

When work is outsourced, there is a loss of control from a process perspective, in exchange for short-term price savings. Business functions are delegated to an outside vendor that serves a number of other clients. Outsourcing usually is done to save costs (including avoiding hiring full-time employees for short-term projects) and done when the job requires a high skill level and is one with a low volume of demand. The downside of outsourcing is the relative lack of control over the vendor's product or services. External vendors can't be expected to reveal their internal processes or trade secrets. However, since the vendor must deliver whatever is specified in its contract, the contracting company has leverage in acquiring certain data.

Insourcing, a strategy in which underused internal resources are redirected, can take advantage of an ongoing KM program but is incompatible with a new KM initiative. Insourcing is used most often as a temporary measure when the workforce must be contracted due to economic constraints.

Insourcing represents a compromise situation, especially from the employee's perspective. Unless the external job market is especially dire or the rewards for handling more work with no more pay are especially rewarding, most employees won't tolerate an insourced situation for long. Because the responsibilities of employees and management in an insourced model are temporary and in flux, a new KM initiative is simply an exercise in frustration.

In cosourcing, which is a combination of insourcing and outsourcing, a third party provides resources as an extension of the company's resources. Cosourcing lies somewhere in the middle between insourcing and outsourcing when it comes to the applicability of a KM program. A company outsources its overflow of strategic processes without giving up control, especially during times of unexpected or seasonal demand. As in insourcing, a KM program is especially helpful in bringing employees and