

# SERVICE SUPPLY MANAGEMENT STRUCTURE IN OFFSHORE OUTSOURCING

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This research examines the relationship between strategy and structure in the highly complex services offshore outsourcing environment. The analysis uses data from the in-depth case studies of six organizations that purchase services (primarily call center services) to assess how the strategy of offshore outsourcing of services affects organizational structure and to develop a better understanding of the offshore outsourcing of services phenomenon. While organizations often have local buying offices and very formal structures for buying materials globally, the same is not true for purchased services. The issue of proper organizational structure for effectively managing offshore outsourced services has not been assessed. This research also aims to add to the growing body of literature related to Service-Dominant Logic, which recognizes that services cannot be effectively studied through the lens of manufacturing. This research applies case study findings to assess how the elements of structure, namely centralization, formalization and complexity, are affected by offshore outsourcing of services. All of the organizations studied here indicate that their processes evolved and that pursuing an offshore services purchasing strategy lead to structural adaptations in terms of more centralized, team-based structures, more formalized processes and more complex structures. However, most of the cases tried to retain some level of flexibility to allow for continued adaptation and improvement.

*Keywords:* procurement/purchasing processes; outsourcing (make or buy); international/global purchasing; service supply management

## INTRODUCTION

The United States and other Western countries have transformed from manufacturing-based, industrial nations to service-based societies, changing their economies. According to the CIA World Fact Book (CIA 2009), the 2009 U.S. GDP is composed of 1.2% agriculture, 22.2% industry, often called manufacturing, and 76.7% services. The World Fact Book indicates that other than China and major oil producing countries, most of the world's economies are heavily dominated by services GDP. However, much of the supply

chain literature, in particular the purchasing literature, still emphasizes the purchase of materials and components rather than the purchase of services (Ellram, Tate and Billington 2007). Services expenditures are becoming increasingly important to business success and supply management's involvement in services is changing and growing (Ellram, Tate and Billington 2004, 2008; Van Der Valk and Rozemeijer 2009).

Along with the increasing importance of services, industry's reliance on outsourcing has also increased (Williams 2003). The most recent outsourcing trend favors the outsourcing of intellectually based service activities, or business processes, such as call centers, research, product development, logistics, human relations, accounting, legal work, marketing, logistics and market research (Adler 2001; Engardio, Bernstein,

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Kripalani, Balfour, Grow and Greene 2003; Engardio and Shameen 2006; Larson 2006; Ellram et al. 2008). Outsourcing of business services, often called business processes, to geographically distant countries is growing in popularity as firms attempt to reduce labor costs and retain marketplace advantage (Farrell 2004, 2005). The phenomenon of offshore outsourcing is defined as the practice of hiring an external organization outside the firm's country of origin to perform some or all business functions (CAPS Research 2006; Overby 2003).

Factors such as high oil prices can make manufacturing offshoring less appealing, but do not affect services (Anonymous 2011). Wages are typically a higher share of the costs of performing a service (Ritter and Sternfels 2004) making offshoring to lower cost regions an attractive alternative to domestic sourcing. Other reasons for the trend toward services offshoring include a general decline in communication and computing costs, improvements in internet reliability and functionality (Robinson and Kalakota 2005), a desire to serve the local market and service quality comparable or even superior to those of services provided domestically (Sinderman 1995; Casale 1996; Goolsby 1999; Elmuti and Kathawala 2000; Anonymous 2011).

Offshore outsourcing of business processes increases organizational complexity and risk (Aron and Singh 2005; Neo Advisory 2005), as firms are exposed to different laws, cultures, customs and government requirements, for example. To manage this additional complexity and associated risk, organizations need to establish appropriate governance structures for managing the offshore service supplier. This may affect the organization's level of centralization and formalization of processes, as new procedures for working with people, new systems and alternative methods for control are explored. This may also affect reporting structures, roles and responsibilities. This research explores the following question: *How does the pursuit of the strategy of offshore outsourcing of services affect the way that supplier relationships are managed in terms of the structural tenets of centralization, formalization and complexity?* Prior research generally supports that organizational structure follows strategy (Chandler 1962; Amburgey and Dacin 1994), noting that "unless structure follows strategy, inefficiency results" (Chandler 1962, p. 314). However, this idea has been applied only in a very limited way to supply management organizations. The context of this research is the offshoring of call center and back office work to India.

This research addresses a void in both the supply chain and the strategy-structure literature, by analyzing how companies adapt their supply management and supplier management structures to facilitate service offshore outsourcing strategy implementation.

The findings add to theory by linking the organizational strategy of service offshore outsourcing to the elements of organizational structure. The findings may provide guidance to companies in effectively managing relationships with offshore service suppliers.

## LITERATURE REVIEW

The decision of whether to make or buy a product or service and where to make or buy those products and services is ongoing for many firms. Many of the services being offshore outsourced such as call centers, financial processing, data management and accounting are not considered core capabilities, in that they do not offer distinctive skills and abilities that help the organization achieve competitive advantage (Prahalad and Hamel 1990). It is common practice for firms to outsource these activities to organizations with capabilities to perform the needed tasks (Friedman 2005). Fortunately, gains in information and communication technologies have reduced the transaction costs of services offshore outsourcing (Ellram et al. 2008) and made the outsourcing decision more cost effective (Taylor 2005). The increase in service offshore outsourcing has created a need for organizational leaders to consider the strategic implications and the structures required to manage the offshore relationships in a dynamic environment. The implications related specifically to services are described in the following paragraphs.

### Services Perspective

Various perspectives on service provision and service supply chains have been set forth over the past three decades. To date, service provision has been studied primarily from the lens of the marketing discipline (Vargo and Lusch 2004a,b; Sampson and Froehle 2006), and to a lesser extent in the operations area (Roth and Menor 2003; Sampson and Froehle 2006; Voss, Roth and Chase 2008). Even in the broader area of operations and supply chain management, there has been limited work to date focused on understanding the service supply chain (Ellram et al. 2004, 2008), and even less on understanding service supply management from a business-to-business rather than a consumer perspective (Sampson 2000), or from the perspective of the business buying services (Smeltzer and Ogden 2002; Wynstra, Axelsson and Van Der Valk 2006; Van Der Valk and Rozemeijer 2009; Tate, Ellram, Bals, Hartmann and Van Der Valk 2010) rather than the provider of services.

Two examples of recent thought about service provision include Service Science and Service-Dominant Logic (SDL) (Spohrer and Maglio 2008, 2010; Sampson, Menor and Bone 2010). Service Science is an "...interdisciplinary effort to understand how service

systems interact and co-create value" (Vargo, Lusch and Akaka 2010, p. 133). Service Science theory development is still near the beginning of its evolution, with significant theory development needed (Spohrer and Riecken 2006; Spohrer and Maglio 2008, 2010).

Service Science has been supported by what is known as SDL (Vargo and Lusch 2004a). SDL frames service offerings and service research in a way that is different from a traditional perspective called Goods-Dominant Logic (GDL). The following are some distinctions of the SDL perspective (Vargo and Lusch 2008b, p. 258):

- With GDL firms make goods or services. With SDL firms assist customers in their own value creation processes.
- With GDL value is produced by firms. With SDL value is co-created with customers.
- With GDL customers are targets of marketing. With SDL customers are productive resources.

This research builds on the perspectives of Service Science and SDL in a couple of ways. First, there is a focus on a business-to-business perspective of service provision, which has been undeveloped in the literature (Wynstra et al. 2006). Second, the focus is on purchasing services, whereas prior literature considers the provision of services.

The nature of the relationships of those involved in the purchase of services and the means through which value is created for the customer differentiates services from goods. The literature that focuses on the customer interaction with the service provider emphasizes the concept of co-creation of services (Voss et al. 2008; Sampson 2010). To clarify this concept, the difference between operand and operant resources is distinguished. When buying services, the company is buying operand resources, which are those resources that create transformation, versus operant resources, which are generally physical resources, like material, that are transformed (Vargo and Lusch 2004a, 2008a). Three of the 10 foundational premises of SDL provide more insight into the importance of operand versus operant resources. First, "the customer is always a co-creator of value." Second, "the service-centered view is inherently customer oriented and relational," and finally, "value is always uniquely and phenomenologically determined by the beneficiary"<sup>1</sup> (Lusch 2011). Thus, in the business-to-business environment for services, personal relationships between the buyer of the services and the supplier of the services tend to be very important (Bals, Hartmann and Ritter 2009; Tate

et al. 2010), and more personal or relational in nature.

The services purchased may be consumed by either those within the buying organization or by its customers. Regardless of who the consumer is, the consumer of the service not only co-creates the value, but also judges the value of the service. Thus, the internal or external customer may want to strongly influence the selection of the supplier with whom it will interact. SDL uses the term operand resources, such as knowledge, skills and processes, to describe the resources that are actually used to transform other resources. The physical resources that are utilized in the transformation process (equipment, machinery) or transformed (materials, components) are referred to as operand resources (Normann and Ramírez 1993; Vargo and Lusch 2004a).

For example, when a manufacturing firm purchases a component for use in something else, it is buying an operand resource that it will transform (SDL considers that operand resources such as knowledge and skills are imbedded in the component). On the other hand, when it purchases marketing services, there is a personal interaction in the value creation process between the service provider and the customer. While there are certainly also strong relationships between buyers and suppliers of some materials and components (Frazier 1988), the act of the co-creation of value through the service delivery process is by its very nature personal and transformational.

Unlike the purchase of goods, historically, the purchase of professional service is decentralized, with the user, who is often the budget owner, taking ownership of the service purchase (Ellram et al. 2007; Bals et al. 2009). These purchase relationships are often informal, built over a period of time rather than competitively developed (Bals et al. 2009) as is the case for many materials and goods purchased in a business-to-business environment (Van Der Valk and Rozemeijer 2009). Owing to the decentralized nature and informality of these relationships, they also tend to be concentrated with a few people, and sometimes very ingrained (Tate et al. 2010), as the parties may recognize relational value developed over time through flexibility, information exchange or other factors (Lusch and Brown 1996).

Because of the relational nature of service purchases, and because they are often being purchased by those without formal training in industrial purchasing, such purchases are often treated as if they are unique and intangible, when in fact they can be measured and evaluated (Ellram et al. 2004, 2008). However, the fact that they are viewed as relational creates a sense of obligation (Dyer and Singh 1998), as implicit norms have been built over time based on interaction (Dwyer, Schurr and Oh 1987; Lusch and Brown

<sup>1</sup>For a complete listing of the 10 foundational premises of SDL, see Lusch (2011). The ones that focus primarily on the concept of value co-creation are highlighted above.

1996) between the supplier and the service user or internal customer, which may make the relationship more difficult to modify or influence. The literature suggests that formalizing the way that service purchases are managed, and centralizing the sourcing and management of service suppliers increases effectiveness in some cases (Van Der Valk and Roze-meijer 2009). Other research into service management indicates that there is a range of effective relationships based on service complexity and importance (Authors, under review).

The personal element in business-to-business service is perhaps more important than it appears, and can be a significant factor in relationship longevity and success (Gounaris 2005). What this means is that when companies offshore outsource services, at least initially, the services may continue to be managed in a very similar way as they were formerly purchased: fragmented, with internal user control and a high degree of informality in supplier management (Tate, Ellram and Brown 2009). However, as the number of offshore outsourced services grows, so does the complexity in understanding and managing a multitude of relationships globally (Tate et al. 2009). The growing magnitude of spend and the complexity associated with managing many supply relationships presents a need to better understand effective organizational structures for managing offshore outsourced services.

Previous literature suggests that it is desirable for firms who sell services to adapt their structures as they move from selling goods to selling more services (Neu and Brown 2005), or as they move to selling different types of services (Gebauer, Edvardsson, Gustafsson and Witell 2010). This may be particularly true because global sourcing of services to opposite time zones allows for a 24-hour-a-day service availability (Gupta and Seshasai 2004), which may require a different management structure. The concept of a global purchasing office for buying materials and components is fairly commonplace today. However, these offices focus on materials, not services (Monczka, Handfield and Giunipero 2008).

The next sections present the concepts of organizational strategy and structure related to complexity, formalization and centralization, which are used to examine the buying organization.

### Organizational Strategy

Decisions about organizational strategy focus on shaping values and building competencies and skills for the organization (Peters 1984). Decisions to offshore outsource are often made in response to increasing global competitive pressure to reduce costs and focus on what the organization does best (Maskell, Pedersen, Petersen and Dick-Nielsen 2006). The outsourcing decision is a key part of the organiza-

tion's strategy, with a firm positioning itself in the offshore environment to gain capabilities from the offshore service provider (Tate et al. 2009). One of the difficulties with offshore outsourcing is that firms do not know *how* to effectively and efficiently realize the benefits of offshore outsourcing (Maskell et al. 2006). Firms are not uniformly skilled in understanding what arrangement of organizational design factors, including structures and processes, helps to facilitate effective management of the relationship so that the value can be realized (Gebauer et al. 2010). There is some relationship between an organization's pursuit of an offshore outsourcing strategy for services purchases and the organization's effective structure in terms of centralization, formalization and complexity of the supplier selection and management process. In this research, the decision to offshore outsource services is treated as a manifestation of organizational strategy.

### Organizational Structure

Offshore outsourcing is a complex, ambiguous process that requires the management of an extensive network of personal and group interactions (Van De Ven 1976b). Organizational structures are established to coordinate and control networks, knowledge and activities (Weber 1947; Child 1972; Mintzberg 1979; Burns and Stalker 1994; Pertusa-Ortega, Zaragoza-Siez and Claver-Cortés 2010), limit complexity and support the strategy of the organization (Gebauer et al. 2010). Structure revolves around those rules and resources used to implement the strategic goals (Giddens 1984; Pertusa-Ortega et al. 2010). Previous research into organizational structure has not adequately captured the essence of organizational development in the face of new challenges and demands, and rapidly changing environments (Wang and Ahmed 2003). Hence, the globalization of services is creating a number of new, little-researched structural challenges for organizations. Organizational structure can facilitate the coordination of the different processes within and external to the organization (Pertusa-Ortega et al. 2010). This research focuses on how organizational strategy in offshore outsourcing of service purchases influences organizational structure.

In the rapidly changing offshore environment, there may be certain tradeoffs in the structural elements required for effective decision-making particularly as it relates to management of the change process (Ward, Bickford and Leong 1996; Davis, Eisenhardt and Bingham 2009). For example, the more an organization formalizes the processes associated with the service purchase, the less likely it may be to retain flexibility or adaptability in dealing with the offshore supplier (Feldman and Pentland 2003). This formalization

may also limit the offshore service supplier's ability to adapt to the end-customer's requirements. Similarly, greater levels of organizational decentralization may impede a clear focus on strategic vision because too many individuals are making decisions and executing strategic goals (Souitaris 2001).

**Centralization.** Centralization considers where the governance and power lie in the relationship (Van De Ven 1976b; Simon, Guetzkow, Kozmetsky and Tyndall 1978; Dalton, Todor, Spendolini, Fielding and Porter 1980; Bowersox, Daugherty, Droge, Rogers and Wardlow 1989; Hall 1991; Chow, Heaver and Henriksson 1995; Choi and Hong 2002; Pertusa-Ortega et al. 2010) and is generally discussed in terms of decision-making authority. The complexity of the offshore outsourcing environment necessitates increased information and knowledge sharing both internally and externally, which is characteristic of highly decentralized organizations. Highly centralized structures concentrate decision-making and evaluative activities with fewer people (Pertusa-Ortega et al. 2010), thereby potentially impeding or facilitating the sharing of knowledge and information by restricting or enlarging the channels of communication. Centralized organizations tend to operate with less information, but with consistent objectives and strategy (Jensen and Meckling 1995; Pertusa-Ortega et al. 2010). The larger number of decision-makers and diversity in their experience, knowledge, information sources and professional contacts in a decentralized environment (Hage and Dewar 1973) supports responsiveness and can create situations where innovation and creativity are part of the culture (Hage and Dewar 1973; Ouchi 2006).

Technology advances have helped to facilitate knowledge and information sharing at a reduced cost, allowed organizations to move facilities and suppliers to offshore locations, and increased the capability to transfer information to more people and lower levels of the organization (Jensen and Meckling 1995), thereby increasing decentralization (Ouchi 2006). As more information is shared with multiple levels of the organization, the tendency for continued decentralization increases (Jensen and Meckling 1995; Lee and Choi 2003). Many researchers contend that decentralization is necessary to operate effectively in changing and complex environments (Ouchi 2006). In the case of offshore outsourced services, they are often initially purchased in a decentralized way as a carryover from when they were purchased locally.

**Formalization.** Formalization considers the extent that the decisions, activities and relationships are governed by formal rules, procedures, policies and contracts (Pugh, Hickson, Hinings and Turner 1968; Van De Ven 1976a; Aldrich 1979; Gerwin 1979; Mintzberg 1979; Daugherty, Stank and Rogers 1992) and also how the rules and policies are developed. Organiza-

tions tend to formalize activities to ensure consistency of both inputs and outputs to the offshore outsourcing process. Formalization increases as procedures are established and followed and the performance expectations of the supplier are clarified with standardized, legally binding contracts (Anderson and Dekker 2005). The formalization of routines helps to standardize repetitive activities and transactions and may improve cooperation and collaboration (Cordon-Pozo, Garcia-Morales and Aragon-Correa 2006). However, as environmental complexity increases, formalization of rules and procedures may decrease organizational adaptability and flexibility. According to the literature, organizations that have less formalized processes are more flexible, increasing the organizations' ability to innovate (Burns and Stalker 1961; Miller and Toulouse 1986; Volberda 1997, 1999).

Formalization may also shape the structure and scope of interaction (Kern 2006) through the codification of best practices, therefore stabilizing and facilitating dissemination of new knowledge and tasks (Pertusa-Ortega et al. 2010). For example, this may include the interface between the contact center and customers, and training of new employees at the supplier's site. This may also impact the interaction between the buying firm and the supplying firm. Through the process of formalization, effective routines can be spread throughout the organization to ensure appropriate and consistent future response (Feldman and Pentland 2003). However, because producers and consumers of value are not distinct from each other in many services processes, collaboration and adaptation in service value co-creation is essential (Vargo, Lusch and Akaka 2008).

**Complexity.** Organizational complexity is defined as "... the amount of differentiation that exists within different elements constituting the organization ... (which may include) differentiation in structure, authority and locus of control, the attributes of personnel, products and technologies" (Dooley 2002). The literature indicates that with higher variability and uncertainty in the operating environment, more adaptive organizational structures are needed to process the relevant information (Child 1972). A complex environment is characterized by turbulence, diversity, complicated technology, or many rules or restrictions. This includes customers with very diverse demands or rapid change in demands (Dooley 2002). The environmental complexity surrounding offshore outsourced call centers is increased with the complexity of the service offerings, the variety of customers served, the diversity between the customers and the service providers, and the rules surrounding confidentiality, company policies and related issues. The monitoring of the information in the uncertain environment dictates increased specialization and involvement of organizational members

(Burns and Stalker 1994), thereby increasing organizational complexity (Dooley 2002). Complexity in organizational structure is a function of the horizontal, vertical and spatial differentiation that exists within an organization (Hendrick 2009).

Horizontal differentiation is caused by the involvement of multiple functions and the involvement of specialists in decision-making processes (Pugh et al. 1968), increasing as cross-functional team membership grows. The larger the span of control, the greater the complexity. For example, business owners and supply managers may both be involved in the purchase but at different times or with different areas of responsibility and interaction.

Vertical differentiation means there are a number of hierarchical levels involved in the purchase. Different cultures may have different hierarchical requirements for participation (Tate et al. 2009). Also, the importance of the particular category of spend influences the expected levels of involvement. A relationship between a buying firm, a supplier of services and the customer who receives those services is inherently more vertically complex than a relationship between a buying firm and a supplier of parts.

Spatial differentiation increases when the buyer and supplier are geographically separated as in the offshore environment, which creates a number of barriers and introduces complexity into the buying process (Tate et al. 2009). Language and cultural differences, and the difference in time zones, can add complexity (Gupta and Seshasai 2004) and force the involvement of additional hierarchical levels and functional areas into the offshore outsourcing process.

### Strategic Change, Adaptation and Structure

An organization's structure plays a role in its ability to adapt to changes in the environment. Complexity can drive increased uncertainty or difficulty in predicting environmental scenarios and operating outcomes. Whereas uncertainty refers to having limited knowledge about future outcomes, risk is also relevant because risk is a state of uncertainty where some outcomes may be unfavorable (Morgan and Henrion 1990). Regardless of how much uncertainty is present, organizations must be capable of adapting to and managing fairly ambiguous processes to successfully manage strategic change (Russell and Russell 1992). In general, an organization that is designed to maximize adaptation will be more complex, decentralized and has greater communication than one designed to maximize efficiency (Hage and Aiken 1969; Jennings and Seaman 1994). Decentralized structures with more decision-makers and a larger span of authority are better suited to the nonroutine or less formalized processes and technology (Thompson 1967; Hage and Aiken 1969; Perrow 1986; Nonaka and Konno 2005).

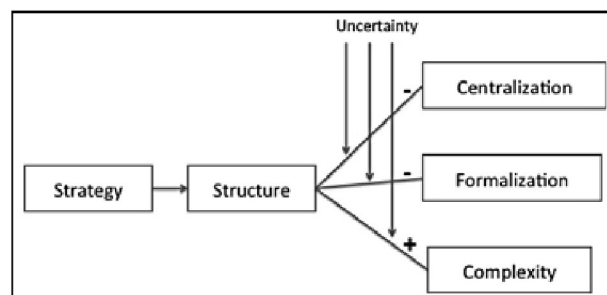
The literature suggests that in complex or constantly changing environments, organizations that are more flexible or fluid perform better (Aiken, Bacharach and French 1980; Eisenhardt and Brown 1999). These more adaptive structures are generally characterized by a lack of formalization, high levels of complexity and decentralization (Burns and Stalker 1961; Pierce and Delbecq 1977; Russell and Russell 1992), permitting more participants and more ideas in the process. Such organizations lack the bureaucratic structural characteristics that impede the needed flexibility. The literature supports that certain types of structures can best support certain strategies (Egelhoff 1982), as illustrated in Figure 1.

Organizations are constantly scanning the environment for new ideas as a means of creating and exploiting opportunities perceived in competitive environments (Russell and Russell 1992). Offshore outsourcing of services is a strategic decision made to help firms respond to competitive challenges (Tate et al. 2009). Certain types of structural configurations are more appropriate for certain types of operating environments. The appropriate adaptation of the structural components may lag behind the changing strategy.

### METHODOLOGY

To gain a better understanding of the relationship between offshore outsourcing of services and the structural changes that occur to support the offshore relationship involved researching an emerging practice. The researchers performed six in-depth, multi-informant case studies on Fortune 500 organizations and followed the guidelines of Eisenhardt (1989), Ellram (1996) and Yin (2003) to better understand the theoretical implications of this developing phenomenon. Appendix contains a summary of each of the case firms that participated in this research. Case research is one of the most powerful research methods in supply chain management used to understand rapidly developing phenomena (Voss, Tsikriktsis and Frohlich 2002; Eisenhardt and Graebner 2007; Barratt, Choi and Li 2011). A constantly changing environ-

FIGURE 1  
Model from Literature



ment, managerial methods and technology are creating the impetus for more field-based research (Lewis 1998; Voss et al. 2002). The case studies helped the researchers gather rich, contextual information utilizing multiple informants within an organization, and identify specific issues that are unique to services, without presupposing what those issues might be.

This research is concerned with the analysis of a particular phenomenon across a population of cases versus each individual case (Wilson and Vlosky 1997). Each case represents multiple viewpoints about purchasing outsourced, offshore call center and back office services from independent suppliers located in India.

Using multiple cases instead of a single in-depth case analysis increases the validity of the research and allows for development of a richer theoretical framework (Ellram 1996; Carter and Dresner 2001; Barratt et al. 2011). Purposive selection of the cases was also an important aspect of performing this research, to better control for variation and improve generalizability (Eisenhardt 1989; Ellram 1996; Carter and Dresner 2001). In selecting the cases, a target population was identified using information obtained through the public press, previous research contacts or stated interest in the research. To qualify to participate in the case studies, the firms had to have offshore outsourced what they defined as a significant level of call center or back office activity. Supply management (SM) had to be involved for a period of between one and 3 years. The participants were asked to provide access to at least one internal customer of the service being discussed. In addition, the firms were given the right

to review transcripts and assurance of complete anonymity to the level that they desired.

A minimum of four people were interviewed in all of the organizations regarding their participation in offshore outsourced service purchases. In all cases, the interviews involved one or more people who had been actively involved with the offshoring outsourcing of the service being discussed, from both an SM and a customer perspective. Depending upon the proximity of the location to the researcher, and availability of the participants, interviews were conducted by phone or in-person. All of the respondents were asked to provide documentation that would provide additional insights into the selection, evaluation and management of offshore service suppliers. The additional documentation provided to the researcher included work orders, service level agreements, performance measures, organizational charts and process checklists.

Informants from multiple functional and organizational levels were included in the interview process. Three semi-structured interview protocols and a survey of the characteristics of the offshore service were used to guide the data collection efforts (see Table 1).

The protocols consisted of unstructured questions to allow participants the opportunity to share experiences related to purchasing services from offshore suppliers. The protocols also included structured questions designed to address any specific issues not addressed during the unstructured part of the interview or to clarify questions for the respondents (Eisenhardt 1989; Perry 1998).

Analysis and development of initial themes allowed for a detailed case write up for each individual firm that participated in the research. These case analyses

TABLE 1

## Data Collection Documents

Data Collection Document	Purpose
Demographics	Gather general information about the company in terms of size and organization.
Characteristics of the purchase	Develop a description of how the outsourced offshore services are perceived by the organization.
CPO protocol	Increase understanding of the performance implication of offshore outsourcing. Understand the general perceptions of a senior purchasing executive of the importance of purchasing call center services from offshore suppliers
Buyer protocol	Focus on how the purchasing organization is structured, the environment, performance implications, drivers and barriers.
Functional protocol	Determine the level of involvement of other functional areas of the firm and their perception of the purchasing area as it relates to outsourced offshore purchases.

TABLE 2

## Overview of Reliability and Validity in Case Studies

Test	Definition	Tactic	Implementation
Construct validity	Tests whether the research measures what it is supposed to measure. Also, establishes the correct operational measures for the constructs being studied.	Use multiple sources of evidence. Establish a chain of evidence. Key informants review draft of case study report.	Gathered multiple documents including process flow documents, statement of work, service level agreements and work orders. Key informants and other members of the organization reviewed the case write-up.
Internal validity	Focuses on the extent that conclusions can be drawn for casual effects and establishes a casual relationship.	Pattern matching. Explanation building. Rival explanations. Logic models.	Investigated patterns such as strategy and motivations, characteristics of the purchase and structure. Examined relationships such as the process for procurement and involvement of team members, including senior management and other functional areas. Examined purchasing and performance outcomes.
External validity	Looks at whether the research results can be applied to the populations and the settings of interest. Then, establishes a domain in which the studies findings can be generalized.	Use replication logic in multiple case studies.	Conducted case studies with six organizations currently offshore outsourcing.
Reliability	Demonstrates repeatability.	Use case study protocol. Develop case study database.	Refined and implemented case study protocol with all firms Created a case study database

Source: Ellram (1996), Voss et al. (2002) and Yin (2003).

were presented to the key contact person at each organization for verification, clarification and modification. The case reports were mostly descriptive but were also used to develop insights (Gersick 1988; Neu and Brown 2005) and to keep the data at a manageable level (Yin 2003). The case reports also helped the researchers to become intimately familiar with each case as a stand-alone entity (Ellram 1996). The development of the within-case analyses accelerated cross-case comparison.

A cross-case pattern analysis was performed (Eisenhardt 1989) after the individual cases were developed, as suggested by Eisenhardt and Graebner (2007). Propositions were formulated from the patterns and explanations discovered during the cross-case analysis. These propositions are presented as results of this research.

### Validity and Reliability

Tests of construct validity, internal validity, external validity and reliability were used to assess the quality of the research design (Voss et al. 2002; Yin 2003). According to Ellram (1996) and Yin (2003), construct, internal and external validity and reliability should be assessed throughout the case study research. Case study tactics and brief descriptions of their implementation to address threats to validity and reliability are presented in Table 2.

## RESULTS

The purpose of this research was to explore the relationship between structure and strategy in the offshore service environment, and the specific tenets of formalization, centralization and complexity



related to offshore outsourced service supplier management. The companies studied all have primary operations in the United States. The experience level in purchasing service from offshore service suppliers ranged from 3 years to over 15 years. Table 3 provides a demographic overview of the case companies.

As part of the research process, the participating firms were asked to recount how they first began offshore outsourcing of call center or back office service, and the manner in which it was initially managed. Participants were also asked to describe the benefits they enjoyed as a result of offshore outsourcing their services, which are summarized in Table 4. Not surprisingly, cost reduction was a primary benefit sought by all of the organizations. The other benefit mentioned by all of the cases was their access to an educated, articulate workforce. Owing to the customer contact with service providers, mastery of the language in which the service is to be conducted limits available markets, while it is not an issue for manufacturing.

When they first began offshore outsourcing these services, all of the case organizations except FIN1 approached the purchase of the offshore service in an informal and flexible manner. FIN1 lacked the internal expertise to manage outsourced service and was extremely risk adverse so it hired experts to facilitate and formalize the process. One participant at SOFT mentioned "the (supplier selection) process was not clearly defined and the pool of available suppliers was often limited to existing suppliers or those with capacity to absorb high seasonal demand." This changed over time. As experience was gained, the purchasing process for the offshore service matured and developed at all of the organizations. The nature of these and other adaptations is presented in the sections below.

### Offshore Service and Organizational Structure

This section introduces propositions showing how the three structural elements are affected as organizations begin offshore outsourcing service purchases.

**Centralization.** In the context of offshore outsourcing, centralization concerns who or where, and the level in the organization where the decisions are made regarding offshore service purchases. The purchase of these services is often the responsibility of the business unit, as is the case at SOFT, TECH and TELE, instead of the responsibility of the sourcing area as is typically the case with materials and components. One purchasing manager at SOFT indicated that "the internal users had always had control over spending that came out of their budgets." Initially the organizations followed a similar informal, budget-owner directed process for purchasing offshore service purchases as they had previously used with domestic service purchases. It was a fast and efficient process. If purchasing was involved as was the case at TECH and SOFT, they were typically involved in only part of the purchasing process, such as negotiating or contracting. The budget owner was generally considered the subject matter expert, with responsibility for the interface with the supplier and took responsibility for other aspects of the purchasing process.

A variety of concerns and problems prompted the case study firms to quickly realize that there was a need for more oversight in many aspects of the process of purchasing offshore. AIR, TECH and TELE saw declines in customer service ratings, a service measure of value creation. In manufacturing, value creation is generally measured in parts per million (PPM) quality, and can be very objectively determined. From a Good-Dominant Logic (GDL) perspective, value is created by a manufacturer and delivered to a customer. In SDL, customer satisfaction is created during the customer and service provider interaction process, as

TABLE 3

#### Overview of Case Companies

Name	No of Interviews	Total Interview Time (hours)	Sector	Industry	Predominant Offshoring Driver
SOFT	8	8	Technology	Software	Flexible capacity
FIN1	6	6	Financial	Services	Process improvement
TELE	5	8	Technology	<sup>a</sup>	Cost
TECH	7	6	Technology	Hardware	Scalable volume
AIR	4	5	Services	Transportation	Cost
FIN2	7	9	Financial	Services	Flexible/increased capacity volume, variable cost structure

<sup>a</sup>TELE asked that the information not be disclosed.

TABLE 4

## Reported Benefits of Service Outsourcing Offshore

Benefit	Company Examples	FIN2	SOFT	FIN1	TELE	TECH	AIR
Cost	Cost reduction	X	X	X	X	X	X
	Reduction in managerial costs and effort			X			
Quality	Education of workforce	X	X	X	X	X	X
	Stability of agents				X		
	Recruiting of skilled knowledgeable and talented people					X	
Flexibility	Flexible capacity	X				X	X
	Variable staffing			X			
Delivery	Chase the sun, 24/7 availability	X			X		
	Scalability	X	X	X	X	X	
	Focus on core competency: more efficient and effective delivery of products and services		X	X			
	Decreased time to market	X					
	Integration of global perspectives into the outsourcing process						X
Innovation	Innovation of new ideas and new techniques	X			X	X	
	Process improvement and reengineering of processes	X	X	X		X	X
	Learning new skills, and methods of performing service, learning about new culture		X	X	X	X	X
	Leveraging supplier skills and capabilities	X					
	Leverage volumes and internal resources			X			
	Improved requirements documents and contracts		X				
	Technology						X
Customer Service	Customer satisfaction	X	X	X	X		X
	Diversification and redundancy in service offerings	X			X	X	
	Regionalized services	X			X	X	X

value is co-created and is measured through the eyes of the customer (Lusch 2011), and poor satisfaction can lead to lost customers (Keaveney 1995). At TECH, declining customer service was attributed at least partially to the fact that it tried to create more formalization through standardizing the process of purchasing by establishing a reverse auction for the potential suppliers of the service. While the auction lowered the price as expected, it also decreased the customer service level.

In using decentralized supplier contracting and negotiations when it began offshore outsourcing, SOFT and FIN2 introduced openings for the supplier to behave opportunistically. An informant at SOFT indicated that "...early in its offshoring evolution, our decentralized purchasing process tended to increase problems with reporting, communication, governance, and results." An example was provided of "...the same supplier, working with multiple business units, and charging different rates for almost identical services." Lack of visibility in the offshore outsourcing process

also raised concerns about supplier accountability and performance at TECH. The suppliers tended to be managed on multiple, sometimes inconsistent criteria by people from multiple functions.

To better manage this process, all of the case companies ultimately implemented some sort of a team approach and recruited additional participants to the purchasing process that had specialized knowledge of the offshore outsourcing process and of facility operations specifically in India. As mentioned above, these could be incumbents in the firm, or external hires with relevant experience. These specialists in turn introduced more decision-makers into the offshore outsourcing process. FIN2 and AIR established centralized cross-functional teams with specific responsibility for offshore service purchases. These groups were charged with creating routines to reduce ambiguity, increasing information transparency and formalizing the process for purchasing the offshore services. A case participant at AIR indicated that "...supply chain brings about leadership to the cross-functional team

that oversees these purchases." FIN1 and TECH also developed a centralized decision making group with knowledgeable participants. However, at all of the case organizations, the group of people responsible for the purchase continued to evolve as new issues arose in the offshore market. For example, at SOFT, a risk officer was interviewed who had begun to play a key role on the offshore outsourcing team, as the need for data security increased.

Customer service concerns limited value creation and caused AIR, TELE, FIN2 and SOFT to develop a standardized and formalized escalation policy for dealing with customer dissatisfaction to ensure that measured customer service levels did not decline. This policy introduced a number of the more senior managers into the process when problems did occur. In addition to the centralized and cross-functional offshore outsourcing teams, both FIN1 and TELE used external experts (consultants) to help migrate business processes to offshore suppliers.

Case participants indicated that there is much uncertainty surrounding these offshore purchases because of the involvement of the customer in the process. According to the literature, uncertainty tends to drive more centralized decision-making. In the offshore services environment, this uncertainty includes the differences in the manner in which customers define and co-create value. Unlike goods, where a customer "knows what he is buying," with services, "the resources of the service provider are adapted and integrated with a service system's existing resources, and value is derived and determined in context" (Vargo et al. 2008, p. 150). The case companies took a centralized approach to monitoring supplier staffing levels and made a significant effort to reduce the turnover of qualified and capable agents. This was in an effort to better control the external customer's experience. When outsourcing manufacturing, there is generally a single internal customer (the manufacturing function) to satisfy, with the manufacturing plant creating the value based on clear specifications and working with a central point of contact. The people who are actually producing that value in the manufacturing facility generally do not have any contact with either the intermediate customer (the company buying the product) or the end consumer who will actually use the product.

When dealing with services, value is co-created via interaction of the service provider (individual agent) and the customer through the interaction process (Chew 2010). Thus, the capability of each of the individual agents has an impact, and cannot be "inspected out" until after the damage has been carried out. Depending on the nature of the service, "The bottom line for us is making sure that the customer is happy" noted SOFT. SOFT further stated, "...we do heavy

screening on English capability, on language capability, on accent neutralization....we still get customers that don't want to be talking to somebody in India." To minimize the customer issues and provide the value that the customer was seeking, there was also significant involvement in the training programs for the agents at the supplier's sites to ensure that each customer contact was handled appropriately from both a cultural and service standpoint. The uncertainty and the associated risk influences, or mediates, the decisions regarding resource allocation and involvement in the purchases, strengthening the relationship between offshore services outsourcing and centralization. Therefore,

**Proposition 1:** The increase in uncertainty and risk associated with customer value co-creation in implementing an offshore outsourced service purchasing strategy leads to increased organizational centralization in services supplier selection and management.

This is counter to the literature, which suggests that in situations of risk and uncertainty, a decentralized structure is preferable (Hage and Aiken 1969).

**Formalization.** Formalization encompasses the rules, procedures and contracts of the organization. The more standardized the rules and procedures that are used, including the buyers' and the suppliers' rewards, penalties and resource obligations, the more formalized the process. In all of the cases, as the offshore outsourcing process evolved, documented and standardized, processes were implemented and more specificity and formalization in the contracts developed over time. For example, supplier performance metrics were carefully defined within legally binding contracts at FIN2, SOFT, TECH, TELE and AIR. This approach was used as a method to ensure compliance and, therefore, mitigate the uncertainty and risk associated with service purchases. This approach was also in response to opportunistic supplier behavior that occurred when contracts were very loose.

However, sometimes the case firms went too far too quickly in their shift from very informal to very formal contracts. TELE participants explained that "the lengthy contracts that described in explicit detail the performance expectations of the supplier actually hindered the supplier from performing the service that they were being contracted to do." At one point, early in the evolutionary process for offshore outsourcing, a participant at TECH indicated that its offshore outsourced service contracts reached up to 200 pages in length. Whereas when producing goods, there are strict specifications and very repeatable processes, the buying firms discovered that this is not true with services owing to the unique customer interactions that occur in co-creation of the service value.

In addition, as the process became more standardized and inflexible, there were some case participants that discussed instances of different types of supplier opportunism. For example at FIN2, a supplier took advantage of a clause in the contract stating that the agents with the longest idle time would get the calls routed to their seat. This supplier took advantage of the low cost of labor and hired so many employees that nearly all of the calls were routed to that facility, rather than the facility of a competitor also providing that service to FIN2. SOFT participants indicated "that a balance is needed between formalization and consistency in its contracts, processes and expectations of the supplier."

Formalization between the case firms varied significantly in the area of specifications and contracting as control and efficiency were balanced with the desire to encourage supplier innovation. FIN2 uses a standardized contracting process, coupled with exception processes to allow for flexibility. FIN1 clearly defines expectations, and then allows the supplier the opportunity to utilize its core competences to meet and exceed those expectations. Several of the case study firms clearly specify and directly inform the supplier how to perform the task. For example, AIR and TECH believe that the customer contact center services are a commodity. Both of these organizations actively develop service level agreements that can be quantified and measured. Participants at AIR said that it "clearly defines the supplier's role and performance expectations."

One SOFT participant noted, "When you get too many risks and rewards in a statement of work, it can really disadvantage either party depending on whether ... they're successful or unsuccessful." SOFT focused on developing specifications and service level agreements that would achieve the desired results from the offshore suppliers by focusing on a system that rewarded performance above an established baseline and penalized those below. SOFT participants indicated "...each year, new measures and new methods for measurement are integrated into the contracts." From the perspective of participants at SOFT, the contract should be consistently updated to better align with the current environment, so even though the contracting process and outcome expectations are formalized, the mechanism within the contract that facilitates goal achievement is flexible enough to allow for adaptation to best meet the customer's needs.

One senior level participant at FIN2 stated that "... there is a continually changing business model (in the offshore outsourcing environment), and we need the flexibility to be able to adapt." Formalization of processes and procedures is a method used by the case firms to ensure compliance and thereby mitigate risk. The case study firms all have explicit control mecha-

nisms surrounding processes, contracts and procedures relative to the offshore purchases. However, many have chosen to include flexibility or even incentives within the contracts to the degree to which the organization desires supplier flexibility in co-creating customer value.

**Proposition 2a:** The increase in risk associated with implementing an offshore outsourced service purchasing strategy leads to increased formalization in contracts and procedures used by the organization related to the selection, measurement and management of the offshore supplier.

**Proposition 2b:** Within the formalized offshore outsourced service contracts, flexibility should be built to encourage and reward suppliers for flexibility and innovation in effectively delivering services and co-creating customer value.

The literature suggests that less formal organization arrangements are better able to adapt to risk and uncertainty. A hybrid approach was used where the processes were formalized to protect buyers from the risks associated with possible supplier opportunism and nonperformance, while the means of achieving the goal of customer satisfaction in value co-creation was not rigidly formalized.

**Complexity.** The literature indicates that environmental uncertainty and some types of relationships drive the need for different types of structural accommodation for high levels of organizational performance and increased ability to process rapidly changing and oftentimes conflicting information (Child 1972). Structural accommodation for complexity is usually measured with three dimensions: horizontal complexity or breadth of those involved, vertical complexity, or levels involved, and spatial complexity or locations involved (Gibson, Ivancevich and Donnelly 1985; Daft 1989; Choi and Hong 2002).

Offshore call centers add to the spatial complexity of the organization. As customer service problems made it clear that those working in the call centers did not understand the buying company or U.S. culture, SOFT and FIN2 co-located employees within the outsourcers' call center. The co-located employees helped with call center oversight, agent training and enculturation and were able to quickly address misunderstandings between customers and agents. This effort to formalize the process added to the horizontal differentiation and structural complexity of the organization. Unlike outsourced manufacturing, cultural barriers were having a direct effect on the customer experience, owing to the co-creation of value that occurs as the service provider and customer interact to meet the customer's needs in a service setting.

All of the case study firms increased horizontal complexity by developing cross-functional teams for the selection and management of offshore suppliers. AIR indicated "...it's actually a team effort. ...it is a group that is comprised of people with a background in the call center industry and their main responsibility is working with outsource suppliers. They work with our technology group, finance group, information security and privacy office, to determine what the specifications are that will go into the statement of work for the vendors." Other case firms included involvement of risk mitigation departments, data security and legal. For example, both FIN2 and SOFT have extensive functional involvement in the purchases, including departments such as legal, finance, procurement, the business units, technology and security. FIN1 and AIR use cross-functional teams; however, their teams have fewer members than those of FIN2 and SOFT. TELE tries to reduce its horizontal complexity by minimizing the number of people involved in the offshore outsourced service purchase, but still includes multiple functions.

Vertical complexity is also influenced by the number of different levels of the organization involved in purchasing offshore services. A senior executive at FIN2 said "there is a vice president that reports to me that has this piece (call centers) in his area of expertise. That vice president has a director that reports to them, that specifically focuses on call centers." The senior executive said that his responsibility is "to make sure that my team has done the right analysis, to determine relative to innovation, relative to the supply chain...to make sure that our relationship with the supplier is the right relationship, both from a contractual standpoint and from a cost standpoint."

Uncertainty surrounding customer value co-creation and customer satisfaction leads to involvement of those at higher levels in the organization. For example, when TELE first started offshore outsourcing, it experienced rapidly decreasing customer service levels. This problem drove them to develop a process for the escalation of customer problems, where issues were addressed by progressively more senior-level managers, until the problem reached a level where it was resolved. At FIN2 during the early stages, calls were segmented so the offshore agents dealt only with services that had limited customer interaction. By analyzing customer feedback and listening to calls in process between agents and customers, SOFT realized that its business customers had different questions and concerns than its individual customers, and were thereby looking for different types of value in the service encounter. The solution was to route the calls of the businesses to a domestic or internal center.

In exploring vertical complexity, the researchers asked the appropriate service buyer at each case company about the involvement of others in the process of eval-

uating, selecting and managing the offshore supplier. TECH and SOFT had the lowest vertical involvement of all of the case study firms, with decision-makers often at the lower levels of the organization, and limited escalation of problems. However, to address the customer issues, more senior members from different functional areas such as the business owners were involved in the selection and monitoring of the suppliers. FIN2, FIN1 and TELE had high levels of complexity as team members included various functions and high-ranking employees within the company, such as the Chief Procurement Officer and the Chief Risk Management Officer. For all three of these companies, approval of an executive sponsor was required before moving forward with the offshore outsourcing of services.

Complexity is also related to the previous offshoring experiences and length of time operating in the offshore environments. TECH moved offshore to increase its understanding of how to operate in different global environments. Once satisfied that it understood the offshore services environment, TECH established additional local sites in specific geographic areas, which increased its spatial complexity, but decreased its horizontal and vertical complexity by having fewer participants involved in the purchase and fewer purchases from third parties.

In contrast, FIN2 established proprietary sites first, and then used third-party suppliers to meet its increasing market demand and to create a variable cost structure for services. TELE and FIN1 have a collaborative relationship with a third party who supports their offshore services supplier selection and management. This reduces their spatial complexity and uncertainty, in that they rely heavily on the wealth of experience of the third party in understanding customer needs and value co-creation. This leads to the following proposition.

**Proposition 3:** The increase in uncertainty and risk associated with implementing an offshore outsourced purchasing strategy for services leads to increased structural complexity of the purchasing organization and associated process for outsourced services.

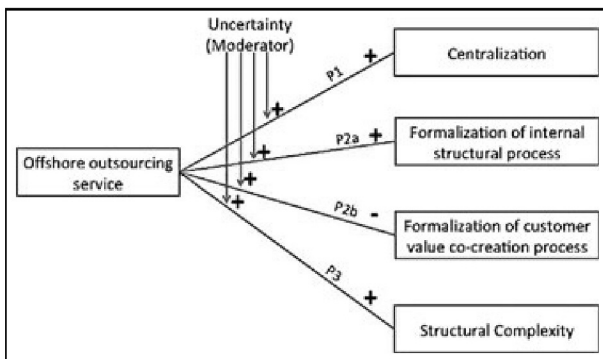
This increased complexity is in line with the adaptation suggested in the literature. While all of the organizations studied developed more complex purchasing organizations and structures to effectively execute their offshore outsourcing of services strategy, they did not develop identical solutions. As indicated above, firms adapted and attempted to reduce the level of complexity in a number of ways. Table 5 provides a sampling of the differences in approaches. The model of structural adaptation to the strategic change that emerged from this study of offshore outsourcing of professional services is shown in Figure 2.

TABLE 5

## How Offshore Outsourced Services Were Managed

Name	Internal Expertise	New Hires	Primarily Consultants	Governance Structure	Drivers of Governance Structure
SOFT	Yes	No	No	Large, centralized group	Reduction of risk, cost improvement and improved customer value.
FIN1	No	No	Yes	Small group, limited roles	Lacked experience in outsourcing services and high risk aversion led to seek outside help.
TELE	Limited	Yes	Yes	Small group, limited role	Lacked experience in outsourcing services and concerned about declining customer service.
TECH	Limited	No	No	Small decentralized group, limited role	Lacked experience, strongly desired cost improvement.
AIR	Yes	No	No	Centralized, cross-functional team specifically to manage call centers	Improved customer value and reduced cost.
FIN2	Yes	Yes	No	Large, decentralized group	Had extensive experience in offshoring owned operations, were comfortable managing.

FIGURE 2  
Proposed Structural Model



## DISCUSSION

This research contributes to the growing body of work focused on Service Science and an SDL by specifically exploring how a change in service sourcing strategy affects the organization's structure and processes in buying offshore services. Unlike the common approach used with goods and materials, none of the firms studied here transferred the responsibility of their service purchases to offshore buying offices, but rather developed solutions that fit the service environment. These multi-functional team-based processes

tend to be more complex but also more adaptive than those generally used for buying materials and components. Data from the case study analysis showed that as the firms gained experience in offshore services outsourcing, the structure surrounding the processes, the procedures, the roles and the relationships developed and continued to evolve.

Offshore outsourcing of services created a more complex operating environment than the firms studied here initially anticipated. The variance in customer needs and expectations in working with service providers to co-create value inherently creates more uncertainty than in producing goods to a known specification. The results indicate that perceived uncertainty and risk associated with offshore outsourcing of services increases the level of centrality (P1), formalization (P2a) and complexity (P3). More specifically, this adaptation involved formalizing loose processes and standardizing contracts.

While the literature suggests that greater uncertainty in outcomes and operating environment should lead to decentralization, that was not the case here. All the organizations became more centralized. Unlike many centralized approaches, each firm engaged more people in the process of purchasing these services from offshore suppliers, which in turn increased the level of structural complexity. Firms' adaptation also included

establishing centralized decision-making teams to help channel the communication and work flow. In all of the cases, as the process for sourcing services offshore evolved, the different structural elements also evolved.

As is common in new and unknown situations, offshore outsourcing of services began with a decentralized and somewhat informal purchasing structure. Decision involvement was usually limited to a few people, reducing complexity. The initial decentralization caused some problems at the case firms, necessitating the evolution of a more cross-functional and centralized approach. However, as indicated in Proposition 1, the increase in uncertainty and risk associated with implementing an offshore outsourced services purchasing strategy leads to increased organizational centralization in services supplier selection and management. The case firms were able to achieve greater resource synergies, supplier leverage, transparency of supplier performance and pricing, and knowledge sharing internally and in terms of supplier training by having more centralized operations.

This centralization is counter to the literature, which indicates that centralization may slow responsiveness and add to bureaucracy (Pertusa-Ortega et al. 2010). However, the companies attempted to deal with that in various ways, by creating team structures to get stakeholder engagement and input, rather than having a hierarchical, sequential decision-making process that could lead to lengthy approvals. For example, SOFT, AIR and other cases used fluid team structures, so while the process was more centralized, subject matter experts and stakeholders were called in to participate in offshore outsourced services supplier selection and management as needed, rather than as a permanent structure.

At the same time that these organizations implemented more centralized structures and processes for managing offshore services outsourcing, they also introduced more formalization, as indicated in Proposition 2a. A number of examples in the cases show that a lack of clearly defined roles (formal structure) led to problems in the services purchasing process and associated outcomes, including increased costs and decreased customer satisfaction. For example, AIR developed ineffective contracts with its suppliers. These contractual problems were primarily a result of unclear performance expectations. FIN1 had much duplication of efforts in managing supplier performance, and multiple people communicating inconsistent messages to the supplier, which ultimately increased its costs. These types of informal and contradictory signals are less likely to occur in the more formalized environment involved in purchasing goods.

Increased formalization addressed issues such as lack of transparency regarding supplier performance by establishing formalized tracking mechanisms, inconsistent use of contractual terms and expectations, by

developing standard boilerplate templates, weak specifications and supplier nonperformance risk, also through tighter contracts. However, because of the unique aspect of services related to customer co-creation of value, too much formalization and specification in specifying precisely how service is delivered can actually reduce customer perceptions of quality. Thus, in support of Proposition 2b, while the firms had formal performance standards and expectations in the contracts, the desire to empower the supplier resulted in a greater amount of flexibility built into how the supplier achieved its performance goals in the formal contract. Rather than focusing on measuring tight process specifications, these firms were more concerned with supplier retention of employees, and enculturation of the employees so that they could adapt to meet the varying customer needs in value co-creation, as suggested by SDL.

As presented in relationship to Proposition 3, in all of the cases, while the offshore outsourced supplier relationships had been relatively simple initially, they had not been very effective. The increase in centralization and formalization also contributed to an increase in complexity in processes and structures associated with offshore outsourced services. Complexity rose as more stakeholders were added to the process, additional functions were added to mitigate risk and additional supplier and proprietary sites were included in the buying process. As mentioned above, despite the formalization and the centralization of the structures associated with offshore outsourcing of services, the firms still tried to be responsive to issues and opportunities, and in meeting the customers' service needs. For example, TECH and SOFT attempted to minimize vertical complexity by concentrating supplier selection and management at the manager level and below. Higher levels of management were only involved in the case of a customer problem that could not be resolved. TELE and FIN1 used a third party to assist in identifying and screening potential suppliers, and even dealing with day-to-day management issues. Thus, the teams are smaller and are not engaged in every step of every process. This allows these firms to be more responsive and adaptable than a traditional bureaucratic structure would allow. As the firms learned how to operate in the offshore environment, they each developed a better understanding of the structure and the governance required to facilitate more efficient and effective offshore outsourced services relationships.

### Managerial Implications

A number of practical insights arose from this research. The propositions generated provide some managerial guidelines in terms of establishing the appropriate structure for those that are offshore outsourcing services.

All of the case companies had at least 3 years of experience in offshore outsourcing. In this context, structures necessary to support offshore outsourcing of services evolved to support the strategy as the strategy developed. In general, companies should expect to develop a centralized, but flexible, team structure to support offshore outsourcing of services supplier selection and management, with relatively formalized processes and measures. The structure will be separate from that used to purchase and manage offshore outsourced materials and components.

As discussed above, Proposition 1 indicates that over time there is a tendency to increase the centralization of the structures and processes supporting offshore outsourced services. From a practical standpoint, this manifested as an adaptable, cross-functional team structure in all of the case companies. While there was variation in the exact functions and levels involved, a team structure including those with expertise related to the subject matter and offshore services outsourcing is a common approach that managers should be aware of as they consider implementing an offshore services strategy.

Proposition 2a indicates that increased levels of formalization tended to reduce some of the uncertainty associated with purchases. The lesson for managers is that common practices, metrics and processes reduce uncertainty and opportunism. However, Proposition 2b indicates that the case firms also learned that some flexibility should be built into service delivery processes, so that suppliers can adapt to changing demands of customers in value co-creation, and opportunistic supplier behavior can be avoided. There is much uncertainty and operating complexity in the offshore outsourcing environment. As indicated in Proposition 3, it appears that by increasing the level of structural complexity by adding new members with specific expertise and multiple functional levels to the team, there is opportunity to make more improvements and introduce new and innovative ideas to offshore outsourcing. While the literature indicates that structural complexity can reduce a firm's ability to be responsive, the cases addressed this by using flexible team memberships to fit the situation. Each organization involved in this research is now successful in the offshore environment; however, the path to successful offshoring proved challenging.

### Limitations and Future Research

The results of this study must be viewed in light of several limitations. The initial concepts were developed from exploratory research, prior theory and several streams of literature. This limitation determined what data could be collected and outlined the study (Miles and Huberman 1994). Other factors that were not studied may influence the purchasing process for

offshore services and also the outcomes. To overcome this limitation, semi-structured interview protocols were used to allow new insights to develop.

The study examined a total of six companies that outsource services to independent suppliers located in India. Because of the limited number of cases, this study does not provide the statistical generalizations to a broader population, yet there are findings that may be useful to broad segments of firms. All of these organizations were large Fortune 500 firms, and included two manufacturing firms and four service providers. There may be significant variation in the problems encountered between the large case study firms and smaller firms. For example, this research focused on organizations that were simultaneously undertaking multiple offshore outsourced services relationships spanning different business units and/or functions. This created a redundancy, operating complexity and inefficiency that were effectively addressed by greater centralization, formalization and structural complexity. These structural changes may not be necessary in a smaller company that has a single operating unit, or outsources only one service, or to one supplier. In addition, success in offshore outsourcing may have been influenced by the resources that were available to adapt and create a new structure. Organizations without such resources may need to make different types of changes.

Wynstra et al. (2006) speculate that different types of services engender different types of ideal buyer-supplier interaction. Because this research is focused on a particular type of service, the researchers cannot make generalizations about the ideal type of buyer-supplier relationship for all offshore outsourced services. This can be addressed in future research through a survey of a larger sample. The in-depth findings indicate that the cases had differences in their use of third parties and outside experts to identify and manage service suppliers. A large sample from a survey could provide insights into patterns and rationale for these differences.

**Future Research.** Based on the findings from the cases studies, a number of issues were identified that cause firms to change their organizational structures and processes to adapt to be more effective in offshore outsourced services purchases. These factors have some commonality and some differences with those identified in the mainstream general management literature on the relationship between structural elements of an organization and the uncertainty and the complexity of the environment. Based on these results, testable constructs could be developed and administered to better understand the structural impacts of the move toward an offshore outsourced services purchasing strategy.

In addition, the literature that focuses on manufacturing describes how offshore sourcing of goods is



conducted. At this point, it appears that offshore outsourcing of goods is occurring differently. Insights could be provided from both a theoretical perspective, contributing to the SDL, as well as from a practical perspective, helping provide direction to organizations as they mature in their approach to offshore outsourcing of services.

There are a number of other outcomes that were mentioned by the case firms that need additional testing as they relate to the characteristics of centralization, formalization and complexity. As shown in Table 4, the firms realized numerous and varied benefits in relationship to offshore outsourcing. These were not linked back to organization structure or industry. A survey with a robust sample size may be able to help establish such a linkage. This would also be beneficial to practitioners, who might then be able to link their organizational structure to their desired benefits of outsourcing.

In addition, this research focuses primarily on the changes that occur in the firms' purchasing structure as a result of offshore outsourcing of call center services, with a focus on supplier selection and management. Future research should investigate how these changes affect the ongoing evaluation of contracts and suppliers, and who becomes involved in the day-to-day relationship management.

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## APPENDIX

### SUMMARY OF CASES STUDIED

SOFT's core competencies focus on innovation, continuous improvement and delivery of solid end-to-end

customer experiences. SOFT's business is largely seasonal, so it needs flexible capacity with trained service agents available during peak times. Offshore outsourcing for SOFT helps them to remain competitive in the marketplace by improving its customer value proposition. FIN1 is known for its financial strength and stability, superior customer service and continued operational excellence. Access to trained personnel and a desire to improve operational efficiency ultimately led FIN1 to consider offshoring some of its back office services. There are fluctuations in FIN1's business demands, so it needs access to trained and certified employees as well as an ability to react more quickly to changing customer requirements. TELE resides in a highly competitive industry and had increasing needs for call center capacity. This created the impetus for TELE to consider offshoring part of its call center volume. TELE selected India for its initial offshore efforts because of the minimal language barrier and its well-educated workforce. TECH is an innovative company in the technology sector that continuously looks for ways to improve its performance in the marketplace. TECH began outsourcing its call center services to offshore locations to meet its increasing growth rate and also to develop a presence in the global market. AIR faced some difficult financial issues. It was looking for the ability to reduce costs to have an immediate impact on its financial performance, yet effectively support its customers with quality, end-to-end experiences. Because of the benefit seen thus far, AIR gradually increased the amount that it offshore outsources while attempting to maintain a successful balance between the internal, domestic and offshore sites. The main reasons for FIN2 to outsource to offshore suppliers were to increase call center capacity to better service their customers; to adapt to increasing demands; and to create a variable cost structure. FIN2 was looking for flexibility as well as the ability to reduce the time it took to get products to market. When governmental regulations were established to eliminate "cold calling," FIN2 realized that each customer contact needed to be precisely targeted, so the company focused its efforts on improving its offshoring abilities to maximize performance outcomes. Table A1 provides a summary of the types of services purchased from the offshore supplier. Table A2 provides a list of interviewees by function.

TABLE A1 SUMMARY OF SERVICES PURCHASED

Company	Outsource Offshore Service for This Research	Types of Calls	Services Purchased	Work Performed in the Offshore Center
SOFT	Call center	Inbound Outbound	Customer service sales	Front office
FIN1	IT and document control	N/A	Technical support Document processing and information technology	Back office
TELE	Call center	Inbound	Technical support, customer service	Front office
TECH	Call center	Inbound Outbound	Technical support, customer service sales and collections	Front office
AIR	Call center	Inbound	Customer service	Front office
FIN2	Call center Document control and data entry	Inbound Outbound	Customer service Sales	Front office Back office

TABLE A2 LIST OF INTERVIEWEES AND FUNCTIONS

	SOFT	FIN1	TELE	TECH	AIR	FIN2
Purchasing Executive	1	1	2	1	1	1
Director	2	2	1		2	1
Manager	1		1	2	1	1
Business Executive	1	1	1			1
Director				2		
Manager				1		
Functional Technology		1				1
Finance	2					
Project Analyst				1		
Security	1	1				
Reengineering						1
Operations						1