Governance in business process outsourcing: case study on call center outsourcing

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GOVERNANCE IN BUSINESS PROCESS OUTSOURCING

Case study on call centre outsourcing

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ABSTRACT
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RESEARCH OBJECTIVES

The main research question in this study is: *what factors influence the governance of business process outsourcing?* This study focuses on how to evaluate service provider capabilities in different service types and how to utilize this information in outsourcing vendor selection and governance. Theoretical basis for the study is built by reviewing latest theories on the subject. Using this theoretical basis, a framework for evaluation of service providers is built.

RESEARCH SAMPLE

For the theoretical review, most recent theories on governance of business process outsourcing were examined. The empirical research section consists of a case study on a business process outsourcing case.

RESEARCH METHODOLOGY

In this thesis, a qualitative research method was utilized. The data gathered for the case study consists of interviews as well as additional written material. Interviews were conducted with two methodologies: semi-structured interviews and thematic interviews.

MAIN FINDINGS

In the analyzed business case, several influencing factors on governance were found. These factors are present in all phases of an outsourcing venture, in the evaluation phase, the contract forming phase and the operational phase of the relationship. Successful governance also depends on correctly matching the expected levels of partnership between the client and the vendor.

KEYWORDS

Services outsourcing, outsourcing governance, business process outsourcing, evaluation of service provider

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Helsinki, March 2010,

Lauri Rantakari

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1. INTRODUCTION

The importance of services in today's society is clearly visible. The western world has moved to a new paradigm of innovation or service-based economy. Our global economy relies in different kinds of services in all industry sectors and areas of economic operation. In fact, during the last decades, a majority of the economic growth is in the service sector, and estimates say that the trend is not changing any time soon. Currently all of the highly industrialized countries have become 'service economies', in the sense that the majority of workforce in these countries is employed in service industries (Schetkatt & Yocarini 2003)

OECDs (OECD 2004) definition of services is that they are a diverse group of economic activities not directly associated with the manufacture of goods, mining or agriculture. Most products are a part service and part good, typical example being a dinner at a restaurant where service plays an important part but the main product itself is the food. The difficulty of service definition is has become more evident with time. A good example of increasing product diversity is that in the middle of 1990s. The amount of service providing companies among Fortune 500 companies has risen steadily in the last decades after Fortune magazine stopped dividing its list of 500 biggest companies into Fortune Industrial 500 and Fortune Service 500. (MSN 2009)

Current developments in information and communication technologies further bridge the gap between services and products. How to standardize and productize service offerings is a currently a popular topic in services research. Another topic of service operations management research is the economies of scale, or more precisely, how to achieve it in service production. While economies of scale are visible also in service production, they are much less evident as compared to industrial production.

Outsourcing of services initially consisted of an external vendor that provided a single basic function to the customer. More complex service outsourcing started to rise in the 1960s, often quoted example is Electronic Data Systems contract with Blue Cross of Pennsylvania for handling of data processing (Dibbern 2004). Service outsourcing has evolved into other forms beside one vendor – one client arraignments, such as multiple vendor deals and cluster format deals. Outsourcing success today is not only measured with simple financial measures such as cost savings, but with more complex measurements that aim to measure the actual increase of value in outsourcing. Value-based outsourcing is characterized by its goal of improving the actual core business performance of the client firm. Leading companies in today's business environment often outsource core processes such as design, engineering, manufacturing and marketing (McIvor 2008).

1.1 Background information

The fundamental basis for outsourcing is the focus on core activities of a company. Core competence or core activities of the company are the basis of its competitive advantage in the marketplace (Prahalad and Hamel 1990). All businesses have their own core activities that form the basis of their business models. The rationale for outsourcing those activities that are outside of the core competencies has been to limit the activities management has to manage. The attention and focus of managers is a scarce resource that is seen as best utilized for the company's core activities. After identification of core activities, the organization can develop to support their management and utilization (May 1998).

In addition to the core business activities of a company, there are non-core activities, which are usually further divided into essential and non-essential activities. While these activities are not the core business of a company, they remain important contributors to the success of the whole business (Quinn 1999). These non-core activities are best produced by other businesses/organizations that specialize on them, i.e. make them their core business and form their organization around those activities. Managing these outsourced activities is a key success factor in today's business life.

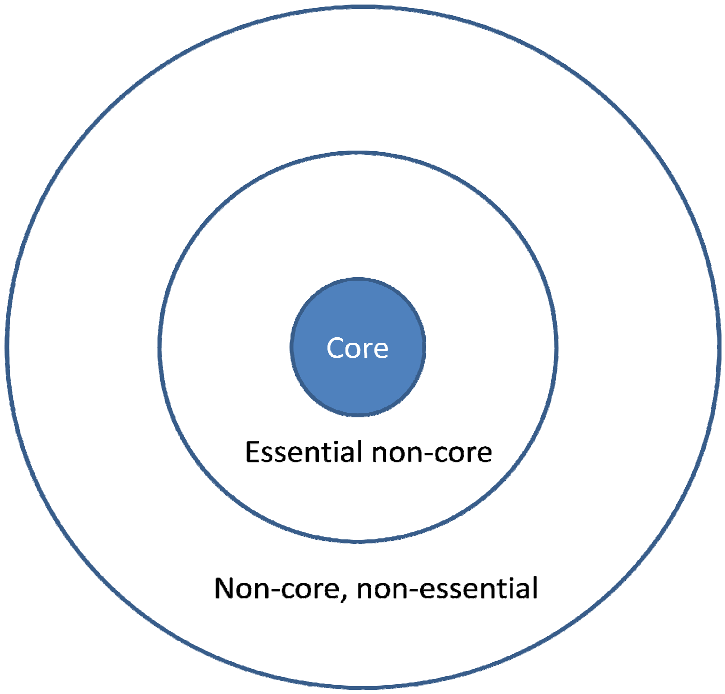

Figure 1: Core and non-core activities of a business (Quinn 1999)

While the core competence argument is the basis of outsourcing, it must not be followed blindly. Although non-core business capabilities may not strategically be as important as core capabilities, it does not mean that they should be automatically outsourced. According to researchers Lacity & Willcocks (2003):

> *From a business perspective, some capabilities, which are non-core today, could become core in the future. Outsourcing this non-core function now may impede strategic exploitation in the future.*

Recent trends in outsourcing have shown companies to outsource near-core or activities that previously were considered core activities. In the recent decades, outsourcing has evolved rapidly, and it is probable that the practice continues to have new forms and methods in the near future.

1.2 Research problem and structure of the study

When outsourcing, organizations need to realize that the successful outsourcing depends highly on a lifecycle methodology where every stage of outsourcing is managed correctly. Outsourcing creates additional challenges for management because it requires commitment of resources from multiple functions and levels of organization. Management of outsourcing does not stop when the outsourced function is already operating; the success of outsourcing comes from proactive management of the relationship, identification of current and future problems and risk mitigation.

Outsourcing itself can be a core competency for a company in the current business environment. Successful management of outsourcing projects is a key success factor for many leading world-class companies. Further motivation for this research is the argument that more standardization will lead to more effective BPO outsourcing (Wüllenberg et al 2008). While research on BPO and other forms of outsourcing have been done during the last decades, outsourcing in today's actual business life is still often conduct with more ad hoc basis and without standardized, usable frameworks.

The main research question in this study is:

- What factors influence the governance of business process outsourcing?

The research problem can be divided into following sub-questions:

- How to evaluate service provider capabilities in different service types?
- How to utilize this information in outsourcing vendor selection and governance?
- What are the key success factors in service outsourcing?

Structure of this study is summarized in the following figure:

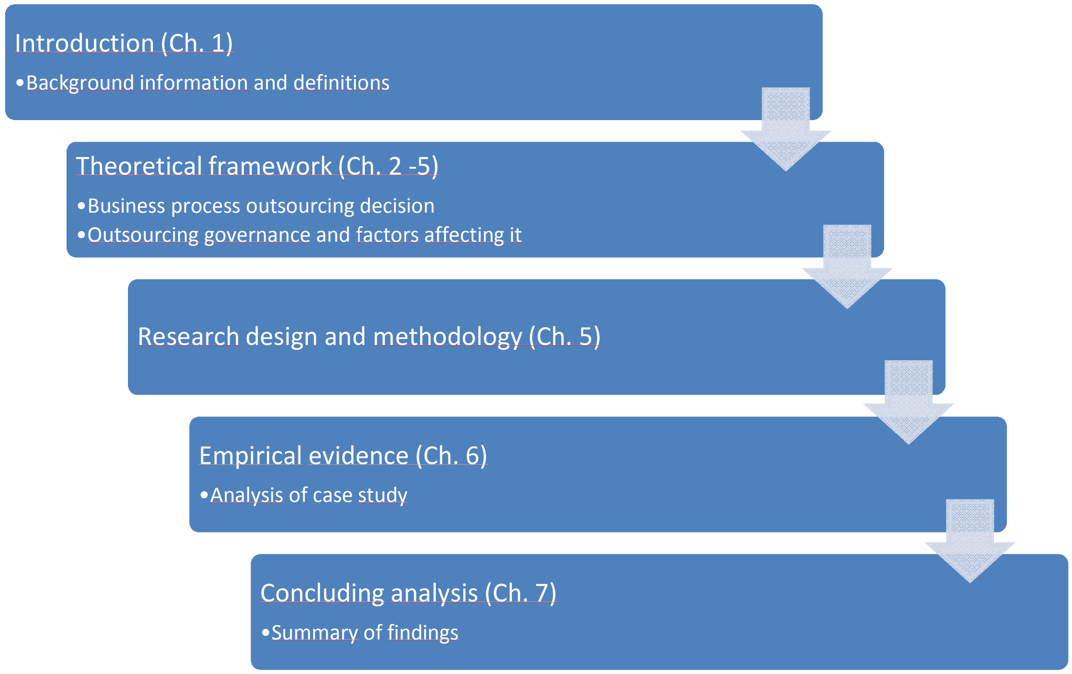

Figure 2: Structure of the study

In the second chapter of the study, background information related to business process outsourcing is provided in order to create a basis for further discussion of the research problems. It explains the concepts of business processes and business process outsourcing and how they differ from more traditional forms of outsourcing (i.e. outsourcing a part of manufacturing supply chain).

The third chapter, "Business Process Outsourcing decision" describes a framework for BPO decision that is utilized in the empirical case study. The framework starts with describing various motivations for outsourcing decision and how it forms into an outsourcing strategy. After the need and strategy for outsourcing has been formed, a vendor selection process is described through a framework of supplier capability analysis. The supplier capability analysis tool is further used as a governance method of finding areas of further investment and problem mitigation.

The fourth chapter "Outsourcing Governance" explains the concept of governance and the fundamental parts of governing outsourced functions. Governance is divided into contract management issues and supra contractual issues. The chapter also describes the factors that affect outsourcing governance, by going through different types of goals organizations (both vendors and outsourcers) have. The key issue here is the alignment or non-alignment of different types of goals, and how it affects the governance and how these problems can be dealt with.

A framework of theories described in chapters 2 through 4 are summarized in the below figure.

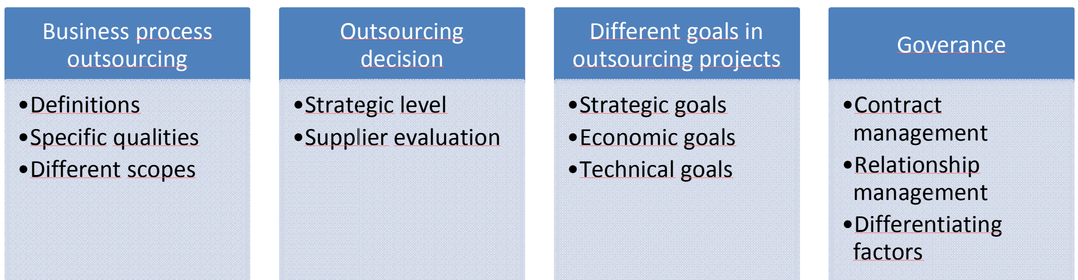

Figure 3: Framework of theories examined

The sixth chapter describes the research methodology used in the empirical case study of Company A's outsourced call centre that is provided by Company B. The case study is analyzed in the seventh chapter in detail, through the supplier evaluation and governance methods discussed in the theoretical framework.

The seventh chapter concludes the study describing the findings from the analysis of the empirical study. In the eight chapter concluding remarks about the study itself are given, and possibilities for further studies.

2 BACKGROUND FOR BUSINESS PROCESS OUTSOURCING

Business process outsourcing has been a rising trend in outsourcing since the end of 1970s. Most common type of business process outsourcing, information technology outsourcing, started to become more popular in the 1980s. In the same time information and computer systems become more complex and new possibilities for companies to seek competitive advantage were found. (Mierau 2007)

Interest in outsourcing renewed in the 1990s and the concepts and ways of outsourcing evolved. During the first half of the 1990s the size of the information services (IS) outsourcing industry grew tenfold (Behara et al 1995). One of the popular new trends in outsourcing during that time was total outsourcing where personnel previously employed by the client were transferred to the vendor company. Other outsourcing types of partial and selective outsourcing imply only transfer of process responsibilities. These developments in outsourcing during the 1990s meant for the service providers that they had to take a larger responsibility of the outsourced processes. Major shift in purchasers view on outsourcing was the realization that the strategic advantages of the companies depended on the use of the processes not on their ownership (Lee et al 2002).

2.1 Outsourcing defined

Definition of outsourcing has evolved during the last decades. Differences in definitions are often explained with a hypothesis that the concept or the phenomenon itself has evolved. These differences create additional difficulties for researching outsourcing. (Hätönen 2006)

A one definition of outsourcing is a process in which a company delegates some of its internal operations or processes to a third party. In this definition, outsourcing is a contracting transaction where one company purchases services or products from another while keeping ownership of the whole underlying process, product or service. (Tas, J. & Sunder, S. 2004*)* The clients inform their provider what they want and how they want the work performed. Client usually authorizes the provider to operate as well as re-engineer the processes involved to improve cost and efficiency benefits.

Scope of outsourcing varies greatly. Outsourcing can refer to simpler contracts like hiring contractors for a building site or large and complex like outsourcing whole IT operations of a multinational company. Recent trends in outsourcing have been toward services that are more complex and to those services that are more near to central management functions, most importantly IT (Lacity et al 2008).

Outsourcing as a process is usually defined as a multistage process:

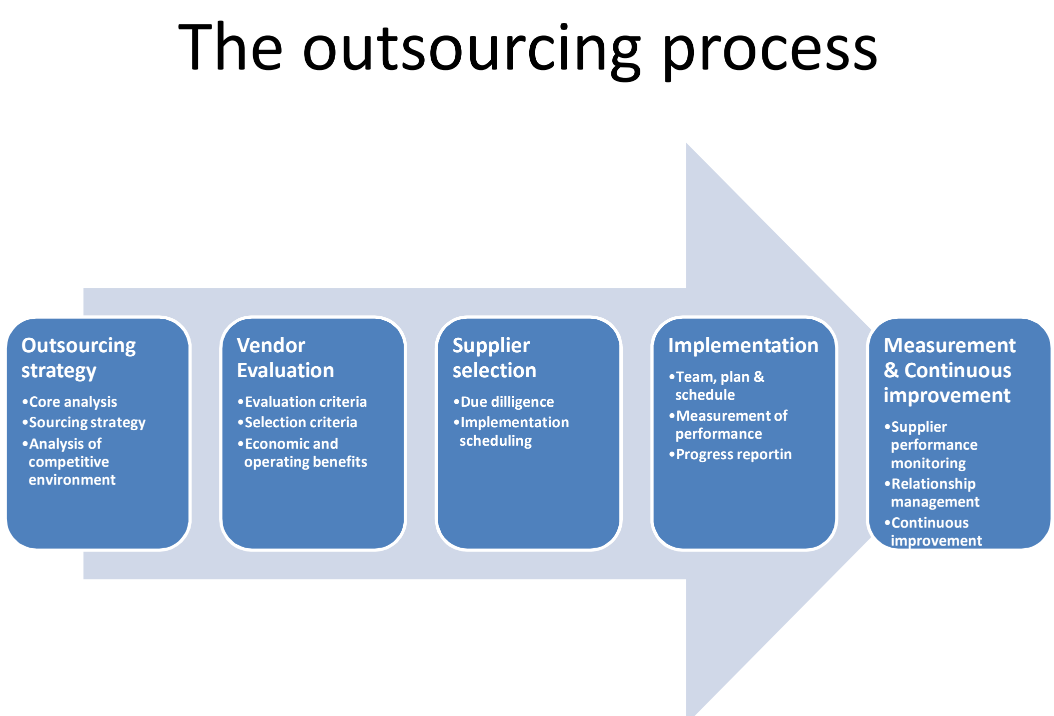

Figure 4: The outsourcing process (Zeng 2003)

Another typical way of defining outsourcing as a process is to divide into four different main steps: internal benchmarking analysis, external benchmarking analysis, contract negotiation and outsourcing management (Franceschini et al., 2003). These two definitions describe the same phenomenon, and are fairly similar when the second and third steps in the five-step process are combined. There are multiple other descriptions of the outsourcing process or the outsourcing life cycle. In this research when examining the phenomenon of outsourcing as a whole process or it as a life cycle, this research paper uses three-phase model by Power et al (2006). Model defined by Power et al and some additional examples are summarized in the figure below:

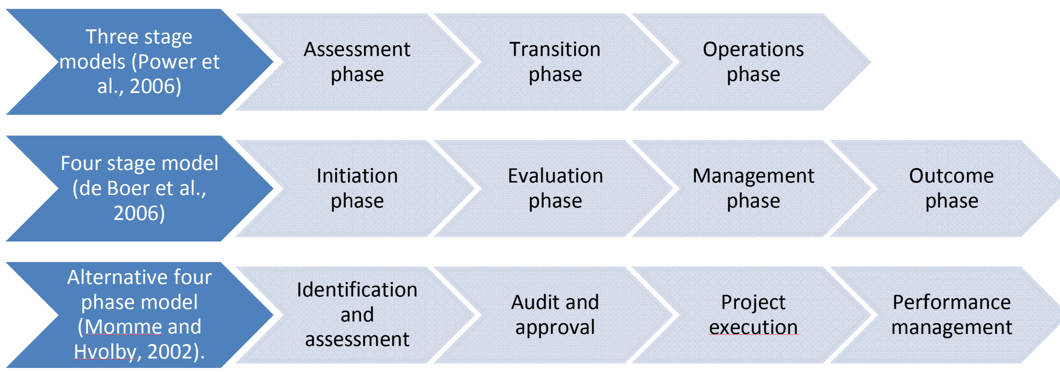

Figure 5: Different outsourcing phase models

Usually and traditionally, the most important goal in outsourcing contracts is improving the cost efficiency of a business (Holcomb & Hitt 2006). Firms want to internalize value chain activity to minimize costs due to opportunism, market changes and asset specificity. Studies examining the outsourcing practices in the United States have concluded that the major motivation for most managers to outsource is to save on overheads through short-term cost savings (Kabadse & Kabadse 2002). This also applies to business process outsourcing where until the 1990s it was seen as cost-effective way to get expertise and competencies not available within the company. The concept has evolved in since then, and current outsourcing motivations or strategies have become much more complex over time. Typical additional reasons for outsourcing are entering foreign resource markets while at the same time entering the developing markets. Outsourcing itself has evolved from a pure business tool to a fundamental part of today's company strategy, and most companies operate in various types of strategic alliances and partnerships (Applebaum & Samaha 2008).

The dominant theories for rationalizing outsourcing are Resource-based Theory, Resource Dependence theory, Agent Costs Theory and Transaction Costs Theory (Cheon et al 1995). The rationale of cost efficiency for outsourcing motivation leads directly to transaction cost and agent cost theories. When specific mechanisms used to manage certain exchanges are more efficient. These four theories on outsourcing can be divided in to two types of viewpoints: transaction-based viewpoint and the resource-based viewpoint.

Transaction-based viewpoint focuses on the actual transactions occurring in the outsourcing process, and how companies outsource to minimize transaction costs. According to transaction cost economics, the client companies use the cost reduction on production and transactions to make the decision concerning outsourcing. Transaction cost viewpoint also specifies the conditions where the client company should manage the economic exchange internally within its boundaries (keeping the service in-house) and where the conditions are more suitable for managing an external economic exchange, i.e. outsourcing from the marketplace. Utilizing markets to provide the service means relatively short-term, bargaining relationships between the clients and the suppliers. Outsourcing needs of the client company are relatively non-specific, which enables the suppliers to achieve economies of scale. (McIvor 2008)

Resource-based viewpoint is based on the theory that companies utilize outsourcing to get resources not available internally. The outsourcing decision in resource-based viewpoint is based in the client company's abilities to invest in internal capabilities and thus sustain competitive advantage. Those processes where internal resources or capabilities cannot be utilized can be outsourced (McIvor 2008). Summarization of the differences in these viewpoints is illustrated in the figure below.

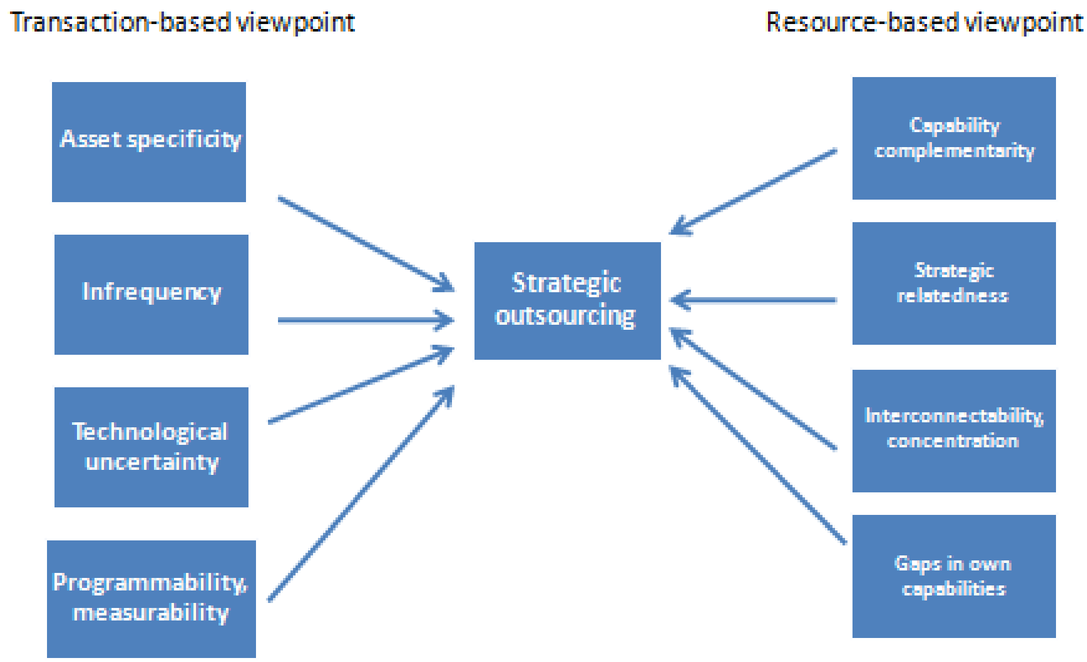

Figure 6: Two outsourcing viewpoints adapted from (Holcomb & Hitt 2006 and Cheon at al 1995)

2.2 Specific qualities of business process outsourcing

Outsourcing of selected organizational processes is an integral part of today's corporate strategy. The relations between vendor and client companies have also become more complex: they are increasingly viewed as partnerships than traditional customer-vendor relationships.

Since the turn of the millennium, business process outsourcing has also started to evolve. BPO focuses on the process expertise, and next step is outsourcing business expertise. While the business processes that are being outsourced have become more complex over time, usually with processes that are more complex outsourcing is called Knowledge Process Outsourcing (KPO) (Mierau 2007). Services provided are moving towards more value creation from previous strategies of cost reduction. KPO creates opportunities for knowledge intensive industries that previously have not been able to utilize outsourcing to its fullest potential. While smaller companies outsource within their own company, global business process outsourcing is heavily centered into certain areas around the globe. Top international areas in BPO outsourcing according to Click and Duening (2004) are:

India (Engineering and Technical)

China (Manufacturing and Technical)

Mexico (Manufacturing)

United States (Analysis and Creative)

Philippines (Administrative)

Process itself is an often-used term in business discussion, but it rarely itself defined. One way to define processes is to compare them to human activities. Smith and Fingar (2003) give an example with a comparison to carpenter:

> *Consider carpentry as a field of human activity. "Hammering," "sawing," "screwing," and "measuring," using "hammers," "saws," "nails," "screws," "screwdrivers," "glue gun," "levels," "measuring tapes," and "carpenter's pencils": these words from a vocabulary describing the operations that can be performed in this filed, and the means for carrying them out. Now consider business process as a field of human activity. Processes, process data, activities, messages, rules, computation, process branching, compensating activities, exceptions, sequences, joins, splits, operations, assignments, transformations, schedules, rules and time constraints: These likewise form part of a vocabulary describing the operations that can be performed in the field*

Processes are modeled using process modeling languages that provide a platform for discussing and analyzing processes. Process modeling and analysis of the current process capabilities are the basis for process re-engineering capabilities often sought after with outsourcing.

Process interdependence describes how much the different processes of firms are inter-related and connected to each other. As an example if we think about a products development from idea to market, tracing the progress through the company to the end customer we can see that most if not all the processes in the company are involved. Different processes utilize another one's outputs and work together. Process interdependence creates more challenges for management, because managing the processes independently is not productive. Overall more process interdependence creates more complex business process management and outsourcing (Wüllenweber et al 2008).

Business process outsourcing is a type of outsourcing that consists of outsourcing the operations and responsibilities of a certain business area or a process to a third party. What makes it different from traditional outsourcing is that the service provider often directly communicates with the client's suppliers and customers. Business process outsourcing in the past referred to outsourcing parts of the supply chain in manufacturing, but in current business vocabulary, it is understood to refer to service processes (and their outsourcing). Lacity, Feeny and Willcocks (2003) define BPO as:

> "*In BPO, a firm delegates one or more business processes to be managed and delivered by an external vendor, in an effort to achieve cost, quality and/or cycle time improvements in the outsourced processes*

A typical outsourced business process is IT, and majority of BPO research focuses on outsourcing projects related to IT technologies. One definition of IT business process outsourcing was used in a study conducted by Lee et al (2004):

> *The term IT OUTSOURCING refers to the practice of commissioning part or all of an organization's IT assets, people, and/or activities to one or more external providers. It includes any one or combination of the following: system planning, application analysis and design, application development, operation and maintenance, system integration, data centre operation, telecommunication management and maintenance, software, hardware products, facilities management (e.g., PC management), end-user support (e.g., training), and so on.*

BPO can be further divided into outsourcing of back office functions (e.g. accounting) and front office functions (e.g. contact centre). Back office outsourcing is further developed and studied, and it is common in today's business environment. Research on front office type outsourcing is mostly limited on call centre functions.

Traditionally two major characteristics that differentiate BPO from more traditional types of outsourcing: process interdependence and the extent to which vendors interact directly with the client firm's customers and suppliers (Whitaker et al 2008). Process interdependence means that processes that are targets for BPO projects are usually heavily linked and dependant of the company's other processes.

The second characteristic often defining BPO is the amount of vendor interaction with client firm's customers and suppliers. Typical BPO projects are contact centre outsourcing and procurement outsourcing: in contact centre, the BPO vendor communicates to the client company's customers and in procurement BPO with its suppliers. This creates additional demands for performance measurement: what effects does the BPO service have for overall profitability and sustainability of the business. These links to firm's customers and suppliers add an additional strategic dimension to the management and are directly linked to firm's competitive advantage. (Willcocks, Hindle, Feeny and Lacity 2004)

In addition to the usual drawbacks of outsourcing, in BPO the risk effect is higher. While risk itself is not a negative thing in business, BPO creates requirements for risk assessment and risk management (Aubert et al 1998). In addition, due to the nature of BPO, it is often a horizontal change in the organization and it requires the effort and sponsorship of several internal stakeholder groups, such as key personnel and management (Mani et al 2006). This creates additional communication requirements also within the outsourcing company, not only with the BPO vendor.

To summarize the discussion on the nature of BPO: it is important to study BPO in its own context beyond general outsourcing because the differences are evident. Further on it is important to discuss offshoring as a specific case of BPO because its unique properties due to its international nature.

2.3 Scopes and forms of business process outsourcing

The scope of business process outsourcing is a complex concept. For better understanding of what it consists, we can divide the concept into smaller parts:

Functional scope	• What functions are in the outsourced business process?
Organizational scope	• What organizational units are in scope?
Geographical scope	• What business sites and in which countries are in scope?
Service scope	• Complexity of service
Transfer of employees	• Pure service outsourcing versus transfer of employees versus a joint venture

Figure 7: Defining scope of business process outsourcing, adapted from Weimer & Seuring 2007

The *functional scope* of outsourcing describes the amount and breadth of functions that are involved in the outsourcing: is the outsourcing project limited to a single function (for example billing or mailing) or does it consist of multiple functions (for example whole back office function). *Organizational scope of outsourcing* describes the amount of different organizational units that are involved in the outsourcing process. This affects the amount of stakeholders the outsourcing project has, and makes the management of outsourcing complex. *Geographical scope of outsourcing* describes the amount of different business sites, countries and cultures involved in the outsourcing project. Today's outsourcing projects typically involve offshoring, which creates additional complexity. Concept of *service scope* is related to the complexity of the service itself. One way service complexity affects outsourcing ventures is through switching costs. Research by Barthelemy and Quelin (2006) has shown that outsourcing near-core activities leads to higher vendor switching costs. Furthermore, the requirements for controlling and monitoring the vendor increase with the importance of the outsourced business function. Human resource issues also affect the scope of outsourcing: whether the outsourcing company needs to *transfer or lay off its current employees*, or is the purchase of the service an addition to the current capabilities of the company, e.g. a completely new service offered to end customer.

One way of dividing business process outsourcing projects by scope is to divide them in to four scopes: *total outsourcing, multiple-supplier outsourcing, joint ventures and insourcing* (Currie & Willcocks 1998). Total outsourcing is perhaps the most traditional type of business process outsourcing where a client develops a "partnership" with a single vendor. Total outsourcing is a situation when the vendor is in complete control of a significant part of the client's processes. Total outsourcing ventures are characterized by their long-term contracts; focus on core business by both client and the vendor and sharing of the risks and rewards. The client company retains control on a strategic level, but relinquishes some control of operational level issues. Total outsourcing is also called traditional outsourcing where the ownership resides with the vendor, but the degree of outsourcing is complete (Dibbern 2004).

The second type of outsourcing is the multiple-supplier business process outsourcing that focuses on creating competition between the suppliers by creating standardized operations for easier comparison (Currie & Willcocks 1998). The contracts are more short-term, and the client needs to build an alliance of suppliers for the outsourcing project to succeed Multiple-supplier outsourcing is also called selective outsourcing (Dibbern 2004).

The third type of outsourcing is joint ventures or strategic alliance. Main difference in joint ventures or strategic alliance type of business process outsourcing compared to previous two examples is in the ownership structure in the co-operation (Dibbern 2004). The client company takes an equity stake at the client company that can be a completely new company or an existing one. In joint ventures, the client company has more control and influence over the provider due to their share of ownership (Currie & Willcocks 1998).

The fourth type of outsourcing is insourcing or backsourcing. In insourcing the process is seen as core business of the client. Insourcing is also often utilized when there are inadequate supplier or market conditions, lack of trust for the suppliers or there is great synergy between the process outsourced and the business itself (Currie & Willcocks 1998). Example of insourcing would be back office function that was moved back into the company and built as a centralized department. Some definitions of insourcing imply that the ownership of the service production should be completely internally with the client (Dibbern 2004), but some definitions include contractors (Currie & Willcocks 1998). Researchers Hirscheim and Lacity (1995) also define "body shopping" as the lowest level of outsourcing, where outsourcing is only contracting of outside workers for projects.

2.3.1 Geographic scope

A specific case of outsourcing that needs to be discussed when analyzing geographic scope of BPO is offshoring. Offshoring is one of the most significant changes in global business in the last decades. Offshoring involves the moving the geographic location of a process, typically to a low labor cost country. It is important to note, that offshoring itself does not imply outsourcing, the process moved abroad can be in-house as well as provided by a third party (Shrikant & Puranam 2008).

While offshoring and globalization are already evident in everyday life, some researchers believe that this trend is in its infancy and envision large numbers of packaged software, information services, banking, insurance, and other services ultimately being moved offshore (Bitner & Brown 2007). Major factor in the success of offshoring is the skilled labor available in lower cost countries.

Offshore outsourcing providers in countries such as in India offer mainly three types of business process outsourcing: *product component outsourcing, process component outsourcing and total outsourcing* (Chiamsiri et al 2005). In product component outsourcing, the client outsources a part of a business project to a separate vendor. This type of outsourcing is characterized by its short-term contracts and project like nature. In process component outsourcing a part of a function, one or several processes, is outsourced to a service provider. In total outsourcing, all parts of the function are outsourced. Moving beyond total outsourcing, top-tier BPO provider offers services that design, build and improve client company's processes.

Process standardization around the globe will increase the popularity of BPO. Processes in multiple industries are becoming more standard internationally. In the future, we might see that for example purchasing, billing and accounting would be done according to same rules and principles in U.S, EU and BRIC (Brazil, Russia, India and China) countries (Bitner & Brown 2006).

Two significant differences between domestic BPO and international offshore BPO have been identified in literature. First major difference is due to the possible diversities in culture, economic development, institutions, language, law and politics between the two countries. Second difference is on the individual level, where individuals differ in their beliefs, assumptions and social norms. (Whitaker et al 2008)

The differences created by offshoring operations create additional challenges to management (Whitaker et al 2008):

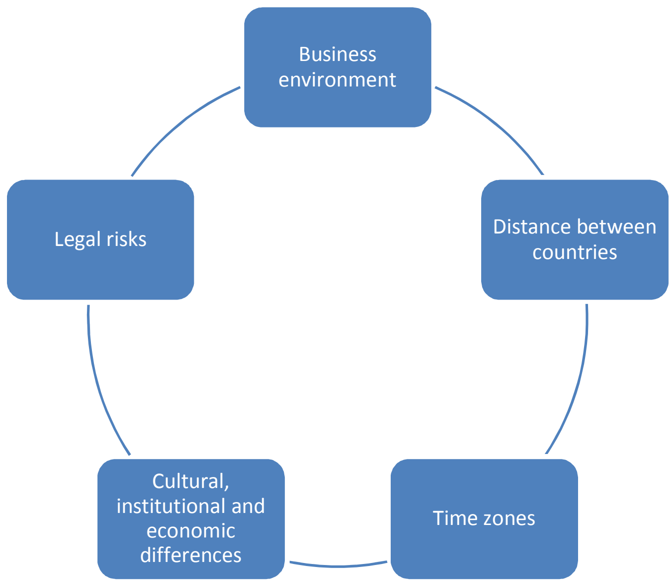

Figure 8: Additional challenges in offshoring

There are several ways of coping with the risk of offshoring. Majority of the risks associated with offshoring are identified in research conducted by Krishna et al (2004) which gives several recommendations of handling cultural differences in a global business environment. Projects should be chosen with the all of the cultures in mind. Utilization of specific applications software should be limited if there is no cross-cultural match, or if there is capability for major training effort.

Human resource issues also need to be considered, and companies should recognize the limits of possible cultural adaptation. Cultural adaptation issues can be managed by utilizing “bridging staff” that is rooted in both cultures and using locally relevant recruitment and retention in the incentive structures (Krishna et al 2004).

Training needs in offshoring situation are more complex than in regional outsourcing ventures. Nevertheless, training issues can be managed in the same systematic way also in offshoring situations, by developing on-the-job training systems that improve knowledge sharing among colleagues. Training in outsourcing always needs to be two-way, and the client's personnel that communicate with the new vendor need training to manage the new situation (Krishna et al 2004).

2.3.2 Transfer of employees

A significant differentiating factor in outsourcing ventures is the transfer of employees. Is the outsourced service a completely new business area for the company, is there downsizing in the client company or will there be transfer of employees to the vendor. Transfer of employees in outsourcing ventures has become more common both in public and private sector during the outsourcing boom that begun in the 1990s (Barthelemy & Geyer 2001)

Transfer of employees to the vendor creates additional requirements for outsourcing management. Contract issues need to be managed in the view of employment and labor law issues. Several case studies (e.g. Aubert et al 1998 and Weimer & Seuring 2007) have shown that proper planning and preparation for transfer of the employees is the key in decreasing the transaction costs of initializing the outsourcing venture. If the employees are transferred in to the new service provider, they often remain in the same working place as before, do generally the same work and interact with the same people as before (Morgan & Symon 2006). This creates a confusing situation for the employee, since on one hand, the working conditions have changed radically but on the other hand, the situation is virtually the same.

If the vendor adapts employees from the client, it also increases the switching costs significantly. Transferring the employees to a new vendor is often impossible or at least very difficult due to legal and contract issues. While it creates additional challenges for management of outsourcing relationship, employee transfer also has positive qualities, in that it increases the value of the partnership for both parties, and can be a motivating factor for the management of both companies. (Barthelemy & Quelin 2006)

2.4 Outsourcing of call centre services

Outsourcing call centre services creates further issues to deal for the outsourcing company. Call centre outsourcing has grown in the recent decades rapidly. Typical markets for sourcing call centers are offshore for example in India and Philippines, but the industry of nearshoring (where outsourced service provider is geographically on the same continent) has also grown in Europe and North America (Lacity and Willcocks 2001).

Call centers usually handle varied services, from customer service to sales and various supporting functions. The actual service product of a call center varies greatly between different business cases, from pure direct marketing to end-customers, business-to-business marketing and various help-center functions. Evolution of these customer service and sales models is the customer management model, where a company outsources the whole customer interface to a third party (Aksin et al 2008). Some companies outsource the entire call center operation, but many do not want to hand over their primary consumer contact to another party. Practices such as co-sourcing, where part of the calls are kept inside the company and part is outsourced have emerged. Research on call center outsourcing suggests that specific requirements, service levels and clear pricing structures are fundamental for successful outsourcing ventures (Lacity and Willcocks 2001).

Evaluating service quality and related risk is difficult. In call center outsourcing decision making it relatively simple to see the cost efficiency after the business process has been outsourced, but the effect of service quality is more difficult. Assigning monetary values to the service quality contributions creates a need for more long-term measurement and targets. (Bousfield 2003)

The research on call centers itself has focused on three different areas: (Jack et al 2003)

(1) The inputs (human relations and industrial psychology perspective).

(2) The delivery processes (operations management perspective).

(3) The performance outcomes (service marketing perspective)

It should be noted that the majority of the research on call centers focus on call centers that only take inbound calls or of mixed nature. Research on pure telemarketing call centers has not been popular in the past (Gans et al 2003).

Research on the inputs of call center is focused on the labor itself inside call center service processes. The work inside today's call center is often examined from a perspective that resembles Taylorism; workers are seen as parts in a mass production system. The work itself is seen as very psychologically and emotionally demanding (Taylor & Bain 1997). Focus of management is on volume production that is guided by performance metrics (Robinson & Morley 2006). The nature of work in call center industry is most evident in its employee turnover rates, which are often high. Managing the employee turnover is one key success factor for a call center.

Research on delivery processes or operations management research on call centers focuses on efficient management through efficient use of capacity, labor resources, and delivery processes (Jack et al 2003). Typical studies in this area utilize mathematical models and simulations on call queuing and optimal worker allocation.

Third type of research on call centers is through marketing focus that tries to tie call center delivery processes into performance outcomes, like for example customer satisfaction and loyalty (Batt 2002). Employee satisfaction in call center work is directly linked to results. A key finding of a study by Batt (2002) on human resource practices on call center industry was that

> "*The greater use of high involvement practices is associated with lower quit rates and higher sales growth in customer service and sales centers*".

Call centre managers themselves views that most important values for a call centre worker are: dependability (working on time and on schedule), knowledge (for call back minimization), articulation (clear speech) and availability (percentage of time agent is available to answer calls) (Jack et al 2003). The worker qualities that the management seeks correspond with nature of work that resembles a modern assembly line.

3 BUSINESS PROCESS OUTSOURCING DECISION

In this chapter, we will focus on pre-contract phases of outsourcing where an outsourcing strategy is formed and suppliers are evaluated. The pre-contract phase of outsourcing can also be called the evaluation phase or the presourcing phase of outsourcing. In this chapter, contract issues and operational phase issues such as governance are left out of the discussion. In the below figure the different phases of outsourcing are illustrated, the phases beyond evaluation are discussed in chapter 4.

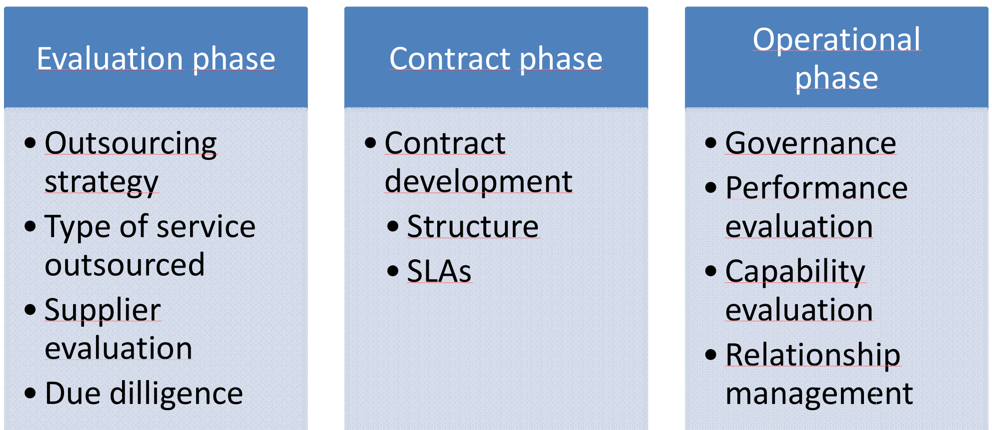

Figure 9: Business process outsourcing phases, adapted from Power et al (2006)

3.1 Outsourcing strategy and motivations

The process of starting business process outsourcing is complex for the client company. Wrong outsourcing decisions result in high costs for the management, due to missed business opportunities and increased costs of possible vendor switch. Outsourcing decisions are the most complicated decisions today's manager needs to make. Due to the nature of outsourcing, the decisions should be made with long-term objectives in mind. Outsourcing strategy consists of determining what to outsource, what the goals, objectives and primary motivations of outsourcing are (Alborz et al 2003).

During development of outsourcing strategy, it is important to think about the specific service qualities of those services that are potential targets of outsourcing. Traditional means of classifying products have also been utilized in services research, dividing services into five types of Project, Jobbing, Batch, Line, and Continuous process.

Six widely recognized service dimensions in literature according to Silvestro et al

(1992) are

- Equipment/people focus
- Length of customer contact time
- Extent of customization
- Source of value added (front or back office)
- Product/process focus

While these six dimensions are common in various service classification models, there are multiple models developed and no dominant design has emerged (Sampson & Froehle 2006). Structured analysis of the type of service can be utilized for the evaluation of the providers, for mapping the most important capabilities the client needs to seek from the vendors.

In strategy forming, it is often easier to think outside of the service itself and focus on its importance to the client company. Typical qualifications for outsourced service are its core-specificity, whether the service is critical for the core competence of the company, and company's capabilities related to the service production. Researcher McIvor (2008) has summarized this decision making model in the following figure, where sourcing decisions are divided into four types of decisions.

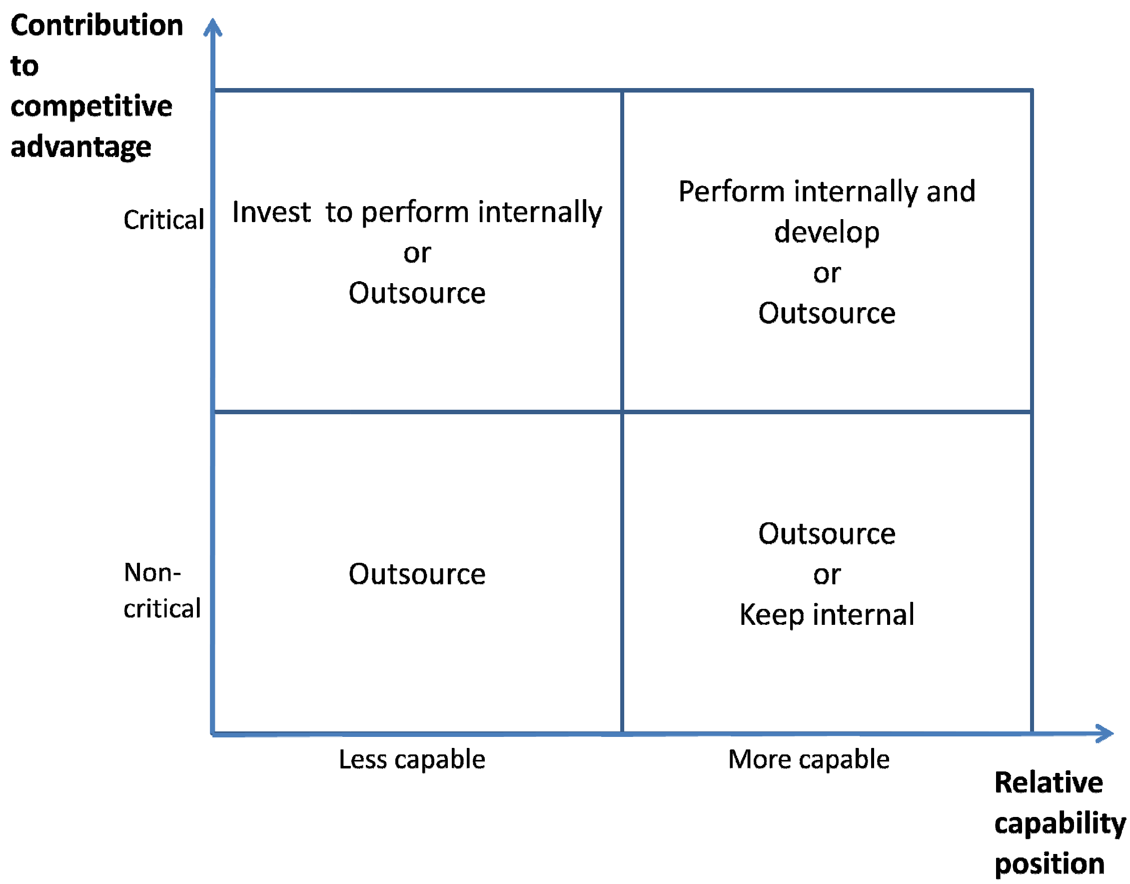

Figure 10: Four sourcing strategies for different services by McIvor (2008)

In the first or top-left quadrant of the above figure are the critical processes where the client company lacks the internal capabilities to produce the service itself. This leads to two dominant strategies of either investing in internal capabilities of producing the service itself or outsourcing the service production to another party. The second or the top-right quadrant has those processes that are critical for company's competitive advantage and the company has the capability to produce it. The dominant strategy in this type of process is to develop and continue the internal process. Outsourcing this type of service can be also an alternative, especially in the cases where the company lacks a sustainable capability or competitive advantage (McIvor 2008).

In the third or the bottom-left quadrant there are processes where the process is not of key importance for the competitive advantage and the suppliers are more capable in producing the service in question. Processes in this type are the typical targets for outsourcing and are usually more routine processes like those found typically in back office functions. On strategic level, the main issue in these kinds of processes is the specificity of the services: will the vendor have high bargaining power after the client has committed to the relationship or can the client opt for more market-based sourcing of using multiple vendors. In the fourth quadrant are the non-critical processes where the client company is more capable then the competitors and suppliers. For these types of services, there is not one dominant strategy, but the client company has multiple options. For example, the service could be utilized for spin-off company or a supplier development program.

3.2 Strategic goals and resource based view of outsourcing

Incorporating outsourcing to overall corporate strategy is one of the key differentiating factors in successful implementation of BPO engagements. Decision to outsource has a long lasting impact on the client organization; therefore, the management should make the decision to outsource with long-term objectives in mind (Alborz et al 2003). One definition of outsourcing strategy is the logic visible in a firm's portfolio of outsourcing decisions; this definition does not imply that the strategy has been formed beforehand but that it can be a summary of a pattern visible in series of individual outsourcing decisions (Lee et al 2002).

Outsourcing strategy research has been limited to larger companies, one of the reasons being that it is viewed that only larger multinational companies are capable of defining and utilizing an outsourcing strategy (Hätönen 2008). Successful outsourcing strategy needs to be communicated to the vendors: strategic utilization of business process outsourcing can benefit both parties (Mierau 2007).

Henderson and Venkatraman (1999) have studied alignment of strategic goals between outsourcing strategy and overall strategy. Strategic alignment is an important factor within outsourcing that influences the success of outsourcing ventures. If the outsourcing project is not aligned with the overall strategy of the client company, the outcome of the service might be unsatisfactory. Without proper strategic alignment, services are delivered based on technical rather than business requirements (Geillings 2007).

When assessing strategic goals of outsourcing, the resource-based viewpoint of competitive strategy gives imporant insights. Resources of a company are valuable if they allow the company to exploit opportunities and counter threats in the business environment. Whether a resource can be a basis for competitive advantage, depends on the relative rarity of it, if most of the competition has or is capable of developing similar resources, it is unlikely to be a source of competitive advantage (McIvor 2009). From the perspective of the resource-based view, the less appropriate resources a company has internally, the more it will seek to overcome this weakness by outsourcing external expertise. If the company has the appropriate resources internally, it can invest in them and exploit them for competitive advantage, or if the strategic value of these resources is low the company should outsource them (Roy & Aubert 2002). Resource based viewpoint is helpful in those outsourcing contracts that are described as partnerships (Duncan 1998). RBV views collaboration between organizations as potential way of accessing and developing resources that can contribute to the competitive advantage of the outsourcing company (McIvor 2009).

By utilizing resource-based view we can also find outsourcing hazards beyond the usual opportunitism by one party in the relationship. Hazards identifyed by utilizing resource based view include: asset erosion, lost of access to assets and loss of control over strategic assets (Duncan 1998). While strategic thinking in outsourcing is key for succesful outsourcing ventures, many things can go wrong in strategy formulation. Another typical mistake in outsourcing strategy is outsourcing the wrong things, a frequently quoted example from this is IBM who outsourced the production of the operating system (Kremic et al 2006).

Perhaps the most often cited strategic reason for outsourcing is to allow the organization to better focus on its core competencies (Hätönen 2008, Viding & Globerman 1999). This focus on and development of certain capabilities is central to resource based viewpoint. Resource based view also gives implications on which activities are of core competence and should be produced internally (McIvor 2009).

3.3 Economic goals and transaction cost based view of outsourcing

A majority of outsourcing decisions are characterized by the economic goals and expectations both companies in the co-operation have. Economic issues also serve as the primary measurement of the success in the outsourcing venture. Besides running costs of outsourcing venture, division of investment responsibilities is often a question in outsourcing, which party makes the required investments, and how the benefits from the investment outcome are divided.

Transaction cost economic (TCE) theory arguments that companies exists to avoid excessive transaction costs. Transaction costs can be differentiated into ex-ante (for example in the evaluation phase of outsourcing) and ex-post (during operations) transaction costs (Williamson 1979). As its name implies transaction cost theory focuses on the costs and cost efficiency rather than revenue. According to the theory, managers outsource when they evaluate the sourcing from market to be more cost efficient than integrating vertically and when the required skills or experience are available from the market and not internally from the company (Duncan 1998).

Economic goals of the service recipient can be examined through transaction cost theory. Usually, when compared to the service vendor, the outsourcing client has more complex economic goals it needs to consider. Furthermore, the goals usually change over time. Service provider is in more of a reactionary role, where it adapts to the requirements given by the client company, while still ensuring profitable business for itself.

Organizations employ outsourcing to achieve improvements in cost efficiency and quality. The potential for these improvements needs to be evaluated with the prevailing conditions of the marketplace in mid. TCE provides an analytical tool for evaluation of the supplier performance, marketplace conditions and whether the decision to outsource was appropriate to the situation. (McIvor 2009)

The concept of asset specificity is a central part of TCE theory. Asset specificity refers to the amount of customization attributed to the transaction. High asset-specificity requires investments that have less value outside of the initial target transaction. Low asset-specificity usually requires standardized service offerings. Some different types of asset specificity are non-specific (i.e. standardized), idiosyncratic (customized to a single organization) or mixed (incorporates both standardized and customized elements). (McIvor 2009)

TCE argues that cost effectiveness of outsourcing decreases as the number of transactions increase. Development of information technology in the recent decades has changed the environment, fixed costs of setting up the systems for monitoring and management dominate the variable transaction costs associated with the service transactions itself (Ellram et al 2008). Advances in information technology have lowered barriers and decreased information asymmetries especially in services outsourcing, since most service transfers rely on information or telecommunication technology (Tate et al 2009). Offshoring of whole business functions such as back office and call centers is possible only through current level of communications technology.

As a summary, transaction cost economics provides a thorough inspection of the effects of transaction costs into the outsourcing partnership. TCE is particularly useful for analysis of market versus hierarchical mechanisms in the outsourcing decision (McIvor 2009).

3.4 BPO supplier capability evaluation

Supplier evaluation is a key factor in outsourcing ventures. The client company needs to start the relationship by understanding the supplier's capabilities. The evaluation of capabilities needs to be as part of overall evaluation and due diligence process. The primary motivation of capability evaluation is always to measure the ability of the potential suppliers to deliver the service and solutions the client company is seeking. Supplier capability evaluation can also be utilized for supplier development and relationship management (Alborz et al 2003). Mutual development is a key part of every long-term outsourcing project.

Organizational capabilities are usually divided into two categories – systems capabilities and process capabilities. System capabilities involve technical factors such as infrastructure and IT systems and process capabilities involve people related factors such as routines, procedures and coordination. (Whitaker et al 2008)

For this study, a five category division of BPO capabilities is utilized. BPO capability is divided into resources at BPO, operations at BPO, business sustainability at BPO, process capabilities at BPO and expertise at BPO. These five capability areas are understood to be of similar value to the client.

Figure 11: Five BPO capability areas developed from back office BPO evaluation tools by Feeny et al (2006)

3.4.1 Resource management at BPO

One of the most common motivations for outsourcing is the access to resources the client company currently lacks. Resource management at the service supplier can be roughly divided into two areas: human resources and the management of capacity.

Considering human resources, it is important to note that the major factor differentiating is not the current staff at BPO provider but the quality of management and motivation to deliver superior service. Evaluating HR qualities is difficult, but consists of looking for signs that supplier understands HR development (e.g. by training). Importance of HR management and high involvement HR practices in front office work has been proven in study by Bratt (2001) that had three major conclusions:

> *First, greater use of high involvement practices is associated with lower quit rates and higher sales growth in customer service and sales centers. Second, quit rates partially mediate the relationship between high involvement practices and sales growth. Third, the relationship between high involvement practices and sales growth is moderated by the establishment's primary customer base. High involvement practices are associated with higher sales growth in small*

business and residential centers.

Another factor in resources management is the management of capacity. In many BPO operations a major factor in the decision to outsource is the capability of the service provider to manage demand and get the resources needed. In front office type outsourcing this is even more important due to uneven demand across time. Major issue for management here is the resource allocation by the vendor, while a vendor might have impressive capabilities in operational and implementation areas, without proper management of demand fluctuation successful BPO engagement is difficult (Lee et al 2004).

3.4.2 Implementation and operations

The success or failure of an outsourcing engagement depends on the execution of the contract through the organizational structures and internal processes of the BPO vendor. Evaluating BPO vendors operational and implementation capabilities is essential for successful BPO engagement. BPO suppliers differ in their organizational approaches towards the client. Lacity and Willcocks (1998) have identified two dominant approaches: a thin frontend client team that utilizes consolidated service unit and enterprise partnership approach where individual units are created for each major deal.

Supplier's organization always has some form of review function, a board or a committee that evaluates the progress and performance of BPO operation. However, the main differentiator in successful and non-successful operations was often in individual level, the leader of the supplier account team (Feeny et al 2003). On the operational level much of the success depends on the project management capabilities of the BPO vendor, and its importance increases with the length of the BPO contract. Program management capability involves managing multiple interrelated projects for service transformation. The provider company's capability for building on lessons learned from each implementation should also be evaluated (DiRomauldo & Gurbaxani 1998).

3.4.3 Business sustainability

Business sustainability is a broad concept that incorporates vendor's ability to meet the defined service level agreements, its own business plans and manage vendor-client relationships in a way that creates win-win opportunities for both parties (Lacity and Willcocks 1998). Business sustainability more literally means the ability of the service provider to survive the changing market conditions, and continue to improve its service quality. In this research, business sustainability is not used in the sense of environmentally sustainable business.

In the area of business sustainability, what client companies seek from the vendor is the ability to maintain a viable business over time. In research on call center outsourcing cases by Borman (2006) all researched clients told that, they wanted an experienced service provider with a successful track record. Another way of proving business sustainability was open book accounting that enables the suppliers to demonstrate their pricing model more accurately and the clients to examine situation objectively.

An always-important part of business sustainability for service provider is contract management. For the suppliers, typical way of ensuring business sustainability is to focus on long-term contracts (Borman 2006). Providing good contract structure for long-term relationship that is lucrative for both parties is also responsibility for the vendor.

3.4.4 Process capabilities

Process capabilities (ability to design and implement changes to the service process) of the supplier are of foremost importance: it can be used as a powerful tool for service transformation (Feeny et al 2003). Research by Wüllenberg et al (2008) suggests that process standardization and process capabilities are strongly related to BPO success.

When evaluating the process capabilities of the BPO vendor two areas are important: process predictability and process effectiveness. Process predictability is measured by variability in achieving cost and performance objectives; process effectiveness is measured through achievement of targeted results and ability raise targets. (McCormack & Lockamy 2004)

Similar concepts are also process modularity and complexity. Process modularity is defined by the process's ability to function as an independent sub-task that can be analyzed, modified and improved. Higher process modularity decreases the requirements for communication structures between the vendor and the client. Process complexity measures its analyzability, how measurable and unified single events of the process are. If processes are complex, the requirements for communication structures between the vendor and the client are increased. (Mani et al 2006)

Outsourcing clients should not focus solely on current processes of the potential vendor, but also evaluate the capabilities of the vendor to re-engineer its processes. Davenport and Short (1990) define business process re-engineering as the analysis and design of workflows and process within and between the two parties in co-operation. Other researchers, such as Hammer and Champy (1993) emphasize the more radical redesigning and rethinking of business processes for achieving more impressive improvements in vital measures of performance, such as cost effectiveness and quality.

Measurement of process re-engineering capabilities of the service provider should start from their ability to map the current process capabilities and processes inside the service. If the supplier should be able to re-engineer and develop their current processes, as a starting point they need to be clearly defined and visualized. After the mapping of the current situation, the process re-engineering continues with the development of vision for the process, an ideal "end state" that is sought after.

Process benchmarking is also an important part of process re-engineering. The client needs to evaluate if the vendor is able to benchmark between other processes within the company (O'Neill & Soha 1999). Benchmarking also allows for better visualization of the current processes. Utilization of IT is usually a powerful enabler for business process re-engineering. However, researchers agree on that more radical improvements focus on organizational process changes and improvements, rather than pure IT changes or implementation projects (Hammer & Champy 1993).

It is important to note that some research suggest that the process expertise of the service vendor does not lead to cost effectiveness. It can increase overall profitability through increased revenue but without improving cost efficiency (Fritz 2009). When thinking about process capabilities and improvements it is vital to think about human factors and which party has the critical skills for improvement. Additional important questions are: who will own the change process and who defines what qualifies as an improvement. In business process outsourcing, it can be difficult to measure which party benefits the most from the service improvement. Some researchers believe that the primary of aim of business process re-engineering is to improve the performance from the customer's perspective (O'Neill & Soha 1999). These issues create additional challenges for the contract management. Evaluation of business process capabilities becomes even more difficult, when one considers the fact that there has not been significant agreement in the academic world or business practice about some key concept definitions (Childe et al 1994).

3.4.5 Expertise and technology

A common rationale for outsourcing is to gain access to expertise and competencies not available in the company internally. Therefore, it is important to evaluate suppliers' capabilities both in expertise and in technology. Suppliers' technological capabilities also support other goals, such as stable operations and sustainable business. In many cases, the outsourcing company has lagged behind on investing into the technology it chooses to outsource, and it seeking to circumvent this problem by outsourcing. Sophisticated technological capabilities are also a key requirement for effective governance of the outsourced process and the correlate positively (Mani et al 2006). Technological capabilities also potentially reduce costs rising from incentive misalignment and opportunism (Picot et al 1996). They promote more accurate performance measurement and decrease the uncertainty by the client company about the relationship with the vendor.

Many BPO vendors achieve expertise by assimilating the staff of the client through employee transfers. This method of gathering expertise has two main benefits for the clients, the supplier needs to take responsibility for the capacity and both parties know that the staff are familiar with the business process that is being outsourced (Feeny et al 2003).

4 OUTSOURCING GOVERNANCE

Why does a company need to govern its outsourced business processes? The aim of governance is to facilitate the continued alignment of the service delivered to the customer's goals and to provide overall support for the service partnership. In this chapter, the different goals between the parties in outsourcing agreements are examined. Some of these goals are known when the decision to outsource is made, but they also form during the creation of the outsourcing agreement. The goals both parties have and the differences there might be affect the relationship between the service recipient and the service provider. Business process outsourcing research implies that governance is fundamental to ensure quality and cost benefits (Lacity, Feeny and Willcocks 2006)

Service recipient usually has strategic level goals of achieving new resources in order to better concentrate on their own core competence. Service providers usually have similar strategic goal of concentrating on their own core competence and of building competitive advantage in the marketplace. Both parties also have economic goals for the outsourcing relationship, but their importance differs. Sometimes the main goal of outsourcing is economic cost saving, which creates additional issues in managing the relationship. Usually the service recipient is the main motivator behind the economic goals in the relationship and the service provider seeks to meet the goals set by the service recipient. In business process outsourcing, the service recipient also often has technical goals it seeks to accomplish by outsourcing. Researchers Lacity and Hirscheim (1994) have identified three major technical motivations, which are improvement of the technical service, accessing expertise not available internally and access to new technologies. These three motivations usually take the viewpoint of the service recipient, while the service provider also can have technological goals of its own.

Outsourcing relationships over time have become larger, riskier, longer, and more complex. This has made establishing a governance model a key success factor in outsourcing. Governance model facilitates continued alignment of the delivered services with the customer's strategies and goals (Gewald & Helbig 2006). Outsourcing relationship needs to be managed in to a win-win situation for both parties with balanced benefits. Utilization of joint governance structure is a way to mitigate the risks arising from business process outsourcing.

Outsourcing governance usually includes performance measurement, monitoring and utilization of vendor management practices. Performance measurement is utilized to control the process quality and influence the vendor company to desired direction. Vendor management during the outsourcing life cycle contributes to the performance of business process outsourcing (Choudhury and Sabherwal 2003). Governance is in most definitions understood as a phenomenon that occurs only during post-contract phases of outsourcing, i.e. during the operational stage of the outsourcing. Governance includes, but is not limited to management roles and support, management structure, team structure, establishment of appropriate processes and procedures for communication and change management (Alborz et al 2003).

4.1 Contract management

For a successful outsourcing operation, it is important to form contracts so that the supplier acts with the client's best interest in mind. Different contract terms influence vendor actions, such as their capacity decisions. Lack of proper contract management has been identified as a significant risk factor that can lead to increased cost of services and inability to meet cost reduction targets (Aubert et al 1998)

Drafting a proper contract for the business situation is an important mechanism for dealing with the problem of opportunism. Client companies need to consider which contractual safeguards can be employed to reduce opportunism, how the contract can encourage supplier performance improvement and what collaborative practices can be developed in order to deal with contingencies occurring during the venture (McIvor 2008).

Contract management ensures that the BPO vendor delivers the service according to the terms in contract. Contract management also includes changes made into contracts, typically smaller revisions. An important part of contract management is the Service Level Agreements that are typically present in most BPO contracts: contract management needs to ensure that the SLAs are continuously aligned with the requirements of the current business environment (Gewald & Helbig 2006).

Outsourcing relationships typically have problems with asymmetric information, for example about the maximum productivity of the vendor. Economic theory implies that given lack of information on the client side, the client will pay information rent to the most productive vendor (Hasija et al 2007).

BPO engagements have a better chance of achieving target benefits if the outsourced process is evaluated from multiple dimensions and the contract is tailored accordingly. Three fundamental process dimensions according to Whinston et al (2006) are Complexity, Independence and Strategic Importance. Complexity is defined as the extent to which employees in the process must use different methods and procedures to do their work and whether there are established solutions to process problems. Independence in this definition means the independence of the process from other processes in the organization. Strategic importance implies the processes importance in the client company's overall competitive advantage.

Gellings (2007) lists typical contract clauses used in business process outsourcing contracts:

- Service Level Agreements
- Penalties and Rewards
- Pricing
- Benchmarking system
- Change Requests
- Renegotiation Options
- Liability & Insurance
- Dispute Resolution
- Exit Management
- Auditing

Business process outsourcing agreements typically have detailed Service Level Agreements that define a certain level of product or service that needs to be fulfilled in order to meet the business objectives. Service Level Agreements are typically added after the contract is negotiated, and they provide a specific way to manage the outsourcing relationship both for the service provider and for the service recipient (Goo

& Nam 2007). While a contract that covers the business case broadly is useful for governance purposes, every additional contract clause leads to additional cost due to increased monitoring and enforcement costs (Barthelemy & Quelin 2006). Research by Goo & Nam (2007) also concludes that that well-structured SLAs play important roles in building sustainable relationships in the course of outsourcing ventures and leads to the success of IT outsourcing.

Research by Barthelemy and Quelin (2006) had some findings on contract structure and complexity in business process outsourcing. If the cost of switching a vendor is high, the outsourcing company needs to build elaborate contractual safeguards. If the outsourced service is near to the core business of the outsourcing, the amount of control the outsourcing company needs is increased. Usually close to core services that are outsourced have high vendor switching costs. Unclear future demands by the client for the service also create additional requirements for the contracts structure, because the contract must be able to cope with future unexpected contingencies.

The contract and relationship between the outsourcing company and the service provider go always hand in hand. Contract management during outsourcing lifecycle is a continuous process, it does not only occur in the beginning of the relationship, but is a key success factor for outsourcing management. Contracts should therefore be made with continuity and the future evolvement of the relationship in mind (DiRomualdo & Gurbaxani 1998).In research, lack of proper contract management and communication structures are often quoted as the major reasons for failure in outsourcing ventures (Alborz et al 2003).

4.2 Relationship management

While the contract management usually determines the success of outsourcing, a successful outsourcing venture cannot be ensured by a contract alone. Each type of outsourcing relationship is different. Various management tools for standardizing outsourcing relationships and purchasing management have been developed. Figure 12 below shows four types of outsourcing relationships based on the different levels of "Specificity" and "Complexity" of the outsourced product or service (Franceschini et al., 2003).

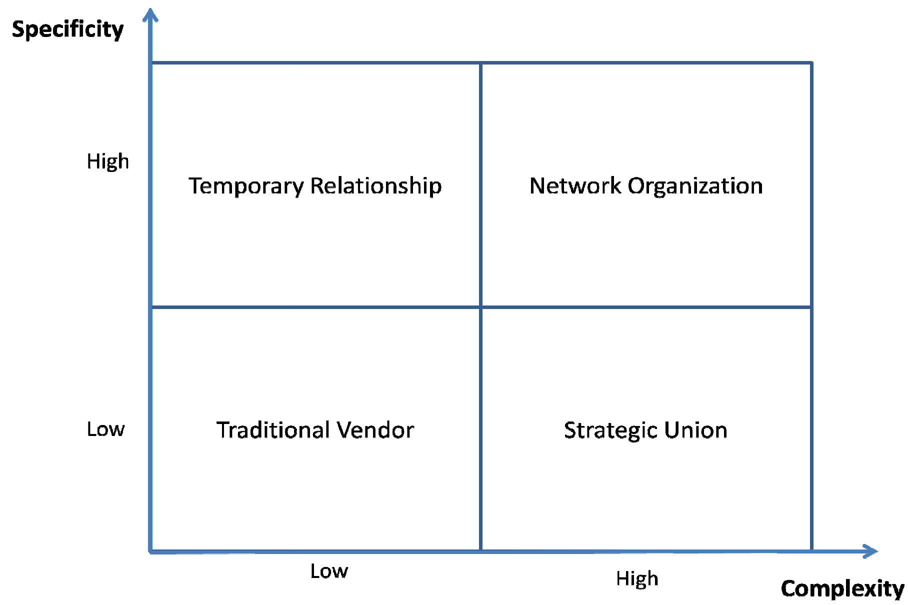

Figure 12: Four levels of outsourcing relationship

Similar portfolios with different names for types of outsourcing relations exists, one example is one used by Kishore et al (2003) uses Support, Reliance, Alliance and Alignment as types of relationships. A fundamental model in purchasing that is also applicable for business process outsourcing is Kraljic's (1983) Purchasing portfolio that gives a recommendation for management emphasis regarding purchasing: focusing on either Purchasing, Sourcing, Materials or Supply depending on scarcity and importance of the target of procurement. Kraljic's model focuses on material purchases but gives also an insight when purchasing services or outsourcing business processes.

Traditional vendor-purchaser type relationships are characterized by their low strategic impact, short-term contracts and short-term vision (Franceschini et al., 2003). Major motivation for this kind of outsourcing is pure cost effectiveness. Therefore, outsourced business processes falling into this category are typically traditional IS services such as payroll processing Key capabilities when managing traditional supplier-customer relationships are the ability to organize and manage multiple bidding processes for cost reduction and monitoring capabilities for evaluating the performance of current providers (Kishore et al 2003). Monitoring in these relationships should be based on outcome-based performance and overall cost effectiveness.

Temporary relationships are typically a hybrid model between traditional customer/supplier relationship and a full partnership (Franceschini et al., 2003). Typically, these kinds of relationships have longer time horizon than simpler supplier-customer relationships and have more developed goals such as common process and effectiveness improvement (Kishore et al 2003). Company's motivation for entering this type of business process outsourcing is to reach better competencies outside their core competencies. Monitoring these kinds of relationships is best based on outcome-based performance monitors and process improvements.

Strategic unions or more complex network organizations have a long-term time horizon, common or at least well defined strategy by the client and are based on win-win solutions for both companies (Franceschini et al., 2003). Network organizations are utilized for future market development and innovation, while strategic unions are focused on achieving more immediate competitive advantage. Whether the relationship is a strategic union or network organization important factors in outsourcing management are profit-sharing rules between the parties and forming common mission and objective statements (Kishore et al 2003). Monitoring purely by strict performance measurements is not effective in this kind of relationship, and focus should be more on behavioral-based controls for guidance.

Another way to analyze this same phenomenon is through the capabilities/status of the vendor, and how it characterizes the relationship between the two companies. Gewald & Heibig (2006) have identified four different levels of partnerships that are illustrated in figure 13:

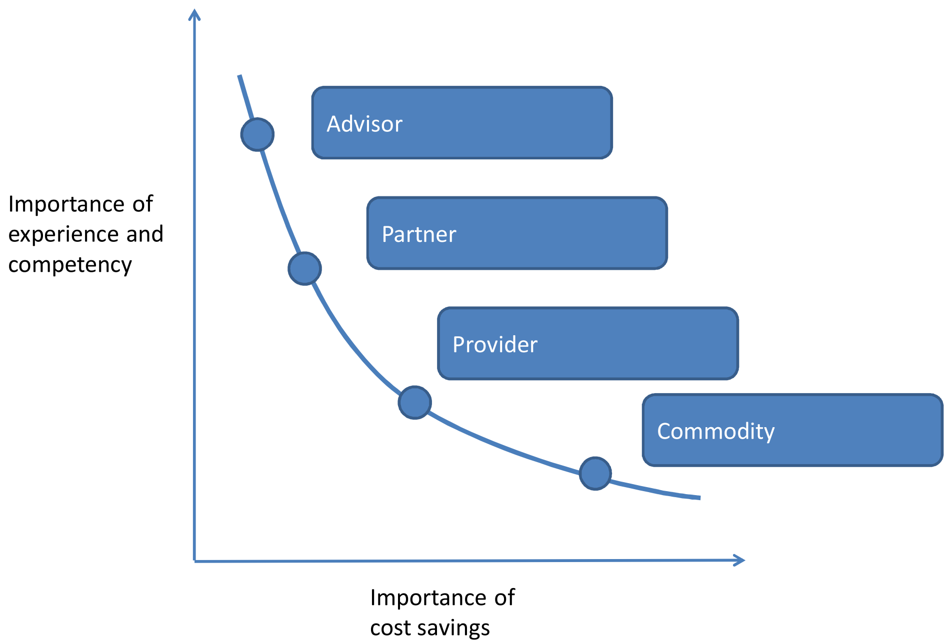

Figure 13: Four different types of outsourcing vendors

These four partnership levels detail IT BPO relationships, but are applicable for other business processes as well. Those organizations that seek a commodity provider usually are outsourcing business processes that are often simple administrative support functions. Main objective is to achieve maximum cost savings. Provider type partners are more evolved in providing experience and competency; they provide a more evolved service for the demand and concern of the client company.

Partner type relationship with the service provider is characterized by the status of the vendor in client's organization: the service provider is viewed as being on the same level as business units within the client company. Cost focus has evolved in to benefit or outcome focus. Further for partner there is the advisor type relationship with BPO vendor. BPO vendor that is advisor type is a critical element of client's business strategy and are supplying a key part of the competitive advantage of the client. An advisor type BPO vendor resembles more management consultant firm than traditional service provider. BPO success is measured by the overall success of the whole business.

4.3 Differentiating factors in successful governance of outsourcing

Researchers Lacity and Willcocks (1998) present seven differentiating factors in outsourcing governance. These seven factors are summarized in the following figure:

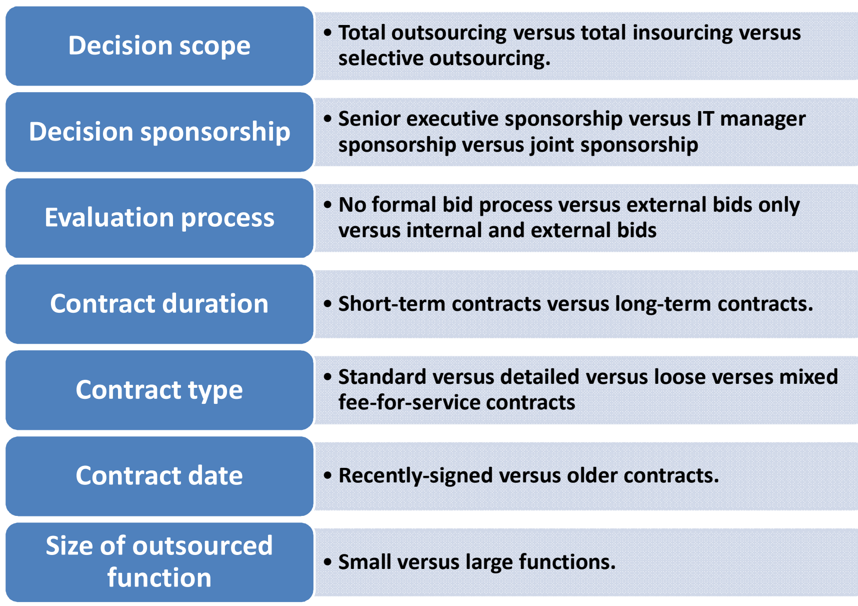

Figure 14: Differentiation factors by Lacity and Willcocks (1998)

Decision scope affects governance of the outsourced relationship: complexity of coordinating the outsourced business process correlates highly with the scope. Research by Lacity and Willcocks (1998) implies that choosing the middle road strategy of selective outsourcing seems to better achieve expected costs reduction targets when compared to total outsourcing or total insourcing. The size of the outsourced function was not found to affect the overall success probability of BPO. Furthermore, research also implies that simultaneous outsourcing of two or more processes at the same decreases the cost reduction effect of outsourcing when compared to tackling one BPO decision at a time (Fritsch 2007).

Decision sponsorship describes the various types of management backing BPO ventures can have: senior executive sponsorship or sponsorship of the manager responsible for the process that is to be outsourced. Studies show that the decisions that have sponsorship from both stakeholder groups have higher possibility of achieving the cost reduction targets (Lacity & Willcocks 1998).

Evaluation process of choosing the vendor for BPO can be handled in multiple ways: without formalized bidding process, accepting only outside bids or also inviting internal groups to the bidding process. Lacity & Willcocks (1998) found that organizations that utilized both internal and outside bid had higher chance of achieving the cost reduction targets set in BPO process. Including the internal business unit in bidding seems to promote the competition.

Research on effect of *contracts* seems to have contradictive results: Lacity and Willcocks (1998) argue that their research show that short-term contracts achieve the expected cost savings more frequently than long-term contracts and that detailed, fee-for-service type contracts were also most probable to reach cost reduction targets. Research by Fritsch (2007) implies that the longer the contract duration, the higher the operational cost savings achieved by business process outsourcing. Longer-term contracts seem to encourage additional investments from both parties to improvement of the outsourced process.

4.4 Co-creation of value in business process outsourcing

Co-creation of value is a recent management concept that has evolved from past management principles such competitive forces thinking by Porter (1980) and more recent core competence concepts by Prahalad and Hamel (1990). Competitive forces based thinking uses an inside out rationale of analyzing the external competitive factors in the market, while core competence analyzes the internal core of the company's capabilities. Co-creation of value is related to new concept of service dominant (S-D) [1]logic that has been developed by Vargo and Lusch (2004). As its name implies, a fundamental part in S-D logic is the thinking that the service itself is the exchange itself and not a specific type of exchange (Payne et al 2007). In S-D logic, the customer is involved in the value-creation process and thus is a co-creator of value (Vargo & Lusch 2004).

While emphasis is put on the additional value created in the co-production, S-D logic

[1] Versus more traditional Goods Dominated (G-D) logic

theories do not imply that the value of the activities itself and the co-creation would be equal. For co-creation to exist, it does not need to be a fundamental part of the whole service. (Payne et al 2007)

Majority of research on service-dominant logic is focused on business-to-consumer services, and not specifically to outsourced business-to-business services. Researchers Prahalad and Ramaswamy (2004) have defined the building blocks of value co-creation as: dialogue, access, risk-benefits and transparency. These same values can be utilized in evaluation of business process outsourcing, especially considering those processes that can be more easily measured by their outcome such as direct marketing or other front office type processes.

4.5 Risk management in business process outsourcing

In all outsourcing projects there are multiple parties with individual incentives, which makes risk management and how it is divided an important question. In decision theory, risk is described as reflecting variation in the distribution of possible outcomes, their likelihoods, and the value of the outcomes. Risk is measured by the variance of the probability distribution of possible gains and losses associated with a particular alternative (March & Shapira 1987). More generally, risk refers to an undesirable outcome or the factors leading to an undesirable control. The most significant and common risks in outsourcing ventures are information security concerns and the loss of management control over the business (Yang et al 2007).

Risk can be inspected from two broad perspectives: the economic perspective and the managerial perspective. The economic perspective of risk is defined by Aubert et al (2005):

> *Function of the probability of a negative outcome and the importance of the loss due to the occurrence of this outcome: Risk Exposure = P(NO) * L(NO)*
>
> *(Where P(NO) is the probability of a negative outcome, and L(NO) the loss due to the outcome)*

Managerial perspective of risk is equal to a “danger” or a “hazard”. In this perspective, positive outcomes form the attractiveness of alternative, and the risk itself forms the negative outcomes (Aubert et al 2002). One must note that while this is called the managerial perspective, real life managers also try to perceive risk with economic terms. Main risks that managers identify in outsourcing are summarized in the figure below:

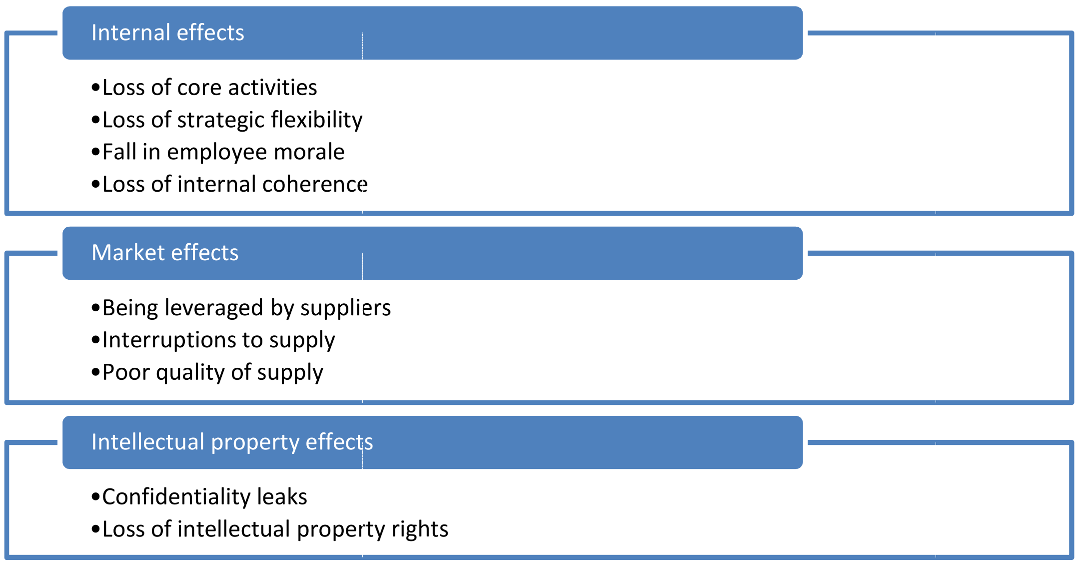

Figure 15: Outsourcing risks identified by managers, adapted from Lonsdale & Cox (1998)

In business process outsourcing, each different contract and outsourcing engagement is a unique situation that leads into different sets of risk factors. The varying risk factors lead to different types of risk and thus create challenge for managers to adopt context specific risk management strategies.

In business process outsourcing, a vendor needs various types of information from the client to produce the contracted services efficiently. For the client this means that they must disclose proprietary information and information security becomes a key concern. In business process outsourcing, the concern for information security is further evident since the outsourcing cases in BPO are not simple, but often consist of managing whole complex processes (Yang et al 2007).

If the incentives and objectives of both companies in the co-operation are misaligned, the outsourcing company can lose the management control over the supplier (Yang et al 2007). In preventing loss of managerial control, goals and expectations of both parties must be taken into account when forming the contract and when governing the ongoing relationship. Additional internal risk factors for the outsourcing company are related to human resources. Often in outsourcing some of the employees involved in the service need to be transferred into the service provider, or to be let go altogether which creates morale problems for the staff. Furthermore, the labor union issues might come into picture if the working contracts and conditions in the service provider are different from the outsourcing company (Yang et al 2007).

One perspective of analyzing outsourcing risk is the business continuity viewpoint. Business continuity planning is utilized primarily to minimize the effects of unanticipated events in the firms supply chain that could endanger the ability to meet customer requirements. Responding to these continuity issues usually are actions aimed at reducing the probability of the risk, mitigation of the risk impact if it occurs or combination of these two (Zsidisin et al 2005). Outsourcing ventures also have different types of external risk factors that need to be considered. Especially in cases of offshore outsourcing, the market risk factors, such as political and currency risks, become more important (Ellram et al 2008).

5 METHODOLOGY

This chapter introduces the research methodology used in this study, and elaborates the rationale for choosing the research methods used. Furthermore, in this chapter the process of the research from defining the research questions to the actual implementation is detailed. After these sections, the quality of the study is assessed through the viewpoints of reliability and validity.

5.1 Qualitative case study

Scientific research in the field of economics and business administration uses both quantitative and qualitative research methods (Koskinen et al 2005). The methods are not mutually exclusive and in some studies, both methods are used. Differences between qualitative and quantitative or statistic methods are mostly on the means which are used to point the scientific hypothesis. This research is qualitative due to the nature of the phenomena investigated. With a qualitative study, it is possible to gather in depth knowledge about the means and effects of information sharing in governance of outsourcing relationship. Qualitative studies are often characterized by their lesser amount of samples compared to quantitative studies, which is also true in case of this study. The focus in this study is to analyze the gathered material as in-depth as possible.

Defining qualitative research is often difficult, and this problem is often solved by defining qualitative research as the opposite of quantitative research. The most significant and visible difference is that qualitative research does not have a goal of numerical or quantitative results (Koskinen et al 2005). The most important criteria in a qualitative study is the quality or depth of the material, while in a quantitative studies the focus is on the quantity or breadth of the material (Eskola & Suoranta 1998). Many researchers of today are in favor of removing the strict division between qualitative and quantitative studies (Hirsjärvi et al 2000), and some methods traditionally utilized in one form of study are incorporated in to the other.

Qualitative method of researching can be understood roughly as a description of its research material/data and the form of the analysis conducted (Eskola & Suoranta 1998). Qualitative research has the description of actual real life events as its basis point

(HRS 2000). Common characteristics of qualitative studies are inductive analysis and its hypothetical nature (Eskola & Suoranta 1998). Quantitative studies are often defined by their goal of objective research, which in effect ensures a result that is independent from the research and the methods used. Qualitative studies on the other hand see the subjectivity of research as strength rather as a weakness.

The methodology of this thesis utilizes is qualitative case study. Case study is the most common research method in qualitative business studies. Almost all qualitative research can be thought as case studies. An important quality of a case study is its investigation of real life phenomena; one definition of case study research by Yin (1994) is "empirical inquiry that investigates a contemporary phenomenon within some real-life context"

The case study in this research is about Company A's outsourced call centre function that is provided by Company B. The methodology in this case study is a single case study; therefore, the depth of the research is a fundamental point. A qualitative case study enables this study to gather detailed information about the situation and identify the key factors affecting the business case. The empirical evidence utilized in case studies may be qualitative, quantitative or both (Yin 2008). In this thesis, the material included both qualitative and quantitative sources. However, the main findings of the study are based on the qualitative analysis, and the limited quantitative data available was utilized mainly for supporting the qualitative findings.

5.2 Research process

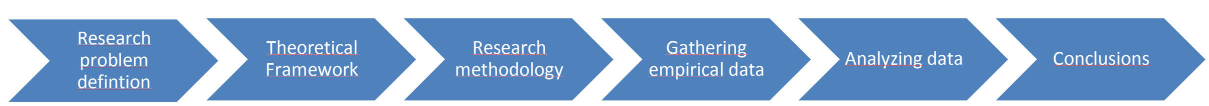

Figure 16: Research process summarized

The development of the research is summarized in the above figure. The research project started with the defining of the research problem and building of the supporting theoretical framework. After that, the research methodology for the empirical research was formed and the actual empirical data gathered. The final two phases of the research where analysis and drawing of the conclusions. While in the figure the different phases are separate, in actuality many of the phases overlapped. For example, the theoretical framework was still improved during the last months of the research and the research process was more iterative in nature.

5.2.1 Research problem definition and supporting theoretical framework

Because this thesis is a part of larger study on service outsourcing, some preliminary research problems and questions were already complete at the beginning of the work. While in the beginning problem was defined solidly, during the first months of the project some changes were needed. In the first phase, the research question focused solely on governance methods used in current outsourcing relationships. Due to the requirements of the stakeholders, the research problem shifted to a more generic model of supplier evaluation that could be utilized also when considering new outsourcing partners.

The theoretical framework was built as a basis for discussion of the research in the empirical part. Theoretical part was formed to consist three separate parts: type of outsourcing (BPO in this case), supplier capabilities and governance issues in outsourcing. All these three area were then utilized when analyzing the empirical data gathered.

5.2.2 Empirical data gathering and analysis

The empirical data gathered for the study consists mainly of interviews and additional written material. Interviews were conducted with two methodologies: semi-structured interviews and thematic interviews. Some supporting quantitative data was also utilized to support the analysis.

Semi-structured interviews were utilized as the primary data-gathering tool in this study. This was due to the nature of the research problem, which is complex, and to get more in-depth information from the interviewees through free conversation. Yin (2008) characterizes semi-structured interviews in qualitative case studies to be more like guided conversations than structured query-like question lists. For the semi-structured interviews a set of questions was made before the interview that were used, but the free discussion in addition to the prewritten questions usually took half of the time allocated for each interview.

In addition to the semi-structured interviews, some of the interviews were thematic interviews. In these interviews, no lists of fixed interview questions were used, only a list of themes those were the topics of discussion during the interviews. It is important to note that the division between thematic and semi-structured interview is unclear in the literature, and one definition of semi-structured interview is that it only follows certain themes (Hirsjärvi et al 2003). Major benefit of the interviews being either semi-structured or thematic was the fact that during interviews often new insights on the research problem were found and they could be incorporated into the interview immediately.

The initial interviews with the service recipient (Company A) that formed a basis for the study were conducted in February-March 2009. In addition to these interviews, material from both case companies was reviewed for further construction of the research question. From Company A multiple documents from the organization regarding outsourcing decisions and managing current outsourcing relations was used. From Company B the process descriptions of various processes inside the company were used. The material was researched focusing mostly on the structure and nature of the relationship between the case companies. The case and scope of the research question were formed and decided together with the service recipient in the April 2009.

The interviews of the case study were conducted during April and May of 2009. From service recipient the heads of those divisions that had a stake in the outsourced operation were interviewed, as were their predecessors. Altogether 6 people from Company A were interviewed in this study. Interviews at the service provider (Company B) focused on the managers, key account managers and team supervisors. Also few experienced sales representatives were interviewed at site. Altogether 17 people were interviewed at Company B, most of them on two occasions with follow-up questions based on the first round of interviews. The questions used in the semi-structured interviews are included in the appendix.

In addition to the interviews, information acquired from observing the internal audit conducted by the service recipient during June 2009 was used in the study. Some additional quantitative data such as service volumes was analyzed mostly to support the findings. The empirical findings of the study were analyzed during second half of June and July of 2009.

When analyzing the data gathered from research interviews, it was first structured according to the dominant themes occurring during the interviews. Theoretical framework that was built by literature review was then utilized as basis of in-depth analysis, not merely listing quotes from the conducted interviews. This type of analysis is typical for a research problem that is practical in its nature and requires extracting the applicable information from the interview data.

5.3 Quality of the study

There are two types of research validity, internal and external (Järvenpää & Kosonen 2000). A research is internally valid when the empirical field of study is properly described and when the logical connections between the research problems, definitions and conclusions can be found. Internal validity also requires that the both independent and dependent variables in the study are reliably measured and the justifications for the causal links are strong (Maxwell 2002). This also complies that the researcher needs to be able to rule out those variables that are extraneous for the research.

External validity refers to the connection of the research findings with the external conditions of the outside world. If the study has strong external validity, its results can be easily used for generalization. Typical studies that have strong external validity have large sample of subjects that are chosen with probability methods from a clearly defined population (for example citizens of a certain city).

Reliability of the study must be assessed by analyzing the research process as a whole (Eskola & Suoranta 2005). Most definitions of reliability incorporate the concept of repeatability, which in this type of qualitative research where the situation is constantly changing is difficult to accomplish. However, using the same underlying principles and methods with a similar case study confirming results can be found. Hirsjärvi et al (2003) list out some reliability success factors relating to qualitative studies: high quality data, well prepared interview outlines, additional questions considered in advance, thorough analysis of interview data and giving the ability for the interviewees to comment on the interpretations. This study has tried to incorporate all these factors. Reliability of the research data was further insured by recording majority of the interviews and transcribing them.

6 CASE STUDY ON CALL CENTER OUTSOURCING

This chapter details the empirical study part of this research. First, it will introduce the case study generally and then more details about the two case companies and the service itself. Then the current status and development of the relationship between the two companies is described and analyzed. Sub-chapters 6.4 and 6.5 focus on evaluation of Company B as a service provider using the developed vendor evaluation framework. This analysis is then used as a basis for recommendations for possible future improvement targets in the governance of the service production.

The subject of the case study in this research is an outsourced call center service. The service is of B2B2C (business-to-business-to-consumer) nature, where a company outsources its call center function that caters to its end customers (the consumers). The focus of the research is on actions by the client company, its outsourcing decisions and how those decisions affect the relationship with the client. The evaluation of the outsourcing management by the client company is based on the framework that is summarized in the following figure:

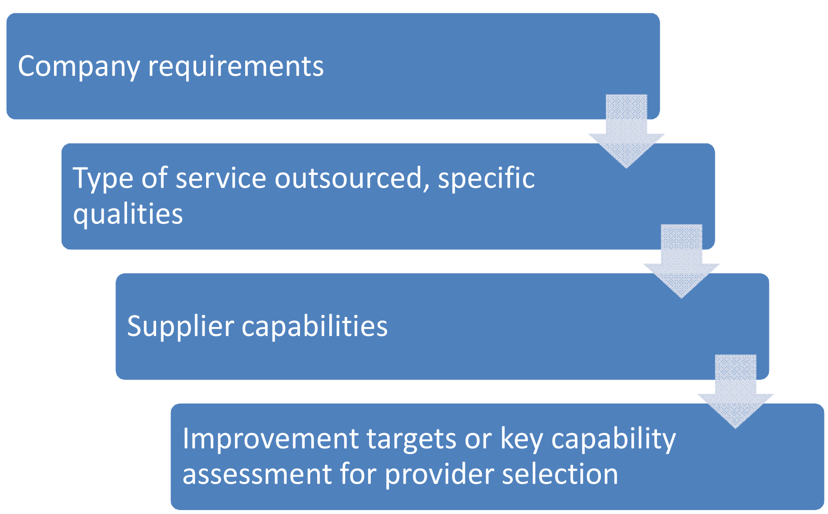

Figure 17: Supplier evaluation and governance framework

6.1 Business case fundamentals

In this sub-chapter the fundamental parts of the business case are summarized. Information in this chapter is provided for better understanding of the discussion about the actual research issues.

Company A (Service recipient)

Company A is the service recipient in the case study. Company A is a part of a large company that operates on financial sector.

Company B (Service Provider)

Company B is a contact centre service provider that operates multiple contact centers within Finland. Company B has a wide range of client companies in several different industries.

Purchased service

The service that is provided by Company B is two-fold, outbound sales calls and inbound customer support for Company A's B2C (business-to-consumer) customers. Majority of the agents at Company B are utilized in both of these two tasks by utilizing methods such as call blending, where computer assigns a free agent to a certain task depending on the agent's availability. Outbound sales service constitutes the majority of the billing revenue, but the inbound customer service is equally important for Company A due to other business considerations. Company B also provides some supporting, back-office type services.

Outbound Sales

Outbound sales service provided by Company B is a traditional telemarketing operation. Company B is selling 6-10 different sales campaigns simultaneously to various target groups. The outbound sales service consists of majority of the service provided by Company B to Company A.

Inbound customer service

Inbound customer service answers to consumer questions, varying from product information, billing issues and claims processes. The amount of different types of products in inbound support is large due to inbound also catering to those consumers that are not using a product marketed by Company B. Inbound service creates additional information needs to the sales agents, the training period of a single agent is higher than on outbound sales. For inbound customer service a skill based routing service is used, where calls are routed to the agents according to their knowledge on the product consumer seeks support on.

Support service (back office functions)

Company B also provides varying types of supporting service beyond the traditional contact center work. Majority of the support work is related to the paper work that needs to be done after a sale has been made: mailing of the contracts and various letters to the customers. While mailing service can be seen only as supporting the core services of outbound and inbound calls, it affects final sales rates directly. If the various contract papers are not sent to the customer within a certain time, the amount of cancellations will rise rapidly. Company B also provides paper archives of the various contracts and letters sent to customers.

Development of sales campaigns

Daily and weekly co-operation between the both parties focuses on ongoing and upcoming sales campaigns. This conducted through daily reports of sales and agent activities and weekly conference calls between the companies.

Training of staff at Company B

Company A is heavily involved in the training of the sales staff at Company B. The training is related to both inbound customer support and outbound sales calls. The training by Company A focuses on new products, additional information on old products, answers to frequently asked questions and general sales training.

Product development activities

Co-operation between Company A and Company B is also utilized when developing new products and sales campaign activities. Information from the sales agents itself is utilized when evaluating the situation in the market, and the market response to a new product or a change in current product.

Process improvement

Company A is also involved in the process development inside Company B. Various projects ranging from IT integration with Company A systems, development of a new reporting system and knowledge management systems are promoted by Company A.

6.2 Relationship between Company A and Company B

This sub-chapter details the relationship between the two business case companies. Information is this sub-chapter gives an overview of the current situation. Focus points in this chapter are: development during the years of operations, current communication structures, co-creation of value in the co-operation and risks in the co-operation.

6.2.1 Development during years

Company A has never had the capability to produce the service themselves; its call center operations in Finland have always been supplied by outside company. Most significant changes in call center outsourcing for Company A have been in the pricing models that are utilized for service provider compensation. In the past Company A has used output based pricing models for its call center providers but in the recent years Company A has moved on to outcome based pricing models, where the service providers are compensated on their actual effect on sales.

Moving to the pure outcome based billing method was successful for both parties in this co-operation. The initial plan was to have a purely outcome based billing solution, but the nature of some services Company B provides to Company A limits the applicability of completely outcome based billing. For example, it is much more difficult to evaluate the outcome of inbound customer service work or the back office type support functions.

6.2.2 Communication structure in co-operation

Communication between Companies A and B is conducted on daily basis. Daily communication is conducted through daily reports from Company B to Company A about sales in currently active campaigns and the volume of customer service calls. Reporting is done in an ad hoc nature by the Key Account Manager who builds the reports by hand.

> *We require all our service providers to give daily reports in a certain standardized format. Currently the major issue with reporting of Company B is the lack of standardized reporting. The project of unifying the reporting has been a priority over the last year.* - Company A

The lack of non-standardized reporting has made daily evaluation of performance difficult for Company A and it improvement is a key priority in the near future. Ongoing IT efforts are focused on better integration of Company B systems to Company A's worldwide standard systems.

Companies A and B have weekly conference calls. These focus on how currently active campaigns are evolving, current issues regarding the service and upcoming products or changes in current products. These calls are structured in their nature and are a permanent part in the schedule for both companies. Quarterly and yearly issues ranging from contract renegotiations and changes in the service itself are managed with face-to-face meetings either at Company A or Company B. Company A takes a yearly audit of Company B that focuses on both financial and security issues as well as operational issues such as marketing methods and communications.

The Key Account Manager from Company B is in a key role of communication. Communication from all of the stakeholders at Company A goes through the position of the key account manager. The Key Account Manager is present at all weekly conference calls, and handles most of the daily communication as well. The role of the Key Account Manager was commented on by interviewees in both companies:

> *Of course, the information is filtered through the Key Account Manager. I cannot really be sure about what gets actually back to the sales agents and supervisors and whether we get all the information, we would need from them.* Company A

> *I have felt that sometimes I do not have the opportunity to present my ideas about changes to how we market the products. Of course, we will let the Key Account Manager know what we think, but beyond that, I don't know what actually happens.* Company B

There is also non-systematic communication between individuals at both companies, to and from the supervisors and sales agents at Company B. The current communication structure is summarized at following figure:

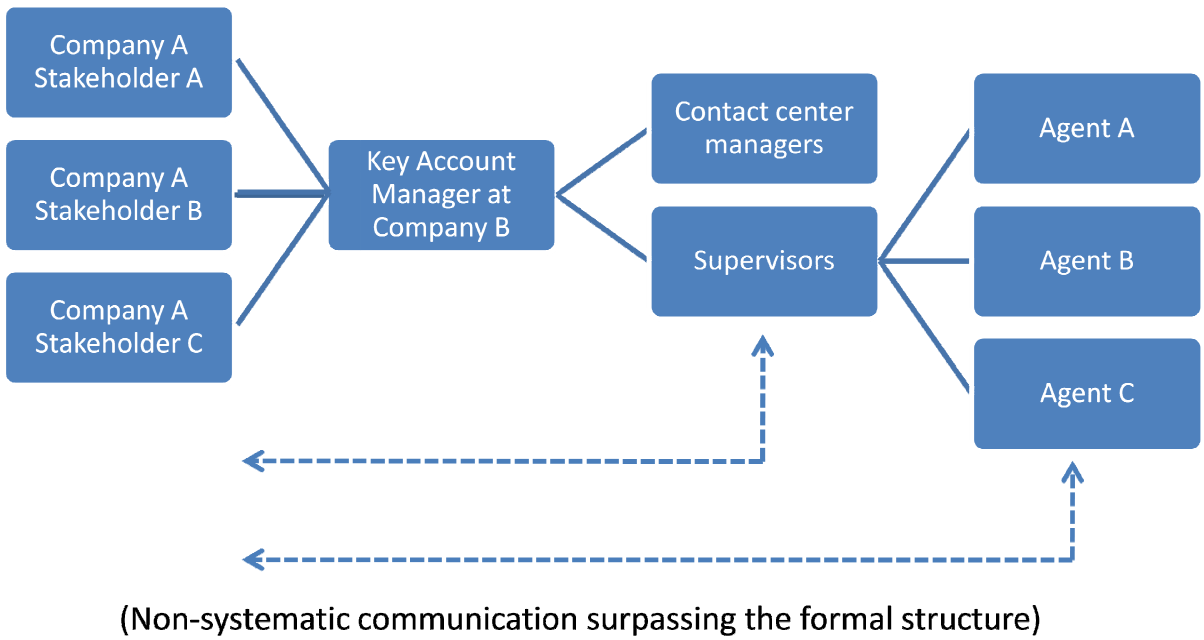

Figure 18: Current communication structure between Companies A and B

The amount of direct communication to and from the supervisors and sales agents is highly dependent on the activity level of the individuals and whether they have personal contact persons in the other company. Communication in this way is usually focused on detailed questions for customer service. Sales agents often have ideas for product or service improvements that they want to share with Company A. Lower level employees have limited possibilities for giving ideas directly to Company A, but idea sharing is still encouraged. Currently idea sharing is limited to training events held by Company A and information gathered by the Key Account Manager.

It is important to note that there are multiple Key Account Managers mentioned in the process descriptions created by Company B, but in actuality there is only one main Key Account Manager who communicates directly to Company A. Other KAM’s mentioned have more active roles in the field and daily management of the call center itself.

During the research period, a new communication structure for the co-operation was proposed by Company A. Company A is planning to have a position of Outsourcing manager or a Key Account Manager from their side, which will affect the structure of communication. During the interviews at Company B, this was a change that many of the supervisors and contact center managers wished for. The new proposed communication structure is summarized in the figure below.

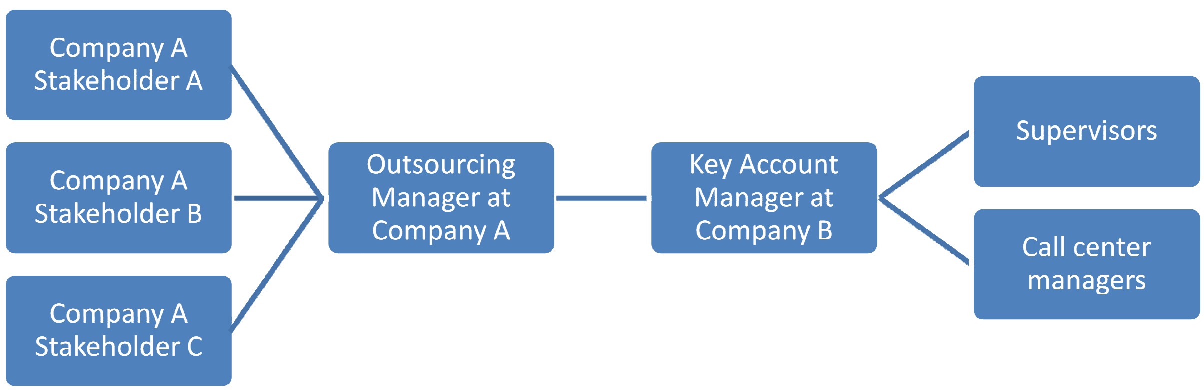

Figure 19: Proposed communication structure between Companies A and B

While this proposed change will improve the situation and simplify the communication structure, it does not solve all of the communication issues. The reliance on the key account manager at company B only increases with this change. Communications management was identified as one of the differentiating factors between successful outsourcing ventures and failures (Alborz et al 2003).

6.2.3 Co-operation from value co-creation viewpoint

Key enablers of value co-creation were defined by Prahalad & Ramaswamy (2004) to be dialogue between parties, access to information, sharing of risks and benefits and transparency of information.

Dialogue between the parties is limited by the issues in the communication structure that were discussed earlier. However, the ongoing business relationship is a working one and dialogue issues are not an obstacle for the co-creation of value. Mutual access to information is promoted in the co-operation, but it is currently hindered by the problems with daily reporting.

> *Currently the daily reports are done by hand, delivered irregularly and are not always comparable*. Company A

Sharing of the risk and the benefits is a key issue in this co-operation. Initial strategy for the co-operation was that Company B would take the majority of operational risk through the outcome based pricing model. While it has been majorly a working solution, division of risk is a constant topic in negotiations.

Transparency of operations is one area that the co-operation needs improvements. From Company B perspective, the intentions of Company A, relating to for example upcoming sales campaigns, are not known well enough beforehand. From Company A perspective, the transparency on billing of resource based items is weak. There are multiple elements on the monthly bills that describe various types of supporting office work.

> *The fact is, when I look at the bills, I often do not know what we are actually buying*. – Company A

When viewing the co-operation from value co-creation perspective, it can be deduced that many of the areas need improvements. This leads to a question that is value co-creation type of partnership even something to be sought for in this type of business.

6.2.4 Effect of risk in co-operation

Most significant risk due to the nature of co-operation from Company A perspective is of business continuity. Given disruption in the service production at Company B, Company A would be without an important customer service provider, which would be a significant issue. Other services provided by Company B, outbound sales calls and support services could be moved relatively rapidly to another provider. Company A is managing the business continuity risk in a typical way of identifying, assessing, ranking and then managing the risk (Zsidisin et al 2005). One way that the risk of business continuity is decreased is through utilization of multiple call centers within Company B.

One key risk in outsourcing contracts is information security (Yang et al 2007). Information security is also significant is this business case, since the type of information provided to Company B contains financial records. Company A still has strict policies in place that are enforced in this business case. Internal risk effects identified by Lonsdale & Cox (1998) of losing core activities, strategic flexibility and internal coherence are not significant. This is mostly due to the history of the outsourcing contract: the service itself was never performed internally by Company A.

6.3 Evaluation of case company B with vendor evaluation framework

In this sub-chapter the outsourcing relationship between Company A and Company B is evaluated. First, it will go through the motivation for the outsourcing from Company A as a background on how it relates to current situation in the co-operation. Then the performance of Company B in current situation is analyzed through five different capability areas. The five different capability areas consist of smaller areas that are summarized in the figure below.

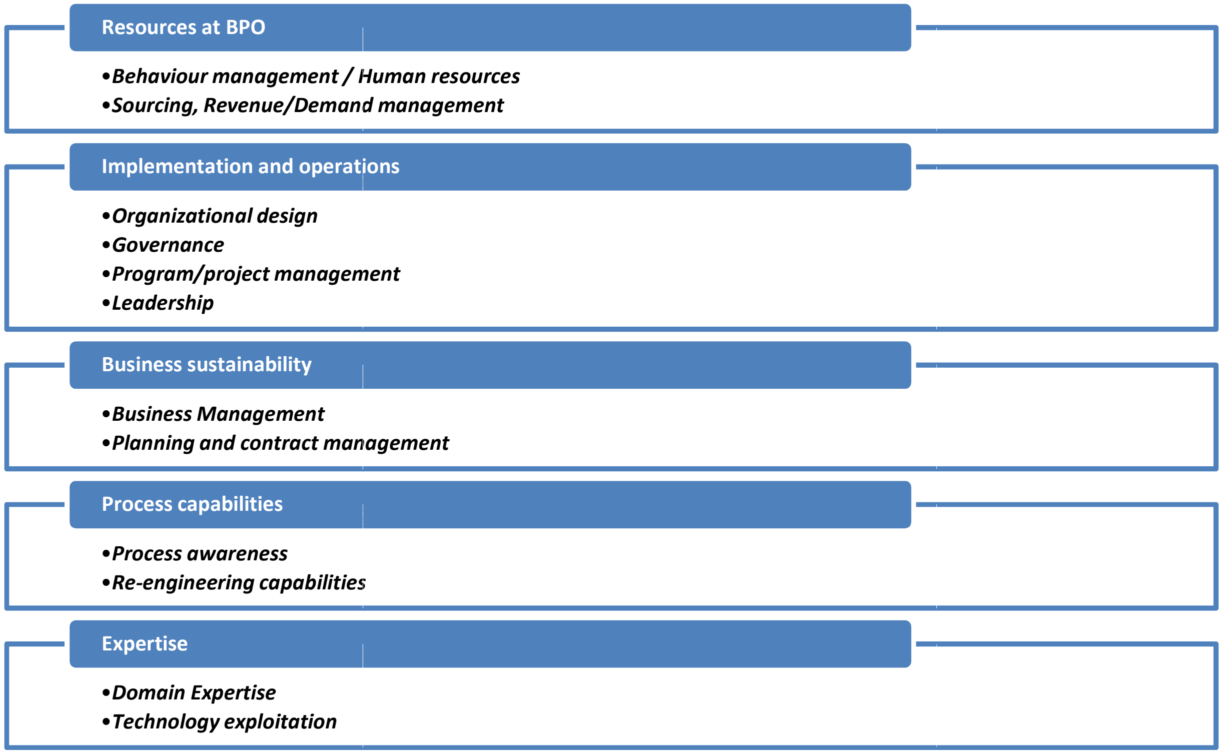

Figure 20: Different capability areas of BPO vendor

6.3.1 Outsourcing strategy of company A

The analysis of the business case of co-operation between the Companies A and B must begin with the outsourcing strategy of Company A that was the motivation for starting the co-operation. As was previously discussed the co-operation with the current provider started with the pressure of difficult situation with the previous provider. The basis for outsourcing the service was the best practice guidelines used at Company A. It is important to note that the service has not been internal at Company A at any point.

Service that is outsourced here contributes to the core competitive advantage of Company A, that according to them is selling the product. Company A itself does not have call center capacity it can utilize, therefore according to McIvor's (2008) four sourcing strategies for services the options Company A has are limited to investing to perform internally or outsourcing. The option of performing internally has not been discussed broadly at Company A, even though there are examples of such operations from within the company.

Actual outsourcing strategy at Company A has not been strictly defined. It can be said as a whole that the outsourcing management has not been methodological, but more of ad hoc nature. Company A's outsourcing strategy, at least regarding the service provided by Company B, has not evolved since the initial decision of choosing Company B was made.

> *We have not at any point taken a step and take a step back to the original outsourcing decision and what were the major reasons for it. This has lead to the situation where the service provided by Company B is something that was not according to the original intentions.* Company A

Business strategy of Company B was out of scope for this study, but their service concept was discussed during the interviews. Opinions about the type of service or the service concept provided by Company B are very varied among the company; there is not a defined concept that is known to all managers, supervisors and agents.

There is a visible division of viewpoints regarding the roles of the two companies in the co-operation. This division is visible in multiple ways, both in operational and strategic level issues. Company B views themselves as a customer management and marketing service provider, where the risk and results of the sales come from their actions. Interviewees at Company B were uniform in their response about their core competence:

> *Our core competence is the sales and customer management. We provide good quality sales to the Company A, whose core competence is in developing products for us to sell.* Company B

This viewpoint is also visible in operational side, where Company B wishes of more autonomy in their decision-making, especially regarding the telemarketing issues like the structure of the speeches used for sales arguments.

> *I have always been a strong supporter for telemarketing that does not utilize prewritten speeches. In any case, the sales agents do not stick to the speeches during actual sales calls.* Company B

Company A views Company B as a single type of marketing channel, comparable to other channels such as direct mailing or web based sales. Company A sees the primary drivers for the sales results coming from them.

> *Our core competence is selling the product. Telemarketing is just another channel among others for selling the products and we need to have an active role in management of this sales channel. We do not know anything about management of a call center, and that is the core competence of the Company B.* Company A

Analyzing the situation with the four types of vendors detailed by Gewald & Heibig (2006), the situation can be summarized as Company B viewing themselves as being an advisor or a partner, while Company A viewing them as provider type of vendor.

6.3.2 Resources

The main motivation for outsourcing is often to get access to resources the outsourcing company does not have. Analyzing the resources of the potential or current outsourcing partner is divided in to actual resources and how they are managed, and capacity or revenue management capabilities of the company. Client needs vary depending on the nature of the service and the business situation, but in case of Company A and B the most important are the specialized skills, infrastructure and constant supply of services Company B can provide.

The main resource of Company B is the trained staff it has. One of the strengths of Company B has been its human resources management, its turn-around percentage is below both the Finnish and global average of companies in its peer group. The employees of Company B are older on the average when comparing to similar telemarketing operations.

The sales agents at Company B seem to be satisfied with their work, and the company does not have any typical human resource problems for this industry (Jack et al 2003). The employees have relatively good benefits and contracts for the industry, and vice versa provide the results. Important metrics such as call back minimization, dependability (working on time and on schedule) and availability for calls are on good level. Human resources management has been a key success factor for Company B in past, and according to the interviews their employee retention rate is has been a key building block of their success. Due to the nature of products sold by Company A, the experience requirements for the sales agents are higher than on average. This further increases the effect of good employee satisfaction.

> *These products are among the most complex in telemarketing. Our new agents always start with a simpler bulk product before we can think of moving them to Company A's campaigns.* Company B

Company B also has been very successful in keeping a core team of sales agents for years at Company A's campaign. While typically sales agents move from one campaign to other almost daily, agents in Company A's team stay within Company A's sales campaigns. While Company B has achieved a low turnover rate, which is viewed as a key success factor in the call center industry, the situation is not so straightforward in this business case. Company B could potentially keep inefficient sales personnel in staff too long and thus transfers the cost of inefficient workers to the Company A. Another limiting factor of having staff that are more permanent was the fact that the experienced agents sometimes reacted negatively to campaigns with lower expected sales rates.

> *They have already been in the easy campaigns, where we cross sell or up-sell to our old customers. This sometimes makes them reluctant to engage in the hard campaigns, where we seek completely new customers. The difference in average sales rates is sometimes threefold or more. This means we get complaints that the campaign itself is no good, even though we would perform beyond the expectations* Company A

Capacity management capabilities at Company B are at a good level. Company B has good IT systems in place for rapid shifting of staff from one project to another. By utilizing call-blending technology, Company B can utilize same agents in both customer service and sales roles. Company B has always been able to meet the capacity demands of Company A.

6.3.3 Operations

Operations is a large category of supplier capabilities that includes the organizational design of the supplier, supplier capabilities for governance, suppliers program and project management capabilities and the leadership capabilities of the supplier.

Organizational structure of the service supplier affects on how the business plans are executed at the supplier and how flexible the structure is for the client company. Company B utilizes more of an "enterprise partnership" type of an organizational structure, where the team that co-operates with Company A remains stable and has dedicated resources. Alternative for this approach would be a frontend client team that communicate with Company A and utilize the common internal resources at Company B. The recent changes in organizational design of Company B make evaluation of organizational capabilities difficult. During the research period, Company B undertook a restructuring of operations, and the new organizational structure is still relatively untested.

The governance structure in the co-operation between Companies A and B is relatively limited and unstructured. Governance occurs mainly during the weekly conference calls, top management meetings and the yearly operations audit process. Usual governance methods, such as escalation guidelines when problems occur are not in place. Company B does not have structures and systems that they utilize uniformly with all of their customers.

Company B utilizes three different call centers to provide the service for Company A. Between these three different sites there are differences: all of them take part in outgoing sales campaigns, but one is more focused in inbound customer support and one of them provides all of the supporting services. During recent year, one of the centers has outperformed its peers in key performance measurements. According to research, the main difference between failed and successful projects is often individual leading the supplier account teams (Feeny et al 2006). This was supported by the comments made by Company B employees that worked in the outperforming site.

> *In my opinion, the major reason for our success in this call center is the management team that we have created. We have good systems and coaching practices for our agents.* Company B

Project management (in sales related projects) at Company B is working from the viewpoint of Company A. Some sales agents viewed that sometimes they are left without proper information about changes in the sales campaigns.

> *Sometimes we do one campaign for a day and then switch. Often I feel that I do not know why were changing the campaign. It always takes time away*

> *from the actual sales, when I need to orientate myself to a new campaign.* Sales Agent / Company B

What makes evaluation of project and program management capabilities at Company B difficult is the low amount of control they have on higher-level marketing issues. Company A is in control of the campaign changes, which was an improvement area often suggested by interviewees at Company B.

> *Major challenge for us is to incorporate the rapid changes in sales campaigns. I know the rapid changes are a part of this kind of business, but I feel that the Company A sometimes underestimates the cost of changing something here on site.* Company B

> *One thing I would wish for is that our sales campaigns would be more predictable. I know that we need to make changes when necessary, but overall I think we would benefit from more predictable schedule, even on a quarterly basis.* Company B

6.3.4 Business sustainability

Capabilities relating to business sustainability that were evaluated at Company B were the business management and planning capabilities. On business management side the relationship between Companies A and B is a well working one. The companies can have frank discussions about the returns for both companies and the performance of the service. Given the importance of the service both for the service provider and the receiving business unit at Company, this is a key factor for successful operations.

Company B seems to have immediate goals it seeks, but their willingness to make long-term investments into the relationship has been low. One way this was visible was in the lack of sales type training that would have been provided by Company B to the employees. Currently only type of training the sales agents receive from Company B is the daily coaching and immediate feedback. Many of the sales agents wished for more sales type of training, such as sales consulting.

One of supplier capabilities in this area is the ability to make good contracts and improve them over the time. Friction in the co-operation is created due to the amount of supporting services that are not billed based on outcome.

6.3.5 Process capabilities

Processes at Company B are defined and mapped, which is the first step towards process re-engineering. However, re-engineering or process development is not an active issue for supervisors or contact center managers. Majority of the improvements or suggestions for improvement come from Company A.

> *They had not thought about processes until we asked them to detail the processes for our internal audit.* Company A

> *Maybe they think about these issues on higher level of management? My work is with the daily issues relating to sales and service quality.* Company B

Company B's process capabilities are lacking in the benchmarking between the call centers that provide the service to Company A. While operational figures such as sales numbers are reviewed often, comparison of working methods between the centers has not been done. Given that one of the centers has been outperforming the others, systematic process benchmarking could be one way of transferring the experiences to another call centers.

6.3.6 Expertise

Evaluation of expertise related capabilities at Company B is divided into two broader categories: domain expertise and technological capabilities. Domain expertise of Company B is management of a call center, where they have been successful during the years. All of the interviewed sales agents were satisfied with their daily work and conditions at the workplace.

Some interviewees at Company B were clear about their expertise area being sales and marketing. While it can be the case with their other clients, with Company A the situation is that Company A controls and provides the marketing material and guidelines.

Technological capabilities of Company B have always been one of their core competencies. On the technical architecture side Company B does not seem to lack any capabilities Company A could require. Company B utilizes state-of-art backbone technologies and outsources majority of the physical server side work.

> *They have excellent technological capabilities. It is the first truly virtual call center I have seen, all the IT backbone systems are managed by a third party. They do not even have physical access to the servers themselves.* Company A

On the other hand, Company B has had some difficulties implementing changes to the software that Company A requires. Some of the integration projects started by Company A are behind schedule, though this is very common in IT projects. Also, while the architecture of the IT systems at Company B were seen as excellent, some interviewees at Company A felt that the actual software used by the agents and supervisors was only comparable or in some parts weaker than competitors. This was supported by comments from the sales agents, some of whom wished improvements to the user interfaces.

> *Improving the reporting system has been a priority for a long time, but progress has been stalling.* Company A

6.4 Summary of the evaluation of Company B capabilities

When evaluating the capabilities of Company B there are some important improvement areas in the governance of the outsourcing relationship that the Company A can utilize. By focusing efforts on designated areas, the performance of Company B in providing the service outsourced by Company A can be improved and value of the co-operation increased for both parties.

Most significant issue in the current co-operation is the lack of clarity for both parties on the division of responsibilities within the operation. Researchers Gewald & Heibig (2006) used four different levels of partnership advisor, partnership, provider or commodity. Company B views themselves as a premium service supplier that has more of an advisor or partner role in the co-operation. Company A on the other hand views Company B having more of a provider role, where experience and competencies are less important than cost efficiency. This situation can be resolved in two ways, either by letting Company B to increase their responsibilities and control of the service provided or increasing the control and management of the service by Company A. During the interviews conducted at Company B, it became evident that for Company B would prefer the model where they have more responsibility and control over the service provided.

During the research period, Company A started some changes in how they manage the outsourced relationship. These changes consist of mostly increasing their active role in the service production by appointing their own key account manager and increasing the amount of on-site visits. Company A also plans of increasing the control in the actual telephone marketing itself, for example of taking a bigger role in development of the sales speeches. This stance of adding more control is supported by researchers Barthelemy & Quelin (2006), who in their study have found that when the outsourced service is close to the core competence of the client company, the amount of control needs to be high in order to ensure the needed service.

Relating to communications, knowledge management at Company B needs improvements. Information about the products sold and frequent customer questions are not stored in a systematic manner. This relates to a higher level problem of lack of successful benchmarking and co-operation between the call centers that provide the service for Company A. Level of trust that is required for successful BPO is high (Ellram et al 2008) and despite some issues present in the business case, both companies and the key personnel in the venture seem to share a mutual trust in each others.

Also relating to knowledge management, internal benchmarking and co-operation between the different call centers utilized by Company B for the service production could be improved. One call center is constantly outperforming the others, but there is no systematic way of finding out the reasons for the situation and to improve the performance of the other centers.

Most of the interviewees in both companies did not see any distinctive phases in the co-operation between Companies A and B.

> *I do not see any significant changes in the relationship between us and Company A within the years. The most visible change has been in the volume of the business that has grown significantly during the years.* Company B

In the current situation however, it is clear the co-operation is now in a transitional phase where some changes need to be made in order for the co-operation to stay profitable for both parties.

7 CONCLUSIONS

The key success factors in service or business process outsourcing identified in this study can be summarized to four different areas: *outsourcing strategy, vendor evaluation, contract management and governance* during the operation. Utilizing a structured approach where these success factors are understood, an outsourcing relationship can be successful both for the clients and for the service providers.

Outsourcing strategy needs to align with the overall business strategy of the company and have clearly defined targets and analysis of the current state. Presourcing activities, such as gathering detailed knowledge about the current situation, costs and quality of current service need to be utilized when forming the outsourcing strategy. Outsourcing strategy also needs to answer whether existing resources within the company can be utilized for meeting the defined targets and goals or whether it is preferable to utilize outsourced services.

Vendor evaluation where the best possible service provider is chosen needs to take into account both current and possible future needs of the client. Vendors' capabilities need to be evaluated from operational viewpoint in whether they can provide the service currently sought after and from transformational perspective of whether the evaluated company is able to meet possible future demands.

Contract management needs to be a process that creates contacts that improve the benefits both for the client company and for the service provider. Contract must incorporate capabilities for measuring how the performance of the service provider meets the requirements defined by the service recipient. Contract needs to be a platform that is able to evolve with the changes in the business environment.

Outsourced service governance model needs to be defined and capable of evolving with the changes in business conditions. As the complexity of the relationship increases, at the same time increases the need for management structures that interact with and control the service provider. Client companies need to understand that while the service production is outsourced, part of the management responsibilities still remains at the client. Finding the appropriate amount of control, while still keeping hands off the core competence of the service provider is one of the key factors for successful outsourcing governance.

These four key factors in outsourcing success can be mapped as a cyclical process. During the lifecycle of an outsourcing venture, each of these phases occurs multiple times. The client company cannot stop when the service is operational, but needs to start the cycle again from the beginning of strategy formulation. Have there been changes in the overall situation and strategy that need to be included into the outsourcing strategy? Could there be new potential vendors, or have old potential vendors evolved into being more capable suppliers than current ones? How the company could improve the current contract in a way that it would better incorporate the unique business situation and requirements for the service production? The outsourcing cycle model is summarized in the following figure.

Figure 21: Outsourcing Cycle

In the analyzed business case, it has been evident that Company A has not utilized cyclical analysis of the outsourcing situation to its full effect. After the initial decision on outsourcing strategy and selection of the current vendor, much has not changed.

It must be stressed that during the research period, starting from the initial discussions in February 2009 and ending during June of 2009 there were many changes in the case environment. Worsening economic climate during beginning of year 2009 affected the market conditions for the products sold by Company B for Company A. During the interviews, several supervisors and managers at Company B described that they had perceived the decline in consumer response since late 2008. This trend was evident during the research period, and the actions both companies took during this time.

Company B undertook major restructuring of its organization, which affected its operations in several sites. The reorganization was most active during the time majority of the interviews were conducted. Multiple second round interviews were cancelled due to changes in the staff at Company B. The overall situation could have had an effect on the interview responses, since radicals shift in organizations have a psychological effect on employee performance and trust into the organization[2].

After analyzing the situation, it can be said in hindsight that Company A has fallen to two of typical outsourcing traps defined by Power et al (2004) in their article "10 Outsourcing traps to avoid". Company A had the typical problem for most organizations that when the initial decisions regarding the outsourcing in this business case were made, the company had relatively low amount of knowledge about the outsourcing methodologies they could use. Already during the preliminary interviews, it was evident that the building of this relationship has been a growing process for both of the organizations involved. Tools and procedures for managing the company through the various parts of the outsourcing process were not in place when this outsourcing venture started. Lack of knowledge and experience in how to manage the outsourcing lifecycle has been evident during the whole co-operation between Companies A and B.

Company A also has not created a formalized outsourcing governance program that focuses on managing the ongoing outsourcing relationship. Typical governance plan includes things such as descriptions of outsourcing efforts, stakeholder identification, schedules of activities, roles and responsibilities, details on measurement of performance and quality assurance, communication plans and required resources (Power et al 2004). While majority of these issues are considered at Company A, governance

[2] See for example (Morgan & Symon 2006).

over the outsourcing venture is not handled in a systematic way. In future outsourcing ventures, the governance plan should be an issue from the beginning of the negotiations and constantly revised during the operation. In the future when the amount of outsourcing inevitably increases the governance plan can be utilized to better manage the framework of outsourced activities.

One of the identified success factors for outsourcing ventures is that the outsourcing contract will consistently reflect and reinforce the strategic intent pursued (DiRomualdo & Gurbaxani 1998).While the outsourcing contract between Company A and Company B was built solidly on current strategic intents, it did not include another key success factor of enabling development and evolution through the contract. The contractual structure was not able to cope with increases in the scope of the service provided.

A key problem that was identified in the study was the division about what kind of supplier was needed for the service outsourced by Company A. Company A sought a supplier of a provider type, where Company B positioned itself as a partner type supplier. The opinion of the researcher is that the wide service portfolio required from Company B (outbound sales, inbound customer support and support functions) is reason for this problem. At current state Company B cannot specialize in certain type of service production, and do not have the capability provide the full service portfolio satisfactorily. The situation has forced Company A to take roles in issues that are not natural for its role as the service client, especially from their viewpoint of purchasing a provider type service.

Each of these types of services is best suited for a certain type of supplier. Outbound sales is relatively simple compared to the customer service work, and is easier to transfer to another provider or utilize multiple providers for benchmarking. On the customer service side however, the requirements for the service provider are increased, and a partner type provider is required. For the supporting services, only a commodity type provider is required.

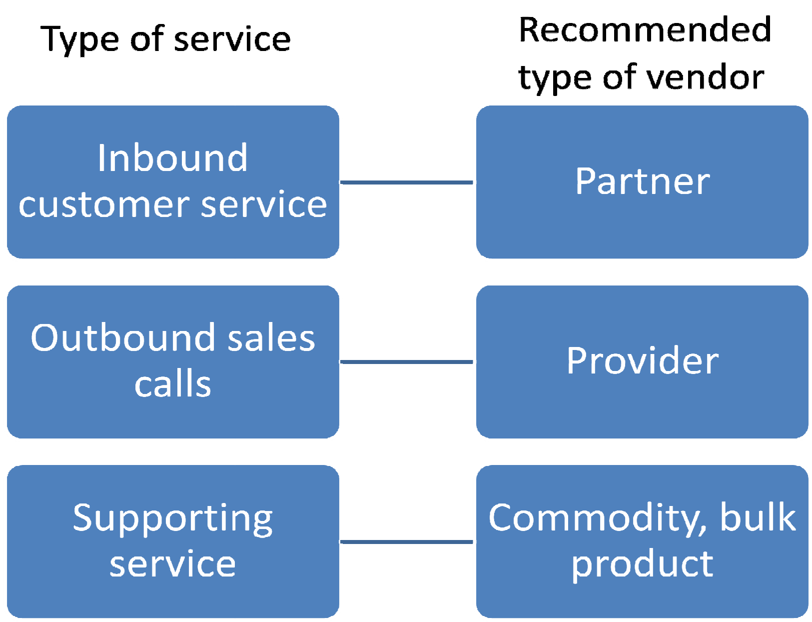

Figure 22: Type of vendor required for different services

This situation can be resolved in three ways. One way is to let Company B to increase their responsibilities and control of the service provided, and become a true partner of Company A. This is the most lucrative alternative for Company B that would give them room to develop their business model further. Another way to resolve this situation would be to increase the control and management of the service by Company A, and in some ways move towards insourcing of the service. Third option, which in the long-term could be the most functional, would be to streamline the service portfolio provided by Company B to only the key service, outbound sales calls or inbound customer service. The other components of the service would then be outsourced to other service providers.

Utilizing the third option of dividing the service for different vendors that are specialized in their own area is not a straightforward decision. It is somewhat contrary to the original idea behind business process outsourcing that is to decrease the amount of non-core processes company needs to manage. By dividing the service to multiple vendors, Company A would increase its cost of managing an increased outsourcing portfolio. But in today's business environment, good management of outsourcing contracts can be a significant competitive advantage for a company.

This research area has various interesting future research opportunities. An interesting research question would be to focus on the roles various client and provider companies take in outsourcing relationships, and how these roles affect the relationship. Importance of service outsourcing will continue to rise during the next decades, and more companies and organizations will utilize outsourced service both from local providers and from offshore locations. Even in this single business case, there are multiple additional targets for research, like more in-depth look into the outsourcing strategy of Company A or the how the service concept is formed at Company B.

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9 APPENDIXES

9.1 Semi-structured interview for management

Basic information

Name and current position in the company?

Current responsibilities?

Your history at the company?

Your communication with the client (Company A)?

In what ways do you communicate?

How often do you communicate?

Relationship between the companies

What is your vision about the development of the relationship between the two companies during the years of co-operation?

Have there been any visible phases in the co-operation?

Future

Your vision for the long-term future?

Within 2 to 3 years?

Do you see the relationship between Company A and Company B as a partnership, strategic union or a vendor-supplier relationship?

Outsourcing generally.

How would you define outsourcing?

What are the main benefits and main weaknesses of outsourcing?

CultureHow has the organizational culture at Company A effected the co-operation?

How would you define the organizational culture at Company A?

Communications

Do you experience problems in communications with Company A?

Do you experience problems with transfer of information?

Do you experience problems in problem solving?

Do you experience problems in sharing of ideas for potential service improvements?

Would you change anything in communications?

Trust and commitment

How trust and commitment, or the lack of it has been visible within the co-operation?

Have there been any problems with the co-operation, on trust or commitment of the other party?

Governance

How does the new organizational structure in Company B affect your daily operations with Company A?

How satisfied are you with the division of responsibilities within the service production?

How satisfied you are with the division of decision making power within the service production?

How should the responsibilities in investments be divided?

Which party is responsible of staff training?

Do you believe that the processes are well governed and lead?

How does Company A monitor your daily operations?

Strategy

Have you formed a common strategy for the co-operation in the future?

What are the goals of Company A in the near future?

Opportunities

Has the co-operation with Company A created new business opportunities for Company B?

Or opportunities for service improvements that can be utilized for other clients?

Development of processes

How have your processes developed since the company was formed?

Has Company A been a part of the process development?

Test campaigns

What is your opinion on test campaigns, are they necessary?

Is the current amount of testing correct?

Products

Do you think in terms of campaigns or products?

How do you think Company B could better take part in development of products?

What do you think about sponsored campaigns? What are their special qualities?

Outside factors

Have there been any outside factors that have affected the co-operation?

9.2 Semi-structured interview for service agents

Your name?

Your history in Company B?

Your job description? Do you work at inbound or outbound service?

Your skill levels at inbound?

Your supervisor?

What do you see in Company B's future? Within three years?

What do you know about Company A?

How would you describe Company A?

What kind of co-operation you see with Company A and Company B in the near future?

What would you improve in your work?

Your best experience at work?

Your worst experience at work?

Do you feel that you have the possibility to give news ideas for improving the business? For example relating to the products or sales campaigns?

Do you feel that there is enough training?

Would you like more product training?

More sales focused training?

If there is a one thing you would change about your work, what is it?

9.3 2nd round of interviews for management and supervisors

Service concept

How would you define the Company B service concept?

What is there beyond "just" sales?

What are the key assets Company B has versus the competition?

When Company B is bidding for a new client, what are the main sales arguments for Company B services?

Strategy alignment

If common strategy for Company A and Company B was not defined, what in your opinion would be the most important factors in it?

You see Company A-Company B relationship as partnership → What does "partnership" imply? What is shared in partnership and how? Risk/returns?

Process/business development

What kind of process developments have there been during your time at Company B?

Any current projects?

Role of Company A in Company B process development?

Beyond daily/weekly sales talks, what kind of long term employee development does Company B have?

IT section

How important technology and IT is for Company B service concept? How it is utilized?

Role of IT in everyday work of a sales agent?

What do you think about recent downscaling of IT section and how it will affect development and operations?

Communications – role of key account manager

How do you think the role of key account manager affects the communication between Company B and Company A?

Should Company A have a key account manager of its own?

What would you suggest as the most efficient way to organize the communication between Company B and Company A?

Monitoring

What kind of internal monitoring systems you have? (Beyond monitoring done by Company A)

Do you feel that the current monitoring systems support meeting mutual goals?

Does the current monitoring have adverse effects? Example would be "forced sales" etc.?

Is some performance measurement difficult, un-useful or used in wrong way?

Does Company A monitoring of performance seem unjust in some ways?