

OUTSOURCING FRAMEWORK FOR DELIVERY PLANNING TEAM

**Jyväskylä University
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Subject: International Business & Entrepreneurship
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**JYVÄSKYLÄN YLIOPISTO
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ABSTRACT

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| <p>Abstract</p> <p>Outsourcing and especially services outsourcing are increasing in the global business environments in a very fast pace. The main research problem of this thesis is how can a company/organization/team implement outsourcing in a successful manner? This thesis aims to provide a framework for companies, organizations, and teams to implement outsourcing in a successful manner. Implementing outsourcing successfully is important, since it mitigates problems, saves costs and other resources, and gives lasting benefits for companies. This thesis uses theoretical data about outsourcing, the resource-based view and transaction cost economics to form a base of knowledge, where suggestions can be derived from for the framework. This thesis also uses information, which was collected from 16 interviews, where top and middle managers where interviewed about their views of outsourcing and about their experiences of outsourcing. Both the theoretical data and the interviews were analysed by using the Gioia method, so that a framework could be formed. This thesis has a theory elaboration focus. The framework identified different risks and problems of outsourcing and solutions for them. The framework provided three different overarching themes, 17 sub-themes and overall, 241 themes about outsourcing and from those themes the suggestions for the companies were formed. Findings suggest that companies put emphasis on planning training, testing, communication, performance supervision and feedback in order for outsourcing to be successful. This thesis has managerial suggestions and further research implications about outsourcing.</p> | |
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| <p>Ulkoistaminen ja etenkin palveluiden ulkoistaminen lisääntyvät maailmanlaajuisissa yrittäjäympäristöissä erittäin nopeasti. Tämän tutkielman ensisijainen tutkimusongelma on kuinka yritys/organisaatio/tiimi voi toteuttaa ulkoistamisen onnistuneesti? Tämän tutkielman tavoitteena on tarjota puitteet yrityksille, organisaatioille ja ryhmille ulkoistamisen toteuttamiseksi onnistuneesti. Ulkoistamisen onnistunut toteuttaminen on tärkeää, koska se vähentää ongelmia, säästää kustannuksia ja muita resursseja ja antaa pysyviä etuja yrityksille. Tutkielmassa käytetään teoreettisia lähteitä ulkoistamisesta, dynaamisista kyvykkyyksistä ja transaktiokustannustiedoista muodostamaan tietopohja, josta voidaan saada ehdotuksia viitekehukseen, josta yritykset ja tiimit voivat hyötyä. Tämä tutkielma käyttää myös tietoa, joka on kerätty 16 haastattelusta, joissa on haastateltu ylintä ja keskijohtoa näkemyksistään ulkoistamisesta ja kokemuksistaan ulkoistamisesta. Sekä teoreettinen aineisto että haastattelut analysoitiin Gioia-menetelmällä, jotta viitekehys voitaisiin muodostaa. Tässä tutkielmassa painotus on teorian kehittämisessä. Viitekehyyksessä tunnistettiin ulkoistamisen erilaiset riskit ja ongelmat sekä ratkaisut niihin. Kehys sisältää kolme erilaista yleistä teemaa, 17 alateemaa ja kokonaisuudessaan 241 ulkoistamista koskevaa teemaa ja näistä teemoista tehtiin ehdotuksia yrityksille. Tulokset viittaavat siihen, että yritykset painottavat koulutuksen, testauksen, viestinnän, suorituskyvyn valvonnan ja palautteen suunnittelua ulkoistamisen onnistumisen kannalta. Tässä opinnäytetyössä on johtamisehdotuksia ja lisäehdotuksia jatkotutkimuksille.</p> | |
| Asiasanat Ulkoistaminen, Viitekehys, Dynaamiset kyvykkyydet, Transaktiokustannusten taloustiede | |
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1 INTRODUCTION

The global business environments and markets are constantly changing and evolving. Companies are seeking competitive advantages over their competitors and they are also trying to enter new markets all the time. Companies are focusing on using their own resources in the best way possible but also by acquiring talent and manpower outside of the company from a third party. This has created new markets and new players, where smaller companies can support and benefit from doing work for a bigger company. These kinds of actions have been trending for almost two decades now, but in this ever-globalizing world are becoming even more popular.

The phenomena that is been studied in this thesis is outsourcing. In outsourcing two companies make an agreement with each other, where one company outsources a certain process or processes to the other company. Outsourcing sometimes involves transferring employees and assets from one firm to another. The intention of this thesis is to study how a company can successfully implement outsourcing its operative processes from the delivery planning team to another team in India. The topic is interesting and current because many companies are outsourcing their different processes to other countries and teams and many companies are interested in making their processes better, so this is an intriguing topic for different companies and organizations. According to Whitaker et al. (2010). Business process outsourcing is also one of the most rapidly growing industries in the world, this makes the topic very current.

Organizations are outsourcing their different processes and the reasons for this are mostly cost and resource related. Organizations intend to reduce and control their expenses by outsourcing different processes from different parts of the world and from different companies. Another is reason is the allocation and freeing of resources inside the organization. By doing this the companies are able to

focus on their core competences. Companies focus on their core competences in order to gain a competitive advantage over their competition. High taxes, energy, and employee costs as well as governmental regulations may also push organization to outsource their processes. Other reasons include gaining access to world-class capabilities, improving company focus, streamlining, freeing internal resources for other purposes, or increasing efficiency for time-consuming functions, and maximizing use of external resources. Globalization and the improvements in technologies have made it possible for companies to outsource their services and operative functions.

Outsourcing in general has many problems, mostly legal, agreement and cultural related. The problems of outsourcing stem from not enough planning, cultural and environmental problems, and bad executions. For example, a Finnish company might outsource some of its processes into China. If the company does not plan the outsourcing properly and take account for the different variables, the outsourcing will most likely fail. The company that is outsourcing needs to plan the outsourcing very carefully, think and gather information about the different suppliers and their cultures. The agreement and the legality concerning the outsourcing of processes needs to be meticulously made and checked. The plan needs to be executed properly and proper instructions for the other company need to be made. Other reasons why outsourcing fails relate to lack of resources and some unforeseen "force majeure" reasons.

Outsourcing is not an easy task for organization since there are many different variables that have to be taken account for. The company, in which I am conducting the interviews and gathering data has previously done an outsourcing process to India and it did not go as well as they had planned. Numerous cultural, budget and time problems were found when the outsourcing was going on. Planning was also not done properly since many variables were not analysed before the outsourcing process.

2 THEORETICAL FRAMEWORK

The theoretical framework of this thesis combines Outsourcing, Resource-Based View (RBV) and Transaction Cost Economics (TCE) literature in order to create an overall picture of the different aspects relevant for this type of outsourcing framework. Literature on Outsourcing can be applied to better understand the characteristics and potential impact of current developments with outsourcing services, and what factors influence the adoption and implementation of outsourcing processes. Literature on strategic management addresses the capabilities needed to recognize opportunities and to respond to environmental change. Literature on RBV and TCE give background to the reasons for various outsourcing and implementation processes.

2.1 Outsourcing

Regarding outsourcing there is a lot of theory available. The main concepts of the outsourcing theories that were researched and gathered regarding this thesis include make or buy, management, strategy, international business, sequences, culture, contracts, contract hazard and governance. As stated before, a lot of previous research regarding outsourcing can be found, since many of the organizations around the world are increasingly outsourcing their processes. Next, we are focusing on the many different aspects of outsourcing theory.

McIvor (2008), Ghodeswar & Vaidyanathan (2008), Bals et al. (2016), Wirtz et al. (2015) and many other articles state that when two companies make an agreement with each other on transferring a process or processes to the other company, this can be called as outsourcing. Outsourcing can be either done within the same country that the company is in, nearshoring or offshoring. According to Bahrami (2009) offshoring is when a company is outsourcing its process or processes to another company that is located in another country. Erber & Sayed-Ahmed (2005)

argue that nearshoring is when a company is outsourcing to a country near them. For example, if a Swedish company would outsource some of their processes to a company located in Ireland, that can be considered as nearshoring, since the location is quite near, and the culture is quite similar. There is also the concept of insourcing. Rodríguez & Nieto (2016) define it as sourcing inside the organization but from a different team. Bals et al. (2016) state that nearshoring and insourcing are increasing in popularity, because outsourcing has affected sales negatively, because of poor quality. Nearshoring and insourcing are also being used because of market and environmental changes.

According to Hendry (1995) and Wirtz et al. (2015) outsourcing has been one of the most rapidly growing industries around the world. Görg et al. (2008) states that international outsourcing experienced growth of 30% between 1970-1990. Outsourcing is also becoming more and more popular among different companies. Schwarz (2014) states that for example, the IT outsourcing market was 288 billion dollars in 2013 and has continued to grow from that. Useem & Harder (2000) found out that top management is highly supportive of outsourcing decisions. Outsourcing has become big business and has spawned many firms, usually service providers that can provide companies for their outsourcing needs. The first wave of outsourcing was when companies were outsourcing their manufacturing processes to countries that could do the manufacturing at a cheaper cost. Luo et al. (2010) argue that now the most recent wave of outsourcing is with outsourcing different services and service processes to service providers. Liu et al. (2011) argues that this has been enabled by globalization and because of rapid improvements in technologies. Now it is possible to outsource complex services and knowledge intensive processes to various service providers.

Elmuti & Kathawala (2000) also state that outsourcing has gone global in the recent years and is now a management strategy for organizations to delegate major, non-core functions to specialized and efficient service providers. These providers

can reside in different parts of the world and can do the functions cheaper and also more efficiently. The providers may have more resources to do this, for example, they may have more manpower and employees at their disposal than in the organization that is outsourcing their process. Research by Jiang, Frazier & Prater (2006) empirically investigates the effect of outsourcing on firm level performance metrics, providing evidence about outsourcing influences on a firm's cost-efficiency, productivity, and profitability.

Kakabadse & Kakabadse (2002), Herath & Kishore (2009), Logan (2000) and Handley (2012) inform in their articles that the companies are overall dissatisfied with the outsourcing processes and that they have had overly ambitious goals regarding outsourcing. This has led to poor quality, underestimation of time and resources required and not getting the promised cost savings. Handley (2012) also states that over 60% of the companies that are outsourcing need more resources to implement the outsourcing processes. van & Ploos (1996) state that outsourcing does not automatically take all the problems away and that it is not a some kind of magic, that when used will improve the company, but rather as another tool that, when properly used can help companies achieve improvements.

Even though the outsourcing literature has many authors and much information the field is far from being complete. The purpose of Jiang, & Qureshi (2006) article is to highlight the differences in the current outsourcing literature and examine the link between outsourcing implementation and firms' performance metrics by analysing hard data. The authors found out "three main gaps in the current outsourcing literature: lack of objective metrics for outsourcing results evaluation, lack of research on the relationship between outsourcing implementation and firms' value, and lack of research on the outsourcing contract itself." Gerbl et al. (2016) found out that current literature does not know the answer on all the specifics regarding offshoring, local and nearshore decisions.

In this thesis the focus is mainly on the Business Process Outsourcing (BPO) Liu & Deng (2015) define BPO as a way to transfer various business processes to the service provider. In the BPO there is usually a client and the service provider. Herath & Kishore (2009) have found various BPO specific risks, such as loss of internal know-how, loss of core group, loss of intellectual property, operational risks due to vendor locations. Liu & Deng (2015) argues that knowledge management, how companies can gather, analyze, and apply their knowledge of something, has effects on whether a BPO is successful or not. Knowledge application is identified as the most important aspect of knowledge management. Liu & Deng (2015) found out that knowledge management differs in industries and among firms, since there are many variables to it. Firm size has the most negative effects on knowledge management. Managers must have good knowledge management skills in order to be successful. Gerbl et al. (2015) argues that both the TCE and RBV are linked to the BPO. Whitaker et al. (2010) state that BPO is growing in a fast pace. (Whitaker et al., 2010) write that companies with prior experience in internationalization and onshoring are more likely to make BPO decisions.

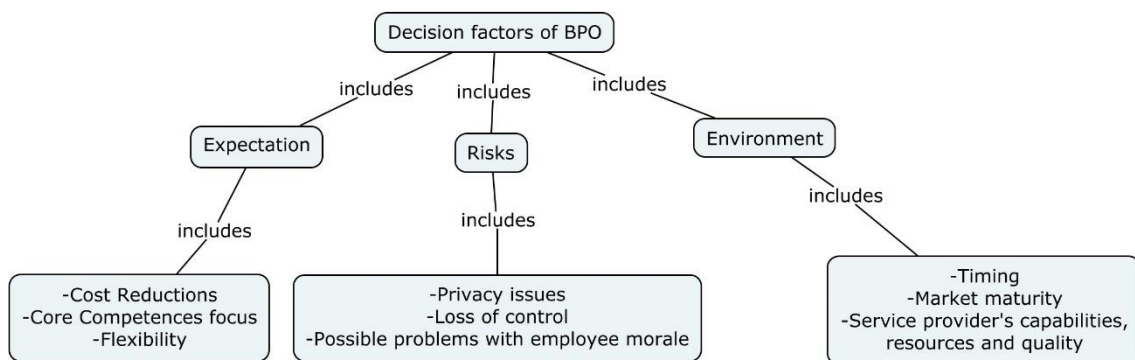


Fig 1. Decision factors of BPO

Another focus of this thesis is strategic outsourcing. Holcomb & Hitt (2007) determine strategic outsourcing as something that is linked to the TCE and RBV. Ghodeswar & Vaidyanathan (2008) define strategic outsourcing as an effect that permits the management to focus on the company's core functions. Holcomb &

Hitt (2007) state that at its most stripped-down strategic outsourcing is outsourcing some existing processes. Strategic outsourcing improves economies of scale, cost reduction, value creation and capabilities, it has the potential to decrease bureaucracy. Ghodeswar & Vaidyanathan (2008) strategic outsourcing can enable the company to refocus and get more flexibility. Vitasek (2016) argues that outsourcing is no more focused at just cost reduction but rather in creating value to companies and in the long term enabling them to become more flexible and transformative in these ever-changing business environments. Lacity, & Willcocks (2014) argue that outsourcing can enable companies to get dynamic innovations, which can become competitive advantages.

2.1.1 Reasons and benefits of outsourcing

There are many different reasons for outsourcing. According to Bhattacharya et al. (2003), Bustinza et al. (2010), Hilletoft & Hilmola (2010), Jiang et al. (2006) and many more authors the most common reasons for outsourcing are cost related. Jennings (1997) and Logan (2000) argue that organizations benefit from outsourcing, since it includes a collection of different cost drivers, such as location, learning and scale. Location from a cost perspective would mean that companies and organizations outsource to locations where the labor and manufacturing is cheaper, therefore receiving cost savings from that. Scale means that companies can outsource in order to acquire economies of scale, other company can be capable of providing more volume cheaper. Learning in this context would mean that it would be cheaper for the company to get for example, R&D services from another company than to do them inhouse. Cost savings can be too optimistic or in reality there can be none at all. Görg et al. (2008) found evidence that among exporters international outsourcing provides cost savings and productivity benefits. Jiang et al. (2006) found evidence on the fact that outsourcing improves cost efficiency. It does not improve productivity or profitability.

Another key reason why companies and organizations are outsourcing is that they can focus more on their core competences and functions. Kakabadse & Kakabadse (2005) state that the current trend in outsourcing is focusing more on the core competences in the company. Espino-Rodríguez & Rodríguez-Díaz (2008) and Ghodeswar & Vaidyanathan (2008) argue that core competences are the resources and capabilities that a company has, that are very specific to the company and enable them to get competitive advantages over their rivals. The authors also state that relationships with companies can provide competitive advantages. According to the authors: "Outsourcing is one way to supplement the firm's resources and capabilities, thus improving its strategy to make better use of its capabilities for external opportunities." If a company has good relational skills it is likely to outsource processes more successfully. Therefore, a company should emphasize a culture where relational capabilities are promoted. Gupta & Zhender (1994) suggest that one way of finding out its core competences, a company should induct a value-added chain analysis.

Freytag et al. (2012) argue in their article that there is a competence-based view in the outsourcing literature, which was first introduced by Prahalad & Hamel (1990). In that view it is argued that a company should concentrate on their core competences and outsource all the processes that are not linked to their core competences to other providers. Freytag et al. (2012) also mention that a company can make a mistake in their outsourcing processes if they outsource a core competence of the company and thus losing the competitive advantage that they had. Quélin & Duhamel (2003) challenge this view by stating that processes that are essential to performance should be distinguished from core competences, the authors also challenge the argument whether it is not advisable to outsource core competences of a company.

In their article Fill & Visser (2000) state that organizations aim to restructure, increase flexibility inside the company and to reduce cost by outsourcing their processes. Evidence has shown that if a company focuses on its core competences all of these actions can be achieved. Ghodeswar & Vaidyanathan (2008) argue that if a company focuses on its core competences it is capable to free resources to its core competences by outsourcing non-core competences, this enhances the core competences and therefore also the competitive advantages. A focus on core competences also gives companies ways to diminish risks, seek and attain new technologies and knowledge and give more tools to focus on their business. Sia et al. (2008) argues that flexibility enables outsourcing success.

The third reason for outsourcing is for the company to get more capabilities and knowledge that they simply cannot achieve by making/having it inhouse. Quinn (1999) emphasis on the importance of seeking intellectual value, rather than completely focusing on cost, when it comes to seeking capabilities through offshoring. This usually requires the company to offshore into a new country/continent. Doh (2005) states that the rate of offshoring and acquiring new knowledge and capabilities is accelerating. Mudambi & Venzin (2010) write "Offshoring and outsourcing are best analyzed as aspects of the global disaggregation of the value chain and as attempts by firms to combine the comparative advantages of geographic locations with their own resources and competencies to maximize their competitive advantage." Tate et al. (2009) argue that besides reducing costs, like mentioned earlier, offshoring enables the company to improve their strategic actions like increasing the quality of the products and processes and increasing the market share that they have. Bertrand & Mol (2013) argue that offshore outsourcing does not promote process innovation but rather product innovation. Di Gregorio, Musteen & Thomas (2009) and Yang et al. (2007) argue that offshore outsourcing increases the competitive advantages of companies and helps then internationalize more efficiently, offshoring also increases flexibility.

Bertrand (2011) found out that offshoring increases exporting in companies and increases global competitiveness. Bahrami (2009) argues that offshoring improves productivity and, in the end, helps the whole economy. Mudambi & Venzin (2010) argue that offshoring and its spillovers can create new industries in new areas. Malik et al. (2012) and Ang & Inkpen (2008) inform that India is the number one place for offshore outsourcing since it accounts of over 50% of the offshore outsourcing market. Espino-Rodriguez, & Padron-Robaina (2006) that with outsourcing companies might be able to gain superior capabilities and resources, which then improve the overall performance of the company. Bertrand & Mol (2013) State that in order for companies to enjoy the benefits that they can acquire from offshore outsourcing, such as new information and knowledge, they must have absorptive capacities and the greater capacities they have the more successful they are.

The fourth major reason for companies to outsource is to transform the company and the strategies of the companies. This kind of outsourcing is called transformational outsourcing, the focus is more on the strategy rather than cost, capabilities, or core competences. Linder (2004) argues that transformational outsourcing is more about making a fundamental structural and strategical change inside the company. Linder (2004) states that companies should use transformational outsourcing when they aim to scale up, renew and change the company. The company can either reposition itself completely or accelerate its performance overall. Deavers (1997) argues that globalization itself and the changing environments, markets and technologies also push companies to outsource.

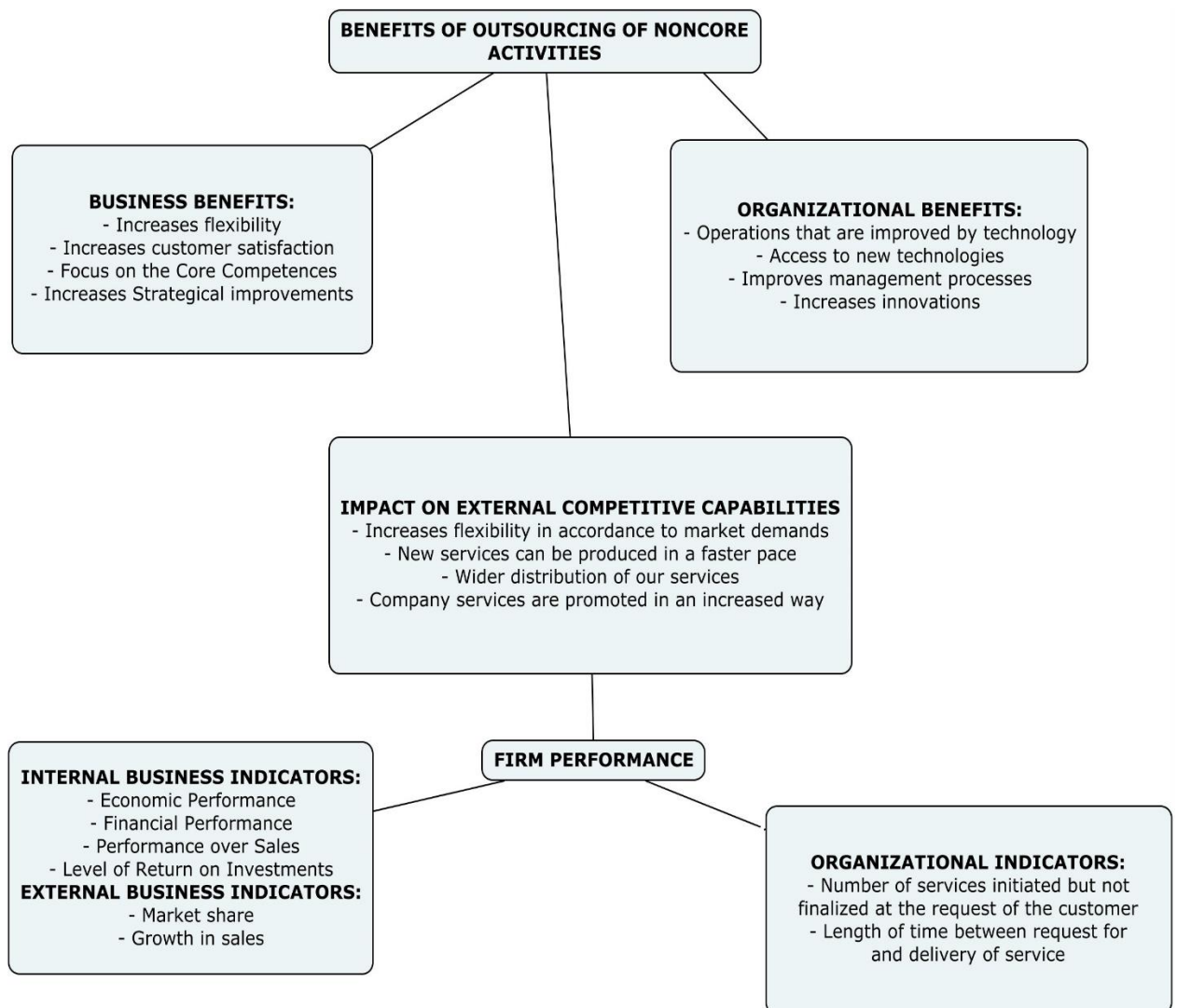


Fig 2. Benefits or outsourcing of non-core activities. (Adapted from Bustinza et al., 2010, p. 287)

2.1.2 Risks of outsourcing and how to mitigate them

Kremic et al. (2006) and Power et al. (2004) inform that outsourcing has many risks. Since outsourcing is a process where there are multiple different variables a great amount of risks is also involved. One of the most prominent risks about outsourcing is losing the capabilities to the service provider. Leavy (2004) states in his article that one of the biggest risks to companies when outsourcing is when they lose their most important skills and capabilities when they outsource some of their processes. Handley (2012) found evidence to support that losing capabilities has a direct negative effect on outsourcing processes. Weigelt (2009) argues

that outsourcing can make companies hollow, meaning that they might lose their important know-how and tacit knowledge in the outsourcing of processes. Harland et al. (2005) argues that companies might make a mistake of outsourcing their core competences and as such losing their competitive advantages. It is hard to get a core competence back once it has been outsourced. Core competences affect everything, so if a core competence is outsourced it would cause massive fundamental problems inside the company.

Erber* & Sayed-Ahmed** (2005) and Power et al. (2004) state that hidden costs are also prominent risks of outsourcing. Hidden costs occur when a process is outsourced and there are costs that are not taken account for. Cost savings can be too optimistic or in reality there can be none at all. Handley & Benton (2013) state that companies fail to analyze clearly the possible "hidden costs" that can be found when outsourcing a process. Hidden costs often negate the cost savings and positive effects of outsourcing and they can accumulate over time. They are usually difficult to get rid of. Kaipia & Turkulainen (2017) state that once outsourcing has started it will require a lot of resources in order to manage it.

The outsourcing process might be delayed significantly for some reason and this creates costs to the company, this for example, can be considered as a hidden cost. At worst, hidden costs can nullify all the benefits of outsourcing that a company thought they could achieve by outsourcing a process. Another example of a hidden cost during an outsourcing process is when the service provider training fees are bigger than expected. A service provider could also start to charge more than was originally agreed, but a company is locked in with them and cannot break free from the contract or the company has outsourced too much and is now too dependent on the service provider and cannot therefore break free from them. Quélin & Duhamel (2003) argue that it is not easy for companies to reverse the

outsourcing operations and that it could become a very expensive process. Gonzalez et al. (2005) and Vining & Globerman (1999) state that hidden costs can also be transition, provider management, contract, and vendor search costs.

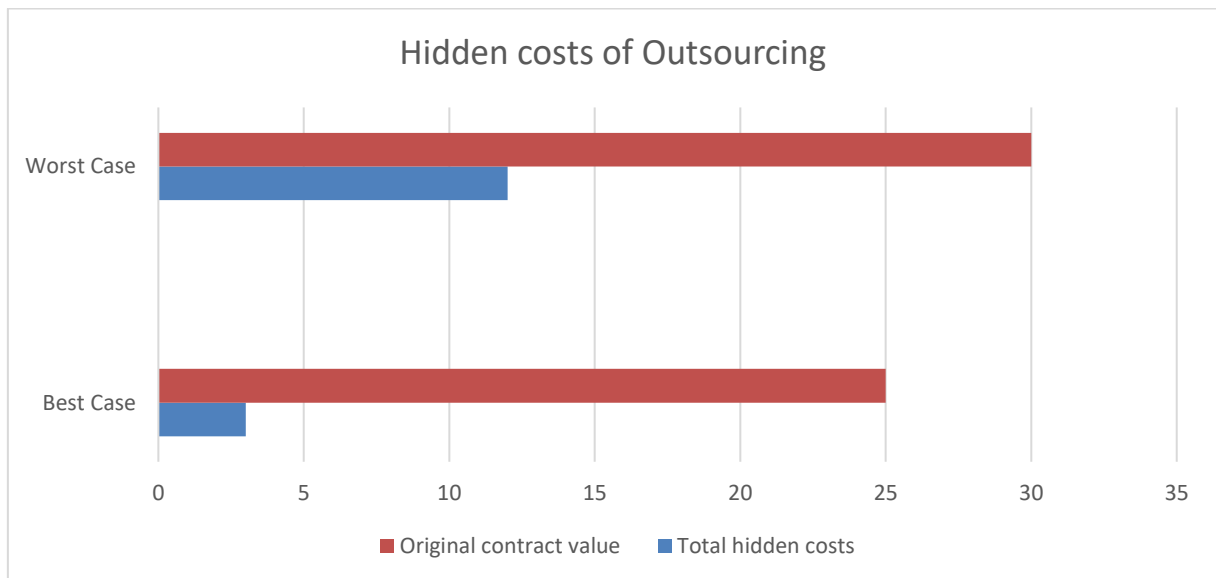


Fig 3. Example of possible hidden costs of outsourcing

This kind of aforementioned lock-in situation is another major risk of outsourcing. Tsai et al. (2012) identifies this kind of lock-in situation as a dependence risk. The company is now dependent on the service provider to a critical degree. This kind of problem affects the strategy of the company since they might lose some of their flexibility by being too dependent on the service provider. Yang et al. (2007) state that loss of control is also a risk of outsourcing. Tsai et al. (2012) identifies this as a competence risk. This means in practice that a company loses control of its processes or a process to a service provider, which is a bad thing for the performance of the company. Stenbacka & Tombak (2012) argue that companies can lose their bargaining power if they are dependent on only one supplier. Having multiple can help mitigate this problem. Su & Levina (2011) state managers have recently been increasing their multioutsourcing focuses. The contracts are smaller but there is a larger number of suppliers. The supplier network is therefore complex and connected.

Roy & Sivakumar (2012) and Spencer (2005) argue that a company might also lose its intellectual property/properties to the service provider, which can then use them for their own advantages. Mudambi & Tallman (2010) also write about same problems, stating that in outsourcing there are always resource and capability risks. Elmuti & Kathawala (2000) state that outsourcing reduces a company's control over how certain services and products are delivered and produced. This may cause some liabilities to the companies. Gonzalez et al. (2005) argue that the staff of the company may also oppose the outsourcing decision, which causes many problems. For example, the staff might leave prematurely, which then causes a staffing problem in the company.

Other risks include contractual risks such as poaching and shirking. Handley & Benton (2012) and Handley & Angst (2015) write in their article that shirking is when the providers does not provide adequate resources to the outsourcing process by purpose and/or underperforms on purpose. Poaching is the provider is taking information from the company and using it unauthorized in their own actions. According to Herath & Kishore (2009) most of the outsourcing risks stem from degree of expertise in outsourcing on both client and vendor side, availability of suppliers, asset specificity issues such as training of vendor or client personnel; modification of processes to accommodate clients tools and systems; investment in equipment, hardware etc., uncertainty, relatedness, measurement problems, loss of institutional knowledge. A company can experience loss in internal know how with outsourcing. Service provider might also have huge disparities, a company might promise something that they in actuality cannot provide. Kedia & Lahiri (2007) state that opportunistic behavior from the supplier's side can lead to cheating, dishonest behavior, and distortion of information.

Most of these risks can be alleviated by making the outsourcing contracts very specifically. Strange & Humphrey (2019) and Spencer (2005) argue that contracts

are a good method of mitigating outsourcing risks. They also emphasize standardization, direct and embedded coordination, and strategic alliances as ways to reduce outsourcing risks and loss of control. Elitzur et al. (2012) also emphasize the importance of specific contracts to mitigate outsourcing risks, such as moral hazard. Moral hazard means that a service provider has not been truthful about its abilities, resources and liabilities when entering a business relationship with a company. However, Handley & Benton (2012) argue that contracts work the most in individualistic and low uncertainty avoidance cultures. Linder et al. (2002) states that contracts should be flexible.

Elitzur et al. (2012) suggest that contracts should be outcome based in order to minimize such risks. McIvor (2016) found out in his article that over 50% of outsourcing problems stemmed from the fact that they were not included in the outsourcing contract. Contracts are needed since outsourcing processes can be very specific and complex. Arya et al. (2008) argues that making an outsourcing contract with a common supplier can be a smart strategical move to diminish supplier's motivation to deliver the same process to the company's rival. Handley & Benton (2012) and Gainey & Klaas (2003) argue that contracts should have reward and penalty clauses included in them so that the opportunism of the service provider will be reduced.

Planning is also an essential way of mitigating outsourcing risks. Gonzalez et al. (2005) suggest that when planning and executing the outsourcing, firms should not resort to total outsourcing but rather to diversify the outsourcing to different service providers, this would minimize the risk of being too dependent on a single service provider. Leavy (2004) and Linder et al. (2002) emphasize the importance of the right timing when making outsourcing decisions, which goes all the way back to the planning. An organization must be flexible with its decisions, because if the timing is off with the outsourcing decision, there will be problems and more risks. Linder (2004) emphasizes the importance of fluidity in planning

and in the whole outsourcing process. Handley (2012) writes that companies should be putting more efforts in estimating the needed resources to the outsourcing processes, evidence was found that companies that do estimations and plans are usually more successful in outsourcing than those that do not. Gerbl et al. (2016) write that clearly formed goals and well-structured processes decrease the learning curves of such processes, which then makes it easier for providers to learn them. Ghodeswar & Vaidyanathan (2008) also state that a detailed strategy helps to mitigate risks. Vining & Globerman (1999) emphasize the importance of having different strategies on how to make the outsourcing of processes.

Training is one of the key aspects of mitigating risks and ensuring that the outsourcing process is successful. Kaipia & Turkulainen (2017) concluded that the more the company puts efforts in different practices and in the training of the processes the more successful the outsourcing will be. Emphasis should be put on the integration beforehand in order to maximize the results. Gainey & Klaas (2003) argue that it is not advisable to outsource training itself, since it might disrupt the core competencies and the gaining of them inside the organization. The authors state that training enables to organizations to gain new resources, these can be used to mitigating risks. Quality is also an important aspect of both training and outsourcing. Malik et al. (2012) argues that quality should be one of the main focuses on training, this will ensure that there will be less problems with quality in the future. Great ways to manage quality are for example, information sharing, teamwork, and continuous improvement. Daityari et al. (2008) argues that there should be a sufficient amount of staff ready for the transferring of the processes in order for the outsourcing process to be successful. The staff should also have good skills for outsourcing. Useem & Harder (2000) write that managers, for example, should have good deal making, cross-functional team and joint venture skills, for outsourcing to be successful.

Gerbl et al. (2016) argue that outsourcing is related to incremental learning and that if a company has good outsourcing process capabilities it will more often succeed in outsourcing. Whitaker et al. (2010) argue that prior experience is essential for organizational learning, if a company has prior experience on different situations it can use to its advantage on training situations as well. It is important to develop different routines that can be taught and transferred to service providers. Processes that are codified are easier to transfer. Useem & Harder (2000) change management is an essential skill for companies to have if they want their outsourcing processes to be successful. Tate & Ellram (2009) emphasize environmental analysis and strong leadership in successful outsourcing. Providers capabilities, business and resources must be understood. You must know who you are going to be working with and what you are buying.

Handley & Benton (2012) and Power et al. (2004) argue that culture is a significant part of managing interorganizational relationships, so it then plays a really big part in outsourcing as well. Focusing on improving possible cultural problems is a great way to mitigate outsourcing risk, since culture affects so many different aspects of outsourcing. Societal norms, value systems and working cultures/ways must be taken account for in outsourcing. Quinn (1999) argues that cooperation and communication are key elements in mitigating cultural problems in outsourcing. Handley & Angst (2015) state that cultural distance determines the quality of the outsourcing relationships. Kedia & Lahiri (2007) write that at worst cultural distance might have very negative effects on the outsourcing process. Handley & Angst (2015) argue that contractual governance is more suited for individualistic cultures and works better in them. The authors state that managers should know the societal norms and the working culture in order to decrease the possible risks of outsourcing.

Herath & Kishore (2009) and Manning et al. (2015) write in their articles that among other risks cultural risk pose problems for outsourcing and these include

language barriers, geographical locations, and time zones. These problems can make managing especially difficult. Manning et al. (2015) argue that location and time zone problems can be minimized by proper coordination and planning. Poor communication causes problems in when outsourcing processes. Unstable geographical and financial situations also increase the risk of problems. Herath & Kishore (2009) and Tate & Ellram (2009) suggest performance supervision and finding a provider with a good cultural and organizational fit to combat the possible risks. Plugge et al. (2013) also emphasize performance supervision in outsourcing. Ang & Inkpen (2008) argue that culturally intelligent companies win over those that are not. The authors define cultural intelligence as the skill to successfully function and manage in different cultural situations and environments. A company should also ensure that their managers are also culturally intelligent and capable of learning about different cultures. Structural norms of the company should also be culturally intelligent. Gerbl et al. (2015) argues that employees with foreign culture knowledge and language skills mitigate cultural risks.

Technological aspects are also important for mitigating outsourcing risks. Mani et al. (2010) argues that since outsourcing processes are complex, they require good technological infrastructures to enable the successful implementation of those outsourcing processes. Coordination and work designing are also key elements to minimize the risks of outsourcing. Since some outsourcing processes can be very complex, they require more resources. For these kinds of situations Mudambi & Tallman (2010) and Tate & Ellram (2009) suggest that outsourcing is handled through alliances, then it might be easier for companies to acquire the needed technological capabilities and resources. Narayanan et al. (2011) state that good technological capabilities increase formalization, which helps with outsourcing processes.

Table 1. Summary outsourcing benefits and risks and solutions on mitigating risks

| | Reasons and benefits | Risks | Solutions on mitigating risks |
|---------------|---|---|--|
| Organisations | <ul style="list-style-type: none"> • Cost reduction • Core competences focus • Gaining more resources and capabilities • Transforming the company and its strategies • Gaining new ideas and innovations • Increased flexibility • Economies of scale • Increased performance • Internationalization • Access to new markets • Increased quality • More tools for business operations | <ul style="list-style-type: none"> • Hidden costs • Outsourcing too much and losing core competences and thus competitive advantages • Contractual threats • Lock-in situations • Loss of flexibility • Poaching • Shirking • Loss of intellectual property | <ul style="list-style-type: none"> • Specific contracts • Strategic alliances • Punishment and reward clauses in the contracts • Planning • Training • Culture focus • Organizational and staff learning • Technological capabilities should be up to date and used properly |

2.2 The Resource-Based View (RBV)

The inclusion of the resource-based view (RBV) into the theoretical framework is simple, it is one of the theories used by managers when analysing and discovering the resources and capabilities that a company has that creates competitive advantages, therefore it links to the aforementioned core competences subject of outsourcing discussed earlier. Logan (2000) also states that outsourcing can be linked with the RBV. Looking into the RBV gives good insights on the outsourcing processes and their reasons.

The resource-based view (RBV) is focused on determining whether an organization has specific capabilities that can be used to its advantages strategically or competitively. One of the biggest researchers in the RBV field is Jay B. Barney. RBV is still one of the dominant views in strategic management and planning. Barney (2001) states that the resource-based view argued that sustainable competitive advantage derives from developing superior capabilities and resources. The RBV is an interdisciplinary approach that is one of the core theories of strategic management. The resource-based view can be considered interdisciplinary because it was developed within the disciplines of ethics, economics, management, law, supply chain management, marketing and general business. RBV focuses on an organisation's internal resources as a means of organising processes and obtaining a competitive advantage. In the resource-based view, strategies or competitive positions are selected so that organizations can best exploit the internal resources and capabilities relative to external opportunities. Espino-Rodríguez & Rodríguez-Díaz (2008) and Lo et al. (2012) also cite the RBV when talking about core competences and state that RBV has been explaining outsourcing decisions for over a decade.

Wirtz et al. (2015) and McIvor (2008) argue that according to the RBV, organizations and people try to maximize their capabilities and advantages. Information

and markets also differ according to the theory. Barney (2001) writes: "Overall, this work shows that firms that build their strategies on path dependent, causally ambiguous, socially complex, and intangible assets outperform firms that build their strategies only on tangible assets." The RBV can be applied in many varied ways and regarding outsourcing it is linked to the core competences of the company and how to analyze them. Barney (2001) argues that with the RBV organizations are capable of identifying resources and capabilities that are valuable, rare, inimitable and non-substitutable. RBV is therefore a useful tool for companies and organizations to see what their core competences are and what to outsource outside of the company.

The RBV has been used for years in research and Barney et al. (2011) state that there is evidence to support its maturity. The RBV has also done its part on diversifying the research literature. And indeed, there has been criticism and critics over the RBV over the years. Priem & Butler (2001) write that "The RBV does not presently appear to meet the empirical content criterion required of theoretical systems". They also state that since different resource configurations can generate same value for companies, they are not the sources of competitive advantage. They also state that the RBV does not take account for the product market, is tautological and has limited managerial prescription. Lo et al. (2012) state that RBV has been criticized on not providing testable frameworks regarding the creation of competitive advantages. On the other hand, Brahma & Chakraborty (2011) and Chi (2015) argue that the RBV is a central piece of strategic management research. They also write that the RBV can be used by managers to analyze the strength and weaknesses of the company in order to do strategic decision. Kraaijenbrink et al. (2010) have also found evidence to support that the RBV stands well against the criticisms made against it.

Espino-Rodriguez, & Padron-Robaina (2006) research in their article the principal works that focus on outsourcing from the resource-based view of the firm

(RBV). The authors also provide a framework that is based on the resource and capability view with the focus of donating to a better understanding of outsourcing. The authors state that the outsourcing research has been influenced by transactions costs economic theory (TCE) and that it has had empirical evidence backing it up. The authors state that "In short, TCE explains the negative consequences of outsourcing specific assets, while the RBV centres on the positive aspect of not outsourcing those activities comprising specific assets." In their research the authors found out that that the two theories complement each other. The authors also state that outsourcing depends on the strategic values of the capabilities and resources. Holcomb & Hitt (2007) argue that both the TCE and RBV affect strategic outsourcing, which they define as when providers offer unique capabilities in markets and these capabilities complement existing capabilities in the company's value chain.

2.3 Transaction Cost Economics

Transaction Cost Economics is also a very prominent component in outsourcing research and literature. It is mentioned in many of the articles referenced in this thesis. Therefore, it was decided that it would be suitable to include information about it in this theoretical framework section, to further clarify the motives and aspects of outsourcing decisions and actions. Chi (2015) argues that TCE is a core theory of strategic management and therefore also outsourcing.

Logan (2000) writes in his article that the Transaction Cost Economics (TCE) theory can be described as a theory that emphasizes the transactions rather than technologies or commodities. The author also states that the theory can be linked into outsourcing, therefore the theory is included in this theoretical framework. TCE aims to provide service improvements and cost reductions for the user. (McIvor, 2008) argues that in TCE companies will make outsourcing decisions in order to cut transaction and production costs. The theory also suggests in using

governance as a way to minimize the opportunism of the service provider. Zenger & Argyres (2010) state that companies will, by transaction logic, make their outsourcing decisions for example, by the fact that when something is cheaper to be outsourced outside the company, the company will execute this decision. Meaning that if a process can be done with less costs outside of the company, it should be done outside of the company, since it is more beneficial for the company cost wise. The authors also argue that transaction costs lie in the core of capability differences. Zenger & Argyres (2010) and Kim & Mahoney (2010) state that one of the focuses of TCE is on how companies and organizations can get quasi-rents and benefit from them.

McIvor (2008) and Mello et al. (2008) also agree with the fact that TCE has been significant in outsourcing research. In TCE to outsourcing partner will be selected by focusing on transaction cost minimizing, which in practice means that a provider that provides the services with the lowest transaction costs usually gets the outsourcing deal. Sia et al. (2008) states that transaction costs depend on asset uncertainty, specificity, and transaction frequency. By minimizing asset specificity companies can achieve more flexibility and thus be more agile in the different markets and environment. According to Tate & Ellram (2009) asset specificity in practice might mean training, hardware, software, and employee development. TCE has also been the subject of criticism. Lo et al. (2012) write that TCE is not able to account for organizational heterogeneity and on how resources matter in interorganizational relationships.

Table 2. Transaction Costs Economics versus the RBV of the firm (Adapted from Espino-Rodríguez & Padrón-Robaina, 2006, p. 8)

| | TCE | RBV |
|-----------------------------------|--|---|
| Unit | <ul style="list-style-type: none"> • Transactions | Resources and capabilities |
| How the theory perceives behavior | <ul style="list-style-type: none"> • Opportunistic • Limited rationality | <ul style="list-style-type: none"> • Focus on routines and working methods, no need to know everything. |
| View of outsourcing | <ul style="list-style-type: none"> • Assets and numbers linked to the transaction • Focuses on the individual analysis of the transaction • Transaction frequency | <ul style="list-style-type: none"> • Distinct resources • Analyses the resources as a whole • Skills and capabilities • Focus on the supplier's experience level • Focus on complementary capabilities |
| Criteria of outsourcing | <ul style="list-style-type: none"> • Focus on keeping production costs and transaction costs as low as possible | <ul style="list-style-type: none"> • Value creation and management |
| Organizational effect | <ul style="list-style-type: none"> • Improved efficiency • Superior strategies • Focus on tactical and operational decisions | <ul style="list-style-type: none"> • Gaining competitive advantage • Focus on strategic decisions • Improvement of organizational capabilities |
| Risks | <ul style="list-style-type: none"> • Becoming too dependent on the supplier • Hidden costs • Contractual threats | <ul style="list-style-type: none"> • Capability and skill loss • Supplier lacking in resources, capabilities |

3 RESEARCH OBJECTIVES

The aim of this study is to get an in-depth understanding of how a company can implement its outsourcing processes successfully. The company has assigned me to create a framework for their outsourcing processes that they can use in general and especially in the delivery planning team for this framework qualitative methods are being used. For this reason, the primary data for this thesis was collected through individual in-depth interviews with company decision-makers. The company wants to get more information and data on implementing outsourcing processes, since in the future they are going to be outsourcing even more of their processes to either other countries or to third parties.

One of the main problems was to get the people, that were working on the company outsourcing process to tell their stories and opinions regarding it. In order to achieve this a set of questions for each interview was created, some freedom in the interviews was left. The purpose of the thesis is to help the company in the future, regarding similar matters and processes. This research is being done so that the company can be truly helped and so that it is possible to give them beneficial data so that they can improve their processes and achieve success in their future and ongoing outsourcing processes.

The research problem that is being researched in this thesis as of now is how to implement an outsourcing process successfully from a logistics team to a service provider. Another research question is what needs to be improved at the company in order for the company to implement outsourcing processes more successfully. There are many different aspects to an outsourcing process that must be taken account for, these include the processes, instructions and instructors, different cultural and budget aspects. This Master's thesis has four main key concepts, such as implementation, governance, outsourcing, and international busi-

ness. The concepts of the theory part of this thesis include concepts of organization culture, capabilities, resources, management, contracts, control sequences, outsourcing, and contract hazard.

Other research objectives and questions this thesis will research are what went wrong in the previous outsourcing process and what does the company need to learn in order to implement their outsourcing processes better? What does the theory suggest, regarding successful implementation processes? What kind of a framework does the company need for their outsourcing processes? What cultural aspects does the company need to take account for in order to implement outsourcing successfully? Does the company have the right tools and resources in order to successfully implement their outsourcing processes? What kind of contractual aspects are affecting the company's outsourcing process in this case?

The goal of this thesis is to produce something that can benefit both the researcher of outsourcing and the companies implementing it. The objective is therefore to create something that has clearly both theoretical and practical implications and suggestions. The objective is to compare the theoretical data and the data from the interviews and create a framework for successful service/operative process outsourcing based on that information. The aim is that the framework can be used when aiming to have successful results from outsourcing.

4 DATA AND METHODOLOGY

4.1 Data

Regarding the methods that are going to be used in researching this thesis topic, this thesis is going to be a case study. K. Eisenhardt has done a lot of research, regarding this method as mentioned in the theory section of this research plan. This thesis will have a framework and this thesis will be a case study of the companies different outsourcing processes that it has taken. This framework is formed by comparing the theory that I have gathered and the data I have gathered from the company about the different outsourcing processes. By comparing these two data, I will form my framework for the company, in order for the company to successfully implement their ongoing and future outsourcing processes.

This thesis is a qualitative one. Along with the theoretical data, data will be collected by interviewing some individuals regarding outsourcing at the company that asked for the conducting of this thesis and therefore the framework in it for them. The aim was to interview 20 people. In order to achieve this, a set of questions for each interview was created, some freedom in the interviews was left. The purpose of qualitative interviews is to produce data for the research by focusing on issues related to the topic under study and the research questions. The information from the interviews is compared to the data that will be acquired for the theory section of this thesis. This information is based on previous researches, theories, and science.

This type of semi-structured interviews works fairly well, when gathering data in these kinds of case studies. Challenges for semi-structured interviews may be encountered since all topics should be covered in every interview. Freedom should also be given to the participants. Still, this kind of semi-structured form

allows data to be captured in an efficient way and different viewpoints and opinions will be noticed. Interviews act as a primary data in this thesis. The secondary data for this study was collected through a web-based approach focusing on the identification of different scientific articles and their subjects regarding mostly on outsourcing. Focus was on quality articles with information that would complement the data from the interviews.

The data gathered from the interviews focuses on the background and the reasons why the previous outsourcing failed. Specific data was gathered, that focuses on the details of the case, so that a bigger picture could be formed out of all the aspects that went wrong about the previous company outsourcing process. Questions were asked about the backgrounds of the company's previous outsourcing processes and what were the reasons why they failed. The data will be analyzed by using cross-sectional analysis, by using the Gioia method. The data from the interviews, will be cross analyzed with the theoretical data I have gathered. The data will go through an iterative process of cycling among data and theory, to clarify the findings, relate them to existing theories, and clarify my suggestions for the framework. The goal data analysis is to identify independently the theoretical constructs, relationships, and longitudinal patterns within the previous case and with respect to my research questions.

4.2 Method

There has been a lot of previous studies made about outsourcing and there is a lot of theory available on the subject. There is also theory available about the case study, mainly by K. Eisenhardt. In this thesis, a case study is used as a method, so I will be focusing on Eisenhardt theories in my thesis. Next, I am going to give examples of the case study theories that I have researched and focused on.

Case studies are research methods that involve in close, in-depth, and detailed examinations of selected subjects of study. It is important that a case or unit of analysis, has a beginning and an endpoint. Eisenhardt (1989) states that "The case study is a research strategy which focuses on understanding the dynamics present within single settings." A case study focuses on a single or multiple case and studies the phenomena in them, a case study can also be a comparative one, where two or more cases are being compared and studied in order to uncover new and interesting data and information. Eisenhardt (1989) also writes that case studies are liminal stages, because "the process is directed toward the development of testable hypotheses and theory which are generalizable across settings" In her work Eisenhardt has focused on building theories from case study research. Eisenhardt has been particularly influential in management research. Eisenhardt underscores theory building; builds on grounded theory; and prefers multiple rather single case studies.

Eisenhardt's work has been very influential and other researchers have been building on that work. One example is Tsang (2013), who extends Eisenhardt's research by introducing two new methods of theorizing from case studies: identification of empirical regularities and theory building and testing. McCutcheon & Meredith (1993) also extended Eisenhardt's work by applying case study methods into operations management. The authors state that successful case studies require a lot of rigor from the researcher, but in the end, it pays off and provides good data and information. Ketokivi & Choi (2014) have talked about the renaissance of the case study, especially in business and management studies. Siggelkow (2007) states that cases can motivate a research question by (partly) refuting an existing theory, inspire new ideas together with prior theoretical understanding and illustrate how conceptual arguments and causal relationships work in empirical settings.

According to McCutcheon & Meredith (1993) the conductor of a case study does not have much control over the study, they both state that a case study is an objective and in-depth examination of a current phenomenon. The researcher does not usually have capabilities of manipulating the events of a case study. The authors argue that a case study focuses on understanding why things happen in certain circumstances. The researcher examines the conditions of the phenomenon and then tries to come up with a plausible explanation for them. A case study is usually used for new theory development or researching new circumstances. It is possible that a case study expands, supports, or criticizes existing theories. A proper case study requires clear goals, structures, and guidelines. The authors argue that a case study researcher aims to create a logical analysis in their case studies. Performing a successful case study requires the researcher to see different patterns in the data and to match it.

Siggelkow (2007) states that researching single cases can be very powerful and beneficial. The fact that case studies are grounded in real life makes them appealing to the reader. Even if the case study is not, it can motivate other researchers for further research of the topic. The author argues that in order to conduct a successful case study, compromises must be made, since case studies often require a lot data. It is possible for a case study to complement existing theories and bridging some gaps in them. Case studies can also provide excellent illustrations and giving concrete examples.

Tsang (2013) argues that theory “combines explanations that focus on environmental factors and internal-stakeholder perspectives”. In order to understand more complex phenomena’s “thick description, exploratory research and comparative case analyses are needed”.

Ketokivi & Choi (2014) and Fisher & Aguinis (2017) state the framing and conducting a case study can be problematic. They also introduce a new mode of conducting a case research called theory elaboration. This thesis is also focusing on theory elaboration. Theory can be elaborated by introducing new concepts, examining boundary conditions or by conducting an in-depth investigation of the relationships among concepts. The difference to theory-testing is that empirical findings are not expected in theory elaboration. A case study should make sense and still be situationally grounded. Both authors disagree with Eisenhardt of the role of the case research, they argue that the role of the case research is not to develop testable hypotheses. A critical failing point for case studies is when a researcher cannot see or connect the dots of the concept and the theory. A case study researcher does not discover any conclusions, but rather constructs them.

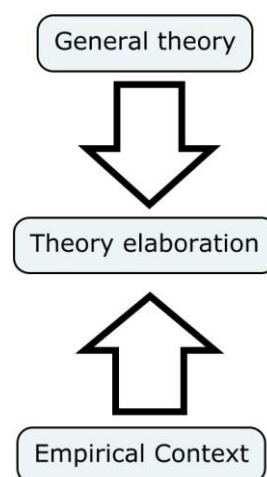


Fig 4. Mode of thesis case research (Adapted from Ketokivi & Choi, 2014, p. 233)

4.3 Data collection

For the purpose of this study, data from different employees of the company, from different backgrounds and working titles were interviewed regarding the subject of outsourcing. The participants have had prior experiences in outsourcing processes to outsider supplier. The aim of the interviews was to collect data

about these different outsourcing processes, these processes were service outsourcings. These interviews are the Primary Data of this thesis. Due to the need of the participants to have knowledge about the company strategy and activities and planned actions in terms of outsourcing various processes, the company representatives were all active members of the organization and part of the top management team as well as the middle management team and on the operative level. Positions of interview partners include Head of Partner Operations, Partner Operations Specialist, Category Manager, Head of Development and QEHS, Materials Manager etc.

The interviews were conducted over a period of three months during January and February 2020. Leaving at least several days of time between interviews allowed reflecting on their contents and adapting the interview questions based on the experience gained as well as transcribing the interviews. Most of the interviews were conducted via Microsoft Teams and lasted 45 minutes. The semi-structured interviews were conducted using a Framework of in-depth questions. The interview framework (see Appendix 1) consisted of 10-15 questions regarding outsourcing and its different variables. Formulation and order of questions varied somewhat depending on the issues addressed by the participants and the different sets of questions were therefore, often mixed throughout the interviews. During the interviews, some freedom for participants to focus on aspects they considered most important was left. Due to the high expertise of the interview participants, many questions did not have to be asked directly, but interview participants would often answer several questions simply by opening up on the subject. This allowed gaining an in-depth and broad impression of issues regarding outsourcing within the different teams.

Transcribed interview material resulted in 80 pages of data. Respecting the ambiguity wishes of the interview partners and the strategically sensitive issues discussed in the interviews, names of participants and companies are

not published in the study.

The data in the form of interview transcripts was complemented with secondary data from the scientific articles. The criteria for the selection was that the sources needed to cover the main theoretical focuses, that were stated before, such as outsourcing, RBV and TCE. Search words included Outsourcing, Outsourcing capabilities, Outsourcing benefits, Outsourcing frameworks, Resource-based view, Transaction costs Economics and similar related terms in English.

4.3 Method of analysis

This thesis uses a qualitative descriptive method in order to form a thematic form of analysis. Thematic analysis focuses on identifying, analyzing, and reporting patterns or themes within data by organizing and describing the data in detail. In this thesis, the specific method was the Gioia method. Applying this method meant that the data was being read carefully over and over again, while at the same time encoding important aspects from the data in order to form a three-staged data structure Gioia et al. (2013). There were two types of themes formed with the thesis. The first theme and concept were from the interview data, which can be considered as more practical data. The second batch of data consisting of the theoretical articles, forms the second theme and concepts, which is more abstract and theoretical. After developing these two themes the data is then lumped into even bigger and broader themes.

The themes arise from the data that are of importance in relation to the research questions. The researcher determines what of the themes from the data set are important for the case and then presents them. In this thesis the themes are closely linked to the data. The theoretical framework of course has some varying degree of influence to the study. For example, the interview ques-

tions of this thesis were based on the theoretical data and this may have influenced some themes of the interviews and their analysis. This thesis has quite general themes and they reflect the key things that were discussed in the interviews and with the secondary data. Transparency is ensured by meticulously documenting all the steps. One of the reasons why the Gioia method was chosen was that it suits well in creating a bigger picture of the studied situation.

Audio-recorded interviews were transcribed, and the transcripts were then checked back against the audio recordings in order to ensure accuracy in terms of transcription and translation. Collected theoretical material was reviewed and those not relevant for the context of the study were excluded from the data set. This data was then analyzed by using the Gioia method and the data was put into the Atlas.ti software. The themes we identified and collected into different groups with the software. In practice this meant that the data was being read over and over again and certain themes and subjects were meticulously searched and formed. 241 themes were found in general, which were then formed into 17 bigger picture themes. The next step was defining and naming the themes and creating 3 large overarching themes that summarized the sub-themes. The final step was writing the analysis on the basis of the identified themes and using evidence for the themes in the form of data extracts.

Table 3. Overview of Interview Participants and Interview Details

| Role in outsourcing | Participant position | Date |
|---------------------|-------------------------------|-----------|
| Planning | Head of Partner Operations | 8.1.2020 |
| Transferring | Partner Operations Specialist | 8.1.2020 |
| Transferring | Head of Development and QEHS | 18.1.2020 |
| Planning | Category Manager | 4.2.2020 |

| | | |
|---------------------------|----------------------------------|-----------|
| Transferring | Material Management Specialist | 5.2.2020 |
| Transferring | Logistics Specialist | 11.2.2020 |
| Transferring | Order Management Manager | 18.2.2020 |
| Planning and transferring | Director Development Engineering | 21.2.2020 |
| Planning | Category Manager | 28.2.2020 |
| Planning | Sourcing Manager | 3.3.2020 |
| Transferring | Key User | 5.3.2020 |
| Planning | Project Manager | 6.3.2020 |
| Planning and transferring | Business Controller | 9.3.2020 |
| Planning | Project Manager | 10.3.2020 |
| Planning | Sourcing Manager | 10.3.2020 |
| Transferring | Business Controller | 11.3.2020 |

5 FINDINGS AND ANALYSIS

5.1 General information

This section is structured according to the overarching themes derived through the thematic analysis of the data. The overarching themes were kept rather general and the sub-themes provided an overview of the individual responses and opinions related to the large overarching themes. The interviews and the publicly available data sources addressed very diverse aspects of Outsourcing and the themes cover the. In the following these themes will be closely described and the subthemes that emerged within over-arching themes will be outlined in order to create an impression of what factors companies considered being important in terms of outsourcing processes to a service provider. An overview of the codes, sub themes and overarching themes that have been identified throughout the analysis process is given in. The findings are equally based on the interview data as well as the data collected from publicly available sources. The opinions given in the findings reflect the empirical data and are underlined with relevant quotations from the data. In order to ensure the confidentiality of the interview participants no information that could identify the participants or the company they represent are given in the case of interview material.

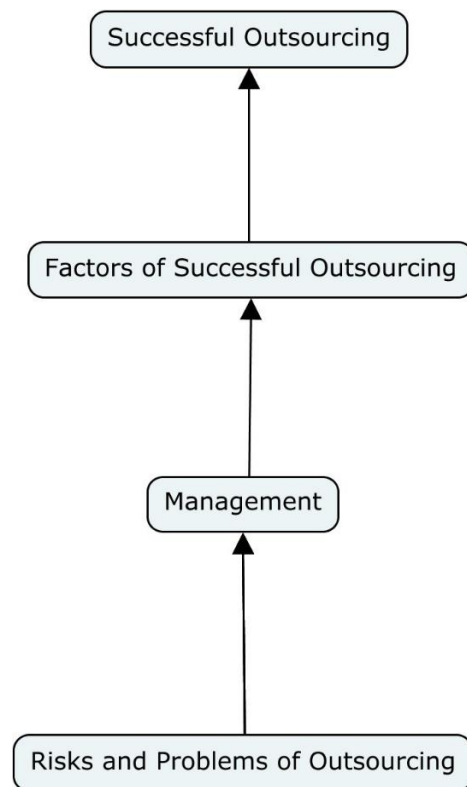


Fig 5. Outsourcing themes

5.2 Risks and Problems of Outsourcing

The overarching theme on Risks and Problems of Outsourcing includes four sub-themes covering the subjects of risks of outsourcing, outsourcing problems, culture and contracting. The focus of this overarching theme is to highlight the different risks and problems that the interviewees identified regarding outsourcing.

Risks of outsourcing

Previously many of the risks of outsourcing were identified in the theory section of this thesis. During the interviews similar risks were identified, so there is support for the theory sections proposed risks. Most common risks that were identified with interviews included that the outsourcing would take a long time to implement, loss of control, loss of intellectual property and loss of core competences.

These findings therefore support the theoretical findings about outsourcing risks since they cover similar topics.

Regarding the risks regarding the timeframe of outsourcing it was found out that training can take a surprisingly long time and that it is a constant process that could go on for a long time:

“Somebody here told me that he has been training the Indian guys 15 years and it's still not good. So is that something that is to be expected in the future, that it's not getting any better even if there is like 1 year, 2 years of training, it's hard to know.”

This finding would be in line with the theoretical finding about outsourcing risks that outsourcing can take longer than it is expected to take.

Regarding the loss of intellectual property, during the interviews it was found out that there is always a risk of that happening but that they are mostly negated with good contractual governance. So, there was little evidence to support the theoretical findings on the same subject.

Loss of control was also one of the risks of outsourcing in the theoretical section. During the interviews it was found out that some loss of control situations can arise, but they are mostly negated with contractual governance and good planning:

“You may lose control for a small period. There can be chaotic situations even the coronavirus is a good example of that, but we are getting back on control. But it may take some time just to organize internally everything and then of course together with the supplier.”

So, there is little bit of evidence of loss of control being a risk factor of outsourcing, there are already measures to negate these effects in the company and in the processes, which is a good thing.

Support was found during the interviews for loss of core competences being a clear risk factor of outsourcing. This would correspond with the theoretical findings on the topic.

"Another problem is the loss of core competences and how to replace that."

"Critical things to the company should not be outsourced, core competences should remain. It is not beneficial to have everything inhouse or from just one supplier."

The persons that were interviewed put a lot of emphasis on highlighting the fact that a company should think what do they want to outsource? What different processes and what needs to stay in the company. This was one of the most critical things regarding planning. So, the risk of losing core competences that are hard or impossible to get back is high according to the interviews.

Contracting

Contracting was one of the ways that was identified in the theoretical section as a way to mitigate the risks of outsourcing and as previously stated it was used by the company to mitigate different risk, so there is corresponding support for that. However, in the theoretical section some different risks regarding were also identified. Most common risks of contracting that were identified with interviews included hidden costs, roles that were not defined enough.

Regarding hidden costs it was discovered with the interviews that everything needs to be precisely contracted regarding costs and price, this will negate the possible hidden costs that might occur. There are other way of hidden costs appearing, but they are also a risk of contracting.

"It's been costly exercise and the outcome has not been as you thought it would be. It is always a risk when you do outsourcing."

"Then we have had hidden cost problems and profit expansion problems and there is no use in the outsourcing relationship anymore if you think about the costs."

“These are of course coming from because they didn't know all the things and then of course if they didn't ask these things in advance from the supplier. Of course, they are not able to give you the correct price and then it feels like hidden costs because the costs were not defined.”

“This has cost so much with all the problems and I don't know if we have any benefit from the transfer till now.”

“That's never a good thing. Then we have a client that is not satisfied and has increased costs.”

These findings correspond with the findings in the theoretical section on the same topic.

As said, everything should be as defined as possible in the contracts, the roles of the personnel as well. One of the risks that was found out during the interviews was that some of the roles were not defined enough. There are only small mentions of this in the theoretical section.

“It was all kind of messy and many times I wondered that who is in charge of all this and then who can I contact now because I know that this isn't working, and everything is going so badly. I remember many times asking, who has been doing the planning and who is in charge of all this?”

This topic also links with management and planning, but it is still a risk and a problem of outsourcing, the company clearly had many issues with not having defined roles during the different outsourcing processes.

Outsourcing Problems

There are many different outsourcing problems identified in the theoretical section and many of the same problems appeared during the interviews, theory and the interviews therefore correspond to each other and have similar findings. Most common problems of outsourcing that were identified with interviews included

lack of training, instructions, planning, information, scope, skills and documentation, lack of resources, too many tasks, roles not defined, performance and quality problems and no testing.

During the interviews it was found out that there were many things lacking in the outsourcing processes, which caused major problems for the implementation. The theoretical material also warns about outsourcing problems and the lack of different necessary aspects when outsourcing processes, therefore the data from the interviews corresponds with the data from the theoretical side.

"Most of the problems are linked to the fact that our own processes that are being transferred are not properly understood, lack of instructions and proper documentation."

"No, we didn't get any materials except the schedule already created for us."

"I think the whole thing was done too much in the upper level like they didn't quite understand who did the planning that how much it takes to actually train all the work to the new guy"

"I don't think the guys that did the planning really understood what it takes to get the information transferred. I think the whole starting point was kind of weak because they were planning in upper level and they didn't communicate enough with the people that actually are doing the work and then they just did the plan and they gave it to us like hey this is the plan just execute it. I think it went wrong from the very beginning."

" Never enough time or resources. Too tight schedules and the resources are not enough for the schedules."

"Well unfortunately it is always let's say I feel we have quite often a having a lack of resources in in in the process and in the selection process due to the fact that people are working in some or having so many fields of responsibilities."

"Yes, the partner was lacking in training. What was lacking was the consideration of the processes themselves. Transition training was a never-ending process."

Above there are many quotes directly from the interviews stating the lack of many key elements of successful outsourcing, time, planning and training being the biggest problems. These findings correspond with the theoretical findings,

without enough time, resources and planning outsourcing cannot be very successful.

Other problems were also found during the interviews regarding outsourcing.

“Outsourcing activities are an extra program on top of the normal duties, and this has been the case on every outsourcing that I have been involved in. I have been also hearing similar things from different companies.”

“The training schedule was too tight. I had a small team and it was pretty much me who did the training. So, I was pretty much booked for the whole month and I had to do the training almost the whole day, from the morning till the end of the day. It was very tiring. They should have realized that it takes time.”

“Everyone was nearly in a nervous breakdown mood because we needed to do the training which took many hours in a day and in addition to that we needed to take care of daily tasks and we just didn't have enough time and in the end we did the training during the day and in the evening with it the daily tasks at home office and then we were just very tired and I don't think we were even so capable to give sufficient training at the end when we were lacking all the energy.”

“In some cases, the partner has jumped too quickly to the relationship and the quality has been lacking.”

Similar problems were identified in the theoretical section. So as a summary many of the problems that were identified with the theoretical data were found during the interviews, so both data complement each other.

Culture

Culture was also one of the aspects of outsourcing that generated both risks and problems for outsourcing. The theory data in this thesis also found evidence to support this claim. The interviews that were conducted also found similar evidence and therefore complement the theoretical findings. Most common cultural

aspects that generated problems and risks to outsourcing were misunderstandings and communication problems as well as general cultural things like different working methods. Not much evidence was found for time zones and geographical locations causing problems, therefore there is no evidence to support the theoretical data found on these subjects.

“Global culture there are very often times misunderstandings between us and the service provider, especially when sharing emails or just having a phone conference or even meeting face-to-face all those have a risk of misunderstandings.”

“In the Asian culture that you would need to define so clearly all and not kind of ask for the supplier to create documentation and learn.”

“Basically, this that when you are changing and implementing something new in Europe and the more you go North the more the change in the implementation in the beginning is really, really difficult and there is a big resistance in the people. In India it is so that there is no resistance to anything everything is OK, and you can start whatever but there is not at all any kind of consistency, so you need to create the consistence yourself.”

“We expected too much from the service provider to somehow mitigate these cultural differences.”

“Culture is the biggest problem. People are complaining that the Indians are too precise they are asking everything they do not make the decisions; they might ask stupid things that the Finish they just don't ask. But on the other side is that as Indians are so precise, they don't take risks then also the output is good.”

“The whole mindset is kind of different and if you say like here in Finland that I need to get something done ASAP to them it means that within 24 hours so there are big differences in what is said and what is done, there needs to be almost like typed down version and it must be gone through step-by-step.”

“It's a constant problem that in India the culture is the way, that it was just constant flow of people. New people come in old people go.”

The quotes from the interview data show that cultural aspects can create big problems regarding outsourcing, the same thing was found out in the theoretical data. Culture remains one of the biggest challenges of outsourcing.

5.3 Management

The overarching theme on Management includes five sub-themes covering the subjects of capabilities, training, planning, supplier selection and planning. The focus of this overarching theme is to focus on the management skills that persons involved in the outsourcing process should have in order to mitigate the risks and problems regarding outsourcing, these skills were identified by the interviewees during the interviews.

Capabilities

Capabilities are needed from the planners and from the people transferring the processes in outsourcing. The same thing was found out in the theoretical side, so the interview data and the theoretical data complement each other. Most common capabilities that the interviewees emphasized as mitigating risks and problems of outsourcing are risk, task, time, resource, role, supplier relationship, change and project management skills.

“Biggest thing is managing the whole outsourcing process and not dropping the ball. Just don't drop the ball and the implementation will go smoothly.”

“Good Planning and prework is the key to success. Have enough time to make the proper plans and also listen to the relevant stakeholders from the management. You get some guidelines for team and maybe the follow up is really important thing that I want to highlight. Gathering feedback after the outsourcing.”

“Well first plan what needs to be outsourced what needs to be transferred which process is and what the more precisely what functions are included in those processes. Determine how much time is estimated that these processes are transferred then setting the timetable the schedule of transferring an endless and modifying it if trying to follow the schedule to keep up with the schedule. Writing very precise working instructions. Giving good trainings, multiple trainings if needed to the persons who are who will start doing the process in the following the process or like me and my colleague here is doing

not only transferring and then follow up. It needs to follow up and made sure everything goes well."

As a summary of the theoretical data and interview data, management needs to have the right capabilities in order to implement outsourcing successfully. The findings indicate that change management and planning are really important capabilities. Feedback and communication skills are also essential. These quotes from the interview data complement the findings that were done in the theoretical side.

Supplier selection

During the interview's good supplier selection processes and skills were identified as a mitigating factor on outsourcing risks and problems, the same was found out in theoretical section, thus corresponding with the interview findings. Most common themes in supplier selection were having multiple suppliers, visiting the supplier, contractual governance, and key performance indicators.

Contractual governance is one of the main performance and quality controls that companies do in outsourcing to ensure the needed quality and performance and also to mitigate the risks and problems of outsourcing. The data from both the theoretical side and from the interviews supports this finding.

"Starting from partner selection and contracting, there I would recommend agreeing on the selection criteria and actually the KPI's, what are we looking after, why we want to make this change and how are we going to see the impact. Somehow paint the journey on the wall and make it clear to everybody that this is what we are looking after. So, during contracting period make it clear to them what needs to be optimized."

"Following your kind of the key criteria that you have defined so basically doing a proper evaluation of the candidates then also like challenging the candidates during the process you know making them really believe that you are doing serious business there and so forth. Then maybe the reference cases."

"We always have in all the contracts termination clause in place if it turns out that the supplier for some reason or the other is failing completely then we are able to terminate that contract with reasonable time notice as well."

"I said if you lose your own capacity and then you haven't got contract if key persons are leaving you do not know what happens, what are the consequences and that might be dramatically bad. You have to have an agreement to show that you require real replacements if this happens, so contracts are important."

Partners should be selected carefully, and all of the partners should be investigated thoroughly, this reduces risks and problems. Management is the key factor on seeing that the partner selection gets done in a proper way. One of the things management can do to ensure this is to implement contractual governance methods. This claim is supported by both interview and theoretical data. The findings indicate that mapping the candidates, then negotiating, signing the contracts, and then finalizing the deal and managing the relationship is the right structure to do the supplier selection. Environments and situations change constantly and it is getting harder and harder to estimate the requirements from the partner.

Key Performance Indicators (KPI's) were identified by the interviewees as one of the most important things in order to monitor the agreed performance and quality of the service provider and the processes. KPI's are part of the contractual governance that companies do in outsourcing processes. In the theory data there are some mentions on agreeing on certain metrics but not that much, so the theoretical data does not support this finding from the interviews that much.

"We have contractual key performance indicators, KPI's. Typically, they are not that many, about a handful of KPI's which are measurable so we can measure the performance and quality and then we have data. We have reliable data. That is the main key quality driver. KPI's are the contractual ones which we are closely monitoring"

"Well we have these certain KPI's that the service provider must meet."

"We have certain KPI's and other indicators that we monitor, and we establish these in the contracts."

Many of the interviewees clearly appreciate the KPI's as a good way of monitoring the performance. KPI's help with analyzing and adapting to different situations, they are a good way to collect reliable data, which is suggested to be done in order for the outsourcing to be implemented successfully. Therefore, it is an important tool for the people responsible for the outsourcing and management.

During the interviews it was found out that having multiple suppliers (service providers) and visiting them decreased the risks and problems, both statements are supported by the theoretical findings and the interview data. Management can use these methods in order to implement outsourcing successfully.

"Our risk management is usually planned as such that we are not relied on just one supplier and that is not the possibility for us."

"We invite two to three suppliers a bit depending on the case as well and then there was two kind of a second or third round of iterations before the final selection for the partner going forward."

"After when all the trainings had been given, we visited them. Just to make sure that they get started well with the processes."

"We visited Chennai last year two times, so we saw our colleagues. Yeah, I would say that it's more beneficial to have face to face training for example. And maybe it's also been easier to raise the questions or doubts done by phone when you see the trainer so I would recommend going to the location to see them face-to-face."

"Maybe to actually go and meet them and understand what kind of things they are doing and what it takes to do the tasks and it really understand the complexity if something is really easy or something is really complicated."

Both data sources identify multiple suppliers as a great way to minimize risks and avoid lock-in situations. Multiple suppliers also enable companies to adapt quicker to changing conditions. Having backups is a good tool for the management in order to implement outsourcing successfully

Planning

Planning is one of the most essential skills to master if one wants to mitigate risks and problems of outsourcing. Both the theoretical data and the data from the interviews supports this claim. The interviewees stated that planning was the most important part on combating risks and problems. Planning is essential to management in order for it to implement outsourcing successfully. Most common aspects of planning were pre-agreed criteria, reference cases, mapping, meetings, gathering a good team, pre-agreed criteria, preparation and defining the targets and standards

“Good Planning and prework is the key to success. Have enough time to make the proper plans and also listen to the relevant stakeholders from the management. You get some guidelines for team and maybe the follow up is important thing that I want to highlight. Gathering feedback after the outsourcing.”

Well the first the plan what needs to be outsourced what needs to be transferred which process is and what the more precisely what functions are included in those processes determine how much time is estimated that these processes are transferred then setting the timetable the schedule of transferring the processes.

“Define the objectives first, what you want to reach, is outsourcing an option or not. Make clear what is expected of the service providers. What kind of KPI’s and make the contract accordingly. Take enough time. Learn to work with a new partner.”

“Clear reference cases and then trying to contact those references to see that what is ending for example the feedback from their real customers.”

“We had monthly steering meetings, where we went through the plans and what has been successful and what hasn't been yet and those kinds of things. In those meetings the top management got our feedback and knew how the project was going.”

“Piloting periods and testing are key elements in enough understanding the potential risks. If there are cases without any piloting, you cannot find out all the potential risks or challenges in this very narrow selected testings.”

To summarize the quotes, it can be said that planning and testing is essential for the outsourcing to work properly in the future and planning also determines a lot whether an outsourcing will be successfully implemented or not, therefore planning should be one of the first priorities of the management. According to the data it should be planned what needs to be outsourced and what needs to be transferred, which process is and more precisely what functions are included in those processes? It must be determined how much time these processes are taking when transferred. Then set the timetable and the schedule of transferring the processes. A good team should be gathered so then you do not need to do it all yourself. Then think and plan with the team, test it and pilot it.

Training and learning

Training and learning two important management aspects as well in order to mitigate the risks and problems of outsourcing. Training was more emphasized in the theoretical data than learning. The data from the interviews emphasizes both, so the interview data mostly corresponds with the theoretical data. Most common aspects of those two subjects were best practice, learn from mistakes, training sessions, plans and materials.

“The core of everything a proper good learning makes the execution as well successful.”

“So, I think the organization itself has learned quite much. We have significant findings most of them are concerning of course about the time spent in this transformation, how to evaluate correctly, what are their resources, how to handle them?”

“We would need to be brave enough to tell about the problem cases openly so that others can learn. Learn from the mistakes and now avoid the same problems.”

“The same persons who were doing the tasks also gave the trainings. We have found out that this is the best way of doing the trainings.”

“Do not underestimate the training. Invest in the training but make sure that company X has responsibility for the training as well in case the persons change.”

"Luckily, our team had great task instructions. So, we were mainly following those during the training."

In order for the management to be updated and using the newest methods, they need to be constantly training themselves and learning. Markets change constantly so it is important that management does not stagnate in their ways and methods, this also enables implementing outsourcing in a successful way.

5.4 Factors of Successful Outsourcing

The overarching theme on Factors of Successful of Outsourcing includes three sub-themes covering the subjects of focus of outsourcing, implementation of outsourcing and steps of outsourcing. The focus of this overarching theme is to highlight the different factors on how what are needed and included on how to successfully implement outsourcing.

Focus of Outsourcing

In the theoretical section many different focus points were discovered regarding outsourcing. During the interviews, many similar focus points were also pinpointed, the most usual being the cost reduction focus in outsourcing. The findings regarding the different focus points correspond with each other, theoretical data, and interview data. The focus points that were found out during the interviews were core competence, strategic focus, cost reduction focus, flexibility focus, harmonization of processes, centralization of processes and standardization of processes. Both the theoretical data and interview data state that successful outsourcing has a clear focus, therefore focus is a factor of successful outsourcing implementation. In most cases the interviewees stated that the outsourcing processes that they were part of had more than one focus points, thus having this kind of an "hybrid" model.

"Typically, these outsourcing decisions are focused on the cost reduction."

“One of the drivers definitely cost is still there the cost driver is still there but additionally in in especially in software engineering area the availability of resources is equally is a big driver to look outside Finland.”

“Within the finance teams of course some had different opinions, but we have our core competences and some competences that we needed to outsource. ”

“Typically, these outsourcing decisions are focused on the cost reduction. The second big driver is the flexibility. Mainly the focus has been cost reduction and the risk management.”

“Depends a lot about the case but sometimes it strategic and we are looking for getting better use of our own resources.”

“So, centralization, harmonization transformation, including automation and then the final objective is to be able to implement the artificial intelligence machine learning cognitive and diagnostics.”

“I would say a hybrid model, but one big aspect was the harmonization of the processes too. So that everything is done in the same way everywhere.”

Outsourcing can have many focuses at the same time but in order for outsourcing to be implemented successfully the focuses should be clear, this is one essential thing that is supported by both the theoretical data and the interview data. A company must know why and what it wants to outsource in order to do it successfully.

Steps of Outsourcing

In this theme the focus is on identifying the needed steps that are required for successful outsourcing. There were some steps introduced in the theoretical section of this thesis, the interview data provided more data on these steps and they complement the theoretical data. Most important steps of outsourcing are planning, right timing and testing. If these steps are taken outsourcing will be successful according to both data.

"Mapping the candidates, then negotiating, signing the contracts and then finalizing the deal and managing the relationship."

"What needs to be really clearly defined is that who does what. So, I have learned very clearly that you need to set the boundaries. Who does what?"

"First you need to understand what can be outsourced."

"So basically it starts with recognizing what is good for the whole organization and what are your core competences and then you start to kind of work at a deeper level and you need to include the relevant stakeholders and together with those stakeholders you start to go deeper, scoping the area. Then you have the context and you have your stakeholders recognized, you work together with the stakeholders and then for you the next step is that you start to have internally understanding what is the scope what we are talking about here. And then next step is typically you start to include suppliers you are asking quotations and you need to have a pretty clear understanding yourself that what is the scope, what are the targets, what is the business volume but you know the full scope what do you talk about and then you include suppliers."

Recognizing the different steps that are included in the outsourcing process is important on whether the outsourcing will be implemented successfully. If a company/organization is able to recognize all the steps and take them in the proper manner and order, they will most likely be successful at implementing their outsourcing processes, this is claim is supported by both the theoretical and interview data.

Implementation of Outsourcing

The implementation phase is one of the most important factors of outsourcing and to perform it successfully requires certain factors to be done well. In the theoretical part some of the factors were discovered and the interview data further broadens these findings, some factors are the same, thus complementing the theoretical data. These factors have been gone through in the last two chapters but

if these factors are done well according to the data the outsourcing will be successful, that is why they are once again part of this last big overarching theme. These implementation factors include defined targets and standards, planning, instructions, backup, feedback, follow up, enough resources and time, meetings, documentation, delegation of tasks, performance and quality monitoring, information sharing, gathering reliable data, efficiency, time scheduling and understanding what you want to outsource.

“Understand what you are going to outsource so understand the scope and the details on the requirements, that's number one. Ensure that you have available the required resources and time. For the planning it really is the core of everything a proper good learning makes the execution as well successful. And having a plan with proper milestones. Make the partner selection carefully based on pre-agreed criteria. Make a contract before the final decision, because then you will have less risk of off a supplier making changes. Do a pilot. Proper pilot that you are trusting that it's working and then follow the implementation and then the end a proper handing over to the ones who take ownership of such the outsourcing.”

“Understand what you want to buy. What is the content with other elements what you want to buy and what you do not want to buy? Then planning and then select the candidates. If you are targeting two suppliers, double or triple that number. Select the best ones from them, two is optimum. And then make a test, start small. Understand the competence level and quality. Then make a good agreement. Do not forget flexibility and the performance metrics. Focus on keeping key players and competences in house and evaluate the quality.”

“Planning must be good and intricate. Time schedule must be realistic. What is being outsourced and when. Cultural things must be understood. Support must be given to the team and to the people. Things should be done as planned.”

“ You should first have let us say your own processes validated. Then this face-to-face training and a good plan for the ramp up and what and then slowly increase ownership of the work so follow-up is also needed. So first check your own instructions that are really up to date. Then face-to-face training give some training for the product itself.

Do not assume anything so you cannot assume anything, so you just need to keep that on mind. Don't try to do it yourself, gather people around you and then think together."

Implementation of the outsourcing requires a lot of focus and resources and it has many aspects to it. If these aspects are done properly and according to the guidelines, that are for example, described here in this thesis, the implementation of the outsourcing will most likely be successful. It is a question of managing different variables at the same time. To summarize the findings outsourcing implementation will be successful if there is project plans, planning and well-defined teams are essential. And then change management and open communication essential things also. Follow-up and feedback need to be on a good level in order for the outsourcing to be implemented successfully.

6 FRAMEWORK FOR SUCCESSFUL OUTSOURCING IMPLEMENTATION

This framework consists of four different sections, that have been divided according to the different phases of the outsourcing process: planning, service provider selection, transferring of the processes and monitoring the outsourcing relationship. The framework and the different sections contain suggestions for each phase of the outsourcing processes. All of the suggestions are given according to the findings made from the theoretical data and the interview data. An illustration of the framework can be found in Appendix 3, the illustration has also been according to the findings from both of the data sources. So, the framework will start from the planning.

6.1 Planning

Everything starts with the planning and according to the data planning is one of the most essential phases in outsourcing and it lays the groundwork on whether the outsourcing is successful or not. If the planning is not done properly many problems will ensue. Suggestions for the planning phase:

First think what you want to outsource, focus on the core competences and the strategy you want to pursue, do you want to have a core competence focus, cost reduction, flexibility, or a hybrid model? This is in line with both the theoretical data and especially the interview data, many of the interviewees highlighted the fact that one should ask before outsourcing what is the focus of the outsourcing and what do you want to outsource. Both the theoretical data and interview data identify the same main reasons for outsourcing which are cost reduction, core competences and capabilities, strategic focus, and flexibility. Ghodeswar & Vaidyanathan (2008) also state that a detailed strategy helps to mitigate risks.

Vining & Globerman (1999) emphasize the importance of having different strategies on how to make the outsourcing of processes. With these findings it is suggested that a company or a team chooses one of these focuses or two of them as a hybrid model as the focus of their outsourcing processes and executes the outsourcing according the outsourcing focus. When planning the focus of the outsourcing and the outsourcing as a whole it is advisable to gather reliable data and information on the outsourcing.

After the focus of the outsourcing is chosen it is advisable to define the targets and standards, also KPI's of the outsourcing. Both the theoretical data and the interview data insist that targets, standards and KPI's for the outsourcing are defined in order for the outsourcing to be successful. Gerbl et al. (2016) write that clearly formed goals and well-structured processes decrease the learning curves of such processes, which then makes it easier for providers to learn them. The interviewees were emphasizing on clear targets as one of the aspects of successful outsourcing. These should be planned before the partner selection and then modified according to the information that the selected partner gives on its processes and services.

When the targets, standards and KPI's are planned and chosen the next step is the plan the governance of these targets, standards and KPI's and time to move to the contractual side. Strange & Humphrey (2019) and Spencer (2005) argue that contracts are a good method of mitigating outsourcing risks. Also, the interviewees emphasized the importance of contractual governance and it was one of the main tools that they used in the company to ensure proper quality of the services that were outsourced. It is good to have already a plan for the outsourcing contracts, the contracts should be very precise and have reward, punishment, and termination clauses. Focus must be put on contractual governance, this important to ensure the proper service quality of the partner.

Before going into the partner/service provider selection, according to both data sources, to plan the implementation of the outsourcing/transferring of the processes at the same time or a short time after the service provider selection. It is good to plan beforehand about the implementation. It is very advisable to reserve enough time and resources for the outsourcing, this is important, since many of the interviewees complained to lack of time and time schedule regarding outsourcing and that was one of the main reasons why there were problems with the implementation of outsourcing. It is suggested that the company or team makes proper time schedules for the implementation. Do not just have big milestones in their but small ones also. According to the findings it can be suggested to plan the outsourcing to be done in small portions, since according to both data sources, this usually works best. It is advisable to plan on how to tell the information about the outsourcing of certain processes, since it affects the employees. The data suggests that the information sharing on the subject should be open and to be told beforehand.

It is advisable to gather a good team to implement the outsourcing. According to both data sources those people with most experience and expertise should have the biggest importance on implementing the outsourcing and transferring the processes. Daityari et al. (2008) argues that there should be a sufficient amount of staff ready for the transferring of the processes in order for the outsourcing process to be successful. The staff should also have good skills for outsourcing. It is important to plan the instructions, working methods, communication, documentation, trainings, and training materials. All of these should be done in a very precise way in order for the outsourcing to be implemented successfully.

According to both data sources it can be suggested to plan cultural training on the different working culture of the service provider. Culture creates many problems in outsourcing so training for it mitigates those risks. Gerbl et al. (2015) argues that employees with foreign culture knowledge and language skills mitigate

cultural risks. Ang & Inkpen (2008) argue that culturally intelligent companies win over those that are not. The authors define cultural intelligence as the skill to successfully function and manage in different cultural situations and environments.

6.2 Service provider selection

After planning the focus and the targets, standards and KPI's it is time to start the partner selection process. This is also a very critical phase, since finding the right partner is key to successful outsourcing according to both data sources. The service provider selection should also be planned. Suggestions for the service provider selection phase:

First, according to both data sources, analyze the market of the area that you are outsourcing, meaning that if you are outsourcing financial transactions, you must analyze the market of financial service providers and decide which of the firms operating in them is best suited for you. Ask for references and reference cases. It is also advisable to gather information from other companies or personnel that have been involved with similar outsourcing processes for advice and tips.

According to the interview data, the partner selection is best done in three steps. First, select a batch of service providers that seem interesting and that could be potential. There can be 5-10 different service providers in this stage. Then, analyze the service providers, their info, and specs and after that narrow down the potential partners. In the next stage you should have about 5-6 potential service providers where to choose from. Ask for the reference cases and further analyze and negotiate with the service providers to see what kind of service they are offering and how it matches with you plans and processes. Then after that narrow it down to 3-4 service providers, have some testing periods with them and then

choose from those and sign the deal. If possible, you should visit the service providers before and after signing the contract

Leave room for testing phases and pilots. There were some mentions in the theoretical data on testing periods but much more from the interview data, many of the interviewees stating that testing periods are important so some problems can be detected beforehand and therefore can be mitigated before the real outsourcing starts. Remember to have contractual governance aspects in the contracts and have the contracts to be very precise. McIvor (2016) found out in his article that over 50% of outsourcing problems stemmed from the fact that they were not included in the outsourcing contract. It is advisable that reward, punishment, and termination clauses to be included. Handley & Benton (2012) and Gainey & Klaas (2003) argue that contracts should have reward and penalty clauses included in them so that the opportunism of the service provider will be reduced. It is not advisable to be reliant on just one service provider, so if possible, have backups. Gonzalez et al. (2005) suggest that when planning and executing the outsourcing, firms should not resort to total outsourcing but rather to diversify the outsourcing to different service providers, this would minimize the risk of being too dependent on a single service provider. One should also be very cautious on the fact that a service provider might promise too much, something they cannot in reality keep or seem to be too cheap; these can be considered as red flags in the partner selecting process

6.3 Transferring of the processes

After the partner selection process comes the transferring process, which can be considered the most important phase in the whole outsourcing process. This phase is usually the most critical on whether the outsourcing is successful or not. Therefore, according to both data sources, it must be conducted in a very precise and thorough manner. Suggestions for the transferring of the processes phase:

According to the interview data, before the actual transferring it is advisable to do a pilot about the outsourcing with the service provider, to see how the transfer goes. This would mitigate many risks and problems right at the start and is very beneficial for the long-term.

According to both data sources it can be suggested that the persons that should do the transfer, are those that are the most knowledgeable and have the most experience. Ideally the persons who are responsible of the transferring of the processes should not have any other tasks, but at the very minimum their normal tasks should be decreased so that they can transfer the processes, train the people in the service provider company and then follow-up on the feedback properly. This is very important. It is advisable to have precise and proper training plans, training materials and trainings during the transfer. According to the interview data, good documentation and instructions are key to a successful transfer of processes. A lot of emphasis should be put on not losing any of the responsible personnel during the transfer, this would cause big problems.

According to both data sources it is advisable to put focus on communication and management skills. Useem & Harder (2000) write that managers, for example, should have good deal making, cross-functional team and joint venture skills, for outsourcing to be successful. As said before good management mitigates many of the risks and problems. Therefore, most skillful managers should be responsible for supervising transferring of the processes. Communication needs to be frequent and of good quality, misunderstandings should be minimized. Roles should also be defined well, so that everyone knows who does what. Cultural training should be given about the different culture of the service provider and on their different working methods. Gerbl et al. (2015) argues that employees with foreign culture knowledge and language skills mitigate cultural risks. As said before, cultural aspects were one of the biggest problems of outsourcing.

Therefore, much emphasis should be given on minimizing those risks and problems. According to both data sources face-to-face training is a very effective form of training and transferring the processes and therefore visiting the service provider is advisable. Giving and receiving feedback during the transfer and after the transfer is very advisable. The learning and the training must be monitored all the time during the transfer. Finally, the processes should be transferred to the service provider and let the service provider take responsibility of them.

6.4 Monitoring the outsourcing relationship

After the processes have been transferred comes the monitoring phase. In this phase the progress of the outsourcing and the quality of performance of the service provider is being constantly monitored. Suggestions for the planning phase:

According to both data sources, the quality and performance of the outsourced processes should be monitored on a frequent level. Focus should be put on the agreed KPI's and the market conditions. Feedback should be given and received and then it should be followed up on how the processes are going. Constant and thorough monitoring ensures successful outsourcing relationship. Markets and business environments change constantly so flexibility will be required as in every kind long-term relationship.

7 DISCUSSIONS & CONCLUSIONS

7.1 Contribution to theory

This thesis contributes to the outsourcing theory, RBV and TCE that were mentioned in the theoretical framework. The findings in this thesis further enhance the prior theoretical knowledge of outsourcing, RBV and TCE by providing new information to the field via theory elaboration. The new set of data which was formed by examining the theoretical findings and the findings from the interviews provide new insight into outsourcing, RBV and TCE. New themes were formed, and a new framework was created that contributes to the theoretical findings. Researchers can now take a look and examine the framework of this thesis and further investigate and research outsourcing as a phenomenon. The findings also further validate the prior findings from the different theoretical sources since the data from the interviews matches the findings from the theoretical data sources. Hopefully, this thesis, its findings and the framework in it will be beneficial for future researchers of outsourcing, RBV and TCE. It was one of the intentions and goals of this thesis, that it would be beneficial and that it could be used for further research and provide new insights to new researches of the outsourcing, RBV and TCE field.

7.2 Discussion

The aim of this thesis was to provide a plan for a delivery planning team, that other teams and organizations could use in order to implement outsourcing successfully. In general, both the theoretical data and the data that was collected from the interviews complement and correspond with each other. There are many similarities in the theoretical data and in the findings from the interview data. Planning and having enough time and resources for the implementation

phase are the biggest things that were discovered from the data. The second biggest discovery from the data was the importance of management and management skills. These subjects are considered the most important things in order to implement outsourcing successfully.

The findings from the interviews indicate that many of the outsourcings in the company suffer from lack of time, resources and clear plans and management. Many of the problems that were found in the theoretical data were similar that could be found in the interview data. To mitigate these problems and risks, both the theoretical data and the interview data suggest that proper management skills, used correctly can mitigate these risks and problems and also possible negative effects. The most important management skills included risk, task, and time management. Communication skills are also a major key ingredient on successful outsourcing.

The findings of this study support and expand many findings and arguments made in previous research on outsourcing, resource-based view, and transaction costs economics. In the next chapter the framework, which has the suggestions on how to successfully implement outsourcing will be given. There are four sections different sections in the framework. This framework is not only for the delivery planning team but can be used universally inside the organization and in different teams.

7.3 Concluding remarks

The world and the business environments are changing in a rapid fashion, during this thesis writing process the corona virus became a pandemic and is still affecting many industries and companies. It is hard to predict the effects of the virus and how it will affect outsourcing, but it is certain that globalization cannot be stopped and therefore organizations will continue to outsource their processes to

other companies and organizations. The framework that is provided in this thesis gives suggestions to many organizations and teams inside them on how to implement outsourcing successfully. This is a very vital and a beneficial thing for organizations and teams, since it makes their processes easier, gives them benefits and helps them in the long run. This thesis further broadens the previous researches related to the subject of outsourcing. By analysing and comparing both theoretical data found from scientific articles and the data, which was gathered from interviewing people who have been involved with outsourcing and have experience from it, this thesis provides new and beneficial data to researchers, managers and organizations.

Outsourcing can be very tricky, since it has many variables that are affecting it. Therefore, it is utmost important to plan the outsourcing of processes well and to have a clear and long-term focus in it. This thesis will enable those who are outsourcing different processes to implement them in a successful way. This thesis was intended to be a universal tool for organizations and different teams to use in their operations. Hopefully, the framework will be used in action as much as possible and that it will give benefits to as many users as possible. Outsourcing gives many benefits and has become a mainstay tool of businesses and will continue to be so in the future. As most of the interviewees agreed, there are clear benefits of outsourcing and in this current business environment it is here to stay, since businesses and organizations need it in order to adjust to different market changes.

7.4 Managerial implications

The required change and the uncertainties of outsourcing potentially creates some inertia and uncertainty on how to start the process. A takeaway from the findings is that managers should start by clearly identifying the core competences of their business operations and identify the ways they can be benefitted from

outsourcing products and services. Evaluating the current situation in the company and implementing a strategy and a system where the goals are clearly identified is certainly crucial in finding out how to make the transition from one stage to another happen.

The findings in combination with previous literature then show outsourcing processes should be done in a way that enables stepwise learning. Breaking the implementation down into smaller and more easily manageable elements can prevent inertia and avoid a too disruptive effect. This allows for adaptation to occur and can create a fully integrated implementation process. In addition, members of the organization are given time to adjust, instead of being overwhelmed with change.

While a clear strategy and some idea of the outsourcing are certainly necessary in order to understand the greater picture, identifying the first points of focus and getting started with the change seem most important in order to avoid getting stuck with the processes. Outsourcing will clear up with increased experience, and all the aspects will only come together throughout the process. The changes that come from outsourcing may also require changes in management and leadership. As the findings suggest, clear instructions, enough time and resources should be given to employees in order to successfully outsource a process. Managing a complex ecosystem consisting of several different actors also demands new managerial skills. The horizontal and vertical externalities inherent in outsourcing suggest that as important as the horizontal cooperation among different actors from customers to outside suppliers, is the cooperation inside the company and a vertical integration of the different internal processes. Technological know-how needs to be combined with managerial and strategic capabilities in order to create hybrid know-how. Top management and the employees responsible for transferring the processes must work more closely together.

7.5 Limitations and further research

This research is subject to several limitations that need to be addressed. One major factor limiting the generalizability of the findings is the size of the sample. The strategic sensitivity of the subject under study and the need for interview participants to be actively working in management positions all under the aspect of a rather limited time frame for conducting the study, provided a challenge in finding enough interview participants. While the secondary data provided a lot of information on the issue, more in-depth interviews would have been beneficial in order to create a reliable overview of the topic under study. The specificity of the subject further limited the amount of secondary data available. Also including participants from companies of different size and non-listed companies would further support the generalizability of results and offer interesting insights into outsourcing.

The topic certainly offers several possibilities for further research. Regarding the company decision-making perspective on outsourcing, this thesis provides a rather broad overview and a first introduction on how outsourcing can be done successfully. While the literature on outsourcing is well developed from an economic literature perspective and the effects on the economy and the diffusion of such technologies within an economy has been thoroughly studied, more research from the company perspective would be necessary in order to identify patterns of how opportunities related to outsourcing are perceived and responded to. The findings of this thesis show the importance of organizational factors in the form of management skills, new organizational cultures, structures and skills that complement outsourcing processes. Focusing more on firm-level data can further shed light on how outsourcing can best be implemented. With increasing importance of digitalization for almost all sectors, identifying strategies regarding the implementation of technologies that support business processes have high practical relevance. More information could also be obtained on

the organizational factors that influence the success of outsourcing process implementation and in particular how the characteristics of outsourcing influence decision making within companies could be studied in more detail.

Regarding literature on strategic management of outsourcing, research builds strongly on the role of capabilities on the implementation of outsourcing. While these are certainly crucial aspects and are also found to play an important role in this study, the findings also indicate that there may exist a discrepancy between what strategies and plans are made regarding new outsourcing processes and actually putting them into practice. The difficulties described by decision-makers focused strongly around the questions of how to transfer the processes into the service providers and how to get the processes started. As highlighted by this study, even though ideas and visions exist within the company, the implementation then provides the actual challenge and studying the process of implementation as a form of innovation of its own could provide further valuable insights. How to manage and coordinate the creation of complementary factors and the creation of new business processes well as a change in organizational culture in the light of a new outsourcing processes are questions of increasingly high practical relevance.

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APPENDIX 1 OUTLINE OF INTERVIEW QUESTIONS.

- What kind of outsourcing processes you have been in part of? What has your role been in these outsourcing processes?
- Can you describe how the outsourcing process goes from your point of view step-by-step?
- Did you have this kind of a testing period before you started to transfer the processes?
- When you started Outsourcing did you outsource all of it at once or did you take it in smaller portions?
- Did you have enough time and resources to do the outsourcing?
- What was the focus of the outsourcing processes?
- Were there any problems with the Outsourcing?
- Were there any big learning curves with the supplier?
- Did you go on that location there to keep the training and how was the communication in general?
- Were there any other issues regarding culture or geographical location on time zones?
- What are the risks of Outsourcing?
- Do you still see that the Outsourcing is important for businesses in this kind of environments and do you see any benefits of it?
- What have you learned doing these Outsourcing processes? What would you have done differently? Are some key things that you want to highlight?
- How to implement Outsourcing successfully?

APPENDIX 2 THEMATIC ANALYSIS: CODES, SUBTHEMES, OVERARCHING THEMES

| Codes | Sub-themes | Overarching themes |
|--|----------------------|-----------------------------------|
| Cultural, time zone or geographical location related problems | Culture | Risks and Problems of Outsourcing |
| Communication problems | | |
| Misunderstandings | | |
| | | |
| Performance and quality problems | Outsourcing problems | |
| Short of time | | |
| Lack of training, instructions, planning, information, scope, skills and documentation | | |
| Lack of resources | | |
| Too many tasks | | |
| Roles not defined | | |
| No testing | | |
| | | |
| Contractual problems | Contracting | |
| Service provider promising something that they cannot keep | | |
| Hidden costs | | |

| | | |
|----------------------------------|----------------------|--|
| Roles not defined | | |
| | | |
| Personnel leaving | Risks of outsourcing | |
| Being too relied on one supplier | | |
| Taking a long time | | |
| Loss of core competences | | |
| Loss of control | | |
| Loss of intellectual property | | |

| Codes | Sub-themes | Overarching themes |
|--|-------------------|---------------------------|
| Training sessions | Training | |
| Training materials | | |
| Training plan | | |
| | | |
| Learning Curve | Learning | |
| Best practice | | |
| Learn from mistakes | | |
| | | |
| Defining the targets and clear standards | Planning | |
| Pre-agreed criteria | | |
| Preparation | | |
| Mapping | | |
| Pilot and testing phases | | |
| Meetings | | |
| Reference cases | | |

| | | |
|---|--------------------|------------|
| Getting a good team | | Management |
| | | |
| Key Performance Indicators | Supplier selection | |
| Contractual governance | | |
| Multiple suppliers | | |
| Visiting the supplier | | |
| What is expected? | | |
| | | |
| Risk Management, Task Management, Time Management, Role Management, Resource Management, Supplier Relationship Management, Change Management and Project management | Capabilities | |
| Core Competence | | |
| Communication | | |
| Management skills | | |

| Codes | Sub-themes | Overarching themes |
|-----------------|----------------------|--------------------|
| Core competence | Focus of Outsourcing | |
| Strategic focus | | |
| Cost reduction | | |
| Flexibility | | |
| Harmonization | | |
| Centralization | | |
| Standardization | | |

| | | |
|------------------------------------|-------------------------------|-----------------------------------|
| | | Factors of Successful Outsourcing |
| Planning | Implementation of Outsourcing | |
| Instructions | | |
| Enough resources and time | | |
| Backups | | |
| Meetings | | |
| Defined targets and standards | | |
| Feedback and follow up | | |
| Documentation | | |
| Performance and quality monitoring | | |
| Information sharing | | |
| Delegation of tasks | | |
| Reliable data | | |
| Understand what you want to buy | | |
| Efficiency | | |
| Time Schedule | | |
| | | |
| Testing phase | Steps of Outsourcing | |
| What to outsource? | | |
| Timing | | |

APPENDIX 3 FRAMEWORK FOR IMPLEMENTING OUT-SOURCING SUCCESSFULLY

