a particular knowledge-based activity; (2) providers are evaluated and identified; (3) the contract is drawn up; (4) the activity transitions to the provider and early relationship norms are developed; and (5) the relationship with provider and performance metrics are monitored by outsourcer as the task reaches steady state.

Our pilot field interviews as well as various press reports suggest that the transition of outsourced activity is the most difficult stage in the process and has significant implications for innovation generation. Both outsourcers and providers consider poor transition to be the single biggest reason for delay in achieving stability and for subsequent poor performance. Two important aspects of outsourcing activities make this transition a crucial period. First, unlike outsourcing in the past, many currently outsourced activities are closer to the core competencies of the firm. Second, outsourcing activities are increasingly knowledge-based; thus, knowledge management to sustain innovation generation becomes an important objective. Given the inevitability of global outsourcing in the coming decades, we focus on organizational change management for the effective transition of knowledge-based services and the impact of such a transition on innovation generation.

REFERENCES


