

Service outsourcing decisions – a process framework

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Abstract

Purpose – The purpose of this paper is to compare service outsourcing decisions between public and private organizations and against a theoretical decision-making framework to both understand differences across the sectors and to provide an outsourcing framework more suitable specifically for outsourcing (and for the public sector).

Design/methodology/approach – Multiple case studies, i.e. a study of phenomena (here outsourcing process) at various sites is used as an approach.

Findings – Findings indicate that public sector organizations are trailing behind private sector organizations in how the decision-making process is conducted and resourced. The authors suggest regular evaluation of service functions internally as a starting point for the outsourcing service decision-making process. Additionally, the market analysis should be done prior to cost analysis and benchmarking as the availability of suppliers more qualified than the internal process defines the make or buy decision.

Research limitations/implications – The newly developed framework based on empirical evidence includes the following phases: regular evaluation of service functions, market analysis, cost analysis and benchmarking and evaluating relevant service activities. Applying the framework improves the efficient delivery of outsourced public services and brings public sector outsourcing closer to the professionalism currently present in the private sector.

Originality/value – Choosing between in-house and outsourced service delivery is a fundamental decision in both private and public sector organizations. Previous outsourcing research has mostly focused on the private sector, with limited focus on the public sector's outsourcing processes, yet understanding of the service outsourcing process is important in ensuring organizational competitiveness and cost efficiency.

Keywords Public procurement, Outsourcing, Public-private comparison, Service purchasing, Qualitative research

Paper type Research paper

1. Introduction

Outsourcing decisions are one of the most strategic and pervasive decisions for organizations, addressing, which expertise to maintain internally and which to purchase (Moschuris, 2007, 2008; Sundquist *et al.*, 2015). Outsourcing is considered a key strategy to improve costs, competitiveness, productivity and profitability (Moschuris, 2008; Ishizaka and Blakiston, 2012; Hartman *et al.*, 2017) or in the case of public organizations, improve their efficiency (Farneti and Young, 2008). For the private sector, the increasing importance of the make-or-buy decision and service sourcing derives from environmental pressures and

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global competition, as well as the increasing share of service expenditures in the modern organization (Moschuris, 2008). For the public sector, the increased strain on government budgets due to the aging population has inflicted strict deficit objectives at both the country and local government level, which forces public organizations to focus on more efficient service delivery (Bel and Warner, 2015). Contracting out or outsourcing of, public services to private organizations is expected to improve cost-effectiveness and quality (Brown *et al.*, 2008; Van Slyke, 2003) and it has thus become a frequent occurrence within public sector organizations over the recent years (Ditillo *et al.*, 2015; Walker *et al.*, 2006). This trend has led to outsourcing more and more complex services (Vitasek, 2016).

Despite recent growth in service outsourcing, the benefits and disadvantages to organizations are still debatable (Lee and Kim, 2010; Bals and Turkulainen, 2017). Problems such as sacrificed service quality, accountability issues and poor service coordination, reduced flexibility and risk of information leakages have been raised by both private and public sector organizations (Lee and Kim, 2010; Rho, 2013). Additionally, costs may even increase despite the opposite goal (Kremic *et al.*, 2006).

Especially in the public sector, there are conflicting findings on whether contracting out is advantageous (Rho, 2013). Some argue that not all government parties have enough capacity to manage the complexities in contract management (Feiock and Jang, 2009); private delivery of public services can create significant government oversight and monitoring costs (Feiock and Jang, 2009; Girth *et al.*, 2012).

Due to the difficulties mentioned above, more attention should be paid to the outsourcing decision process, and indeed it remains a popular research topic (Young and Macinati, 2012; Ishizaka and Blakiston, 2012). Previous research so far has focused on identifying suitable (manufacturing or Information technology (IT)) functions for outsourcing, service provider selection, outsourcing locations and the general risks and benefits of outsourcing (Ishizaka and Blakiston, 2012; Bals and Turkulainen, 2017), as well as on contracting and alternative governance forms and on uncovering their determinants (Ditillo *et al.*, 2015; Sarapuu and Lember, 2015). What has been left with too little attention are the processes and practices of how to outsource services (Ditillo *et al.*, 2015), issues at the managerial and operational level of service outsourcing (Busi and McIvor, 2008), especially related to the early phases of the “make vs buy” decision: analysis of alternatives and costs (Sundquist *et al.*, 2015). There is limited literature to provide a thorough understanding and guidelines of the process (Moschuris, 2008), especially in recent years.

As organizations more and more are attempting to systematically improve their service outsourcing (Pemer *et al.*, 2014), a more thorough understanding of the process and guidelines for it are needed. Our focus is thus on investigating the outsourcing decision and process for service functions to understand current pitfalls (that may well be the causes of current, inconsistent findings on the performance outcomes of outsourcing), as well as to provide guidance for future processes. Our research question is the following:

RQ1. What are the key process phases in a service outsourcing decision?

We want to particularly develop a framework that would assist the public sector currently lacking behind in service outsourcing and management. To answer this research question, we study past literature on service outsourcing decision frameworks and empirically compare service outsourcing decision-making processes across the public and private sectors to identify best practices and differences.

An updated and service specific framework is needed as the outsourcing consideration is one of the management areas where the decision impact is never simply positive or negative, but more complex (Albrecht, 2011). A framework is needed to link theory to practice (Busi and McIvor, 2008), i.e. to support public organizations in make-or-buy considerations. There

is also very little research on comparisons between public and private purchasing (Arlbjørn and Freytag, 2012; Raymond, 2008). Such comparisons are relevant given that public organizations more and more operate in contexts characterized by marketing principles and business forces and must learn to convert private sector best practices into their own operations (Roodhooft and van den Abbeele, 2006). In the following, we will first present the literature and the outsourcing framework used as the basis for comparison and development in our study. Next, the methodology is explained, followed by our within-case and cross-case analysis. Finally, conclusions are presented.

2. Literature review

Several frameworks for outsourcing decisions have been presented in the literature (for a detailed review see Rehme *et al.*, 2013); most of these on the private sector side with a primary focus on cost considerations (Van de Water and van Peet, 2006). Based on our review of the literature, there appears to be a lack of research contributing to the evaluation and implementation processes of the service outsourcing decision in general, and in the public sector in particular. Ellram and Tate (2015) state that regardless of the increased importance of the service industry and an increase in outsourcing, the management of outsourced services and the service make-or-buy decision has received relatively little attention. Yet, a need for a framework for service outsourcing decisions has arisen from the increased pressure for organizations across sectors to operate increasingly cost efficiently. There does not appear to exist a framework that would specifically guide in outsourcing neither service functions nor one suitable also for the public sector's operations. Therefore, after a review of literature, a framework originally created for private organizations only was chosen to frame our comparative analysis and form a starting point for the creation of a service-specific process framework for outsourcing suitable across sectors. After an initial search, we examined three outsourcing frameworks more closely: McIvor (2000), Canez *et al.* (2000), Platts *et al.* (2002) and Van de Water and van Peet (2006). Based on several factors, we chose the framework by McIvor (2000) to frame the empirical design and provide a structure for our literature review and empirical analysis:

- first, it is more suitable for services given its process-focused nature;
- second, it is one of the most cited outsourcing frameworks; and
- third, it is straightforward and simple, which contributes to its applicability for practice.

Figure 1 depicts the main phases of McIvor's (2000) framework, which is used to structure our literature review of the outsourcing process presented in the following.

2.1 Identifying core competences

To start the outsourcing process, the core processes of an organization need to be identified. Core processes are easy to determine in private organizations, but in the public sector context, the separation to core and non-core processes is not as straightforward. Quinn and Hilmer (1995) define core competencies as the knowledge based assets that generate the

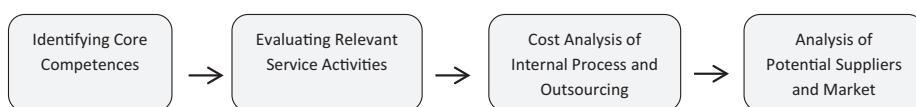


Figure 1. McIvor's framework for outsourcing decisions (modified from 2000:29)

most value for the organization. [Girth et al. \(2012\)](#) define core services as complex and asset specific, but stress that the market situation should be the main factor in an outsourcing decision. The transaction cost theory suggests that only supporting services should be candidates for outsourcing, core functions with higher risks should remain in-house ([Van de Water and van Peet, 2006](#); [Nordigården et al., 2014](#)). [Van de Water and van Peet \(2006\)](#) acknowledge that if an organization lacks crucial skills related to the service function, outsourcing core services should be considered. Public services can categorically be divided into services delivered to citizens and to the services supporting these services. However, there is a lack of wider consensus on the definition of “core competence” especially in the public sector context ([Quinn and Hilmer, 1995](#); [Harland et al., 2005](#); [Brege et al., 2010](#)) to further classify the services citizens receive. The lack of consensus is due to variations in service purpose and context, which determine their classification ([Ellram and Tate, 2015](#)). Thus, many organizations fail to distinguish core competences. Managing and owning service processes is confused with managing process costs and quality ([Hesketh, 2008](#)).

According to [Kroes and Ghosh \(2010\)](#) greater specialization in the delivery of core services, by outsourcing non-core processes, allows scale economies, improvements in quality and development resulting in sector growth. [Harland et al. \(2005\)](#) suggest that in public organizations, however, core and non-core service functions should be candidates for outsourcing. [Harland et al. \(2005\)](#) approach highlight the importance of structured make-or-buy consideration in public organizations. The service functions we study are primarily defined as non-core by the case organizations as we aim to analyze outsourcing decisions in both sectors that follow through all the phases of an outsourcing decision.

2.2 Evaluating relevant service activities

The next phase entails evaluating the activities that the service functions consist of in terms of relevance and costs ([McIvor, 2000](#)). However, service activities should not be defined too strictly as measuring and coordinating their execution can incur transaction costs ([Malatesta and Smith, 2014](#)). The key considerations are the identification of service objectives and performance level and the most relevant activities ([Van de Water and van Peet, 2006](#)). Focusing on fewer relevant activities within the service delivery and maintaining adequate performance levels on them, enables efficiency improvement and lessens the complexity of the functions by linking the outsourcing process to overall strategy ([Harland et al., 2005](#); [McIvor et al., 2009](#)). Outsourcing the selected activities provides an opportunity to improve service processes by accessing suppliers’ competencies ([Freytag et al., 2012](#)).

2.3 Cost analysis of internal process and outsourcing

A critical part of outsourcing evaluation is the analysis of the relative cost position of the in-house service function compared to the supplier; relevant are the costs that vary based on the service delivery mode ([Ellram and Maltz, 1995](#); [Marshall et al., 2007](#)). Cost analysis is a useful tool both for improving organizational efficiency via outsourcing or modifying the internal service function ([McIvor et al., 2009](#)). Cost analysis is essential as there are many scenarios where outsourcing incurs cost efficiency, but equally, there are many scenarios where it does not ([Alonso et al., 2015](#)). Cost based view to outsourcing suggests that the activities that can be produced more cost efficiently externally should be outsourced ([Freytag et al., 2012](#)). An objective cost comparison is only possible if the organization and potential suppliers have standardized service functions ([McIvor et al., 2009](#)). Thus, the internal service function might require modification to enable accurate cost comparison with potential suppliers ([Avery, 2000](#)). [McIvor \(2000\)](#) recommends an activity based cost analysis

in addition to evaluating the total costs of relevant value chain processes. The analysis should include the costs of contract monitoring and management and supplier selection (Avery, 2000; Harland *et al.*, 2005). These transactions are then compared to the assumed costs saving through the economics of scale and pooling of resources (Brege *et al.*, 2010).

2.4 Analysis of potential suppliers and market

The final step is to analyze the potential suppliers in the market by expanding the cost analysis to overall benchmarking (McIvor, 2000). According to Girth *et al.* (2012), the market situation should be the main factor in an outsourcing decision, as outsourcing without a market analysis will lead to unpredictable outcomes and possible misalignment (Johansson, 2015). Important factors to consider are the availability, stability and reliability of potential suppliers, conflicts of interest and the ability to monitor external service providers (Freytag *et al.*, 2012; Avery, 2000). This analysis, aiming to avoid outsourcing in high risk situations, is the control logic (Brege *et al.*, 2010). These factors are defined by the service characteristics (Ditillo *et al.*, 2015). If the internal service function is more capable than potential suppliers or there are no suitable suppliers, the service function should remain in-house (McIvor, 2000). If the decision is to maintain the service in-house, the service function should be invested in by using the data obtained from the cost analysis and benchmarking (McIvor *et al.*, 2009; McIvor, 2000; Platts *et al.*, 2002).

2.5 Special characteristics of outsourcing services

Requirements for successful outsourcing of service functions have been identified as measurability of the service function, specific contracts, functioning and competitive markets and contract management skills (Brown *et al.*, 2008; Van Slyke, 2003). Services are more challenging to standardize than goods, which complicates developing performance measures (Busi and McIvor, 2008). The main purpose of outsourcing is to transfer some investment needs and risks such as demand variation to the supplier (Quinn and Hilmer, 1995) and/or to pursue cost savings in service delivery (Ellram and Tate, 2015). One of the principal ways of achieving efficiency in service delivery is the economics of scale (Zafra-Gomez *et al.*, 2013), which can be achieved through outsourcing. However, outsourcing public services has traditionally been used only marginally for coping with variations in service demands (Warner and Bel, 2008). Outsourced services require specialized contract management due to the misalignment of goals: companies exist to make a profit, whereas ensuring the well-being of citizens drives public organizations (Kremic *et al.*, 2006).

Necessities for a successful outsourcing consideration process include involving a diverse internal team with top management participation and careful documentation of the collected data and analysis (Canez *et al.*, 2000; McIvor, 2000). An organization should involve personnel with expertise in the service function at hand, as well as sourcing professionals (Avery, 2000).

Young and Macinati (2012) identify unaccounted transaction costs, supplier opportunism and incomplete contracts as the most typical pitfalls of service outsourcing. Hence, identifying the potential risks is a key challenge in outsourcing consideration (Warner and Bel, 2008). Outsourcing of service functions is often triggered by performance issues internally (McIvor *et al.*, 2009). However, if these issues can be solved without significant investments, maintaining the service in-house should be a considerable option (Nordigården *et al.*, 2014).

2.6 Differences between public and private organizations in outsourcing services

[Brown et al. \(2008\)](#) identify two aspects that are unique to service outsourcing in the public sector as follows:

- (1) public values, e.g. openness and efficiency; and
- (2) obligating organizational rules and laws.

Additionally, there are two triggers for outsourcing, which only occur in the public sector, namely, political decisions and lack of internal resources ([Kremic et al., 2006](#)). [Williams et al. \(2018\)](#) recognized the following objectives to outsourcing in public organizations deriving from public values: enhancing the domestic or local economy, environmental protection and sustainability or other social goals. In Europe, governments are obligated to organize the delivery of at least basic services to the public ([Bel and Warner, 2015](#)), and thus, have stricter guidelines and protocols than private sector organizations ([Lian and Laing, 2004](#)). Public organizations put more emphasis on the selection procedures as they must follow the EU regulations ([Arlbjørn and Freytag, 2012](#); [Lian and Laing, 2004](#); [Roodhooft and Van den Abbeele, 2006](#)). [Johnson et al. \(2003\)](#) found that purchasing professionals in public and private organizations have different education and experience backgrounds. Private organizations are more likely to involve personnel familiar with the outsourced function to the supplier selection than public organizations ([Lian and Laing, 2004](#)). Learning across sectors is one way to create grounds for the effectiveness and efficiency of the two sectors ([Arlbjørn and Freytag, 2012](#)), and something we are striving for with our comparative study.

3. Methodology

In this section, we explain our overall approach, the selection of the services and organizations studied, as well as the details of data collection.

3.1 Research approach and case selection

As we wanted to study *how* service outsourcing processes are conducted across the sectors, the case study was chosen ([Yin, 2014](#)). Comparative research is used, as we believe that higher applicability of the case results is achieved through comparing public and private sector organizations. We thus use a multiple case study as defined by [Stewart \(2012\)](#), i.e. a study of phenomena (here outsourcing process) at various sites. Multiple cases allow determining whether findings are specific to a case or replicated across several of them (here within sectors) ([Eisenhardt and Graebner, 2007](#)). They are valuable in governance research when studying e.g. the relationships between organizational structures and management processes ([Stewart, 2012](#)), as is the case for us with a comparison of the decision processes across sectors.

The number of potential cases was limited as the chosen service functions must be organized by both public and private sectors with identical goals for service outcomes. Our case selection uses a theoretical, not literal, replication, with the expectation of contradictory results ([Yin, 2014](#); [Eisenhardt and Graebner, 2007](#)). We follow [Seawright and Gerring \(2008, p. 298\)](#), and the approach of most similar cases where “cases are similar on specified variables other than X1 and/or Y.” Hence, the service functions outsourced are chosen as very similar to each other apart from the context variable of the operating environment (public or private sector). Our unit of analysis is the individual outsourcing decision process within each organization. As this is a less concrete unit of analysis ([Yin, 2014](#)), we acknowledge the similar case approach is not completely pure in this context; and we are unable to predetermine all relevant variables ([Seawright and Gerring, 2008](#)).

An overview of our case organizations is presented below in [Table 1](#). Company D and agency D were unable to describe the original decision process as they had outsourced their

Type of service function	Case organization	Geographical location	Branch of government/key business area	Interviewees	Outline of service function	Budget/turnover
A. Occupational health care	Company A: multinational corporation	Operations in 21 municipalities in southern, western and eastern Finland Southern Finland	Forest industry	Director of occupational health care and safety and medical director HR director	Outsourced	3,715,000,000 (2013)
A. Occupational health care	City A		Municipality. Approx. 11,000 employees		Partly outsourced	1,401,000,000 (2014)
B. Leasing services	Company B: national corporation	Southern Finland	Demolitions of industrial equipment and machinery	Chief executive officer (CEO)	Outsourced	5,013,000 (2013)
B. Leasing services	Municipality B	Western Finland	Municipality. Approx. 900 employees	Chief financial officer (CFO)	Outsourced	76,016,089 (2014)
C. Translation services	Company C: multinational corporation Agency C	Southern Finland	Media industry	Product owner, chief and technology officer	Outsourced	243,688,000 (2013)
C. Translation services		Southern Finland	Governmental organization. Approx. 300 employees	Head of agency, director (administration and development)	Partly outsourced	26,526,000 (2014)
D. Customer services	Company D: multinational corporation Agency D	Southern Finland	Travel industry	Director, customer care and support	Outsourced	2,284,000,000 (2014)
D. Customer services		Operations in 15 municipalities in all parts of Finland	Governmental organization. Approx. 550 employees	Senior specialist, category director and legal director	Outsourced	134,000,000 (2014)

Note: HR = Human resources

Table 1.
Overview of sample organizations

customer services more than 15 years ago. Interviews with them concentrated mainly on the reevaluations of these decisions. Thus, they represented a situation where transferring the service back in-house was considered (which would have been a more significant organizational change than outsourcing).

The cases were selected after consulting experts on service purchasing and mapping potential service functions that have been the target of outsourcing recently in both sectors.

3.2 Data collection and analysis

Data collection was done by structured interviews with a standard protocol to ensure reliability (Beverland and Lindgreen, 2010). The interviews were based on McIvor's (2000) framework, i.e. we questioned the interviewees regarding the phases of the decision-making process (Appendix 2). We thus started with a theoretical framework from literature, which we investigate through the multiple case studies (Stewart, 2012). The interviews focused on the following themes: planning and monitoring of the organization's service functions, decision-making processes and case specific questions. We collected the data from organizations in Finland where outsourcing of services, especially in the public sector, is growing. This data collection is part of the authors' larger research project on public sector service delivery outsourcing. The data collection for this study was conducted simultaneously with a data collection for another study on the phases of transition and service management post supplier selection, i.e. the interviewees were questioned both on phases pre-supplier selection and post-supplier selection. The prior are the data used in this study. The data on the later phases of the procurement process have been published in a separate study on outsourced public service management (authors [1]).

Interviews were conducted between one to three employees of each organization who participated in the decision-making process (Table 1). Typically, one interviewee was from top-management and the possible other interviewee from middle-management, and the interviewees had been essentially involved in the service outsourcing decision process and responsible for the make or buy consideration studied. Data collection occurred in the fall of 2014 and spring of 2015. Individual interviews lasted from 45 min up to 1 h and 12 min. All the conducted interviews were transcribed *verbatim*. The interview data was first individually coded by both researchers and coding was then compared to make the final decisions. The codes were created by a combination of deduction and induction, i.e. an original set was developed based on the literature review, but this was revised and added to during the analysis as new themes emerged or existing ones converged. The coding categories are available in Appendix 1.

Several steps were taken to ensure validity (Yin, 2014). Construct validity was ensured by collecting evidence from multiple informants in the organizations (and in some cases by additional documentation) and by sending a draft summary of key findings to the interviewees for review. Additionally, we provide cross-case tables to ensure "chain-of-evidence" in construct validity (Beverland and Lindgreen, 2010). External validity is ensured through our replication logic. We selected cases that allow for in-depth understandings and insights into the issue being studied rather than empirical generalizations (Dubois and Araujo, 2007). Still, we attempted to choose cases that are standard enough to represent a number of cases (Seawright and Gerring, 2008). As multiple cases were chosen with similar outsourced services, the selected cases represent the phenomenon widely enabling the exploration of causal mechanisms and cross-case relationships (Seawright and Gerring, 2008). Internal validity is ensured through our cross-case analysis and synthesis and assisted with the structured analysis of each case based on the coding conducted. Reliability was ensured through the development of our above outlined case study protocol (Yin, 2014).

We also validated our results by sharing an executive summary of the results with the respondents. Additionally, a seminar was held in which the research results were presented to practitioners.

4. Within-case descriptions

In this section, the analyzed service functions are briefly presented along with an introduction of each case. This is followed by cross case comparisons in [Table 2](#).

4.1 Occupational health care

Company A. Company A's outsourcing process took place in 2013-2014. The outsourcing decision process followed the company's general project model, which is a combination of its sourcing process and project management model. The decision was to outsource the service function and employees apart from the directing doctor and nurse.

City A. City A's outsourcing process took place in 2005. The outcome was to outsource part of the service function (approx. 40%) and invest in the service function by expanding the content. The decision has been re-evaluated every four years since. The decision-making process is structured according to the guiding principles of the city; the city council is formally responsible for outsourcing decisions.

4.2 Leasing services

Company B. Company B's decision concerned outsourcing the funding of its construction machines and was made in 2013. The operations and decision-making models are strongly influenced by the company's background as a family owned business. The outsourcing decision was based on financial benefits in terms of the company's equity.

Municipality B. Municipality B outsourced the funding of their IT-equipment. The decision was made according to the municipality's guiding principles, following the municipality's process model for investments. The process was triggered by the fact that their current contracts were spread to multiple suppliers and their cost levels were impossible to follow. The decision was to centralize the funding of these machines and extend the use of leasing funding to computers.

4.3 Translation services

Company C. Company C outsourced its translation services in 2012. Company C overall exhibits stern service management internally and externally. The outsourcing consideration was triggered by extensive internal analysis. The volume of translations had been rising extensively, incurring the need for developing procedures and tackling increased costs. A project team was formed to analyze cost levels, quality issues and risks.

Agency C. Agency C made the decision to maintain a part of translation services in-house and outsource parts of it in 2012. The decision was based on internal needs and cost calculations. The outsourcing consideration was triggered by an internal initiative to keep part of the service in-house to manage quality. The competitive tendering process following the decisions became prolonged and was criticized internally.

4.4 Customer services

Company D. Company D outsourced its customer services in the late 1990s as the trend of outsourcing customer services emerged in their industry. Over the years company D has re-evaluated the decision and ended up outsourcing further parts of the service function. The most recent re-evaluation took place in 2014, triggered by the company's budget discipline

Table 2.
Cross case
comparisons

Case organization	Trigger of outsourcing consideration	Preliminary research	Structure and length of the decision-making process	Roles involved in the process
Company A	Changes in the business sector. Their philosophy is to evaluate the outsourcing of all service functions. Concern about maintaining current cost and quality levels	Data collection and preliminary tenders (cost levels) from potential suppliers. Analysis of internal cost levels. Benchmarking with other companies. Risk analysis	A structured model combining project model and sourcing process. The project had a steering group making the final decisions. Decision-making criteria were weighted numerically. The process took almost a year	The persons responsible for internal service delivery and representatives from sourcing and finance. HR director had a steering role
City A	Dysfunctional internal service function. Need to extend the service content	Exchanging ideas of service content with potential suppliers. Analysis of suppliers' cost level, internal cost unknown. Benchmarking with public organizations	There is no structured project model. The decision-making authorities are determined in the city's guiding principle. The process took approximately one year	HR director and person responsible for internal service delivery. Later, the directing doctor replaced with a consultant specializing in occupational health care
Company B	Restructured ownership arrangements and a new CEO. Issues with the balance sheet	Potential suppliers and their cost levels were mapped. Some benchmarking, but the CEO mainly relied on his personal experiences	No established model for the process. Most decisions are made "ad hoc." Board of directors approval needed above a certain investment level. The decision-making process took approximately four months	The CEO prepared the decision alone and informed the board of directors
Municipality B	Need for better cost monitoring. Need to expand the service content	Potential suppliers and their cost levels mapped. Benchmarking with other municipalities	The process model for investments was implemented. The decision-making authorities are determined in the guiding principle of the municipality	The CFO prepared the decision alone, but the decision was made by the city council
Company C	Analysis of service production and benchmarking within the corporate group. Increased volumes of the service produced internally	Mapping of potential suppliers by requests for information including cost levels. Benchmarking within the corporate group. Risk analysis	A project was formed given the significance of the volume. Company management model determines decision-making authority. Decision-making process took nine month	Representation from logistics, head of service delivery, representatives from most significant internal customer units. Project owner was the CTO

(continued)

Case organization	Trigger of outsourcing consideration	Preliminary research	Structure and length of the decision-making process	Roles involved in the process
Agency C	Internal request for maintaining part of the service in-house. Aim of managing the supplier's service quality	The service users were heard and cost estimations were made. The supplier selection was made from a framework agreement which demolished the need of preliminary research	Decision was made by board of directors. Project team for competitive tendering and supplier selection. The project team was mismanaged and the process prolonged The decision making process was followed through in a few months	The administrative director responsible for the service delivery prepared the decision by hearing internal service users. The procurement team and external consultants participated in supplier selection
Company D	Budget discipline, need for better management of volume variations and suppliers	Benchmarking and mapping potential suppliers in the market	Formal decision-making process. A project team with steering. An external consultant to provide benchmarking connections and data	The project team consisted of roles responsible for service content, supplier relations, development, purchasing, business control and HR. The project had a steering group
Agency D	Significant increase in service volume	Mapping of potential suppliers and costs. Benchmarking has not been a significant data source due to a lack of target organizations	The original outsourcing decision was executed by few executives in the agency. The reevaluations have been followed through according to the guiding principles	The projects teams have consisted of lawyers, roles from finance and service content and procurement specialists.

Note: HR = Human resources

Table 2.

program. At the time of the interview, the supplier selection process was ongoing. The aim is to cut down the number of suppliers to enhance the management of volume variations.

Agency D. Agency D outsourced their customer services in the late 1990s as new assignments caused a significant increase in their call center services' volumes. At first external suppliers were only used in managing the service overflow, but it was soon determined that outsourcing the whole function would be a preferred option. Outsourcing the service function was only possible after the law regulating the agency's functioning was altered. Over the year's agency D has re-evaluated the decision as contract terms have come to an end.

5. Cross-case analysis and discussion

Each case-organization followed through with an outsourcing decision process, some more formal than others, as presented in Table 2 and discussed in the following. We have structured the analysis to contrast the private and public sector cases, to highlight the main similarities and differences between their processes and practices. We start with a section contrasting the cases specifically to the outsourcing framework by McIvor (2000) and then discuss the other key themes related to the decision-making processes in the cases that arose from the data analysis.

5.1 Decision-making process – comparison to theoretical framework

Table 3 presents the comparison of the public and private sector cases to the process steps advocated by McIvor (2000), along with some generic observations. The decision-making

General observations from empirical data	This process step as such was not observed in most cases. More typical was a trigger that starts the decision-making process for an individual service (e.g. poor service quality, high costs and capacity issues)	This processes step as such was not observed in the cases. However, it was a part of decision-benchmarking and the market analysis for private case organizations and for the public organizations, which proceeded with partial outsourcing	For this process step, all case organizations attempted to identify the costs of external service production, but public sector cases were often not able to identify internal costs of the service in detail	This process step was observed in some format in all case organizations but the content and scope varied greatly. Private organizations highlight importance of benchmarking but only two public organizations conducted it
Process phase (McIvor, 2000)	Step 1: identifying core processes	Step 2: evaluating relevant value chain activities	Step 3: cost analysis of internal process and outsourcing	Step 4: analysis of potential suppliers
Private sector cases	Step observed in: companies A and C Step not observed in: companies B and D	Step observed in: all cases Step not observed in: –	Step observed in: all cases Step not observed in: –	Step observed in: all cases Step not observed in: –
Public sector cases	Step observed in: – Step not observed in: all cases	Step observed in: city A and agency C Step not observed in: municipality B and agency D	Step observed in: municipality B and agency C Step not observed in: agency A and city A	Step observed in: all cases Step not observed in: –

Table 3. Comparison of cases to McIvor's (2000) outsourcing framework phases

processes exposed significant differences between the cases. The process advocated in McIvor's framework was not seen as such in any of the case organizations. As expected, however, the recommended process steps were followed more closely in private case organizations with the exception of company B.

In public organizations the first two framework phases (identification of core and non-core services and evaluating relevant service activities) were more absent than cost analysis, benchmarking and mapping the market, though these first two phases were often also less professional. On the opposite sides of the spectrum were company A applying a combination of the company's project model and sourcing process, and company B where "we are certainly 'doers', in certain ways our functioning is too ad hoc [...] we don't always plan ahead." These differences are explained mostly by the companies' significant size difference. At the time of the original decisions the public organizations, unlike the private organizations, all lacked a formal process model that could be directly implemented to an outsourcing consideration but some of them did, as a result, identify the need for more structured models. Agency C representative commented that "we did this legal audit in relation to our service purchases and we noted that we need specification and now we have made the required documentation."

Company A's representative noted: "when we are facing a significant outsourcing decision like this, we don't make decisions without a business case and risk analysis." Company C also followed through with a heavy project model as the decision had a great impact on the company's structure in terms of costs and personnel.

It seems that the private sector organizations have internal tools and guidelines for the outsourcing consideration, which reflect their project models and practices such as risk analysis. On the contrary, public organizations have clearly appointed the mandates for decision-making but outsourcing consideration processes are unstructured and depended on the personnel involved. Instead of concentrating on the mandates and following the guiding principles, public service management focus should be steered into formulating effective processes.

5.1.1 Identifying core processes. The private sector organizations were regularly evaluating their service functions to identify potential for outsourcing as presented in [Table 3](#). Especially companies A and C were proactive, as for instance company A anticipated issues with their occupational health care service in terms of securing availability for units across the country. For company A: "it probably is the philosophy of our entire company to go through each function in terms of evaluating should it be made or bought." On the contrary, public sector organizations lacked regular evaluation routines and seemed to turn to suppliers when their internal service functions were in trouble. City A's representative recalls:

One such issue that landed on my desk was the dysfunctional occupational health care function. Our starting point was that the function is so malfunctioning that we need to solve it. There kind of was no choice, we had to pursue outsourcing and believe it is the solution.

Overall though, and particularly for the public organizations, the first step as such was not mainly the evaluation of core vs non-core processes or competences. Rather, it was either through regular evaluation the identification of potential services for outsourcing (mainly the private sector) or reaction to a trigger/challenge in the current internal service provision (mainly the public sector). There has been little research on these triggers of the make-or-buy-process ([Moschuris, 2007](#)). In our study, all the triggers (whether identified through evaluation or a problem appearing) seem quite different between public and private organizations.

Previous research (Moschuris, 2007) has suggested cost and quality be the primary outsourcing triggers. Interestingly, companies C and D were the only ones who mentioned cost savings as a primary motivator to outsource. We, however, predict that cost savings will increase as a trigger for outsourcing especially in public organizations as the scarcity of public funds is driving public organizations to pursue cost savings in their service deliveries (Zafra-Gomez *et al.*, 2013). Identified similarities in triggers in both sectors were changes in the service volumes or the organization's operating environment. The biggest difference was the private organizations' constant and structured pursuit in efficient operations leading to outsourcing evaluations.

5.1.2 Evaluating relevant value chain activities. All case organizations had more or less included the evaluation of relevant value chain activities to the benchmark they did as a part of the analysis to support the make or buy decision. This process step in reality thus seemed to have merged with McIvor's final process step: market analysis. For city A and agency C the recognition of relevant activities was especially important as part of the service remained in-house. For them, one of the objectives of outsourcing was to develop the internal service process. City A's director described the process:

Before we went into the tendering phase [...] we met up with the biggest operators in the market and had the discussion of our current situation and what would be the service production and how it will be delivered.

The reliance on the service providers' expertise was recognized in all the public organizations. This process step was identified to require expertise and knowledge that the case organizations did not all have. City A and company D bought external services to deliver the required analysis and benchmark data. For company D the provided analysis led to extending the scope of outsourced service after the initial decision. All private case organizations evaluated relevant value chain activities. Company C had previously decided to make instead of buy: "we went through these opportunities previously [...] at the time we did not recognize an option of total outsourcing [in the market]." Company C's approach reflects the link between market analysis and evaluation of relevant value chain activities. Evaluation is required to define the scope of outsourcing that will most likely deliver the aspired benefits.

5.1.3 Cost analysis of internal process and outsourcing. All organizations mapped the potential suppliers' cost levels, but of the public organizations, only municipality B and agency C were able to identify the costs of internal service delivery. These findings support those of Roodhooft and Van Den Abbeele (2006) that private organizations have more comprehensive knowledge of markets and suppliers' cost levels leading to more cost efficient outsourcing.

Agency C's representative explained that "our procurement unit at the time completely lacked skills for comparative cost calculations." For city A, cost analysis "is the blurriest phase that has not really been solved in this city." On the contrary, for company D cost analyses were very significant:

[...] we compare our company with others [companies within the same industry] on a very large scale, including our whole cost structure. Decisions aren't made without cost calculations, that's our model.

Indeed, current research has not been able to determine that private, outsourced production, improves public service efficiency (Girth *et al.*, 2012). Lacity and Willcocks (1998) stated that outsourcing a part of a service function is more likely to deliver cost savings than total

outsourcing. Agency C's lack of knowledge of the total costs of the delivery of translation services did not allow the validation of this finding.

Public organizations' lack of knowledge on internal and external cost structures as demonstrated by our findings could be an explanatory factor. This is one of the greatest areas in need of significant and immediate improvement in public sector outsourcing based on our results.

5.1.4 Analysis of potential suppliers. Mapping of the potential suppliers and preliminary research was more or less a recognized step in each of the service outsourcing decision-making processes in both sectors, however, the content and thoroughness varied a lot. Most useful parts of company A's preliminary research were identified after the process:

It was a really good part of the process to receive ideas through benchmarking and from potential suppliers on how to manage risks and maintain the high quality of our occupational health care in the future, even though outsourced.

Potential suppliers were a relevant source of information for most of the private and public organizations. In city A their director explained:

We meet companies operating in the market. In these meetings we share our ideas and spar our suggestions with them by asking is this the type of service description you would offer in a tender or not?

In private organizations, the importance of benchmarking as a process step was highlighted. On the contrary, only city A and municipality B benchmarked with other organizations.

According to [Freytag et al. \(2012\)](#), outsourcing should only be considered if suppliers in the market seem more qualified than internal processes. In all of the case organizations, potential suppliers were seen as more capable of delivering the service than the internal process. The factors that made the suppliers more qualified varied case by case.

5.2 Personnel involved in the process

There were striking differences in the amounts of roles and personnel participating in the decision processes. Already earlier studies in the private sector have noted a low level of involvement from various functions, even including the purchasing function itself in a make or buy decisions ([Laios and Moschuris, 1999](#); [Moschuris, 2008](#)), and we note the same, though mostly in the public sector, suggesting the situation on the private sector has improved.

Some of these differences are explained by the fact that companies A and C outsourced their personnel with the service function, which added complexity to the process. What is not explained by this fact, is that in half of the case organizations (three of which were public) a single person was mainly responsible for the preliminary research, its content, and the formation of the decision criteria. Agency C and city A identified lack of expertise in purchasing/sourcing within their organizations as blocking the delegation of responsibility. On the other hand, similarly to companies A, C and D, agency D was distinguishable within our case organizations with adequate resources. Their project team was described as:

The project manager is part of the steering group representing the project team. The team consists of experts on the service function. And then there are lawyers and that kind and people responsible of purchasing.

Company C's project team consisted of representatives from logistics, translation and three other units closest to the service function.

Johnson *et al.* (2003) noted that purchasing professionals in the public and private sectors have differing backgrounds. Based on our study the differences go beyond education and experience, to significant differences in professionalism and skillsets. Public organizations lacked support from sourcing or their organizations completely lacked sourcing professionals and were not able to conduct cost calculations in all case organizations. Moses and Åhlström (2009) found a diverse team with functions such as purchasing as task leaders improving the accuracy of data the make-or-buy decision is based on. A diverse internal team involved in the process has been identified as a key requirement for outsourcing success (Farneti and Young, 2008; Canez *et al.*, 2000; McIvor, 2000; Laios and Moschuris, 1999), yet there was very limited evidence of this taking place.

5.3. *A modified framework for service outsourcing decision-making*

Based on the empirical analysis, we propose changes to the outsourcing framework as suggested by McIvor (2000). The modified framework is presented in Figure 2, and we discuss the new sequence of phases below in more detail.

The most significant development to McIvor’s framework that arises from our findings is the revised order of process steps presented above: McIvor’s Step 2 has become Step 4. This is particularly relevant in the public sector context. First, we note that in many of our cases the starting point for the outsourcing evaluation was a problem that had begun to emerge in the internally provided service, rather than a cognizant and planned evaluation of which services are core and which non-core to the business. In many cases also, these problems were noted only after they had been brewing for a while, as no regular evaluation of internal services was taking place (especially in the public sector organizations). We thus suggest a better starting point for the outsourcing service decision-making process is a regular evaluation of service functions internally (in terms of their costs, performance, capacity, etc.) to better anticipate internal problems about to develop and/or recognize potential for costs savings through outsourcing non-core functions. Theoretically, thus, we see the outsourcing decision-making process as part of the service management discipline more broadly. Better internal management of services, including their periodic evaluation and comparison outside the organization (Step 2) may then eventually lead to outsourcing the service – or alternatively to its development internally if it is not deemed suitable for outsourcing due to e.g. market characteristics.

Second, we suggest that the market analysis should be done prior to cost analysis and benchmarking as the availability of suppliers more qualified (and with sufficient capacity) than the internal process defines the make or buy decision, i.e. if the market cannot provide better alternatives to the internal function, internal development is the path forward. For the third step, the role of benchmarking is emphasized, and this will be easier after an analysis of potential suppliers has taken place in a previous step and internal processes are more known because of the internal evaluation in Step 1. Finally, the evaluation of the detailed service activities is only done in the final step in the evaluation, with the help of recognized relevant potential service providers in the market. We also recommend the expanded usage of the framework from outsourcing considerations to service activity evaluation as a part of

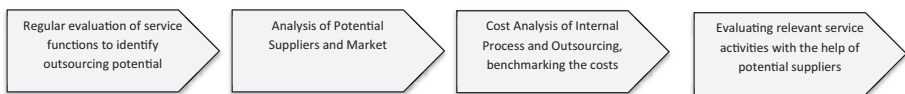


Figure 2.
Framework for
service outsourcing
decision-making

Source: Influenced by McIvor (2000)

overall service strategy formation, as is currently done in our private case organizations. This was an area where public sector organizations differed markedly, with their limited overall service management and evaluation, and thus, a key is where future research is needed.

6. Conclusions

Choosing between in-house and outsourced service delivery is a fundamental decision in both private and public sector organizations (Moschuris, 2008; Petersen *et al.*, 2015). Previous outsourcing research has mostly focused on private sectors, with limited focus on the public sector's outsourcing processes (Khan and Schroder, 2009), yet understanding of the service outsourcing process is important for both private and public sector practitioners, as well as researchers to ensure organizational competitiveness and cost efficiency (Moschuris, 2008; Perner *et al.*, 2014). Furthermore, despite the topic's importance, most studies have a very theoretical focus, with limited process understanding provided (Moschuris, 2007).

6.1 Theoretical contributions

Our premise for the study arose from the observation that most frameworks to guide the outsourcing process are from over a decade ago, devised mainly for the manufacturing outsourcing process and without sufficient consideration of service outsourcing characteristics, specifically in the public sector organizations. Existing frameworks are thus in need of a revised examination, as well as an analysis of their suitability for the public sector environment. Our multi-case study thus had what Stewart (2012) calls a practice-relevant, rather than practice-oriented approach, where we also looked to generate theory, i.e. more specifically a theoretical, prescriptive framework. We set out to identify the modifications existing frameworks require to ensure their better suitability also for public sector organizations lacking behind in service outsourcing and management. By building on existing literature and our empirical findings from across sectors, an updated framework for service outsourcing has been created, one that also (and especially) fits the public sector context (Figure 2). The key change in the updated framework is the order of the process steps (McIvor's Step 2 became Step 4). Beginning the process through regular evaluation of service functions is required due to the ambiguity of the division of services into core and non-core in public organizations (see, for instance, Harland *et al.*, 2005). This is also key in bringing service management, particularly in public sector organizations overall to a more mature level beyond simply the outsourcing process.

6.2 Managerial recommendations

The managerial recommendations are listed in relation to the four steps of the modified decision-making framework presented earlier (Figure 2). As overall the public sector organizations in our case study appeared to be trailing behind those of the private sector, the recommendations are most relevant for them:

- *Process step 1:* the practice of regular evaluation of service functions was almost non-existent in the public organizations studied and outsourcing was often a solution to problems left to brew too long. Implementing regular evaluation routines and pro-activeness will save public organizations from situations where outsourcing is perceived as the only option to solve a poorly performing service, regardless of whether the current cost or market situation would otherwise merit outsourcing.

- *Process step 2:* evaluating and benchmarking the costs and the cost structure of the service function provide essential information for improved service management both internally and externally. This process phase is strongly supported by the literature in which the market situation and structure are highlighted as a decision criterion (Girth *et al.*, 2012; McIvor *et al.*, 2009; McIvor, 2000). Organizations need to ensure they retain bargaining power when outsourcing, and must thus evaluate the supplier market to reduce any dependence on suppliers (Hartman *et al.*, 2017).
- *Process step 3:* cost analysis and benchmarking are particularly useful to guide cost efficient outsourcing decisions. Added to this needed increase in internal cost knowledge, based on the findings benchmarking costs externally are recommended, as this sheds light on internal performance levels and determines improvement or outsourcing needs.
- *Process step 4:* using the potential suppliers' knowledge on the most relevant service activities and suggestions on improvements of the service process is used as an identified best practice. Case organizations especially highlighted the significance of open dialogue entailing insights on service content and activities, cost structures and risk management. As Van de Water and van Peet (2006) recognize, the key issues in outsourcing are the identification of service objectives, performance level and most relevant activities. These are the most relevant issues in the contract between the buyer and the supplier as well.

As the framework is based on Finnish data, it is applicable to public sector organizations within the EU following the same operational guidelines. Applying this framework steers the decision-makers focus into most critical parts of the process and the most relevant criteria, thus enhancing the successful delivery of outsourced services. It was seen important to not only identify best practices within the cases but also look for potential shortfalls in the public sector against private practices as there are increasing political motivations to align to private operating models for efficiency purposes (Arlbjørn and Freytag, 2012). While the recommendations provided based on this study and the modified framework are most pertinent to public sector organizations (which were found to lack behind in their outsourcing practices), the advocated process itself is applicable to private organizations, as well as several of our case organizations were multinational corporations. Regular evaluation of service functions and using the potential suppliers' knowledge on the most relevant service activities (Step 1) and using the potential suppliers' knowledge on the most relevant service activities and suggestions on improvements of the service process (Step 4) are recommended for all organizations as best practices in service management and outsourcing.

6.3 Limitations and future research

Our service case selection in this study was limited by the premise that the service function had to be such that both public and private organizations could organize the function internally and yet have outsourced it relatively recently. Because of this sampling, we have wide coverage of industries, public organization types and organization sizes in our case organizations, although the characteristics of the outsourced services are more controlled. While we can thus draw overall implications on service outsourcing processes from this wide sample, we recognize that more detailed research in different sectors taking e.g. industry effects into account is needed in the future. Due to our sampling, also certain areas related to only public service delivery had to be excluded, and we cannot extend our findings to the outsourcing of such functions (e.g. delivery of core services to the public) without

further study. Further research could test the findings of the research in a public sector specific study to validate the wider applicability of the results. In this research, we also only concentrated on the decision-making processes, and had information of the processes short-term outcomes, but not long-term outcomes. Further research should link the decision process to the decision outcomes in terms of identifying long-term success factors and warning signs in outsourcing contexts.

Note

1. To protect author anonymity during review process we do not yet disclose the full reference here. Should the editor or authors wish to see this publication, we are naturally happy to provide it. Should we be successful in the review process, the full reference details will be added to the final publication.

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Appendix 1

Category	Description
Impact of regulations/law	Respondent discusses the impact of regulations
Challenges	Respondent discusses the challenges of the process
Service importance to organization	Respondent discusses about categorizing services to core and non-core services
Trigger	Respondent comments on what started the process
Process duration	Respondent discusses about the length of process Respondent discusses the hours spent on project
Source of data*	Respondent mentions a source of background information
Preliminary research/data	Respondent discusses the process of preliminary research Respondent discusses background data
Evaluation criteria	Respondent discusses the evaluation criteria
Implementation	Respondent discusses the actions taken after the decision
Decision-making process	Respondent mentions that there is a structure or lack of process for decision-making Respondent discusses decision-making Respondent comments on the people involved Respondent discusses the steps during the process
Decision outcome	Respondent comments on the outcome of the make or buy process Respondent comments on the success of the outcome
Reevaluation	Respondent discusses about reevaluating the decision

Table A1.
Description of coding
categories

Note: *Codes “source of data” was combined with “preliminary research/data” during the coding process

Appendix 2. Questions of the semi-structured interviews

(1) General

- Would you describe your job and your background?
- Would you briefly describe the functions of your organization?

(2) Planning and monitoring

- How do you plan the service production in your organization? How frequent is planning?
- What are the core services and what are the service processes supporting them?
 - How was the recognition done?
- Do you monitor your service production as a whole or on a service level? How do you monitor the delivered services?
- What do you carry out monitoring?
- Is the efficiency of the service provision measured in your organization?
 - If so, what are the measures?
- Are there differences in the monitoring process, the target of monitoring or in the used measures between outsourced and in-house services?

- (3) Decision-making process: The choice between in-house production and outsourcing
- Do you have processes/structures related to decision-making?
 - Does your organization use a model for decision-making? (If so, I would like to see a description).
 - Does your organization use a specific model for make-or-buy considerations? If so, could you describe the model briefly?
 - Who is involved in the make-or-buy consideration?
 - What kind of information the decision is based on?
 - What kind of background information do you look for and see as a prerequisite before making the decision?
 - Do you analyze the potential suppliers before making the decision?
 - Do you use cost calculations to support decision-making? If so, how do you collect the data?
 - Measures, analysis and benchmarking?
- (4) Case-specific questions:
- Which factors triggered the make-or-buy consideration?
 - Where there changes within your organization? Did the market situation alter?
 - How was the decision-making process in this specific case? Who was involved?
 - What kind of investigations were conducted before making the decision?
 - Did you identify the potential suppliers?
 - Did you benchmark the service delivery with other companies/public organizations?
 - What were the most important factors in decision-making and what was their order of importance?
 - What was the decision? (In-house, total outsourcing and partial outsourcing)
 - What happened after making the decision?
 - Have you been content with the decision?
 - What is the current situation with service delivery?
 - If outsourced, did the expected outcome realize?
 - If the service remained in-house, was the make-or-buy consideration beneficial?
 - How have you monitored and measured the outcome of the decision?
 - Has it had an impact on customer satisfaction?
 - Cost efficiency?
 - Effectiveness of the service?
 - Is it possible that you will redo the make-or-buy consideration/alter the decision? If so, why?

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