Metropolia

Santtu Koivumäki

Overcoming the Challenges of Outsourcing Accounts Payable

A Service Provider Perspective

Helsinki Metropolia University of Applied Sciences
Master's Degree in Industrial Management
Master's Thesis
6 May 2011
Instructor: Marjatta Huhta, DSc (Tech),
Thomas Rohweder DSc (Econ)

PREFACE

I am privileged to be a part of the business development of the internationally fast-growing and innovative company. I would like to thank all the brilliant colleagues I get to interact with daily, and especially Johanna Rantala for giving me this great opportunity.

I wish to address my gratitude to Dr. Marjatta Huhta for the entire Master's degree program arranging and for providing essential Thesis instructions. Zinaida Merezhinskaya deserves a special acknowledgement for her profound efforts and invaluable support with the Thesis language and structure. I would also like to thank Dr. Thomas Rohweder for the perspicacious remarks in the Thesis project, as well as for the inspiring and motivating lectures in the autumn.

Finally, Anna, my family and friends: thank you for the support and understanding, and apologies for the lack of appropriate attention given to you during the past year.

Helsinki May 6, 2011

Santtu Koivumäki

ABSTRACT

Author Title Number of Pages Date	Santtu Koivumäki Overcoming the Challenges of Outsourcing Accounts Payable – A Service Provider Perspective 92 pages + 3 appendices 6 May 2011
Degree	Master's degree
Degree Programme	Industrial Management
Instructors	Marjatta Huhta, DSc (Tech) / Principal Lecturer Thomas Rohweder, DSc (Econ) / Principal Lecturer

This Master's Thesis investigates the challenges of starting an offshore outsourcing business for certain accounts payable processes. The case company of the Thesis is a software company selling enterprise solutions for financial processes. The company has been increasing its focus on service business and moving away from the traditional license sales model. The company is planning to launch a new service, which will encompass some operational financial outsourcing services and optimized process automation. The outsourcing offering back-office operations will be physically located in the company's existing offshore premises, while the front-office functions will be in the local business units.

The case company currently provides an invoice scanning and data capturing outsourcing service, and a Software-as-a-Service platform service, but other than that, there is no experience in outsourcing as a company, excluding individual employees.

The research method used in this study was qualitative case study. Eight people, with expertise on outsourcing, financial services, offshoring and project management, were interviewed in order to reveal the main challenges related to the outsourcing offering. Prior to the research, a literature review enabled the designing of the research structure and thematizing the interviews. The literature survey consisted of topics of outsourcing and offshoring, project management, service transition, and change management.

The study suggests recommendations and managerial implications that will help the case company to overcome the challenges of financial process outsourcing. These recommendations include general outsourcing-related guidelines, as well as company-specific guidance for the service delivery projects.

Key words	outsourcing, offshoring, project management, service transition, change management

TIIVISTELMÄ

Työn tekijä Työn nimi Sivumäärä Päivämäärä	Santtu Koivumäki Overcoming the Challenges of Outsourcing Accounts Payable – A Service Provider Perspective 92 sivua + 3 liitettä 6. Toukokuuta 2011
Tutkinto	Ylempi AMK -tutkinto
Koulutusohjelma	Tuotantotalous
Työn ohjaajat	TkT Marjatta Huhta KTT Thomas Rohweder

Tämä opinnäytetyö tutkii ostoreskontran prosessien ulkoistamisliiketoiminnan aloittamiseen liittyviä haasteita. Työn teettäjä on suomalainen taloushallinnan ohjelmistoja tuottava yritys. Viime vuosina yhtiö on pyrkinyt entistä voimakkaammin suuntaamaan fokustaan lisenssimyynnistä kohti palveluliiketoimintaa. Yritys on aikeissa tuoda markkinoille uuden, ostoreskontran operatiivisia palveluja ja prosessiautomaatiota, sisältävän palvelutarjooman. Tämän suunnitellun palvelun operatiiviset toiminteet tulevat sijaitsemaan yrityksen olemassa olevan edullisen työvoiman toimipisteessä. Palvelunhallinta- ja tukifunktiot, sen sijaan, tullaan sijoittamaan paikalliseen liiketoimintayksikköön.

Työn teettejä tarjoaa tällä hetkellä laskujen skannaus- ja tunnistuspalvelua, sekä Software-as-a-Service -sovellusalustapalvelua, mutta tämän lisäksi, yrityksellä ei ole kokemusta ulkoistamispalveluiden tarjoamisesta, pois lukien yksittäiset työntekijät.

Opinnäytetyössä käytetty tutkimusmetodi oli laadullinen tapaustutkimus, jossa kahdeksaa henkilöä haastateltiin. Nämä henkilöt omaavat kokemusta ja ammattitaitoa opinnäytetyön relevanteilta aihealueilta, kuten ulkoistus, offshoring, taloushallinnan prosessit ja projektinhallinta. Haastatteluiden tarkoituksena oli tuoda ilmi tyypilliset, suunniteltuun ulkoistustarjoomaan, liittyvät haasteet. Kirjallisuuskatsaus ennen varsinaista tutkimusosuutta auttoi suunnittelemaan tutkimusrakenteen, sekä luomaan haastatteluille teeman. Tutkittu kirjallisuus sisälsi aiheita, kuten ulkoistaminen, projektinhallinta, palvelutransitio ja muutosjohtaminen.

Opinnäytetyön lopputulos tarjoaa yritykselle suosituksia ostoreskontratehtävien ulkoistukseen liittyvien tunnistettujen haasteiden torjumiseen. Suositukset sisältävät sekä yleisiä ulkoistukseen liittyviä linjauksia, että yritysspesifisiä ohjeita transitioprojektin läpivientiin.

Avainsanat	outsourcing, offshoring, project management, service transition, change management

Contents

LIST OF FIGURES

LIST OF TABLES

ACRONYMS

A/P	Accounts Payable
BPO	Business Process Outsourcing
CVP	Customer Value Proposition
ITIL	IT Infrastructure Library
OGC	Office of Government Commerce
PDCA	Plan-Do-Check-Act
PMBOK	Project Management Body of Knowledge
PMI	Project Management Institute
SaaS	Software as a Service
SSC	Shared Service Center
SKMS	Service Knowledge Management System
TCO	Total Cost of Ownership

1 INTRODUCTION

This Thesis focuses on overcoming the common challenges related financial process outsourcing, outsourced service transition and the establishment of a financial operations center in India. The topic has become relevant as the company new service offering will include outsourced financial services for its current enterprise customers.

1.1 Case Company Background

The case company is an established provider and a global leader of purchase-to-pay software, which includes invoice automation, electronic invoicing and procurement solutions. The company is expanding its current business toward services by, for example, offering a portfolio of these solutions in Software-as-a-service (SaaS) model, instead of the traditional software license sales. The company is also constantly developing new services for the market. In addition to the SaaS offering, the company currently provides services such as outsourced invoice scanning and data capturing, electronic invoicing and activating suppliers into e-invoicing. All these services are interlinked with each other and comprise the company current offering for invoice automation as a service.

In addition to the existing offerings, the case company is planning to launch a new service, which will include all the previously mentioned services, but will also encompass some new operational financial outsourcing services. This new offering plans to provide the customer with the outsourced accounts payable personnel and optimized process automation, in addition to the existing solutions and services.

The new offering will utilize the company's current invoice automation solutions, existing offshore facilities and the company's extensive expertise in financial processes. The offering will acquire some sub-processes from the customer's accounts payable function and perform the tasks more efficiently, by applying different best practices and maximizing the software platform efficiency, and thus providing cost savings for the customer. The company goal in this project is to improve productivity by decreasing the level of manual and costly work done by employees and increase the level of automation in the system. This offering will not acquire the customer's entire accounts payable function, but only concerns tasks requiring repetitive manual work. The customer will retain the process ownership and control of the financial master data. The costly manual work that cannot be automated will be offshored to India.

Currently, the company has a software factory, invoice validation, support and consulting services in India. The outsourcing offering back-office operations will be physically located in these existing offshore premises and placed in the existing invoice operations organization. The front-office employees, who are in touch with the customers directly, would be employed by the regional business unit, best suited for daily communication with the customer.

1.2 Research Problem

This study deals with the function of accounts payable (A/P), which is the financial liabilities a company has for its suppliers, i.e. the money owed to suppliers that has not yet been paid. When an invoice is received for goods ordered, it is put to the A/P process and removed when it has been paid. The invoice is received either in an electronic format or on paper, which is scanned. In the scanning phase, the relevant data is recognized from the invoice and populated into corresponding data fields in the electronic A/P system. The invoice is then sent into a workflow, where responsible persons typically add coding information for accounting and budgeting purposes, and review and approve the invoice. After this workflow, the invoice can be transferred from the A/P system into the accounting system and for payment.

The case company currently provides an invoice scanning and data capturing outsourcing service, and a SaaS platform service, but other than that, there is no experience in outsourcing as a company, excluding individual employees. The SaaS and the invoice scan and capture service tend to be standard among different client companies, thus the operational service is rather mechanical and the experience cannot be directly utilized.

However, there are many separate qualities within the company that can be used when developing the offering. The new outsourcing offering will combine the establishment of a financial service center, Indian offshoring and invoice automation solutions, which are all separate attributes that the company has relevant in-house experience.

Many companies keep financial services in-house, because they consider them critical. The philosophy of the case company offering is to outsource only one part of accounts payable function, invoice processing, which can be considered less business-critical and often requiring more costly manual work. The outsourced work will nevertheless be part of the whole accounts payable function, and the accounts payable is part of the whole financial accounting. As an outsourcing provider, the case company cannot afford to make mistakes, as the mistakes may at worse reflect to the entire accounting and bookkeeping process. The fact that the target customer of this offering is a large enterprise only increases the significance of the project.

Table 1 outlines the high-level share of A/P process responsibilities in the planned outsourcing offering model.

Case Company	Customer
Scanning paper invoices, capturing & validating data	Maintaining master data
Receiving & validating electronic invoices	Managing the ERP system
Unclear invoice rejection to suppliers & credit note requesting	Reviewing & approving of non-automated invoices
Preliminary invoice coding	Invoice payment
Controlling invoice workflow	
Transferring invoices to accounting system	
Maximizing automation	
Developing the A/P process	

Table 1. Responsibilities in the accounts payable process in the planned offering.

As seen in the Table 1, the customer will retain the more knowledge and business intelligence requiring tasks and the case company acquires the daily operations. The customer remains in control and owns the accounts payable process. In Table 1, the first two items in the case company's column are existing services, but the rest are new. These procedures are a very high-level presentation of the A/P tasks and each item includes several sub-processes. The research problem is formed around these activities, and comprised of general outsourcing challenges, customer transition to the service, change management and offshoring issues.

1.3 Research Question

The main focus of this Thesis is placed on the challenges related to the combination of outsourcing, offshoring, and the service transition from both, the customer, and the service provider's perspective. In order to successfully develop the service, the case company should acknowledge internal issues in practice when developing the offering, but also understand what outsourcing means for the customer.

Therefore the research question has been formulated as follows:

How to overcome the challenges of starting an offshore outsourcing accounts payable business?

This Thesis will answer this question by combining knowledge acquired from the qualitative case studies with current literature. The material for this case study was attained by interviews. The interview subjects were selected from various relevant areas that match with the topic of the study.

1.4 Research Design and Structure

The research was carried out as illustrated in Figure 1. To answer the research question, a profound outsourcing-related literature review took place. As a result, service transition, project management and change management were identified as topics requiring further investigation. These four main literature topics constitute the conceptual framework of this Thesis.

Figure 1 depicts the research design applied in this Thesis.

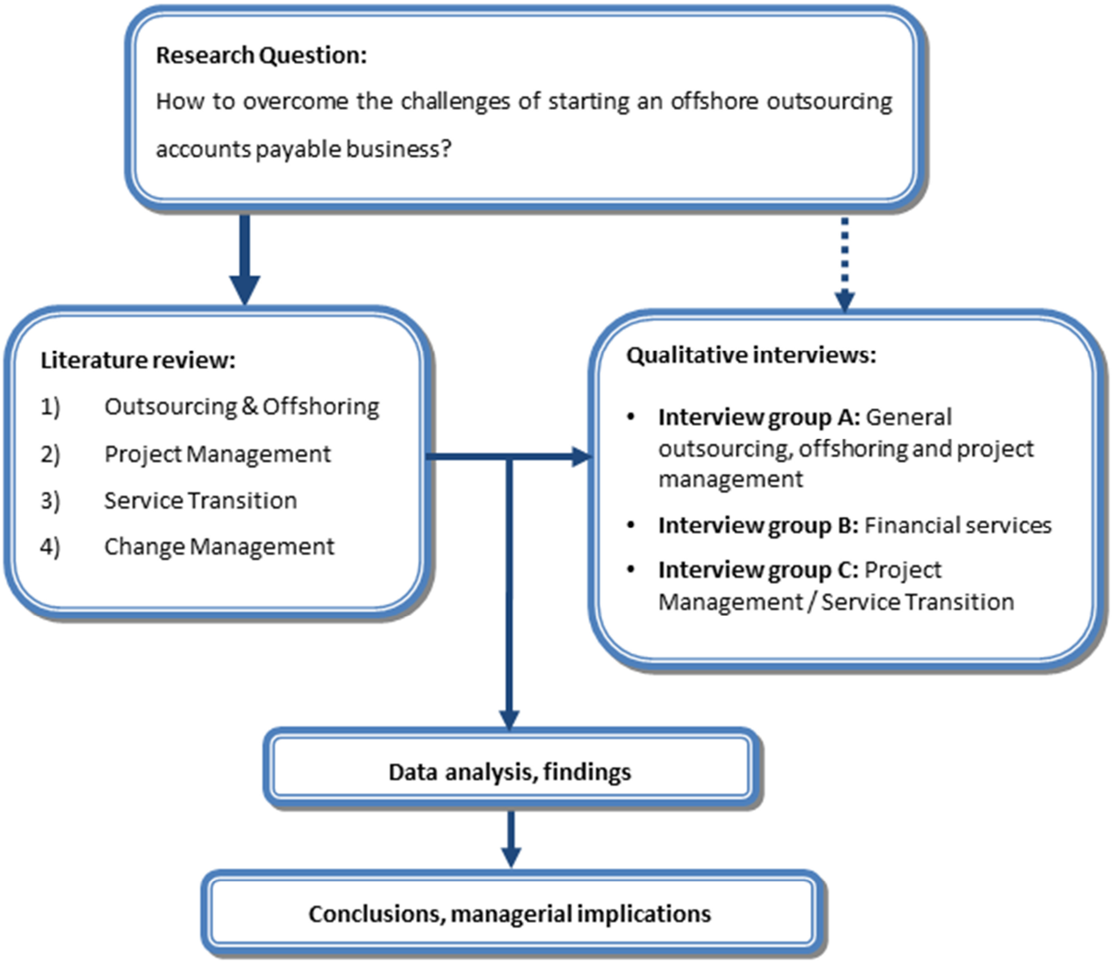

Figure 1. Research design.

The research question was stated early, which enabled a cohesive research structure. A literature review was required in order to thematize the interviews and to select relevant interviewees. The outsourcing literature revealed the topics of project management, service transition and change management as typical pain points and pitfalls of outsourcing initiatives, hence they were further investigated. The themes from the literature reflected to the case study design, which was a qualitative research interview. The data from the interviews and the literature were analyzed and finally, eleven managerial implications are presented.

Section 2, the Conceptual Framework, explores the literature of outsourcing, offshoring, project management, service transition and change management which are all main components of the Thesis. Various references were used to explore different outsourcing perspectives. Most of the existing outsourcing literature offers guidance to the buyer companies. In this Thesis, the main focus is on how to *provide* these services, hence both perspectives are examined. The project management and service transition part uses the widely used frameworks, PMBOK and ITIL, as the main references.

Section 3, the Method and Material, consists of two topics. First, the theory of case study and qualitative research interview is explored. The case study part is mainly based on the methodology by Yin (2003). The main reference for the qualitative interview subsection is Kvale (1996). The second part of Section 3, describes the methodology and approach utilized in this Thesis. The applied qualitative research interview followed the seven-step methodology by Kvale (1996). A total of eight people, with relevant background, were interviewed for addressing the research problem.

Section 4, the Results and Analysis, presents the key findings from the research interviews. These interview findings are combined with matching recommendations from the literature review. In order to overcome the outsourcing challenges, the challenges must first be identified. After the literature review, the qualitative case study took place and provided the results outlined in Section 4.1. These results are analyzed and combined with recommendations from literature in Section 4.2. Section 4.3 summarizes the main challenges identified in this study.

Section 5, the Discussion and Conclusions, presents recommendations and managerial implications for the case company, as well as evaluates the research in retrospective. The managerial implications are presented to provide answers to the research question within the context of the results and analysis, and the conceptual framework.

1.5 Strategic Reflection of Outsourcing Services to the Business Model

Developing outsourcing offering and moving strongly toward services business is a strategic decision made by the case company. This strategic move inevitably reflects to the business model under which the case company currently operates. The case company business model is evaluated to set the necessary background for this research.

As companies mature, they learn to be very efficient in the core operations over time by streamlining processes, developing business rules and metrics. Any company is operating according to a *business model*, either implicitly or explicitly. A business model is a representation of how a company delivers and creates value to its customers and to itself. The model evolves through time like a living organism until it perfectly fulfills the company's needs and eliminates vulnerabilities. (Johnson 2010: Chapter 1)

Johnson (2010) proposes a four-box model to represent the most essential elements of business model value creation. Figure 2 is an illustration of this model.

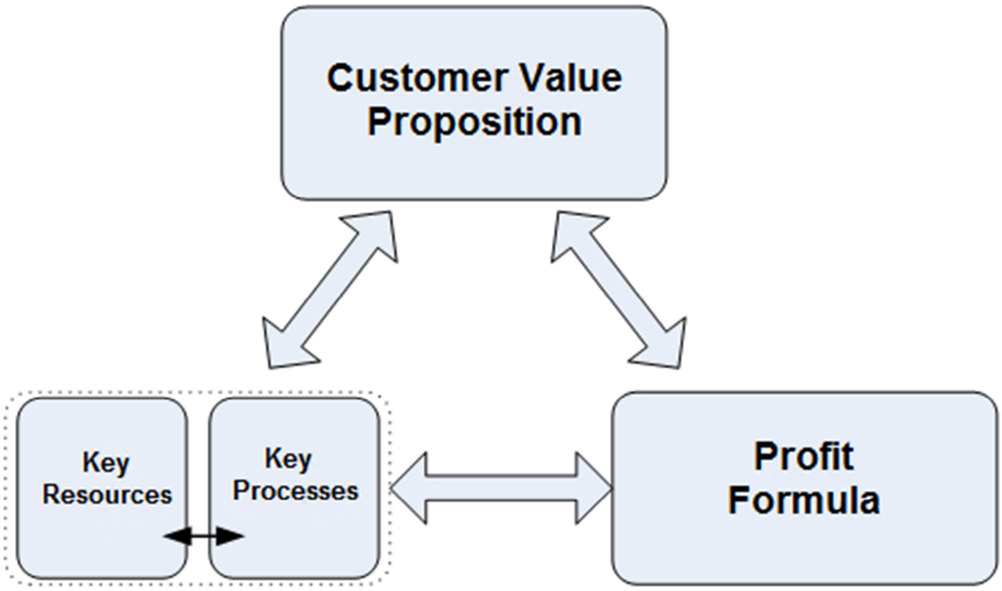

Figure 2. Four-box business model. (Johnson 2010: Chapter 2)

A focused Customer Value Proposition (CVP) is a cornerstone of any successful business model. A good CVP identifies a customer issue or a task to be done, and proposes a product or a service to address this need for a given price (Johnson 2010: Chapter 2). Profit formula specifies how the company is creating economic profit to itself and shareholders by defining required revenues and costs to cover fixed costs.

Key resources are the facilitators of profitable CVP delivery, such as people, products, technology, channels and brand. **Key processes** are the means of making the CVP delivery repeatable and scalable. The synergy between the two is as vital to the success of the company as the resources and processes themselves. (Johnson 2010: Chapter 2)

Table 2 breaks down the case company outsourcing offering business model by using terminology by Johnson (2010).

Customer Value Proposition:	Profit formula:
• Efficient, low cost and accurate outsourced invoice automation process	• Low overhead due to fully utilizing own products and offshore resources • Transaction-based pricing
Key resources: • World-class software solutions • Existing offshore facilities • In-house competence in financial process engineering • In-house competence in project management	**Key processes:** • Prospects reachable by efficient sales and marketing processes • Existing offerings of SaaS, invoice scan and capture service, electronic invoice services

Table 2. Evaluation of case company outsourcing business model.

Once an attractive niche is found, the company should either create a new offering or alter the existing one to align with customer needs (Frei 2008: 73). The case company's new offering is something in between the two. It strongly utilizes the current assets and resources, but still is something that the company has not done before. The purpose of the study is to gather all the resource and process components of the business model to enable an effective CVP, which in turn enables profitable business.

The service business model proposed by Frei (2008) is somewhat similar to the model by Johnson (2010). Frei (2008) suggests four distinct and interlinked components for successful service businesses; offering, funding mechanism, employee management system and customer management system. For service businesses, the offering is something that the provider decides *not* to do well, because service companies usually cannot afford to fail in some parts of the service delivery. For example, a computer store must have employees on site, even if they are not particularly skilled of plentiful. A service company should not try to excel on each area of the offering, but focus on what is valuable for the customer and condone worse performance in some areas (Frei 2008: 72). The case company outsourcing offering will not acquire the whole process from the customer, but only the tasks presented in Table 1, that are time consuming, repetitive and mostly tackled by automation. Instead of performing badly in an outsourced business critical task, the tasks are performed by the customer instead.

Johnson et al. (2008) remind that a completely new business model is not always required. The old business model will do when you can fulfill CVP by using the current profit formula, using most key resources and processes, and using same core metrics and rules. (Johnson et al. 2008: 9)

The case company outsourcing offering utilizes the same profit formula as other current services; pricing is transaction based, but differs from other offerings by that the actual service is now mostly provided offshore, which lowers the overhead costs. The entire logic and business case rests on the current key resources and processes. The outsourcing offering, in simplistic terms, only rearranges the resources and processes to support the new CVP.

Hence, it can be concluded that a new business model is not required in this case. The vision of the customer value proposition is already clear at this point, but the key resources and processes, the facilitators of an offering, must be further explored. This Thesis will provide this important and mandatory ground for a successful service business model, by crafting recommendations on how to establish a sound value creating framework for a new service offering.

2 CONCEPTUAL FRAMEWORK

This section consists of three main topics; 1) outsourcing and offshoring, 2) service transition and project management, and 3) change management and communication. The outsourcing literature is reviewed both, from the customer, and the service provider's point of view. The result of the outsourcing literature review was that emphasis should be given to the transition project and leading change. As the case company of the Thesis offers IT enabled services, the ITIL framework is examined (subsection 2.2). Since the outsourcing offering will be implemented through projects, project management was studied and the most known standard, PMBOK, analyzed (subsection 2.2). Finally, because outsourcing and service transitions inevitably cause change, which cannot be left unaddressed, there was also a need to review change management (subsection 2.3).

2.1 Outsourcing and Offshoring

This section outlines the topics of outsourcing and offshoring. The subject is explored from both, the buyer's as well as the outsourcing provider's perspective in order to establish a holistic view of the subject.

Outsourcing is the practice of hiring an external service provider to handle work normally performed within a company. The major drivers of outsourcing are cost reductions due to lower wages (Kumar et al. 2007), but there are other advances as well, such as standardization of processes, access to new markets and access to expert resources (Knights and Jones 2007: 437).

The three typical main models of outsourcing, relevant to present here, include:

- *Onshore outsourcing*: both, the outsourcing customer and the provider are located in the same country.

- *Nearshore outsourcing*: contracting with a company in a nearby country, where culture and time zone are close to each other, but employee costs lower (for example, for a Finnish company a nearshore location would be Estonia).

- *Offshoring and offshore outsourcing*: the outsourced work is typically performed in a distant developing country where the employee costs are significantly lower than in the buyer company's country (India and China being typical examples).
    - Multisourcing: a term used for an outsourcing provider that has functions in both onshore and offshore locations (Kumar et al. 2007: 333). For example, a company in Finland can contract out a service to another Finnish company, who has offshore resources to provide the service. Sometimes, this type of an arrangement is required due to linguistic and cultural differences. In case of multisourcing, the front office in the onshore country will act as a single point of contact for the customer and as a link for the back office offshore function.

A report by Forrester revealed the most challenging issues for an organization buying outsourcing services. The first relates to *lack of proper project management skills* and outsourcing governance within the company. The second point reported was the *lack of standardized process* for specifying the work. The third relates to the *lack of correct metrics* for performance measurement. (Brown and Wilson 2005: Introduction)

Brown and Wilson (2005) present three levels of outsourcing: tactical, strategic and transformational. *Tactical outsourcing* is typically fixing an existing problem within a company by outsourcing, such as absence of talent or desire to reduce headcount. Tactical outsourcing aims at short-term benefits, like, for instance, generating immediate cost savings, realizing cash from sale of assets and eliminating the need for future investments.

Strategic outsourcing means making outsourcing decisions based on creating long-term value and earning more from outsourcing. Companies concentrate on smaller number of best-in-class outsourcing providers and aim to establish a strategic partnership creating mutual benefit.

Transformational outsourcing uses outsourcing for the purpose of redefining the business. Companies in today's environment often require a rapid change to survive economically. Brown and Wilson offer outsourcing as a single most powerful tool for executives creating this type of a significant level of business change. They also suggest that the real power of transformational outsourcing underlies in the innovations that outside specialists bring to the customer's business (Brown and Wilson 2005: Chapter 1). However, outsourcing does not automatically bring innovations or new technology to the customer's business, but it has to be clearly stated in the contract. For example, process development and innovations are a key message of the case company outsourcing offering value proposition. Outsourcing providers often are far more specialized on the outsourced tasks than the buyers, and thus, have a capability to develop the process, but will not likely do so unless explicitly stated in the contract.

Offshoring

Another concept which is today often connected to outsourcing is *offshoring*. The terminology related to offshoring is somewhat new and it is important to distinguish the different alterations of the term. *Offshore outsourcing* means the practice of hiring an external organization to perform some business functions in a country, other than the one where the products or services are actually developed, manufactured or consumed. Offshoring, by its traditional definition, means the movement of jobs to the company's own branch or subsidiary located in another country. (OECD 2004; Kumar et al. 2007: 324)

Business process outsourcing (BPO) is a newer term to describe the movement of an entire business process from in-house to external service providers (Kumar et al. 2007: 324-325). Some examples of typical offshore-able BPO processes are different information technology, human resources, legal, administrative and financial processes. Normally, these processes support the firm's value-creating *core processes*. Unless otherwise stated, terms outsourcing and offshoring in this Thesis are specifically used in the context of business process outsourcing.

According to Knights and Jones (2007), there is a great variation of offshore BPO concepts. There are companies that simply establish a contract between a western sourcer and the offshore provider to provide certain services. At the other extreme are the offshorers who set up their own establishments through the movement of a management team from the sourcer to the offshore location. Typically, these wholly owned subsidiaries are managed as a discrete profit center or through service level agreements, in the same way as third party service providers usually. (Knights and Jones 2007: 436)

Choosing Process for Offshore Outsourcing

Many companies that have shifted their processes offshore have failed to reach the financial benefits intended by their original vision. Once the process has been handed out to an external company, it is usually difficult and costly to bring the process back in-house. (Brown and Wilson 2005: Chapter 3)

According to Aron and Singh (2005), inexperienced organizations typically start seeking for the correct country, city or provider and even sending request for proposals and starting price negotiations, before evaluating different internal candidate processes to offshore. To decrease the risks of outsourcing, it is essential for companies to distinguish *core* processes, which must be kept in-house, *critical* processes that are possible to outsource to top class providers, and *commodity* processes which can be outsourced. If a company fails to correctly identify the characteristics of the different types of processes, it may face the costly and time consuming project to bring the process back in-house. (Aron and Singh 2005: 136)

Kumar et al. (2007) categorize core processes by the following attributes:

- It is central to company's competitiveness
- It enables best response to market opportunities
- It contributes directly to customer perceived product or service benefits

After a process is put into a category, the current process costs and process productivity are assigned. Based on these three classifications, the decision is made whether the process should be outsourced. For example, if a process has high costs, low productivity and it is not a mission critical process, it may be outsourced with a lower risk. (Kumar et al. 2007: 333)

The core processes are practically always kept in-house. However, Knights and Jones (2005) forecast that because English is widely spoken and educated workforce is excessively available in popular offshoring countries like India, the roles of the front office and back office are becoming more vague. As a consequence, business process outsourcing cannot be anymore described as outsourcing of *non-core* functions. A similar phenomenon is seen for the case company's operations; the Indian office started first merely as a back office software factory in 2008, but today its operations include functional consulting, project delivery and customer support. Due to the fact that the initial attraction of BPO offshoring is to decrease employee costs if offshoring of a core process is possible, little will prevent it from happening. (Knights and Jones 2005: 436)

According to Aron and Singh, the first thing the management should do when deciding which functions to offshore is to rank the different internal processes by their *value*. The processes are ranked by their value-creation and value-capturing characteristics, with the rankings added up and a hierarchy created. The higher the process ranks in the chart, the more important it is to the firm's strategy. Processes listed at the bottom of the list, such as invoice verification, are those commodity functions that the firm can consider to offshore, if the risk is acceptable. (Aron and Singh 2005: 137)

Choosing Offshore Location

For offshorers, multisourcing providers and buyer companies evaluating offshore outsourcing providers, it is equally important to choose correct location for their business process outsourcing. The buyer companies obviously have fewer options for locations, because the providers have already established facilities in certain locations, but they should nevertheless weigh the alternatives also based on the offshoring country.

After the offshored, or outsourced, business process has identified, the next logical issue is to consider the optimal location. Because the sunk costs for established offshore operation are relatively high, depending on the type of the function, it is crucial to make the right decision. For offshore outsourcers, switching costs could be high, but nothing compared to rolling back the operation due to a badly chosen location. Offshoring companies should weigh up different attractive alternatives and their attributes, such as technical skills, language, age, environmental risks and regulations before making a decision. (Farrell 2006: 2)

Costs can be further reduced, in addition to lower wages, by hiring low-cost labor to perform high-cost tasks. Farrell gives an example of hiring people to input checks automatically, rather than purchasing expensive licenses for imaging software. Companies may also hire local engineers in the offshore location to design more efficient processes or cheaper equipment. (Farrell 2004: 88)

An article by The Economist compares India's business growth and future outlook to China and other countries. For example, the working age population future estimations are vastly different between the two giants:

> The proportion of Indians aged under 15 or over 64 has declined from 69% in 1995 to 56% this year, says the UN. India's working-age population will increase by 136 M by 2020; China's will grow by a mere 23 M. (The Economist 2010)

Therefore, the talent pools of different countries must be put to perspective by their suitability for the company's specific needs. For instance, only about 10% of Chinese engineers are suitable employees for a multinational company, whereas the number is 20% in Philippines, at the time of writing the reference article. This makes the Chinese engineering talent pool only three times larger, although the population of China is 16 times bigger than Philippines. (Farrell 2006: 3)

Labor costs and availability of skills are the typical high priority attributes which should be taken into account when comparing the offshore locations. In addition, the company should carefully follow the country's past, present and future of essential factors, like policy of foreign investment, employee security, cost inflation and the population aging profile (Farrell 2006: 5). India, for example, has lowered tariffs and accepted more foreign investment during the last decade in order to compete with other Asian countries as an attractive offshore location. (Farrell and Zainulbhai 2004) In addition to the previous points mentioned, Kumar et al. (2007) state that choosing the right country is as important as choosing the most appropriate service provider. Companies should analyze the political stability of the target country and evaluate issues such as country laws and cultural compatibility (Kumar et al. 2007: 328).

The main purpose of offshoring is typically to decrease the overhead of production, lower the prizes of products or services to attract new customers, and thus expand core functions and gain larger profits. Few companies have realized that by global streamlining of processes and supply chains, they also gain the possibility to access new markets to generate new revenues. (Farrell 2004: 82)

India as an Offshoring Location

India has climbed as the most popular BPO location for western multinational corporations due to language, workforce age profile and education reasons (The Economist; 2010). India has the second largest English speaking population in the world and an educated workforce especially in the IT sector, which has had time to mature for western companies' outsourcing needs (Brown and Wilson 2005: Preface). Economically, India remained undeveloped until 1991, when the government of the time opened up the markets for world trade (Knights and Jones 2007: 441). The direct foreign investment has increased more than fiftyfold in the policy reform succeeding decade (Brown and Wilson 2005: Preface).

The Indian BPO industry has been traditionally thought of as English and technology enabled (Knights and Jones 2007: 435), but Singh et al. (2009) rather call it HR-enabled today. The large demand of BPO employees and the vast talent pool in the Indian employee market has elevated the importance of its human resources. (Singh et al. 2009: 111)

Singh et al. (2009) calls the Indian BPO employees privileged in many ways. The employees work in an air-conditioned office, doing non-physical labor, earning five figure numbers and enjoying other benefits unknown to most Indians. Still, the employee turnover rate in Indian BPO sector is notable 40-60%, whereas the number is other industries is 10-15% (Singh et al. 2009: 111). According to the study by Singh et al., 65% of BPO employees that they interviewed were willing to leave the BPO field completely the same pay. Significant 80% would switch their jobs inside the BPO industry for a promotion or a salary increase. The three most common reasons for the desire to quit were stressful life, higher pay elsewhere and limited career growth. 78% of the respondents believed building relationships is the best way to reduce the retention rate, and 15% thought only monetary gains matter (Singh et al. 2009: 112-113).

Singh et al. (2009) did not provide concrete reasonable recommendations for tackling the above issues, but obviously there is a real need for a professional HR function. For an offshoring company, the Indian human resources should not be centrally managed, but rather a local HR function with capable Indian people should be established for these purposes.

Risk Management

A common mistake in making offshoring decisions is the lack of proper risk analysis. Many managers have relied on simple cost-benefit analysis and ended up offshoring processes that give the upper hand to the vendor. After realizing the mistake, it is usually impossible to bring back the process in-house on short notice. (Aron and Singh 2005: 136)

Identifying risks depends greatly on how well the sourcing company succeeded in choosing the right process and location to outsource. Kumar et al. (2007) bring out the issue of intellectual property protection, as outsourcing inevitably involves sharing of sensitive business knowledge with the service provider. According to them, even though contracts always require proper data protection practices from the provider, the efforts often fall short of customer's expectations. (Kumar et al. 2007: 328)

Brown and Wilson point out that for offshore outsourcing to be economically feasible, the cost reductions attained by offshoring must exceed the increased management costs and associated risks. (Brown and Wilson 2005: Preface)

Operational Risk

The first operational risk is based on the assumption that the service provider is unable to perform the outsourced job as well as the in-house employees. This is usually true, particularly in the early stages of the outsourcing process. It takes time for the service provider to move up the learning curve and perform the tasks efficiently and error-free.

Especially, the more the outsourced task requires deep understanding of the customers, geographical market segments and undocumented knowledge, the less likely the processes will be fully functional shortly after the transition. (Aron and Singh 2005: 138) On the other hand, established service providers providing less knowledge requiring work may be able to outperform the in-house employees straight from the beginning.

Kumar et al. (2007) mention a project risk, which entails the potential of the BPO initiative not providing the cost reductions or production improvements anticipated. For example, the cultures of the two companies may pose unexpected challenges, or the incompatible software infrastructures in the two organizations could cause delays, increased costs and lost business. These kind of operational risks may occur due to inadequate planning and insufficient diligence. (Kumar et al. 2007: 328)

To reduce the operational risk, buyers should pay appropriate attention to the selection of the right process, supplier and/or country to offshore to. According to Aron and Singh (2005), the risk with the vendor starting low and slow on the learning curve can be reduced by codifying the work as soon as they make a decision to offshore the function. By carefully documenting different situations and exception handling of the work task, the service provider’s employees are easily able to get to the right track of the learning curve. (Aron and Singh 2005: 137)

Another operational risk lies in the measurement of process performance. Many companies implement metrics for the first time when the process outsourcing takes place, while in fact they should have been measuring the performance for a longer period to create a baseline metrics. (Aron and Singh 2005: 139) Often, the outsourcing provider offers the service initially by using the same resources, such as software, people or equipment, than the customer was using prior to outsourcing. The buyer may find it difficult to get the provider committing to service levels, if there is no historical data to display. Conversely, the provider may have difficulties proving the outsourced process efficiency without comparable data. (Brown and Wilson 2005: Chapter 8)

Measuring the service performance should be initiated by the customer at the latest when the decision to outsource has been made in order to establish a proper baseline for service performance monitoring. Measuring the current state of the process enables relevant comparison to the outsourced process. The performance metrics chosen must be realistic, or otherwise they will not be effective. (Brown and Wilson 2005: Chapter 3)

Importantly, the goals to be reached by outsourcing must be quantifiable, always measurable and comparable. If, for instance, the provider is using other software and processes than the buyer for the same function, the measured data from before and after outsourcing must be such that it can be compared against each other.

Structural Risk

According to Aron and Singh (2005), offshore outsourcing buyers often tend to forget that the offshored function was also responsible for developing the process and investing to the future needs. Consequently, a structural risk arises when the service provider is employing people not as qualified as made out in the negotiation phase, or the provider suddenly stops investing in training the employees, or they simply put less effort than what was initially agreed. The obvious way to tackle these issues is to select the service provider carefully. The best outsourcers always closely monitor the outsourced processes and the top providers encourage this practice. (Aron and Singh 2005: 140)

Nevertheless, the risk involved with human capital should not be underestimated. Especially in knowledge requiring processes, coping with change resistance is important, because people resisting the change cannot be easily replaced. Outsourcing and offshoring usually result in job losses, internal reorganization and sometimes collisions between two different working cultures. Therefore, change management is considered as an important issue in this Thesis, and the topic will be further explored in later sections.

Providing Outsourcing Services

For outsourcing buyers, cost reduction is the most sought for benefit. Brown and Wilson (2005) list additional pros that buyers are looking for to gain from outsourcing namely, expertise, productivity, operations management, improved morale, ability to focus on core business, improved supply chain, and increased market share (Brown and Wilson 2005: Chapter 16). Many of these are the requirement for the main reason, lowering the overhead costs.

According to Brown and Wilson, selling the outsourcing customer value proposition has four phases: *Presenting the customer value proposition*, being a good partner, understanding prospects reasons to outsource and being a problem solver.

Presenting the customer value proposition (CVP) is the basis for the entire conversation with the potential client. It should be assured that the offering will free them to put more focus on their core competencies and they would get an immediate access to world-class expertise. The outsourcing provider must be able to provide flexible staffing that responds quickly to changing market conditions. Also, the total cost of ownership (TCO) of the outsourced process or function would be reduced.

Being a good partner stands for relationship management, which is the most important success factor for an outsourcing provider, but also the most overlooked. In an outsourcing partnership, both parties face certain risks. The buyer’s risk of poor performance may escalate into more severe issues, for example, a delay to market for a product or service. To decrease the risks, Brown and Wilson (2005) recommend keeping the staff well-trained, as well as establishing an appropriate change process, and ascertaining legal details of operations in foreign countries. Also, to decrease risks of the outsourcing process, the provider should perform due diligence on the buyer and make sure the organization is financially viable. Furthermore, the provider should select only projects with predictable outcomes.

Understanding prospects reasons to outsource and *being a problem solver* are phases that are closely related to each other and the previous points. The provider must understand the customer needs, be able to fulfill those needs by an applicable offering and possess competent staff to perform the tasks. (Brown and Wilson 2005: Chapter 16)

According to Brown and Wilson (2005), the *lack of project management skills* was the primary reason for outsourcing efforts not reaching their intended goals. They also list actions *getting the transition right* and *instituting change management early* as one of the main requirements for service providers creating successful outsourcing business. (Brown and Wilson 2005: Chapter 17) Therefore, for the purpose of this Thesis, there was a clear need to further explore project management, service transition and change management in the following sections.

2.2 Project Management and Service Transition

Service transition and project management is studied in this Thesis in order to discover recommendations for the entire process of transitioning the customer from the current state into the case company outsourcing service model. This phase poses significant risks due to the added complexity of the accounts payable process transition project. Since the case company is not an experienced outsourcing provider, successful transition is vitally important for the entire future of the business.

The outsourcing provider must provide a project management methodology for the transition project teams. This section outlines project management and service transition by using widely recognized standards, Project Management Institute's (PMI) Project Management Body of Knowledge (PMBOK) and IT Infrastructure Library (ITIL).

Service transition in outsourcing typically means the implementation project of transitioning the customer current state to the outsourced model. Service transition in IT enabled services context often refers to ITIL service lifecycle phase, where the new or changed service is being deployed into production, to become available for the users.

Van Bon (2007) describes the connection between IT service transition release and project management:

> It is *best practice* to manage several releases in a **program**, with each significant deployment run as a **project**. (Van Bon 2007: 231)

Therefore, the transition may be considered as one large project, or program with multiple sub-projects.

2.2.1 Project Management

This section explains the project management fundamentals according to the widely known standards and guidelines in project management today. The focus is on processes and areas, which are most useful in developing the project management methodology for the case company's outsourcing service transition projects.

A project is a temporary effort with a beginning and an end, its outcome being a unique product, service or result. In organizations, most work done is either operational or project work. Operational work is continuous, but projects have an ending. The Project Management Institute (PMI) breaks down project management into process groups and knowledge areas. The process groups follow the process of project management, such as initiating, planning, executing, monitoring and controlling, and closing. The knowledge areas include the project management framework, project management processes, and integration, scope, time, cost, quality, human resources, communications, risk and procurement management. (Mulcahy 2009: 21-22)

Project Management Process Groups

This subsection introduces the five project management processes distinguished within the PMBOK framework. Mulcahy (2009) emphasizes the need for understanding that there is a *process for managing projects*. She puts the process groups into the traditional Plan-Do-Check-Act (PDCA) cycle:

- Initiating the Project (Start)
- Planning the Project (*Plan*)
- Executing the Project (*Do*)
- Monitoring and Controlling the Project (*Check* and *act*)
- Closing the Project (End) (Mulcahy 2009: 41)

Figure 3 illustrates the project management process groups and their relations.

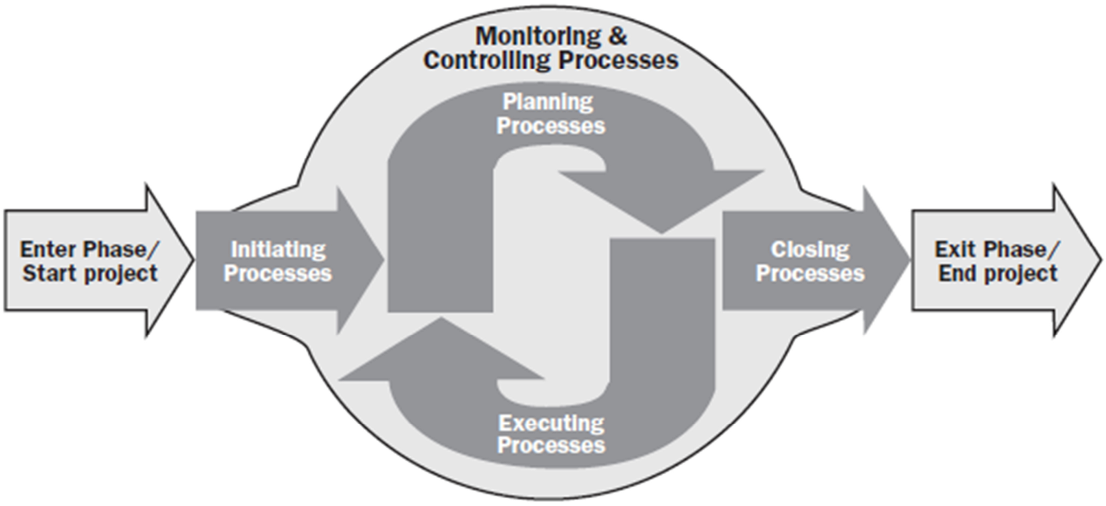

Figure 3. Project management process groups. (PMI 2008: 40)

After the project has been initiated and approved, it moves to detailed planning process, where planning, executing, controlling and monitoring phases are outlined. From the planning phase, the project moves into executing, in which the actual work is being done according to the processes and procedures described in the project management plan. While the work is being executed, the results are entered into controlling and monitoring process to ensure the project is tracking according to the baselines. In case the need for change is discovered in monitoring and controlling phase, the change requests are fed back into execution, after performing change management and change approval process. More significant changes are directed to the planning process. Ultimately, when the project has reached its targets, it moves to the closing process group. (Mulcahy 2009: 30)

Table 3 displays some of the most important tasks within the project management process groups, according to Mulcahy (2009).

INITIATING	PLANNING	EXECUTING	MONITORING & CONTROLLING	CLOSING
Select project manager	Create project scope statement, final PM plan and performance measurement baseline	Execute the work according to the PM plan	Measure performance against the baseline and other metrics	Confirm work is done to requirements
Collect processes, procedures and historical information	Determine quality standards, processes and metrics	Request changes	Request changes	Complete procurement closure
Divide large projects into phases	Perform risk identification and risk response planning	Implement only approved changes	Approve or reject changes	Gain formal acceptance of the product
Understand the business case	Determine all roles and responsibilities	Perform quality assurance and quality audits	Inform stakeholders of approved changes	Update lessons learned knowledge base
Create measurable objectives	Estimate time and cost & develop schedule and budget	Evaluate team and project performance	Gain acceptance of interim deliverables from the customer	Handover completed product
Identify stakeholders	Iterations – go back	Acquire final team and manage people	Report on project performance	Release resources

Table 3. Process group tasks. (Mulcahy 2009: 43)

Mulcahy (2009) stresses the importance of some of the Table 3 tasks, such as understanding the business case, determining project roles and responsibilities, and iterations.

Understand the business case in the Initiating column could be interpreted as understanding why the project is being done to guide all other project management activities and ensure the project is worth the investment when completed.

All projects in an organization should help meeting the strategic objectives of the organization. A well-managed company has clear strategic objectives and it will evaluate several options for reaching those objectives. Ideas will be proposed and financial analysis conducted to see which projects would meet the objectives for the least cost, time, resources and risk. (Mulcahy 2009: 44)

Determine all roles and responsibilities in the Planning column means more than determining who is going to do what work activities. It also dictates who is responsible for delivering reports, who will attend meetings, who will help with risk analysis etc. All roles and responsibilities should be described.

Iterations in the Planning column is an important concept. When planning the project the project manager and team members will do iterations of the column items, but as the project evolves and the PM plans each item, many of the initial plans will need to be modified. Iterations will help a project manager to realistic, bought-into, approved and formal project management plan. (Mulcahy 2009: 44)

The activities in the execution phase may lead the project manager to determine that a change is required. This could similarly happen when monitoring and controlling those activities. These change requests are then evaluated and approved or rejected as part of the change management process. (Mulcahy 2009: 45)

Resources can be released at any point of the project, but only after their work is completed and approved and other closing activities are completed. Some of the team members and stakeholders must remain on the project to for example assist the project manager creating final lessons learned or producing the final report. (Mulcahy 2009: 45)

2.2.2 Project Management Knowledge Areas

This subsection introduces the project knowledge areas which are relevant for the project management activities studied in this Thesis. These knowledge areas include integration management, scope management, time management, cost management, communications management and risk management.

Integration Management

Integration management may be thought as balancing all the processes in the project knowledge areas (scope, time, quality, human resource, communications, risk and procurement) and put the knowledge areas together into a cohesive whole. Mulcahy (2009) emphasizes the role of integration management, by suggesting it may be the reason for project manager's existence in an organization and on a project. (Mulcahy 2009: 97)

Figure 4 illustrates the relationship between the knowledge areas and process groups.

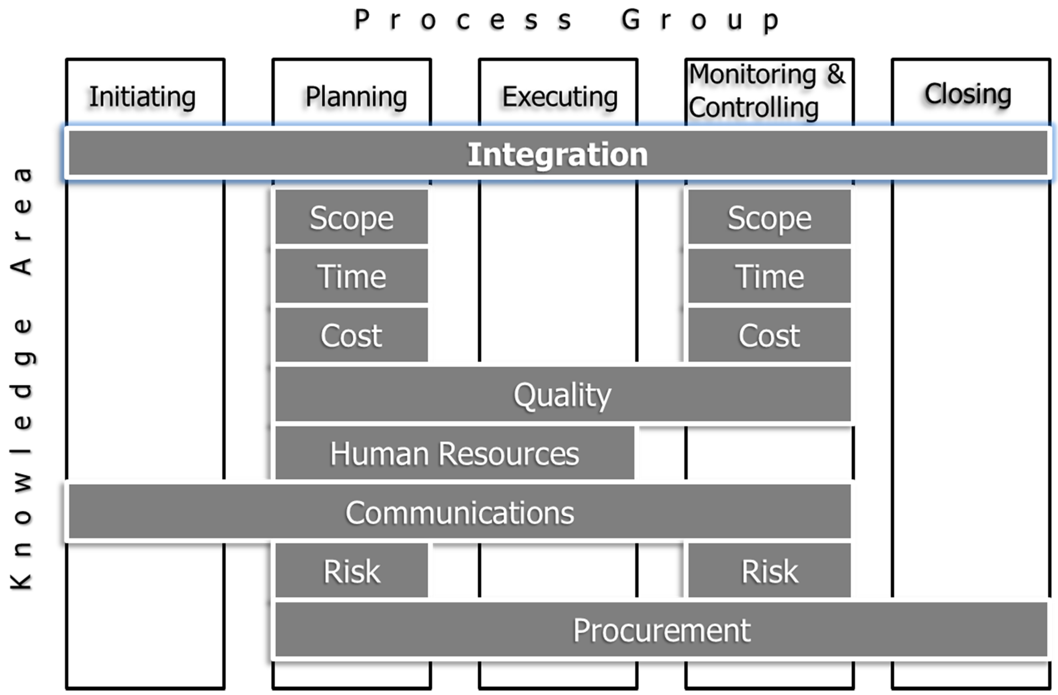

Figure 4. Relationship between knowledge areas and process groups. (Mulcahy 2009: 99)

As can by seen from Figure 4, all knowledge areas include processes in the planning phase and most include monitoring and controlling processes. Integration management is, therefore, the only knowledge area that occurs throughout the entire project in all process groups. (Mulcahy 2009: 99)

Scope Management

Scope management in a project ensures that the project includes all the work required, to successfully consummate a project. The term scope may refer to *product scope*, which describes the needed end result of the project; or to a *project scope*, which is the amount work the project will accomplish in order to deliver the product. (PMI 2008: 103)

In scope management, collecting the requirements is the process of collecting the stakeholders' needs of the project. Capturing the product requirements directly influences the success of the project (PMI 2008: 105). The data collecting methods vary according to situations. Some of the most popular ones are interviewing, workshops, brainstorming, job shadowing and creating prototypes (Mulcahy 2009: 151-153). Importantly, work should not be stated in the project just because someone wants it, but it should always relate to solving problems or achieving objectives (Mulcahy 2009: 151).

The *work breakdown structure (WBS)* document literally breaks down the project work into smaller manageable tasks. The WBS helps team members better understand the project by showing how deliverables relate to each other. A complete WBS reminds of a corporate organizational chart, but it is also an essential tool for a project manager to plan, organize, manage and control a project in pieces, rather than as one large whole. At the bottom of a WBS is a work package, which is the actual work activity. Figure 5 depicts a very simplified example of a WBS.

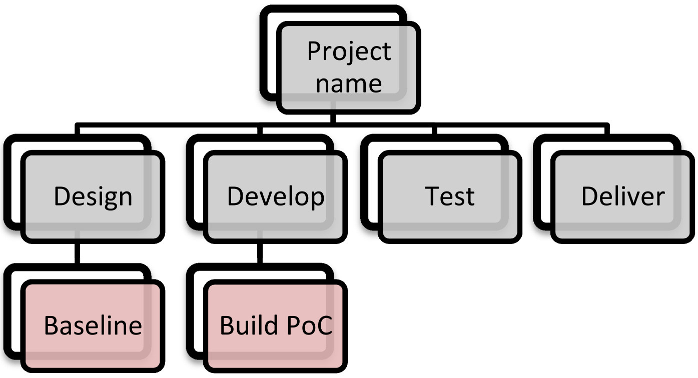

Figure 5. Simplified example of a work breakdown structure.

Mulcahy (2009) believes that WBS is the foundation of a project. Almost all of the planning process group activities can be linked to the WBS. For example, costs, time and risks are estimated at even work package level separately, instead of the project as a whole. (Mulcahy 2009: 163)

A document closely related to WBS is the WBS dictionary, which describes the work packages in more detail. It can be also used as a work authorization system, informing team members when their work package will start. (Mulcahy 2009: 165)

Time Management

Time management includes the processes of timely managing project completion (PMI 2008: 129). Most of the time management processes occur in the planning process group, only the control schedule activity is done in monitoring and controlling process group (Mulcahy 2009: 181). Time management includes sub-processes, such as *define activities, sequence activities* and *estimate activity resources.*

In the *define activities* process specific actions to produce project deliverables are identified. WBS work packages are decomposed to smaller activities that represent the work required to complete the work package. These activities are small enough for estimating, scheduling, monitoring and managing the project work (PMI 2008: 133). *Sequence activities* is the process of identifying relationships between project activities. The result is a network diagram displaying the start, different paths and the end of the project work (Mulcahy 2009: 182). In the process *estimate activity resources,* the project manager estimates types and quantities of material, people and equipment required to complete an activity (PMI 2008: 141).

Cost Management

Project cost management includes the processes required to estimate, control and budget costs, in order for the project to remain within the applied budget. Cost management consists of sub-processes *estimate costs, determine budget* and *control costs*. Cost management starts with a process *estimate costs* which includes estimating monetary costs for each project activity (PMI 2008: 168). Types of estimated costs can be either variable or fixed, and direct or indirect (Mulcahy 2009: 233). In *determine budget* process, the cost baseline is established and authorized by aggregating the estimated costs of individual activities of WBS work packages (PMI 2008: 174). This cost baseline constitutes the overall project budget. However, the budget estimation cannot be completed without including risk management activities and the inclusion of reserves (Mulcahy 2009: 237). The process *control costs is* similar to any other control process, with a focus on costs (Mulcahy 2009: 238).

Communications Management

In order to plan the project communication effectively, the project manager must understand the performing organization's environment, culture and standards. The organization's existing processes and procedures for conducting ongoing operations must be taken into consideration, as well as historical records from previous projects and lessons learned. The planning phase includes all communications related matters, such as method, frequency, timing and targets. The result is the communications management plan, which becomes a part of the project management plan. (Mulcahy 2009: 353)

According to Mulcahy (2009), successful project managers ask stakeholders about communication needs and frequently revisit communications at various team levels in order to decrease issues caused by lack of communication. In addition, status reporting and creating a communications management plan are the fundamentals of PMBOK communications management. (Mulcahy 2009: 347)

Identifying all stakeholders is a process taking place in the Initiating process group, (see Figure 4). The project charter, procurement documents and already identified stakeholders are used as a source for providing input to the stakeholder registry (PMI 2008: 246). Each stakeholder needs to be analyzed for potential influence and the ways should be identified to manage those influences effectively (Mulcahy 2009: 352).

The project manager must also distribute the information to the stakeholders when the project is executing. Mulcahy points out that quite often project managers do not understand that different stakeholders require different information in various formats, which should all be planned in advance. The communication, therefore, is not only to be sent out to relevant parties, but the project manager must ensure the message is received, it is effective and the purpose of the communication is achieved. (Mulcahy 2009: 360)

Project Risk Management

Project risk management helps preventing Risk management includes the sub-processes of conducting risk management planning, identification, analysis, response planning, as well as risk monitoring and control on a project. The objectives of risk management are to increase the probability and impact of *opportunities*, and decrease the probability and impact of *threats* (PMI 2008, 273).

The project manager, project sponsor, team members, stakeholders and external experts can be involved in the risk management process to define how risk management will be performed for the project. Risk management efforts should be directly proportional to the complexity and size of the project. Mulcahy (2009) argues that risk management cannot be a standardized checklist of risks from some past projects. Such a list may be helpful in identifying risks, but appropriate risk management procedures should be performed to each project separately. (Mulcahy 2009: 381)

2.2.3 ITIL v3 Framework

Information Technology Infrastructure Library (ITIL) version 3 is a set of concepts and best practices for IT enabled services management. ITIL is a framework used by organizations worldwide to establish and improve capabilities in IT service management (OGC 2007a: 7). ITIL practices are utilized in the case company service management and reviewed here in this Thesis, as IT is the enabler of the company's service portfolio.

The ITIL publications define service management as "a set of specialized organizational capabilities for providing value to customers in the form of services". The origins of service management can be tracked back to the traditional service businesses, like banks, airlines, hotels and phone companies. Today however, practice has started by IT organizations aiming at developing a service-oriented approach in managing IT applications, infrastructure and processes. The recent popularity of *outsourcing* and *shared services* has increased the number of service provider organizations, including also internal units. (OGC 2007b: 13)

Figure 6 depicts the ITIL core as it is normally presented in the ITIL publications.

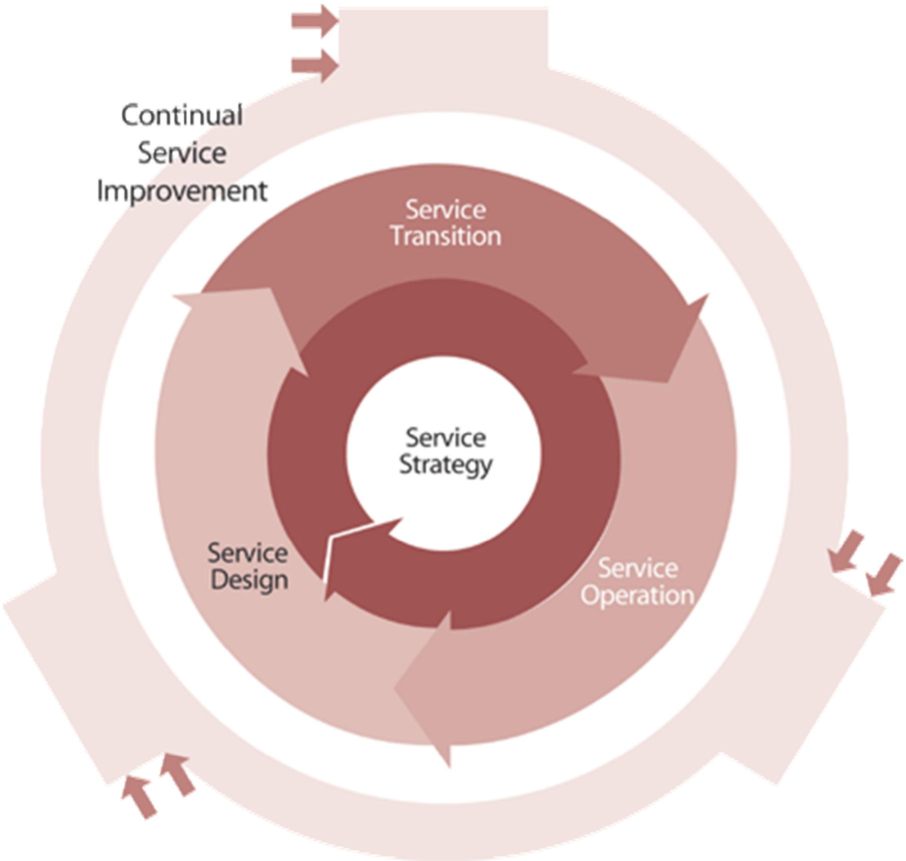

Figure 6. ITIL core. (OGC 2007b: 5)

Each of the ITIL core components is a separate ITIL publication. These core publications are Service Strategy, Service Design, Service Transition, Service Operation and Continual Service Improvement.

Service Strategy provides guidance on how to utilize service management as an organizational strategic asset, rather than only its capability. Service strategy is for ensuring that organizations are in the position to handle costs and risks in their service portfolios, and are distinguished from the competitors not only by operational effectiveness, but also by distinctive performance. The requirements for the service strategy come from the customers, hence the ITIL service strategy volume encourages to think *why* something is done, before thinking of *how*. (OGC 2007a: 8-9)

Service Design provides guidance on the design and development of services and service management process. This volume offers methods for converting the company strategic objectives into its service portfolios. The Service Design publication is not limited only to new services, but also entails the necessary changes and improvements to increase to the customer value over the whole lifecycle of existing services. (OGC 2007a: 9)

Service Transition provides guidance on the development and improvement of capabilities for transitioning new and changed services into production operations. The Service Transition publication is about how the Service Strategy requirements applied into Service Design can be effectively realized in the Service Operations, while controlling the risks. (OGC 2007a: 9)

Service Operation contains the practices of managing service operations, which is where the strategic objectives are ultimately realized, thus making it a critical capability (OGC 2007a: 9).

Continual Service Improvement provides guidance in customer value creation by better design, introduction and operation of services. This volume combines principles, practices and methods for linking improvement efforts with service strategy, design and transition. A closed-loop cyclical system *Plan-Do-Check-Act* is established for controlling the service quality. (OGC 2007a: 9)

2.2.4 ITIL Service Transition

Service transition is a function of planning and managing the capacity and resources required building, testing and deploying a service into production. The purpose of the ITIL Service Transition is to ensure that the transition processes are streamlined, effective and efficient. Successful service transition relies on the application of change management, quality assurance and risk management, and effective program and project management. (OGC 2007b: 3)

ITIL Service Transition publication provides guidance on transferring the control of services in circumstances such as outsourcing, offshoring, from supplier to another, to external service provider, down-sizing and up-sizing. In real world, the circumstances are a combination of the mentioned options. The scope of Service Transition also includes the transition of fundamental changes to the service provider, which will change the ways of working, the organization, people, projects involved in the service management. (Ibid.: 7)

Table 4 embodies the fundamental purpose, goals and objectives of Service Transition.

The purpose of Service Transition is to:	**The goals of Service Transition is to:**	**The objectives of Service Transition is to:**
Plan and manage the capacity and resources required to package, build, test and deploy a release into production and establish the service specified in the customer and stakeholder requirements	Set customer expectations on how the performance and use of the new or changed service can be used to enable business change	Plan and manage the resources to establish successfully a new or changed service into production within the predicted cost, quality and time estimates
Provide a consistent and rigorous framework for evaluating the service capability and risk profile before a new or changed service is released or deployed	Enable the business change project or customer to integrate a release into their business processes and services	Increase proper use of the services and underlying applications and technology solutions
Establish and maintain the integrity of all identified service assets and configurations as they evolve through the Service Transition stage	Reduce variations in the predicted and actual performance of the transitioned services	Increase proper use of the services and underlying applications and technology solutions
Provide efficient repeatable build and installation mechanisms that can be used to deploy releases to the test and production environments and be rebuilt if required to restore service	Reduce the known errors and minimize the risks from transitioning the new or changed services into production	Increase the customer, user and Service Management staff satisfaction with the Service Transition practices including deployment of the new or changed service, communications, release documentation, training and knowledge transfer
Ensure that the service can be managed, operated and supported in accordance with the requirements and constraints specified within the Service Design.	Ensure that the service can be used in accordance with the requirements and constraints specified within the service requirements.	Provide clear and comprehensive plans that enable the customer and business change projects to align their activities with the Service Transition plans.

Table 4. Purpose, goals and objectives of service transition. (OGC 2007b: 16-17)

2.3 Change Management and Communications

Brown and Wilson (2005) stress the importance of proper change management and communications in outsourcing service transition. According to them, the new service will not achieve its intended goals, if employees are not properly introduced to the changes caused by the transition. Communication is the key to navigating through the period of change. (Brown and Wilson 2005: Chapter 7)

Service transition supports and is supported by other essential activities. According to ITIL, *organizational and stakeholder change* and *communications* are the two important supporting activities in service transition.

- Organizational and stakeholder change: Organizations do not transform their services just by changing the services. Organizations will inevitably have to *change* to make use of the new services.

- Communications: According to ITIL, one of the major weaknesses in the service transition has traditionally been the inability to deliver understanding of the implications, benefits and usage of the new services. (OGC 2007b: 157)

Managing Organization and Stakeholder Change

Organizational change efforts fail because changes and transitions are not led, managed and monitored efficiently through the change process and across the organization. Change usually takes longer than planned, and creates resistance and barriers along the way. According to ITIL, major negative impact can come from losing staff and thus, losing knowledge. (Ibid.: 161)

Managing change and transition is the responsibility of the executives involved in the change process. They must be aware that change has to be managed, people involved must be openly and honestly communicated, and that change resistance must be identified, listened and responded appropriately. A strategic, clearly communicated vision coming from the management is imperative to maintain the change process. (Ibid.: 162)

Change management research shows that change will not happen without the support of people involved. Management leading the change must understand the emotional impact that the change has on people and how to manage this impact. It is important to understand the emotional stages of change, in order to facilitate change acceptance. Figure 7 illustrates this emotional cycle of change. (OGC 2007b: 162)

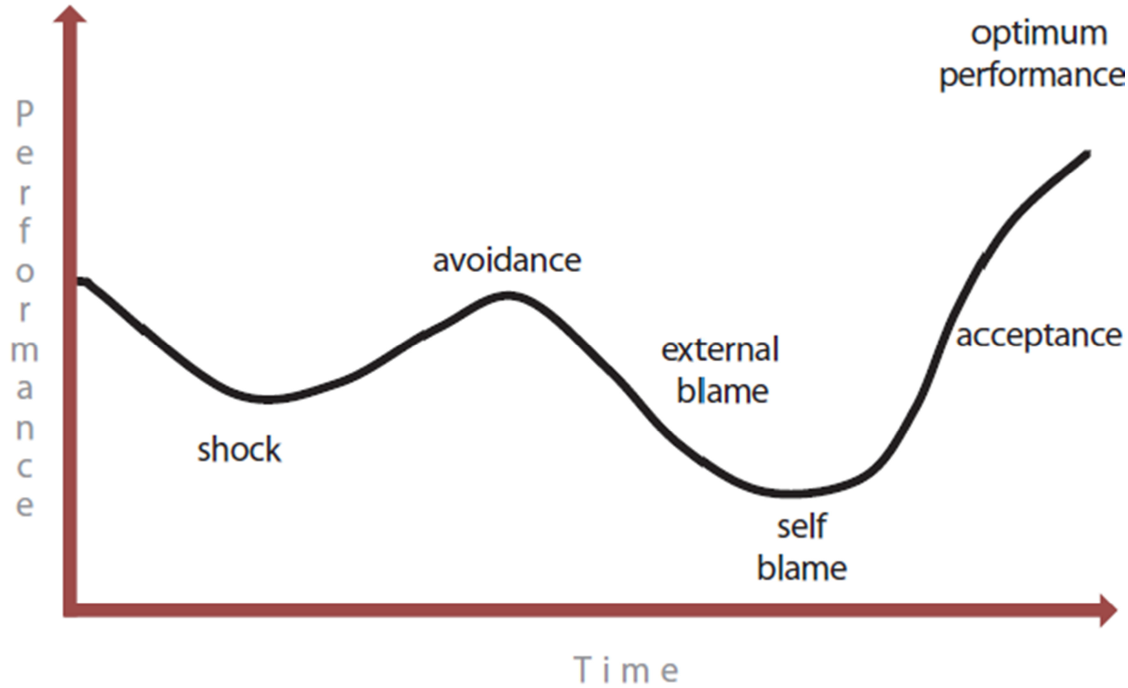

Figure 7. Emotional cycle of change. (OGC 2007b: 162)

Individuals will go through these emotional stages for all significant changes. The first stage is shock, followed by avoidance, which is a period that is typically manifested in increased efficiency. The next stage is denial, which is usually a rapid period, at which point the performance drops, as people blame the external party – usually the change initiator or the service transition team. External blame is followed by self-blame, due to increased feeling of insecurity and threat of the situation. At this stage the performance is the lowest. One of the main tasks of the service transition change management is to shorten the time of the first four emotional stages, before acceptance and optimum performance. (Ibid.: 161)

Appropriate communication through the emotional stages of transition change helps employees obtaining involvement and generating a more positive attitude towards the change. Because different people will pass the stages at different speeds, understanding where each individual currently is on this curve, and supporting them toward the optimum performance, can be a significant asset for the service transition. (Ibid.: 162)

According to Cosack et al. (2010), companies often approach the retention of key employees during organizational change by throwing financial incentives to senior executives and star performers. In the authors' experience, that money is seldom well spent, because many employees would have stayed anyway and others have concerns that money alone cannot address. Companies also usually overlook the "normal" performers, who actually can be as critical for the company, as the star performers. Cosack et al. (2010) offer a less costly approach to address employee retention. It starts by identifying all the key persons, but targeting on those who are most critical and more probably leaving. These people are offered a mix of financial and non-financial incentives, according to their personal aspirations and concerns. (Cosack et al. 2010)

The first step in this approach is to identify the "normal", but critical employees, to whom the authors refer as the *hidden gems*. These people may be anywhere in the company. The HR and line managers create a thoughtful and inclusive list of the key players and prioritize groups and individuals for targeted retention measure. The employees are evaluated from two different angles; 1) the impact of his or her departure would have for the business, and 2) the probability of departure of the employee in question. (Cosack et al. 2010)

The second step is to evaluate and categorize the aspirations and concerns of these identified risk employees. If the organizational change effort, for example, requires employee relocation, most likely family-oriented employees would raise different issues than strictly career-oriented people. These different groups should be identified and appropriate incentives offered. Incentives for the family-oriented group could include for example: assistance in finding schools and kindergartens for their children, career counseling for their spouses and language training. Meanwhile, the incentives for the career-driven employees would contain cash, but an emphasis put on the career path opportunities that this change effort enables. (Cosack et al. 2010)

Typically, money plays an important role in employee retention, but it will not alone be enough. A survey by McKinsey underlines this claim:

> The respondents view three noncash motivators—praise from immediate managers, leadership attention (for example, one-on-one conversations), and a chance to lead projects or task forces—as no less or even more effective motivators than the three highest-rated financial incentives: cash bonuses, increased base pay, and stock or stock options. (Dewhurst et al. 2009)

Figure 8 illustrates these survey results.

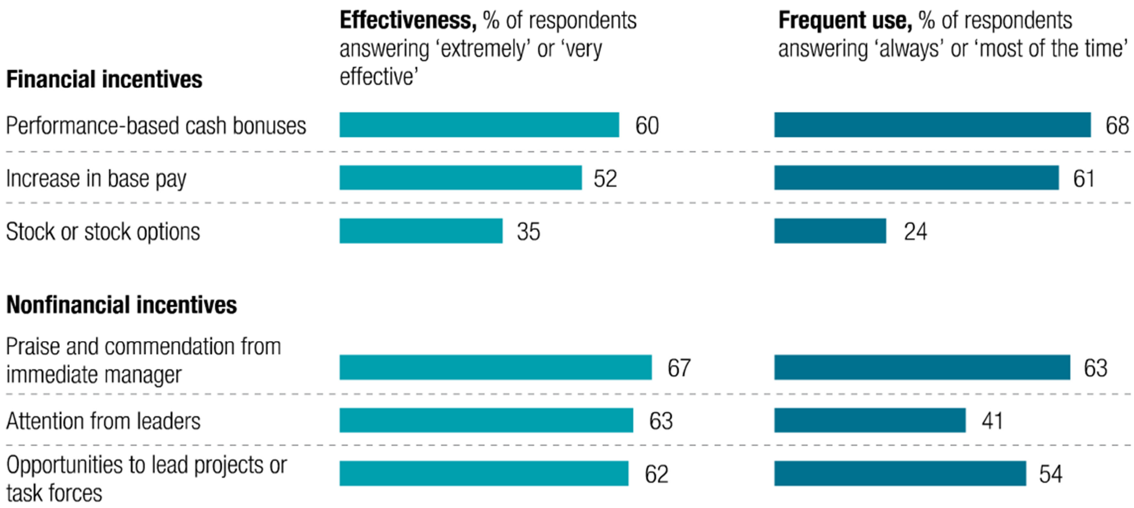

Figure 8. Attractiveness of financial and non-financial incentives. (Dewhurst et al. 2009)

When financial incentives are mandatory, it is important to tie them into certain change project milestones. For example, the pivotal employees receive 30 % of a retention bonus prior to the change, and 70 % is paid out a year later when the change has been implemented and the employee has met the predefined performance criteria related to the change project. (Cosack et al. 2010)

Organizational Characters of Change

Blanchard (2009) introduces 13 different important organizational characters that enable change. Each of these characters is mandatory in larger change efforts and must be taken into account. Table 5 outlines these characters and their meanings.

Character	Meaning
1. Culture	Characterizes the organization by its behavior patterns, beliefs and attitudes
2. Commitment	Individual’s motivation and confidence to engage in the new behaviors required by change
3. Sponsorship	A senior leader ultimately responsible for the success of change, has the formal authority to deploy resources to the implementation and sustainability of change
4. Change Leadership Team	A team speaking with one voice, actively leading organizational change and resolving the concerns of those required to change
5. Communication	Creates a dialogue between the change leaders and those being asked to change
6. Urgency	Explains why the change is needed and how quickly people need to adopt new ways of working
7. Vision	Paints a clear picture of the future after change has been successfully implemented
8. Plan	Clarifies the priority of change relative to other ongoing initiatives, defines and builds the necessary infrastructure to support the change
9. Budget	Analyzes the change from a financial perspective to determine how to best ensure a healthy return on investment
10. Trainer	Provides learning for those being asked to change, in order them to have the skills required to go through the change and succeed in the future organization
11. Incentive	Rewards people to reinforce desired behaviors that enable change
12. Performance Management	Sets goals, monitors progress and provides feedback of the results and behaviors that enable change
13. Accountability	Ensures that results and behaviors are in line with agreed goals, and institutes consequences when results and behaviors are inconsistent with those that enable change

Table 5. Change enabling organizational characters. (Blanchard 2009)

Blanchard (2009) discusses change management in an unusual context, where each of the 13 organizational components are persons and suspects in a detective story. The book's main character is solving a crime, in which another character, *organizational change*, has been murdered.

In his book, Blanchard discovered that all 13 organizational components were guilty of killing change. The death of change was slow and due to the lack of attention given to change by the 13 organizational characters. According to Blanchard (2009), "Change can be successful only when the usual characters in an organization combine their unique talents and consistently involve others in initiating, implementing and sustaining change." (Blanchard 2009: Chapter 24)

Blanchard puts the 13 change management characters into an organizational chart, depicted in figure 9, showing their relations.

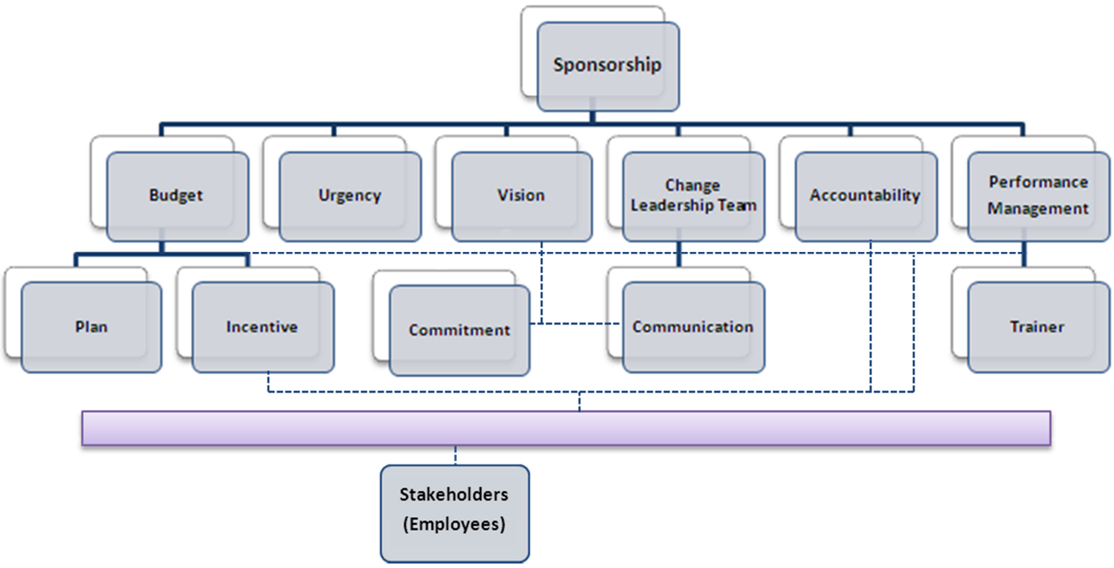

Figure 9. Change enabling component hierarchy. (Blanchard 2009: Chapter 1)

As can be seen from be chart, Sponsorship is on the top of the organization conducting and being ultimately responsible for the change project. Vision and Commitment are tightly connected and enabled by Communication, which is executed by the change leadership team. Accountability, Performance Management and Incentive are the characters directly affecting the employees.

The Eight-Stage Change Process

John P. Kotter's eight-step framework for change is a well-proven approach to managing organizational transformation (OGC 2007b: 170). Kotter's steps are born from eight common errors causing organizations to fail in their change projects. The eight errors and steps are presented in Table 6.

Error	Step
1. Allowing too much complacency	1. Establishing a sense of urgency
2. Failing to create a sufficiently powerful guiding coalition	2. Creating a guiding coalition
3. Underestimating the power of vision	3. Developing a vision and strategy
4. Undercommunicating the vision	4. Communicating the change vision
5. Permitting obstacles to block the new vision	5. Empowering a broad base of people to take action
6. Failing to create short-term wins	6. Generating short-term wins
7. Declaring victory too soon	7. Consolidating gains and producing even more change
8. Neglecting to anchor changes firmly to the corporate culture	8. Institutionalizing new approaches in the culture

Table 6. Kotter's eight errors and steps. (Kotter 1996)

The first error why an organizational change effort typically fails is *allowing too much complacency*. According to Kotter, this is by far the biggest mistake managers do when trying to change organizations is rush ahead without *establishing a sense of urgency* in fellow managers and employees. Change efforts always fail to achieve their objectives when the complacency levels are too high, therefore this error is fatal. (Kotter 1996: Chapter 1)

Major change is often impossible, if the company *fails to create a sufficiently powerful guiding coalition* and unless the head of the organization is an active supporter of the initiative. In successful transformations powerful leaders, in terms of formal titles, expertise and reputation, form a committed team to improve the change initiative success. (Kotter 1996: Chapter 1)

Underestimating the power of vision, the change effort easily dissolves into a list of confusing, time-consuming and incompatible projects that go into wrong direction. By *undercommunicating the vision* major change is usually impossible. Often short-term sacrifices are required from the employees and major change is impossible without most employees making compromises. Change is not possible even if they are unhappy with the status quo, unless they think the potential benefits of change are attractive, and unless they really believe the change is possible. Like Blanchard (2009), also Kotter points out that communication should be in the form of words and deeds. The latter is generally the more powerful form. (Kotter 1996: Chapter 1)

New change efforts often fail when employees fee disempowered by large obstacles in their path. Example obstacles could be organizational structure, compensation systems, or, the worst according to Kotter, supervisors that refuse to adapt to new circumstances and make demands that are misaligned with the change vision. (Kotter 1996: Chapter 1)

Complex transformations take time and risk losing momentum if there are no short-term goals to reach and celebrate. Change efforts *failing to create short-term wins* may cause too many employees give up, or join the actively resisting people. (Kotter 1996: Chapter 1)

During and after change projects, people are tempted to *declare victory too soon* after the first sight of the change effort generated performance improvement. However, until the changes are sunk deeply to the corporate culture, new approaches are fragile and subject to regression. (Kotter 1996: Chapter 1)

The final eighth error, *neglecting to anchor changes firmly to the corporate culture,* is closely connected to the previous one. Until new behaviors are rooted firmly in the social norms, shared values and the corporate culture, they are subject to degradation as soon as the change effort pressure is removed.

Managing Communications

The greater the change caused by service transition, the greater the need for clear communication about the reasons, expected benefits and plans for implementation. Communications must be targeted to right audience, clearly stating the key messages and benefits. Prior to planning communications, understanding people's commitment is important. (OGC 2007b: 157)

According to ITIL, the service transition team's ultimate goal is to build enthusiasm and commitment to the change while ensuring that all stakeholders have a clear perception on how the change will effect on them, and what is their role in the change phase in the upcoming months. Clear *two-way* channels are required for the stakeholders to feel their feedback and ideas are valued (OGC 2007b: 158). Also Blanchard (2009) emphasizes that communication must also include *listening* the ideas, feedback and concerns of those affected by the change process (Blanchard 2009: Chapter 7). Employees should be involved early in the transition plan, by circulating a clear vision statement and creating a detailed communication plan, will help build their trust, and make them more willing to accept changes and lend their support (Brown and Wilson 2005: Chapter 7).

People involved and affected by the change may feel insecure, suspicious, angry and demotivated. Leaving these issues unaddressed may cause irreversible damage to the service transition initiative. The outsourcing buyer employees should be educated, that it is imperative for them to change along the business, if they expect to have secure place in the future competitive environment. (Brown and Wilson 2005: Chapter 7)

Often, many people are affected by the service change and consequently, stakeholder buy-in is required for successful service transition. It is important to identify:

- Those who already support the transition and do not require conversion

- Those who strongly oppose the transition and who will likely respond negatively to persuasion. Because the conversion efforts are most likely to be unrewarded at this point, it is not constructive to spend time on this group of people.

It is most reasonable to concentrate on the people between the two extremes; stakeholders willing to understanding and welcoming the change. According to ITIL, it is common to spend too much time on talking to first group of people that are already sympathetic to the idea, since it delivers the feeling of confidence. (OGC 2007b: 157)

Brown and Wilson (2005) recommends, specifically in outsourcing communication, to deciding what needs to be communicated and when. Timing the communication should coincide with specific outsourcing activities. Outsourcing transition communications to affected employees should include for example:

- Which exact functions are outsourced, where and when
- Reasons for change
- Anticipated impact of the change on the corporate level
- Who are the project team members and decision makers
- Timelines involved (Brown and Wilson 2005: Chapter 7)

The methods of communication may vary. ITIL lists methods such as large workshops, organization newsletter, training sessions, team meetings, face to face, Q&A feedback postings, corporate intranet, reinforcement memos and posters/roadmaps. (OGC 2007b: 159)

Transition models help to communicate what people should expect for change. Figure 10 depicts an example of a change model used to outsource services from in-house to a commercial service provider.

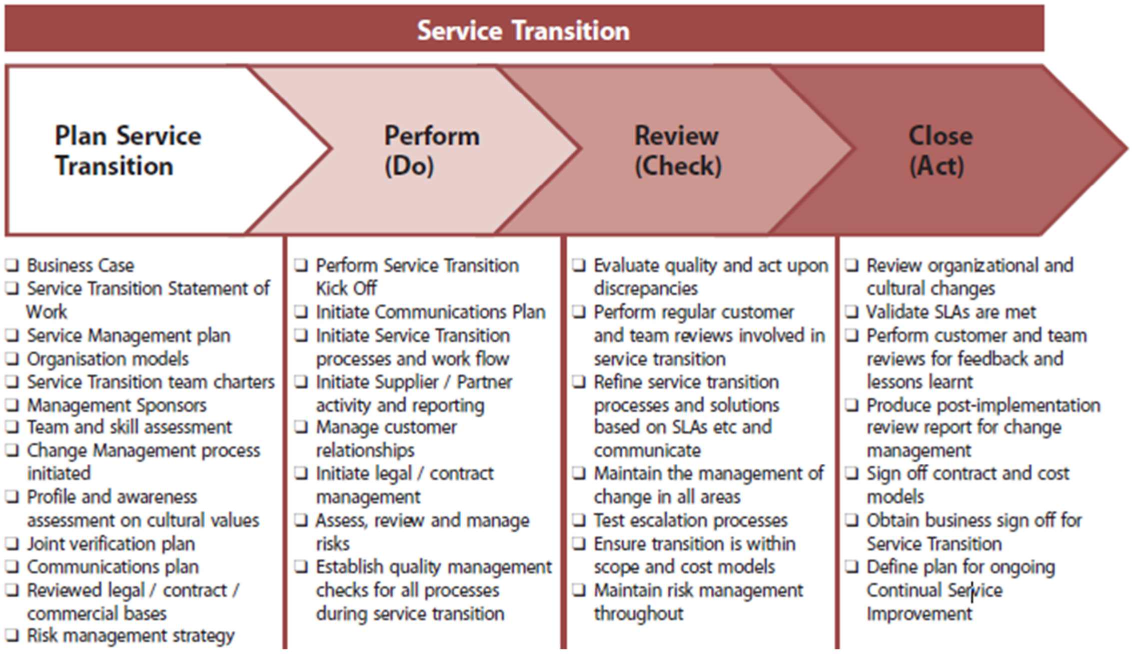

Figure 10. Example of service transition steps for outsourcing. (OGC 2007b: 160)

Being an example model for transitioning services from an organization to a commercial service provider, Figure 10 summarizes sections 2.2 and 2.3. In this example, there will be changes in management, processes and staffing. Creating transition and change models, as in Figure 10, will help planning the communication and setting the expectations during the outsourcing project.

2.4 Synthesis of Literature Review

Outsourcing providers, such as the case company, should acknowledge the methods client organizations use while making the decisions to outsource or to keep the process in-house. The rule of thumb for outsourcing processes is that it should never be a core process significantly contributing to the client organization’s value creating process. Hence the providers typically increase the attractiveness of the outsourcing offering by choosing to provide efficiently services clients would consider non-core.

Offshore outsourcing organizations should carefully weigh the different offshoring locations. Labor costs and availability of skills are the typical high priority attributes to take into account when comparing the offshore locations, but political and environmental factors must also be taken into account. Working cultural differences, such as the high turnover rate in Indian BPO field, can cause major problems, unless the country due diligence is carefully performed, risks managed and operations planned.

As pointed out by Aron and Singh (2005), it is typically very costly and difficult to bring the outsourced functions back in-house, hence it must be done correctly at the first time. An outsourcing provider must be very familiar with the entire process of evaluation, process ranking, location choosing, vendor sourcing, contracting and service level management. From the provider perspective it is important to understand every phase of the customer outsourcing evaluation processes, as well as risks and challenges of providing offshored financial services.

The purpose of this thesis is to identify and overcome the challenges and risks involved in outsourcing, offshoring and service transition. Challenges in this context must be discussed in the client, as well as the outsourcing provider point of view, because after the contract has been signed, these challenges have become mutual. According to Brown and Wilson (2005), typical problems in outsourcing are typically caused by:

- lack of project management skills
- lack of standardized process for specifying the work
- lack of correct metrics for performance measurement

Communication has a significant role in each of the literature topics reviewed. In projects, the project manager must distribute the information to the stakeholders when the project is executing. Often project managers do not understand that different stakeholders require different information in various formats, which should all be planned in advance. The communication is not only sent out to relevant parties, but the project manager must ensure the message is received, understood and message implemented.

Communication is also seen important in outsourcing and change management. Appropriate communication guides individuals through the emotional stages of change and toward optimum performance. In addition to different incentives, communication is the one large single cure for a major outsourcing caused symptom; loss of key employees and knowledge. The most unwanted phase to lose the key employees is in the service transition period.

Service transition is process of planning and managing the capacity and resources required building, testing and deploying a service into production. The purpose of the Service Transition is to ensure that the transition processes are streamlined, effective and efficient. Successful service transition relies on the application of change management, quality assurance and risk management, and effective program and project management. ITIL Service Transition publication provides guidance on transferring the control of services in circumstances such as outsourcing or offshoring.

3 METHOD AND MATERIAL

This section outlines the research process and describes the research methodology used in this Thesis. The case study part is mainly based on the methodology by Yin (2003) and Eisenhardt (1989). The main reference for the qualitative interview section is Kvale (1996).

In this study, the case study method is a rational and feasible choice to investigate the research problem. There are some relevant reasons for taking this choice. For example, action research was not possible due to the nature of its cyclical experiment process; the timeframe did not allow full cycles and, due to the critical nature of the study research, there was no chance for interim cycle results, i.e. experimenting was not an option. Table 7 presents relevant situations for the use of different research strategies.

Strategy	**Form of research question**	**Requires Control Of Behavioral Events**	**Focuses on Contemporary Events**
Experiment	how, why?	Yes	Yes
Survey	who, what, where, how much, how many?	No	Yes
Archival analysis	who, what, where, how much, how many?	No	Yes/No
History	how, why?	No	No
Case study	how, why?	No	Yes

Table 7. Relevant situations for different research strategies. (Yin 2003: 5)

This Thesis asks a "how" question about contemporary set of events, over which the researcher has little control. Because the research is mainly seeking to estimate human behavior in changing environments, experiment would not be an ethical choice.

In this Thesis, the research was carried out as an embedded multiple-case study. When multiple cases are being selected, the study is either holistic or embedded. When the study involves many units of analysis, meaning that the attention is also given to subunits of a single case, the result is an *embedded case study design*. Conversely, if the case study only investigates the global nature of the target, a *holistic design* is used (Yin 2003: 42-43). In the case of this Thesis, each individual case involved multiple units of analysis, instead of concentrating on a single context. The data is qualitative, as no quantitative data was available. The case company employee satisfaction surveys were not accurate enough to be used as a source, as originally planned.

The idea of the implemented research interviews was to create a holistic view of the whole outsourcing and offshoring challenges, and the customer transition to the new service. The interviewees were divided into three groups, although many interviewees' knowledge overlapped with other groups, due to the wide experience and expertise levels of the people interviewed. Therefore, themes presented to the interviewees were very similar to each other, but emphasis was put onto their respective area of expertise. The interview method used was a general interview guide approach, in which a few main questions are presented and followed with more detailed probing questions. The interviewees were divided into the following groups:

- General outsourcing, offshoring and project management: Two case company managers with general in-depth knowledge of basically all areas covered in this Thesis. In addition, one person from an external company, with multiple years of outsourcing project management experience, was interviewed.

- Financial services: The case company established a financial shared service in 2005 for its country units. As this Thesis is exploring a project starting up an accounts payable service center, the shared service center employees are relevant individuals for the case study. Two employees, with an in-depth service center and hands-on financial processes knowledge, were interviewed on the services in general and specifically focusing on the transition period.

- Project management and service transition: Three case company employees, all with multiple years of experience on project management, professional services and services transitions. The aim of these interviews was to gain experiences for the project of transitioning the outsourced customer invoice processing process to the new model.

3.1 Case Study Method

Case study is the preferred research strategy when posing "how" or "what" questions on events that the investigator has little or no control over of (Yin 2003: 6). A case study allows the researcher to retain holistic and meaningful characteristics of real-life events, including organizational processes and international relations (Ibid.: 2). A case study may be conducted for a simple presentation of individual cases or with the aim to arrive at a broad generalization based on case study evidence (Ibid.: 15). A subject for a case study can be, for instance, an individual, organization, project, decision or partnership (Ibid.: 23). Data sources for case study may include interviews, documentation, archival records and direct observations (Baxter and Jack 2008: 554).

A case study research may contain one or multiple cases, but the evidence from multiple-case studies is considered more compelling and robust (Yin 2003: 46). Case selection is an important phase of case study research design. Cases should be selected for theoretical, not statistical reasons (Eisenhardt 1989: 537). The underlying logic behind multiple-case study must not be confused to the logic for multiple respondents to a survey, where a large enough number of respondents are required to fulfill the statistical validity of the research. Eisenhardt emphasizes that there is no ideal number of cases, but usually 4 to 10 cases work well. (Ibid.: 545) Random selection of cases is not preferable. (Ibid.: 537)

3.2 Interviews in Qualitative Research

Due to the fact that the empirical research of this Thesis is based on interviews, studying the research interview process was given more emphasis. This subsection is focused introducing the seven steps of a qualitative research interview, from thematizing to reporting the results following Kvale (1996).

A qualitative interview research process can be outlined as a method with seven stages: 1) Thematizing and formulating research questions, 2) Designing the study to address the research questions, 3) Interviewing, 4) Transcribing, 5) Analyzing, 6) Verification, and 7) Reporting (Kvale 1996: 14).

The research process in this Thesis attempts to follow the principles of these seven phases. This section will introduce the research stages and the later part will present the research flow that was conducted according to these principles.

Stage 1: Thematizing

A research interview often begins incorrectly without a review of the research literature of the area. A significant part of the study should take place before the first interview. The researcher should develop conceptual and theoretical understanding of the topic investigated. This knowledge is required to be able to pose relevant questions. (Kvale 1996: 95-96) For this Thesis, all the material used in the literature review was read well beforehand and other relevant knowledge was acquired to fulfill this requirement.

Interviews may be explorative or testing a hypothesis. An exploratory interview is open and has little structure. In such interview, the researcher introduces the area to be covered and follows up the subject's answers seeking for new angles of the topic. Interviews that test hypotheses are typically more structured. (Ibid.: 97)

Case studies often utilize interviews as a purpose of acquiring knowledge about one specific individual or institution. Furthermore, interviews are used as different supplementary methods in conjunction with other methods. For instance, an interview may be used to gather background material for other studies (Ibid.: 98). In this Thesis, however, explorative interviews were the only data gathering method used.

Stage 2: Designing

The key factor in designing is to develop an overview of the whole investigation, before the interview part starts. A vision of the final report should be created in the early stages of designing the study (Kvale 1996: 99). An important matter that the researcher must acknowledge in the design phase is the interconnections of the different interview stages. Decisions made in the early stage will have an impact to later stages. (Kvale 1996: 100)

Turner (2010) divides qualitative interview design into three categories: informal conversational interview, general interview guide approach and standardized open-ended interview. Marshall et al. (1998) uses perhaps better known synonyms for these interview methods: unstructured, semi-structured and structured, respectively.

In an *informal conversational interview*, the researcher does not ask any specific type of questions, but rather lets the interaction lead the direction and contents of the interview. This type of interview may suite a situation where the researcher is immersing into an environment as an active participant, due to the flexibility and lack of structure. However, this interview type may be considered unreliable, as analyzing the data is more cumbersome due to the lack of consistency in the interview questions. (Turner 2010: 755)

The *general interview guide approach* is a more structured interview method, in which the interviewer conducts the conversation, but still allowing some flexibility (Turner 2010: 755). According to McNamara (2010), the meaning of this interview approach is to ensure that the same general areas of information are collected from each subject. This interview approach provides focused topic for the conversation, but allows flexibility in getting more in-depth information from the interviewee.

Standardized open-ended interview is a strictly structured interview approach, in terms of the question phrasing. Each interviewee is asked identical questions, but the question wording leaves answers open-ended, i.e. no yes/no options are available (McNamara 2010). This open-endedness allows interviewees to fully express their views and interviewer to ask probing questions on the topic. Since the target of open-ended interview is to get as rich answers as possible, it may be cumbersome for the researcher to extract similar themes from broad amount of data (Turner 2010: 756). The benefit of this interview type is in its speed; interviews and analyzing results is faster (McNamara 2010).

In this Thesis the general interview guide approach was utilized, because the general topic was already somewhat clear, and basic background information was acquired from literature. The interviews required certain flexibility in order to uncover the relevant areas of information in more detail.

Stage 3: Interviewing

Kvale (1996) sees an interview literally as an exchange of inter views between two participants expressing opinions about a matter of mutual interest.

> In the interview, knowledge is created inter the points of the view of the interviewer and interviewee. (Kvale 1996: 124)

Preparation in advance and pre-studying the interview theme is essential for interaction and the whole outcome of the study. The key matters of an interview are questions what, why and how; *what* is the pre-knowledge to be acquired before an interview; *why* is the interview done, i.e., formulating clear purpose for the study; *how* is the interview conducted and different techniques utilized. (Ibid.: 126)

The interviewee should be given a briefing before the interview and a debriefing afterward. During the briefing the interviewer explains the purpose of the interview, use of recorder and in general, makes sure that the interviewee does not have anything unclear about the situation. The first minutes of the interview are important. The interviewer must aim to establish a good contact by attentive listening, understanding and respect to what the interviewee has to say. The interview is rounded off with a debriefing where the interviewer revises the main points conversed on. (Ibid.: 128)

The main interview questions should be as descriptive and open as possible. "Why" and "what" questions should be asked and answered before asking a "how" question. (Ibid.: 130) The aim is to get spontaneous descriptions of certain thematized events about the subjects' experiences, rather than leading the answer to the interviewer's presumption.

The questions in research a interview should be brief and simple. To understand the subjects, the immediate meaning of an answer is the key issue, which requires the interviewer to have gained the knowledge of the theme and the human interaction with the interviewee. (Kvale 1996: 131)

In the interviews in this Thesis, several types of questions were used, as exemplified in section 3.4. Introducing questions were used, whenever changing topic, and if the responded fails to provide a sufficiently informative reply, the interviewer used probing and specifying questions as proposed by Kvale (1996: 133).

Stage 4: Transcribing

There are several methods of recording the interview, such as videotaping, audio recording, taking notes and remembering (Kvale 1996: 160). Audio recording is the most common (Ibid.: 162) and it was also the method used in the research interviews in this Thesis.

Today, research interview recordings are typically transcribed into written text for analysis. The interview transcriptions should not be regarded as solid research data, but rather as artificial reconstruction of oral data transformed into written mode. (Ibid.: 163) Should there be any ambiguities in the transcribed text, the researcher should then refer back to the original recording in order to increase reliability and validity of the research. Because the interviewees in this research are all experts in their respective areas, no real need was found for transcribing all interviews into a text. Instead, the interviewees' main opinions on the main themes were collected from the recordings for research analysis.

Stage 5: Analyzing

For the analysis of *meaning* of transcribed interview texts, Kvale (1996) suggests to employ five main approaches: condensation, categorization, narrative structuring, interpretation and ad hoc methods. (Kvale 1996: 191)

Generating meaning through ad hoc methods is an eclectic approach, which does not limit the different methods and techniques that can be used to bring out the meaning of an interview text (Kvale 1996: 193). This is probably the most widely used form of interview analysis (Ibid.: 203).

According to Kvale (1996), the main problem in the interview research is not the variety of different interpretations, but rather the lack of explicit formulation of the questions into the interview text. Perspectival subjectivity occurs when two or more researchers have different perspectives of the research theme and pose different questions to the same text, thus coming up with different interpretations of the meaning. Questions that are not explicitly stated may cause different interpretations seem random. The issue is not only the explicitness of the questions, but also to what extent can the questions should be put into the text legitimately. (Ibid.: 212)

The context of interview text interpretation and validation is divided into three types (Kvale 1996). This means the relationship of questions posed to, and answers gotten from a text. Kvale presents three contexts of interpretation: self-understanding, critical commonsense understanding, and theoretical understanding; and respectively, three communities of validation: the interviewee, general public, research community. (Kvale 1996: 213)

These interpretation contexts and corresponding communities of validity are presented in Table 8.

Contexts of interpretation	**Communities of validation**
Self-understanding	The interviewee
Critical commonsense understanding	General public
Theoretical understanding	Research community

Table 8. Contexts of interpretation and communities of validation. (Kvale 1996: 214)

Stage 6: Verifying

The concepts of generalizability, reliability and validity are considered as the holy trinity in modern social sciences (Kvale 1996: 229). Based on own experiences with one situation or person, we *generalize* expectations of what will happen with other similar situations or persons (Kvale 1996: 229). *Reliability* in research refers to the consistency of the research findings. The formulation of interview questions, for example, has a significant share of the whole research reliability (Ibid.: 235). *Validity* concerns all seven stages of qualitative interview research process (Ibid.: 238).

The topic of reliability and validity is discussed in more detail in section 3.3 Reliability and Validity Considerations.

Stage 7: Reporting

The interview research report is not simply re-presenting the views of the interview subjects and interpretations of the researcher. An interview report is a social construction itself, describing the subjects' lived world events in the style chosen by the researcher. (Kvale 1996: 253)

According to Kvale (1996), the research method is often poorly documented. If readers find the research of interest, they probably would want to learn the design and different methods utilized. Often readers have to guess the instructions given to the interviewees, questions posed, and the methods used for transcribing and analyzing the interview text. However, all this information, including information about the methodic phases of a research is mandatory for a reader striving to evaluate the reliability of the findings or reinterpret results. (Kvale 1996: 255)

3.3 Reliability and Validity

According to Baxter and Jack (2008), case study readers should be provided detailed information about the research process, so that they can themselves assess the reliability and validity of the study. Some basic actions to enhance the overall quality and trustworthiness of the study include; 1) clearly written research question; 2) study design reflects to the research question; 3) data collected systematically; and 4) data analyzed correctly. (Baxter and Jack 2008: 556)

Reliability

Reliability in research refers to the consistency of the research findings (Kvale 1996: 235) and the principle of conducting and documenting the research in such a manner, that a later researcher could repeat the steps of the study. The aim of research reliability is to therefore minimize errors and bias (Yin 2003: 37).

Patton (1990) addresses the criticism of qualitative research reliability and objectivity. The critique concerns the lack of "objective" quantitative data and the claim that in qualitative research the result is always based on the researcher's biased subjectivity. According to Patton, the rigor of qualitative research depends upon the quality of the observations made by an evaluator. Total objectivity of anyone or any method is doubtful, and subjectivity is always inevitable (Patton 1990: 480). Patton's recommendation to increase objectivity and reliability is to carefully document all research procedures, so that others can review methods for bias. Therefore, the researcher should be open in describing the limitations of the perspective presented (Patton 1990: 482).

Yin (2003) agrees with Patton (1990) and aptly draws an analogy between the quest for research reliability to accounting and bookkeeping, where all calculations must be capable of being audited. Similar to accounting, qualitative case study research should be conducted in a way that an auditor could repeat the research steps and arrive at the same results. (Yin 2003: 39)

Validity

Construct validity is a test helping the researcher to establish correct operational measures for the concepts being studied. The test includes three *tactics* to increase the validity of the study:

- Use multiple sources of evidence
- Establish a chain of evidence

- Have stakeholders review report draft. (Yin 2003: 34, 36)

Any finding or a conclusion in a case study is likely to be more convincing and accurate when it is based on *multiple sources of evidence*. Triangulation is a term used to indicate that a research is using more than two sources of data, evaluators, and perspectives to the same data set or methods. (Yin 2003: 98-99)

According to Yin (2003), the discussion today only pertains to data triangulation, encouraging researchers to collect data from multiple sources, supporting the same investigated phenomenon. The potential problems of construct validity can be addressed with data triangulation, as multiple sources of information essentially provide multiple measures of the same phenomenon (Yin 2003: 99). In the research of this Thesis, the data was collected from the qualitative interviews, literature and the researcher's own experiences. To explore the main research themes, three subjects were investigated for each theme. Although the second interview group only had two interviewees, see Table 10, the interview topics and subjects expertise overlapped so widely that the triangulation requirement can be seen as fulfilled. Each researched area was covered by at least three different sources. Therefore, this Thesis fulfilled the first requirement by data triangulation.

The second principle to increase the reliability and construct validity is to *establish a chain of evidence*, which allows the external observer – the reader of the study – to follow the process of evidence derivation from the initial research question to the final conclusions. In other words, the study should have a coherent story which enables the external observer to trace steps of research to any direction (Ibid.: 105). In this Thesis, this requirement is met by combining the case study results with the literature review. The literature provides important practical grounds by using multiple references, standards and best practices (ITIL and PMBOK). The chain of evidence is established through thematizing the interview process, pre-studying the topics and posing the research question early.

The third procedure is to *have stakeholders review report draft*. Here, key informants are not just peers, but also the participants and informants of the study. The opportunity to review the draft often produces further evidence, as the interviewees may remember new material. The corrections and additions made through this process increase the construct validity by enhancing the accuracy of the study (Yin 2003: 159). This third requirement is met by periodically discussing the study progress and conclusions with the case company key stakeholders, and by having the interviewees to review the transcribed interview results soon after the interview.

3.4 Research Material

The research interview process started with thematizing the research topics. This included a literature review and formulating research questions. The literature review comprised of a wide range of material, which was studied prior to compiling research design. The conceptual framework sections of the Thesis were mostly written before finalizing the research structure. After clarifying the research question and gaining the required background knowledge, the research design was developed to address the research question. The interview method selected was the *general interview guide approach*, since this method allows flexibility to the interview, but ensures that the same general areas of information are collected from the interviewees.

The main purpose of the research interviews was to collect the data in order to identify typical challenges and risks involved in the implementation of the outsourcing financial process offering, focusing on the case company current environment. Naturally, in the course of these conversational interviews, the interviewees offered multiple recommendations on how to overcome these issues. This information was also collected.

In the case company's situation, the unfamiliar area is providing outsourcing service for more knowledge intensive tasks, such as financial processes. The critical success factor for outsourcing a financial process is a well-planned and smooth customer transition to the service. Hence, the interview informants were selected from three different groups:

- **Interview group A:** General outsourcing, offshoring and project management
- **Interview group B:** Financial services
- **Interview group C:** Project Management and Service Transition

The interviewee backgrounds are presented as follows.

Interview Group A: General outsourcing

The three persons in this group represent general outsourcing, offshoring and project management. Strictly speaking, people in this group could not be categorized into one particular type. Thus, these people were asked to share their views on various aspects of the study, and the interview method applied was more open.

Two persons in the group are employed by the case company. The first person, Interviewee A.1, is currently leading the invoice scanning outsourcing service operations globally. He is familiar with the Indian business and work culture because the invoice validation operations run in the case company's Indian branch. He also has multiple years of experience in accounts payable processes, as he has had different positions in the case company during the past eight years, all related to accounts payable and invoice automation solutions.

Interviewee A.2 is a project management, outsourcing and financial processes professional. He holds more than ten years of experience in leading projects in financial process automation, outsourcing, establishing a shared services center and SaaS services management. His current position is a Program Manager for the case company outsourcing offering.

The third person in this group, Interviewee A.3, is the only person not employed by the case company. This person is an outsourcing Director in a large Finnish IT services company. She possesses multiple years of experience in project management, offshoring of the company's own functions and leading customer outsourcing projects.

Interview Group B: Financial Services

The second interview group included the case company's financial shared services people. The SSC Vice President, Interviewee B.1, has multiple years of financial management experience in various fields. In his previous job, he has been managing a financial process outsourcing project. His current position represents a potential customer and major stakeholder for the outsourcing offering what this Thesis is investigating. His background and knowledge fits exceptionally well the research purpose, as he possesses experience in both financial processes management and process outsourcing.

Interviewee B.2 is the only full time Accounts Payable Clerk in the case company shared services center. Her daily work consists of the tasks that are being offshored by the new outsourcing offering. As she is familiar with the operations that are being offshored to India by the new offering, her evaluations of likely practical difficulties and potential threats are invaluable.

Interview Group C: Project Management

The third interview group represents case company project management expertise. Three persons were selected for their extensive knowledge, experience and track record in leading the case company delivery projects.

Interviewee C.1 is in charge of managing the case company's automation services project portfolios, mainly for the large enterprise accounts. He holds a D.Sc. (Tech) and has multiple years of relevant IT and project management experience. His position is Global Program Manager for e-invoicing and invoice scanning services implementation projects.

Interviewee C.2 is responsible for the case company's European operations professional services, including project delivery management, service management and support functions. He possesses multiple years of experience working in the product development and customer interface. His title is Vice President, Services.

Interviewee C.3 is Vice President, Global Consulting, and he is responsible for global project portfolio, strategy setting and leading a project team. He has 10+ years of international project management experience and he is p familiar with the case company projects, products, customers and management practices.

Table 9 presents the interview dates and themes.

Person	Date	Interview Theme
Interviewee A.1 – Head of Operations	28.02.2011	Offshore operations, transition, general
Interviewee A.2 – Program Manager, Outsourcing	03.03.2011	Project management, transition, general
Interviewee A.3 – Director, Outsourcing	23.02.2011	General outsourcing, project management, offshoring
Interviewee B.1 – Vice President, FSSC	24.02.2011	Financial processes outsourcing, transition
Interviewee B.2 – Accounts Payable Clerk	25.02.2011	Accounts payable operations, transition
Interviewee C.1 – Global Program Manager	01.03.2011	Project management, transition
Interviewee C.2 – Vice President, Services	01.03.2011	Project delivery
Interviewee C.3 – Vice President, Global Consulting	01.03.2011	Project management, transition

Table 9. Interview dates and themes.

Due to the fact that most of the interviewees' areas of expertise covered other areas, than the respective themes of their group, they were able to evaluate the research problem from different perspectives. This is why the interview theme frame was kept similar throughout the interviews, though different topics were emphasized for different people. The interview themes were shaped to fit the final report.

Before the actual interviews, all interviewees were given a briefing on the topic and purpose of the interview by email. Each interview began with a introducing of the topic to the interviewee to make sure they fully understand the discussed themes, and purposes of the research. During the research interviews, 3 topics were introduced and followed up by probing questions, according to recommendations by Kvale (1996). All interviewees were conducted in person. The language of in the interviews was Finnish, except for the meeting with Interviewee C.3, where the interview language was English. The duration of all the interviews was approximately one hour. All interviews were recorded.

In the interviews, questions were posed on several topics by seeking examples from the interviewee's personal experiences. The main interview topics discussed were as follows:

Interview Group A:

1. Outsourcing offering: general challenges
2. Critical success factors for a project
3. Outsourcing offering: Indian organization

Interview Group B:

1. Outsourcing offering: general challenges
2. Outsourcing offering: transition project challenges
3. Outsourcing offering: Indian organization

Interview Group C:

1. Outsourcing offering: general challenges
2. Outsourcing offering: transition project challenges
3. Critical success factors for a project

In addition to the main topics and questions, some specifying and probing questions were used to bring out the interviewee's recommendations on how avoid the raised problems.

The interview recordings were partly transcribed by collecting the most important answers from the recordings and dividing them into categories. The answers were sent to the interviewees by email for verification. After the interviewees verified their interview transcripts, the interview answers were further condensed into topic level and all answers were put into an A3 size spreadsheet. The spreadsheet was printed and similar answers highlighted and connected.

4 RESULTS AND ANALYSIS

This section presents the key findings from the research interviews and their analysis. The data source for the analysis is shown in Appendix 1. In section 4.2, the interview findings are compared and combined with matching literature topics.

4.1 Interview Results

The interview results can be divided into: risks and challenges, project management success factors and Indian organization, which were the main themes of the interviews. In addition, the probing questions brought out many important recommendations for the offering development and implementation. The interview subjects and themes are presented in Table 10.

Interview Subject	Interview Theme
Interviewee A.1 – Head of Operations	Offshore operations, transition, general
Interviewee A.2 – Program Manager, Outsourcing	Project management, transition, general
Interviewee A.3 – Director, Outsourcing	General outsourcing, project management, offshoring
Interviewee B.1 – Vice President, Financial Shared Service Center	Financial processes outsourcing, transition
Interviewee B.2 – Accounts Payable Clerk	Accounts payable operations, transition
Interviewee C.1 – Global Program Manager	Project management, transition
Interviewee C.2 – Vice President, Services	Project delivery
Interviewee C.3 – Vice President, Global Consulting	Project management, transition

Table 10. Interview subjects and themes.

The interviewees recognized many similar possible pitfalls in the outsourcing offering on a general level, as well as in the operations and customer transition. In the interviews, the following reported risks and challenges were highlighted:

1) Knowledge transfer
2) Retention of key persons
3) Insufficient service description
4) Transition project team
5) Technical
6) Invoice exception handling
7) End-to-end process testing
8) Management support

Knowledge Transfer

Transferring the customer knowledge and capabilities to the service provider is seen as a vitally important and challenging task by five out of eight Interviewees (A.1, A.2, A.3, B.2, and C.3). Interviewee A.1 has experience of running invoice validation operations in India, which is considerably simpler task than invoice processing. He stresses the challenge of transferring the process knowledge from the customer to Indian operations as the main risk of the business, because it has never been done before by the case company. Interviewee A.2 acknowledges the same exact issue of "building the logic and the machine in India". Interviewee C.3 agreed with these previous concerns, but also pointed out that the risk is lower because the offering only consists of partial personnel outsourcing, leaving the most knowledge requiring tasks to the customer core financial team. The financial service center interviewees B.1 and B.2 also considered invoice exception handling as a challenging task.

Retention of Key Persons

Losing key persons was reported as posing a direct risk by three Interviewees (A.2, C.1, and C.3). Interviewee A.2 considered the departure of customer key employees during the service transition as the most probable and severe risk. According to Interviewee C.1, a similar risk exists in the service provider's side. Knowledge is often too concentrated to single persons without proper documentation. Interviewee C.3 stated that "the main risk is that all of a sudden the customer does not have the people that knew automatically what to do, when an issue arises", which is also closely related to the knowledge transfer challenge.

Transition Project Team

In the interviews, additional requirements were revealed that the added complexity of the outsourcing offering poses additional requirements for the case company project teams that are responsible for transitioning the customer current state to the outsourced to-be state. Interviewees A.1, A.3, C.1 and C.2 all emphasize the lack of experienced project managers and project team members as posing a significant risk for the transition project.

Interviewees A.1 and C.2 also pointed out that the lack of appropriate monetary incentives of the account managers, project managers and project members would create a risk for the customer transition project, if they considered implementing the outsourcing service as a penalty.

Insufficient Service Description

Interviewees A.3, C.1 and C.2 pointed the service description and other contractual document accuracy as an important issue, especially from the project management point of view. Judging by Interviewees' A.3 and C.2 experience, it is common that the customer may not fully understand what they are purchasing, if the service description document does not very accurately describe all the details, roles and responsibilities of the project. According to Interviewee C.1, the risk is high that the customer would demand something which is difficult to deliver, if it is not accurately detailed in the service description documentation.

Technical Risks

Risk, by PMBOK's definition, is "an uncertain event or condition that, if it occurs, has an effect on at least one project objective" (PMI 2008: 275). Most of the issues reported by the interview subjects do not fit into the risk category, but can be considered more as challenges. The main real *risk*, as the interviewees brought it up, would be unexpected technical problems. In IT enabled services, the technology obviously plays a notable role, and it is imperative to execute proper technical risk management. In optimal circumstances everything works as planned, but in a complex technical environment such as the case company service infrastructure, it can be said that it is *certain* that some component in a longer time frame will fail and pose the technical risk. When the risks are recognized, there must be a planned and practiced procedure to avoid or mitigate the possible event impact.

Interviewees A.2, C.1 and C.3 consider technical issues as a risk for the outsourcing service. This technical risk includes software bugs, networks, servers and level of automation the case company can provide. In addition, Interviewee C.3 has experienced difficulties in past projects due to bad quality of customer provided data for the service testing.

End-to-End Process Testing

Interviewees B.1 and C.1 argued that the lack of proper integrated end-to-end process testing runs a considerable risk for the customer service transition. Interviewee C.1 especially emphasized the need for real-life-simulating service test, with all possible components and sub-processes involved. Interviewee B.1 highlights the importance of sufficient service testing, especially in the first project.

Management Support

The lack of customer and/or service provider management commitment to the outsourcing project is seen as a very high-level risk by Interviewees A.2 and B.2. Without adequate time, resources and financing assigned to the project, the result is likely to be disappointing to both parties.

Project Management

As the interview results reveal, many challenges are related to the project management practices. Thus, the project management professionals were asked to share their views on the critical success factors of a project.

According to the interviewees A.2, A.3 and C.1, the most important single task of a project manager is communication. The first task is to identify all the stakeholders that the project may concern. The second task is to organize communication that should be proactive, daily and involving all stakeholders. Interviewee A.3 also stressed the importance of creating a communication strategy and a plan to follow in each significant project.

Interviewees A.2, C.1 and C.3 brought up the concept of *project management triangle*, which includes the scope, schedule and costs of a project. According to this concept, these three components combined result in project quality. Figure 11 depicts the triangle.

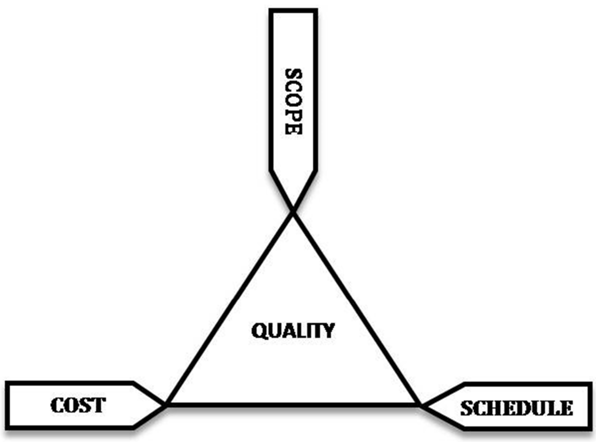

Figure 11. The project management triangle. (Kennedy Traverso 2008)

The triangle represents the project manager's ability to produce the agreed outcome within the allocated time and budged. Changing one of these triangle constituents will inevitably have an effect on the other two. Hence, change management was highlighted by Interviewees C.2 and C.3. The latter stated about the triangle and change management that "the better you are analyzing how a change will impact on other things, the better you will be able to manage a project."

Interviewees A.3 and A.1 point out the necessity of a standardized project implementation. That is, proper tools and templates should be provided for the project managers. Interviewee A.1 recommends pre-filled project templates, rather than empty ones in order to verify the project output. According to Interviewee A.3, the project tools should not be attempted to be planned too far in theory, but the documents will naturally evolve into their final form during the first project.

Indian Organization

For the outsourcing offering in a yet non-existent Indian organization, the Indian outsourcing operations manager and the team will play a significant role in the whole offshoring scenario. Interviewees A.2, B.1 and B.2 perceive financial process knowledge as mandatory and a single most important quality for the Indian operations manager. In addition, Interviewee B.1 lists service and process orientation, ability to run teams and the capability to bring inputs to the service development as crucially important features of the manager. In contrast to other interviewee's opinion, Interviewee A.1 does not see accounts payable knowledge as a necessary attribute for the operations manager, if the operations can be productized far enough. He lists a tough leader personality and excellent communication skills as the primary attributes for the manager.

Interviewees A.1 and A.3, persons as the most familiar with the Indian work culture, strongly emphasize the requirement of extremely detailed work instructions. In case the work instructions are inadequate, so will the result of the work be.

The offshoring organization in India will play an important role in the service operations. The operations manager especially has to be carefully selected. According to the interviewees, the Indian employees are not known for their proactivity when solving problems. This is most likely connected to the local culture in which asking questions points to the lack of competence. Thus, the work instructions and other documentation must be very detailed for future Indian BPO employees.

4.2 Interview Findings and Literature Analysis

Both, the literature review and the interviews both produced similar, matching results which directly addressed the research problem of this Thesis. In the interviews, the interviewees did not only provide answers to the interview questions on outsourcing related risks and challenges, but also generated discussion on how to manage those issues. All interview subjects contributed recommendations on what they feel are important factors providing the outsourcing services. In this subsection, the findings from the case studies are combined with the literature review results in order to conduct a holistic, more hands-on research analysis.

4.2.1 Service Provider-Focused Findings

The interviewees raised a number of issues related to service descriptions, customer promises and agreement as severe risks. Brown and Wilson (2005) address these challenges from a high-level perspective, by providing rules for the necessary infrastructure of outsourcing contracting.

The first rule is to *get the outsourcing agreement right*. Roles, responsibilities, service levels and metrics must be carefully negotiated in the agreement crafting phase. Decision makers, key staff, advisors and the project team members are identified.

The second general rule is to *get the transition right*. For the transition to work, the buyer’s internal resources must be willing to work toward common goal, enabled by change management. The transition phase can be described as the detailed analysis and documentation of all relevant tasks, technologies and workflows. Service level agreements and key performance indicators are finalized in the transition process. (Brown and Wilson 2005: Chapter 17)

The third rule is to *institute change management early*, which strongly pertains to *losing the key employees* – a major risk according to the interviews. Change management here refers to leadership, not the management of change requests in the process operations. The interviewees, as well as the literature pointed out that the outsourcing provider must mitigate the risks and seek to ensure that the buying organization supports the initiative by practicing proper change management. The outsourcing provider can also provide the customer with consulting on change management issues.

Change management efforts should ideally begin before the buyer has even chosen the service provider, but in practice, it happens rarely until the provider staff enters the site post-contracting. Therefore, a shared communication strategy between the two parties must be put in place to lower the possible change resistance. The entire outsourcing project will be notably more likely to be successful, if change management gets proper attention from both organizations at an early stage of the project.

The change caused by the case company outsourcing offering will mostly affect the external client organization. However, after the service agreement has been made, the change management in the organization becomes a mutual function. It will be especially relevant in the scenario with the case company offering, where the customer will retain key responsibilities for the accounts payable process and the key people. Losing those key people, as a symptom of change, poses a significant threat upon the whole transition project.

The 13 organizational characters by Blanchard (2009) were introduced in Table 5. Of those characters the most important ones, within the frame of this study, are *communication*, *vision*, *incentive* and *training*. The requirement for an effective *two-way* communication was suggested by the interviewees, Blanchard (2009), Kotter (1996) and OGC (2007b). Communication is also closely related to vision. Especially Kotter emphasizes the need to clearly and simply communicate the vision of the organization state, after the change has been successfully implemented. The vision must be communicated in such a way, that the people can see the change result as attractive and realistic to achieve. Making the change result attractive is done by means of various incentives. These incentives may be simply monetary bonuses, or options connected to career opportunities. New career opportunities typically mean new responsibilities and acquiring new competencies. These new competencies required by the change are provided by the fourth organizational component, training. By focusing on and combining the four elements, the case company outsourcing offering implementation will likely to be more effective and the risk of losing the key persons will be reduced.

Interviewee B.1 told about his experience of payroll function outsourcing in his previous job. The key persons were offered monetary incentives that were tied to certain transition project milestones to avoid knowledge loss in critical time. Melchior (2007) recommends a similar heavily incentivized bonus structure for the project-wise important persons. If the project timeline is many months or years, then the bonus should be tied to certain stages of sub-process implementations, with a final larger payout at the end of the whole project. In the case company situation, these kinds of incentives would most likely be directed to the customer A/P organization.

However, as the survey illustrated in Figure 8 (p. 37) (Dewhurst et al. 2009) revealed, non-financial incentives may be more effective than financial bonuses. The correct procedure is to carefully identify the *pivotal* key individuals being at risk of departure and find a correct incentive model tailored for them in particular.

The emotional cycle caused by change is illustrated in Figure 7 (p. 35). It is important to recognize the current emotional stage of the employees. Change management’s task is to ensure no key employees are lost during the shock-blame period, and that employees pass those stages as easy and quickly as possible.

Urgency is one of the elements in Blanchard’s list, which explains why the change is needed and how quickly people need to adapt to new ways of working (Blanchard 2009). *Creating a sense of urgency* is the first and most important step in Kotter’s recommendations for leading change. However, emphasizing urgency among the employees is most likely to become a challenging task in an outsourcing situation, since outsourcing is typically primarily concerned with cutting employee costs.

Management Support

Two interviewees considered the lack of sufficient management commitment as a major risk for the offering. Melchior (2007) in his book on establishing a Shared Services Center raises the issue of executive support as the first and most important point in the list of his recommendations (Melchior 2007: Chapter 31). Shared services and accounts payable outsourcing both require change for the end-users in the business units to change their habits. This will not be possible without the commitment by the business unit leaders to these new ways of working. A new type of offering requires new ways of working on the vendor side as well. The sales process is getting more complex, the delivery project more demanding and prolonged, operations will require more accuracy, and risk management more emphasis.

According to Blanchard (2009), the senior leader, a change project sponsor, must be visible and supportive beyond the introductory meetings of the transition project. The executive(s) in charge of the change initiative must remain connected to the transition project for the entire time of its implementation, and beyond to ensure that change is integrated into the organization permanently (Blanchard 2009: Chapter 5). Blanchard also highlights the role of the change sponsor in the organizational chart, depicted in Figure 9 (p. 39).

The ITIL Service Transition publication point out that effective communication is one key element for obtaining the management team support (OGC 2007b: 159).

Communication

Communications is a large area within the context of the research question, as well as the topics discussed in this Thesis. Here, the topic of communication may be divided into three categories:

1) Internal communication
2) Communication in the delivery project
3) Outsourcing buyer communication with the stakeholders

Internal communication is important when launching new offerings, such as the case company outsourcing service. The management responsible for the service must be able to sell the service internally to all necessary stakeholders. The interviewees recognized these stakeholders as the senior executives making high-level decisions; account managers selling the offering; business consultants; project managers and project team members responsible for discussing the detailed contents-level issues with the customer and delivering the actual service. The interviewees pointed out, that the offering development team should get each of these parties committed to the offering, and the main way to do it is effectively communicating internally.

In the interviews, communication was identified as the most important task for a project manager. The interviewees stated that the project manager must execute honest daily communication about all issues related to the project, to everyone involved in the project, and to everyone impacted by the project.

ITIL also recognizes the need for communication and identifying the audience. According to ITIL, it is important to identify those who are already supporting the transition, and those who are strongly against it. It is also most reasonable to concentrate on the people between the two extremes; for example, stakeholders willing to understanding and welcoming the change.

Communicating vision in change effort project was highlighted by Kotter (1996) and Blanchard (2009). Kotter lists the key elements in the effective communication of vision as follows:

- **Simplicity**: the communication must be simple and straightforward, with all jargon and technobabble eliminated
- **Metaphor, analogy, and example**: a verbal picture is worth thousand words
- **Multiple forums of communication:** meetings, memos, newsletters
- **Repetition**: new ideas sink deeply only after hearing them several times
- **Leadership by example**: important people must lead by example that is consistent with the vision
- **Explanation of seeming inconsistencies**: the change credibility is risked, if clear inconsistencies are left unaddressed
- **Give and take**: organizational communication must always be also listening (Kotter 1996: Chapter 6)

Brown and Wilson (2005) recommend, specifically in outsourcing communication, to decide what needs to be communicated and when. The timing of communication should coincide with the specific outsourcing activities. Communication activities should include the following directions:

- Which exact functions are outsourced, where and when
- Anticipated impact of the change on the corporate level
- Who are the project team members and decision makers
- Timelines involved (Brown and Wilson 2005: Chapter 7)

Measuring

According to Interviewee A.2, measuring Indian operations performance and quality is imperative. According to him, every BPO operations employee in India must understand their personal performance and quality targets. These metrics should be followed on a weekly or monthly basis. In his experience, in the early stages of the case company invoice validation operations, merely the announcement to start monitoring performance levels almost doubled the average daily amount of invoices processed.

Melchior's second message after the guideline on executive support was "Measure everything from day one" (Melchior 2007: Chapter 31), while Brown and Wilson insist that "The most successful outsourcers…have an effective process for continual improvement that is underpinned with performance measures and end-user satisfaction measures." Therefore, well-chosen performance measures are an effective way to motivate for better performance and ensure high quality service. The measures must be made realistic or they will not be effective (Brown and Wilson 2005: Chapter 3). Melchior (2007) recommends setting a baseline measure based on the history information, which in the case of the Thesis would mean the current performance of the customer A/P function. From the baseline, performance goals are established.

According to Melchior, individual performance measure may easily get distorted in accounts payable. Often invoices being processed in accounts payable vary. Some invoices are quickly processed, whereas others may require more time and effort. If employee performance is measured individually, it will discourage people to handle complex invoices because it will make their numbers look bad. In such circumstances, Melchior recommends measures that are completely attributable to the *whole team* and paying bonuses only based on team results, not individual results that cannot be fairly compared with each other. (Melchior 2007: Chapter 16)

Process Standardization

Process standardization was seen as an important matter to Interviewees A.3, C.1 and C.3. All three interviewees stressed the requirement of only consider outsourcing a healthy process. A.3 stated that customized process is impossible to make efficient. C.1 suggests providing a standard service model for the customers, but at the same time, giving an impression of a unique service to the customer. Interviewee C.3 highlighted the difficulty of automating a customized process. The result is likely to be bad and the service provider is measured against the result. C.3 also reminded about the hybrid outsourcing benefit by saying "Everything that smells like custom brings us to competition with companies that are hundred times bigger than us, and we lose the advantage." Interviewee A.2, in addition, mentioned customers trying to outsource problems to case company, as one of the main risks for the offering operations.

Razdan (2010) advices outsourcing buyers to fix their 'broken' process before outsourcing: "Do not outsource a mess. It will still be a mess once it is outsourced, it will just be harder to fix." Melchior's ninth guideline is "Do not outsource a broken process. Optimize current processes before outsourcing them. It is very difficult for an outsourcer to fix a broken process, especially when the correction involves changing the corporate culture." (Melchior 2007: Chapter 31).

The normal Financial Shared Service Center approach in acquiring a business process, from a company or a business unit perspective, is standardizing all processes into one model, as follows: "The one thing we cannot do is have different processes for each implementation. If we do that, we will have to double our staff all of the differences and exceptions." (Melchior 2007: Chapter 12). Therefore, according to the interviewees and the literature, the case company should pursue a similar goal, but acknowledge the fact that *external* customers will always require different processes to manage their business.

Project Management

The reported challenges with the delivery project managers, team members and account managers were mainly answered by the interviewees themselves. Interviewees A.1, C.1 and C.2 brought up the issue of lack of experience in delivery project teams. The knowledge requirements, for the case company project managers and account managers delivering the outsourcing service, become significantly more important when selling and delivering a new service such as the outsourcing offering. All three interviewees recommended choosing senior level account managers and project managers, who can handle the known challenges, and communicate with the customer with a common language.

4.3 Key Findings

The key findings summarize the interview results, literature contribution and the combined analysis of these two, discussed earlier in this section. The findings were combined into seven groups, which were identified as the main themes of the interview results. The seven groups were:

1) Knowledge transfer
2) Retention of key persons
3) Insufficient service description
4) Transition project team
5) Invoice exception handling
6) End-to-end process testing
7) Management support

Knowledge transfer was a challenge mentioned by most interviewees. Transferring customer process knowledge to the provider is a natural challenge that occurs to most people, when considering the outsourcing offering. However, other challenges and solutions to those challenges link and contribute greatly to the issue of knowledge transfer. The risk of employee retention was identified as an issue closely related to transferring knowledge. The interviewees stressed that if the key persons depart, there will be no one to transfer the knowledge from. The high risk of employee retention will only be tackled by effective change management and communication. The interviewees and the literature also discussed the process standardization. The further the case company is able standardize and harmonize the client accounts payable processes, the lesser the need will be for knowledge transfer.

Retention of key persons in outsourcing was acknowledged as a high-impact and highly probable risk. This risk was emphasized by the interviewees and the literature. It was noticed that outsourcing inevitably causes change and change causes resistance among the employees. Change management is utilized to manage the negative emotions caused by major change efforts which would appear as the retention of the pivotal individuals, and thus would cause major obstacles for the entire outsourcing project. From the 13 change enabling organizational characteristics introduced by Blanchard (2009), in the context of this study, the most important are communication, vision, incentive and training. Effective communication especially was identified as the key activity to reduce change resistance by Kotter, Blanchard and ITIL. Since the largest risk period is the service transition phase, it is imperative to retain the key employees *at least* during that time. This can be done with actively identifying the different key people and recognizing their individual needs and concerns. Incentives can be tailored for these people individually, as suggested by Cosack et al. (2010). The incentives may be of financial or non-financial nature, and often the latter is more effective, as reported by Dewhurst et al. (2009).

Insufficient service description and other contractual issues were emphasized by the interviewees and literature, e.g. Brown and Wilson (2005). The documentation must be detailed and accurate in the contract creation phase, but especially when agreeing on roles, responsibilities, service levels and metrics. The interview results show that the service description requires extra attention, considering the case company past project experience.

Transition project team poses a risk according to the interviewees. The solution to this challenge can be simple and was mainly answered the interviewees themselves. Since the outsourcing offering adds new components to the sales process, the delivery project and service transition, more knowledge is required from the account managers and project managers. The persons selling the offering, making the contracts and delivering the service should be experienced enough to understand the big picture and communicate with the customer effectively on a daily basis. Experience alone is not enough, but the corporation must provide profound training and support for these individuals, in order to overcome the transition project team-related challenges.

Invoice exception handling was an issue raised by the interviewees. The impact of this challenge is reduced by activities mentioned in this section already; process standardization and knowledge transfer. The process of exception handling must be standardized as far as possible to reduce the number of different required procedures for the customer. Ideally, the offshore operations should have one invoice exception handling process that would suit all customers, whose invoices are processed by the service operations. Realistically, client companies will have their own respective processes that the case company has to, at least partly, implement in the operational procedures. In this case, the success of this operation relies on the transition knowledge transfer process. The better the knowledge about an invoice exception handling is being transferred to the offshore operations, the more efficient the operations will be. Furthermore, the planned service offering will also rely heavily on increasing the automation of the client process, which will reduce the need of manual exception handling. The interviewees also recommended recruiting a manager to run the offshore operations, who would have extensive accounts payable process experience. Having this experience in the operations would reduce the impact of the exceptions encountered.

End-to-end process testing is important matter in outsourcing service transition according to the interviewees. The interviewees emphasized the requirement for real *integrated* service testing with real customer provided data. The provided service contains several different components, which must be all included in the service testing phase, instead of trying to simulate the tests. Also, the customer must be obligated to provide enough real testing data, in order to test a real life scenario.

Management support is a requirement and lack of it, a major risk, according to the interviewees and the literature. Effective *two-way* communication was identified as the best way to obtain commitment from the management. The top management must communicate, especially the vision, to all stakeholders as emphasized by Kotter (1996), Blanchard (2009), OGC (2007b), and Brown and Wilson (2005). Conversely, the stakeholders must communicate to top management, in order for them to steer the project and make high-level decisions. In the case of starting an outsourcing business, this requirement for communication applies to both, the service provider, as well as the service buyer organization.

5 DISCUSSION AND CONCLUSIONS

This section summarizes the results and the process of the study. Recommendations, managerial implications and future considerations are provided for the case company, and the research process is evaluated.

The research process started by determining the research scope and followed with outsourcing and offshoring literature study. This literature indicated service transition, project management and change management being critical sub-processes of outsourcing. This literature review was reflected to the research design. The major findings from the research included general outsourcing related pitfalls and also some case company related pain points. The Managerial Implications and Recommendations subsections directly address these challenges, which were revealed by the research.

5.1 Recommendations for the Transition Project

This subsection contains recommendations for the case company, specifically for service transition and project management. These guidelines are formulated based on the research results and the literature review.

5.1.1 Knowledge Transfer and Service Testing Guidelines

Knowledge transfer was seen as the most difficult and critical single task among the interview subjects. This challenge was also the most frequently mentioned issue in the interviews. Knowledge management is particularly relevant in service transition, since knowledge is one of the key service attributes being transferred.

The recommended knowledge management steps are formulated as follows:

1. Identify required knowledge
    a. Define roles and responsibilities
2. Identify knowledge gaps
    a. Standardize process
3. Establish a transition knowledge base

Before knowledge can be transferred, the *required knowledge must be identified*. The purpose of knowledge identification is to determine what information is necessary for the service transition, which conditions need to be monitored, and what is the cost of capturing and maintaining this data. Identifying this information will also deliver conformance with legal and other requirements. A mandatory tool for recognizing the required knowledge is to agree upon the *roles and responsibilities* between the service provider and the customer. The roles and responsibilities matrix must be an unambiguous document clearly describing detailed level tasks and responsible parties.

Knowledge transfer requires an *identification of the gap* between the department or person in possession of the knowledge, and those in need of the knowledge. The outcome of this analysis is the communication plan to facilitate this knowledge transfer. In outsourcing, this knowledge gap is typically great between the service buyer's employees' knowledge and the service provider's offshored employees, especially in the early stages of the service operations. This knowledge gap must be narrowed down by *process standardization*. The outsourcing offering must be based on a standardized best-practices model, which the customer adopts, not the other way around. Naturally, there will be customer-specific procedures that cannot be standardized and this is where the knowledge transfer process should concentrate on, because unsuccessful knowledge transfer quickly escalates into increased *operational risk* discussed in section 2.1.

Providing services to customers in different countries, continents and time zones imposes requirements for a comprehensive knowledge sharing. A centralized *transition knowledge base* is developed and maintained for this reason. The database satisfying all information requirements must be available to all stakeholders. Creating a service transition knowledge base is especially important in the case company's situation, when basically all the service lifecycle phases are geographically dispersed. The service strategy and design functions are located in the Finnish headquarters, service transition is managed in the beginning between the HQ, country unit and India. Service operations and continuous service development are in India and in the country units. It becomes obvious that a centralized location for knowledge sharing is required, available for all service stakeholders.

Service Testing and Deployment

Service testing was highlighted by the interviewees, who strongly emphasized the need for comprehensive testing period before a first customer can go live with the new service. Lack of testing may at worse cause severe damage to the customer organization's accounting function, and thus would easily cripple the entire case company outsourcing business. The test plans must be integrated, performed by using real life components and test data, as pointed out by Interviewees B.1, C.1 and C.3. Therefore, the testing phase in service transition must get a high priority in the transition project.

Various plans must be formulated prior to deploying a service into production. The release and deployment plan should include:

- Scope, content, risks, responsibilities and stakeholders in the release
- Approach for collaboration with all stakeholders
- Pass/fail criteria

Input for this planning phase should be the PMBOK project initiating and planning process group activities (see pages 24-25). Pass/fail criteria is important to agree with the customer early in the delivery project. In the case company situation, one pass/fail criterion could be a required level of automation that must be reached by the project transition team, before service operations accepts the service into production.

In addition to the technical and integrated component tests, the actual service functionality must be tested. ITIL provides two tests, which target is to ensure new services are *fit for purpose* and *fit for use.* Fit for purpose means that the service meets the defined customer needs and thus, support the business. Fit for use addresses matters such as availability, continuity, capacity and security of the service. (Van Bon 2007: 260)

There are various test techniques, which depends on the service type, risk profile, test goal and test level. For the outsourcing offering service testing, the most important tests are:

- Service requirements testing: Fit for purpose – for testing if the service meets all determined specifications
- Service level testing: For testing whether the service meets the required service levels
- Service assurance testing: Fit for use – to verify availability, capacity, continuity and security
- Operational testing: For example; stress testing, security and recoverability (Van Bon 2007: 262)

After the deployment of a new service, early life support is required to provide extra focus and support from the transition team to the operations team. Service transition will monitor the performance during this period, until the predefined exit criteria are met. Early life support could also be extra checks quality audits made in the beginning of the service. For example, every invoice to be transferred to the accounting system is double-checked by the customer core team two months from the start of the service, in order to train the service provider employees and ascertain quality of the service.

The service transition ends with reviewing and closing the project. It must be ensured that knowledge was adequately transferred during the service transition, relevant user experiences were documented, and the service is ready for transition from early life support to production. In this phase, the final handover is made by the transition project team to the operations team in India. Lessons learned and transition database should be updated with latest experiences.

Organizational Context for Transitioning a Service

After the detailed processes and work instructions have been developed, the organization maps its staff to the different process activities. The critical success factors for a service implementation are clear definitions of each role's accountability and responsibility. If roles and responsibilities are not clearly stated, the new process can be confusing, and people may revert back to the old procedures how things were handled before. The two key roles in ITIL service delivery are process owner and service owner, and in service transition specifically, transition manager (OGC 2007b: 179). These main roles must be defined in the case company to ensure accountability. A situation where the organization lacks sufficient role and responsibility definitions poses a notable risk for the transition and operation efforts, which can easily escalate into serious business threats, especially for a non-established outsourcing organization such as the case company.

- The Process Owner is responsible for all activities defined in the process and activities such as:
  - Defining process strategy
  - Ensuring that appropriate documentation is available
  - Communicating process information to ensure awareness

- The Service Owner is responsible to the customer for the service initiation, transition and ongoing maintenance of a particular service. The service owner has responsibilities such as:
  - Act as a prime customer contact for all service related issues
  - Ensure ongoing service delivery and meet agreed customer requirements

- The Transition Manager manages the daily activities of the service transition teams. The primary responsibilities of this role are:
  - Overall planning and management of Service Transition delivery
  - Managing the Service Transition functions
  - Acting as the prime interface for senior management in Service Transition related issues

- Making the final recommendation to the business and IT regarding the deployment of new service

5.1.2 Project Management Guidelines

The project charter, project management plan, WBS and WBS dictionary contain the information, which the interviewees considered of high importance. Thus, more focus should be put on these project documents the outsourcing offering customer project, and they require more emphasis by the project coordinating organization. These documents should be pre-filled by the offering development, before providing them to the project organization. This practice will leave less room for process customization and will streamline the project execution.

The project management professional interviewees (A.2, C.1, and C.3) also emphasized the project management triangle and its components scope, schedule and cost. The *project charter* is a document often created by the project manager, but issued by the project sponsor. The charter formally authorizes the existence of the project. It allows the project manager to spend money and utilize corporate resources. The interviewees mentioned that often in past projects the customer has not necessarily completely understood the solution they are purchasing. This may cause a disagreement that poses a risk for the entire customer relationship. By carefully including the project objectives and scope in the project charter, this risk can be reduced.

The *project management plan* is the main project document that integrates all the knowledge area management plans into a whole. A project management plan contains scope, schedule and the cost baselines, against which the project performance is reported. The following performance measurement baselines should be created during the planning phase:

- Scope baseline: The project baseline, work breakdown structure (WBS) and WBS dictionary
- Schedule baseline: Project agreed schedules with start and stop times
- Cost baseline: The cost budget

Project Risk Management

Identifying project risks should involve all stakeholders and possibly a literature review, research and talking to non-stakeholders. Most of the risk identifying activities takes place in the planning process group, as the project scope statement, WBS and WBS dictionary are important inputs for risk identification.

One of the risk management processes is to perform a qualitative risk analysis, which involves creating a short list of the previously identified risks. Qualitative risk analysis is a subjective analysis of the identified risks, in which the different risks are ranked by their probability of occurring, and the impact it would have. The probability and the impact are put on a scale from 1 to 10. The result is a probability and impact matrix, which is used to sort out or rate risks to determine which ones require immediate attention.

The process of risk response planning finds ways to reduce threats or eliminate them completely, but also emphasizes the ways to make opportunities, i.e. positive risks, more likely or increase their impact. These responses may include one or all of the following:

- Act to eliminate the threat before it happens
- Act to make sure the opportunity happens
- Mitigate the probability / impact of threats and increase the probability / impact of opportunities (Mulcahy 2009: 384)

A contingency plan or a fallback plan must be created for the risks that cannot be eliminated. The common strategies for risk response include:

- Avoid: eliminate the root cause of the threat, e.g. the person or work package.
- Mitigate: reduce the probability or the impact of the risk, thus reducing the risk ranking.
- Transfer: transfer the risk responsibility to another party, by, for example, outsourcing the work or purchasing insurance. (Mulcahy 2009: 393)

Before the risk responses can be planned, the risks should be identified and analyzed. In the case of technical risks, a qualitative or even quantitative analysis should be performed and risks ranked according to their impact and probability. For technical risks, history information from past technical issue logs may be utilized for performing a quantitative risk analysis. Based on the results of the risk analyses, a response is planned for each particular risk and a thorough contingency plan created. The risk response plan should also contain actions to be taken to decrease the probability or impact of an identified risk.

The risk management practices should primarily focus on the technical risks. The technical platforms are the foundation of the offering, but technology always fails, sooner or later. When that happens, the technical risk is realized and the service continuity depends on how well the risk management and risk response strategies have been planned and implemented.

5.2 Managerial Implications

This section presents and explains the managerial implications (MI) for the case company, based on the findings from this study.

MI-1, Knowledge Management: An adequate knowledge management practice must be instituted, as detailed in Section 5.1.1. The requirement for a central transition knowledgebase is especially important, because in the case company all the service lifecycle phases are geographically dispersed. Therefore, it is essential to create a central service transition knowledgebase available for all stakeholders. Also, the roles and the responsibilities must be clearly agreed, in order to identify the transferred knowledge and to deliver conformance with legal and contractual requirements. The roles and responsibilities must be defined between the case company and the customer, and also internally between the case company business units and teams.

MI-2, Project Delivery: Account managers and project managers capable of discussing the outsourcing offering with the customers should first be selected. These individuals must preferably be the most experienced members of their business units. Corporate headquarters, responsible for the offering development, must be committed to provide extensive training, project templates, sales support and project coordination for these business unit project delivery members.

MI-3, Employee Retention: The risk of pivotal key person's sudden departure may cause significant harm for the outsourcing offering. The case company can provide change management consultation for the clients to reduce this risk. The customer, it its turn, must get committed to identifying the key persons, involving them early in the project and preventing their retention by utilizing different approaches analyzed in Section 4.2.

MI-4, Service Description Documentation: In the service concepting phase, extra attention must be paid to the level of accuracy and detail of the service description, as well as other documentation, such as the contract annexes, which describe the detailed level contents of the service. These documents should be packaged as different service versions and have then internally released for collecting feedback. After the feedback is given by the internal stakeholders, it is evaluated and elements are selected to the service backlog, to be implemented in the next version. This systematical process of cyclical internal service description evaluation has many advantages: a) it will include all relevant internal case company stakeholders in the service design phase and enable their input, b) it decreases the risk of the service description being inaccurate, which has caused problems in the case company past, and c) it will prepare, especially the project delivery teams, to implement this new service for the customers.

MI-5, Project Management Templates: The project charter, project management plan, WBS and WBS dictionary are project documents containing information about the project scope, schedule, cost, resources, and quality, which the project management professional interviewees considered important. These documents should be pre-filled by the headquarters, in order to streamline the project management process and also to standardize the acquired accounts payable process.

MI-6, Project Risk Management: Project risks ought to be evaluated and managed within the context of the project management triangle (Figure 11). Risk categories should be divided into scope, schedule and cost, and each category evaluated separately.

MI-7, Offshore Operations Manager: The operations manager to be recruited must be a proactive communicator and experienced professional in accounts payable process management and team leading. This person must be made as one of the key operative persons, and thus preventive retention should be practiced. Due to the high retention rate of BPO employees in India, this person must be assigned a temporary backup person, who is able to take over in case of a sudden departure.

MI-8, Offshore Operations Metrics: Team performance should be primarily measured instead of performance by individuals. Some invoices are quickly processed, whereas others may require more time and effort. If employee performance is measured individually, it will discourage people to handle complex invoices because it will make their numbers look bad. Measuring primarily the team performance will encourage better team synergy and knowledge sharing, instead of unfair comparison of individual results.

MI-9, Process Standardization: The case company should gather all possible best practices of accounts payable process into one in order to create the standard process model, in which the customer process is being implemented. Process standardization will bring many significant benefits for the service transition, operations and continuous development. Using a standard model, projects can be implemented more efficiently, economies of scale can be achieved for service operations, and services can be better improved if clients are using similar processes. In addition, the standardization helps overcoming the challenge of invoice exception management. This implication is closely related to MI-5. The process standardization must be instituted by developing pre-filled process templates for the project delivery organization.

MI-10, Service Testing: Service testing amount and quality must get sufficient attention to prevent serious operational risks. The service testing processes described in section 5.1.1 should be implemented as a standard practice of the project delivery and service transition project.

MI-11, Communication: Sufficient communication is the key in successful outsourcing projects, as indicated by the research, as well as literature. Open, adequate and focused communication is a mandatory requirement throughout the entire project, in each step, and with each stakeholder. In the planning phase of every project, a communications management plan must be created, which contains communications related matters, such as targets, methods, frequency and timing. This managerial implication is especially important for MI-1, MI-2, MI-3, MI-8, MI-9 and MI-10.

5.3 Future Considerations

Within the scope of this Thesis, the area of technical risk management was too large for further detailed scrutinizing. But being such an imperative part of the offering development, this area must be examined separately.

Technical risks are always present in IT enabled service business. The management of risks was briefly discussed in section 5.1.2. Like any other real risk category, technical risks are managed through identification, analysis, response planning and creating contingency plans. The wide area of risk management requires further studying.

5.4 Evaluation of Research Process

The research succeeded in revealing and investigating the case company specific challenges, from the point of view of qualitative interviews and providing answers as for how to overcome those challenges.

To arrive to these conclusions while retaining research validity, this study utilized multiple sources of evidence, established a chain of evidence and had stakeholders reviewing the draft report, as suggested by Yin (2003: 34, 36). The chain of evidence is established by 1) posing the research question early, as recommended by Kvale (1996); 2) studying the literature as a pre-study for the research interviews; 3) conducting the interviews by following Kvale's seven-step methodology; and 4) combining the interview results with the literature study. The literature provided an important practical ground by using multiple references, standards, frameworks and best practices (ITIL and PMBOK).

The researcher has been employed by the case company since 2005 until today. From 2007 to 2010, his tasks were to provide second level functional and technical support for the case company financial software solutions. The tasks also included conducting financial software implementation trainings for consultants and support for the case company financial shared services center. During this period, the researcher became familiar with financial processes and Indian work culture, due to frequent intercommunication with the Indian software production and visiting the Indian office. In 2011, the researcher moved to the case company's automation services organization to develop the outsourcing offering which this Thesis is investigating. This has enabled Thesis progression through frequent communication with the key stakeholders, which fulfills Yin's third validity requirement.

The reliability of the research is presented in the consistency of the Results and Analysis section. The interview procedures and findings are clearly presented and challenges addressed. In retrospective, the interview types might have been more structured. The type used in this Thesis was the general interview guide approach (semi-structured), which in some cases allowed too much of flexible discussion and made it harder to keep the limited time within the boundaries of the topic. However, due to the allowed flexibility, other interviewees were able to present their more detailed views and recommendations on how to tackle the challenges.

Due to time constrains, the case study was a feasible choice. It was later considered that another approach could have been an action research, in which a certain model would be iterated in workshops. In this case, the researcher would have created a certain model to be implemented based on the literature. This model would then have been taken to a workshop to be discussed, for example, with interview group A. The output from that workshop would then be taken to another workshop with another group, and so on. This should be taken into account by the next generation of researchers interested in this topic.

References

Aron, R. and Singh, J. V. (2005). Getting Offshoring Right In: *Harvard Business Review*. December.

Baxter, P., and Jack, S. (2008). Qualitative case study methodology: Study design and implementation for novice researchers. *The Qualitative Report*, 13 (4), 544-559.

Blanchard, K. (2009). *Who Killed Change?: Solving the Mystery of Leading People Through Change.* Amazon Kindle DX E-book version. William Morrow

Brown, D., and Wilson, S. (2005). *The Black Book of Outsourcing.* New Jersey: John Wiley & Sons, Inc.. Amazon Kindle DX E-book version.

Cosack, S., Guthridge, M., and Lawson, E. (2010), Retaining key employees in times of change In: *McKinsey Quarterly*. August.

Dewhurst, M., Guthridge, M. and Mohr, E. (2009) Motivating people: Getting beyond money In: *McKinsey Quarterly.* November.

The Economist (2010). *Business in India: A bumpier but freer road*, (Sep 30) [WWW document] http://www.economist.com/node/17145035 (Accessed Oct 17, 2010)

Eisenhardt, K.M. (1989). Building Theories from Case Study Research*. The Academy of Management Review*. 14 (No 4), October, 532-550.

Farrell, D. (2006). Smarter Offshoring In: *Harvard Business Review*. June.

Farrell, D. and Zainulbhai, A.S. (2004). A richer future for India In: *McKinsey Quarterly.* Special Edition.

Frei, F. X. (2008), The Four Things a Service Business Must Get Right In: *Harvard Business Review*. April.

Johnson, M. W. (2010). *Seizing the White Space: Business Model Innovation for Growth and Renewal*, Amazon Kindle DX E-book version. Harvard Business Press.

Johnson, M., Christensen, C. and Kagermann, H. (2008). Reinventing your business model In: *Harvard Business Review*. December.

Knights, D. and Jones B. (2007) Outsourcing (the) economy to India: utopian and dystopian discourses of offshoring In: *International Journal of Sociology and Social Policy*. 27. (11/12), 433-446.

Kotter, J.P. (1996). *Leading Change.* Amazon Kindle DX E-book version. Harvard Business Press.

Kumar, S., Aquino, E., Anderson, E. (2007). Application of a process methodology and a strategic decision model for business process outsourcing In: *Information Knowledge Systems Management 6* (2007), 323-342.

Kvale, S. (1996). *InterViews: An Introduction to Qualitative Research Interviewing.* Thousand Oaks, CA: Sage.

Marshall, C. and Rossman, G. (1998). *Designing Qualitative Research*. Thousand Oaks, CA: Sage.

McNamara, C. (2009), *General guidelines for conducting interviews*, [WWW document] http://managementhelp.org/evaluatn/intrview.htm (Accessed Dec 19, 2010)

Melchior, D.C. (2009). *Shared Services: A Manager's Journey*. Amazon Kindle DX E-book version. Wiley.

Mulcahy, R. (2009). *PMP Exam Prep.* Minnetonka: RMC Publications.

OECD (2004), *OECD Glossary of Statistical Terms - Offshoring Definition*, (Nov 26) [WWW document] http://stats.oecd.org/glossary/detail.asp?ID=6271 (Accessed Jan 11, 2011)

OGC (2007a). *ITIL V3 Service Strategy.* Norwich: Office of Government Commerce.

OGC (2007b). *ITIL V3 Service Transition.* Norwich: Office of Government Commerce.

Patton, M. Q. (1990). *Qualitative Evaluation and Research Methods.* Newbury Park, CA: Sage.

PMI 2008. *A Guide to the Project Management Body of Knowledge*. Newtown: Project Management Institute Inc.

Razdan, A. (2010), *Fix 'Broken' Processes Before Outsourcing FandA*, (Jan 28), [WWW document] http://www.globalservicesmedia.com/BPO/F-and-A-Outsourcing/Fix-%27Broken%27-Processes-Before-Outsourcing-FandA/23/8/9237/GS10012867987 (Accessed Mar 3, 2011)

Singh, C.P., Lather, A.S. and Goyal, D.P. (2009) Building Relationships @ BPO India. *Paradigm.* 13, (1), Jan-Jun

Turner, D. W., III (2010). Qualitative interview design: A practical guide for novice investigators. *The Qualitative Report*, *15* (3), 754-760.

Van Bon, J. (2007) *Foundations of IT Service Management Based on ITIL® V3.* Zalt-bommel: Van Haren Publishing.

Kennedy Traverso, J. M. (2008), Project Management Triangle, [WWW document] http://en.wikipedia.org/wiki/File:The_triad_constraints.jpg (Accessed Feb 21, 2011)

Yin, R.K. (2003). *Case Study Research: Design and Methods.* Thousand Oaks, CA: Sage.

Interview results, Group A

Group A, General	General offering risks	Project success factors	Indian organization	Open comments / Recommendations
Interviewee A.1	- Knowledge transfer to India - Level of work instructions - Not done before - Indian management - Project team incentives - Delivery projects of new concepts - Productizing customer operations		- High employee turnover Outsourcing operations manager must - be tough and create a sense of leadership - have good daily communications skills - have A/P process knowledge	- Measuring important in India - Transition delivery project managers should be senior level - Project management templates should be pre-filled
Interviewee A.2	- Knowledge transfer to India - Loss of customer key persons - Risk not recognized - Management commitment (supplier/customer) - Transition project delivery - Productizing customer operations - Customer trying to outsource problems - Technical (software bugs, infra)	- Frequent communication to all stakeholders - Integration management - Project management triangle: cost + schedule + scope = quality	- Ideally outsourcing offering would have own organization instead of a vertical branch under scanning operations - A/P process knowledge required	
Interviewee A.3	- Insufficient service description - Lack of project management skills in transition - Misjudged workload	- Project management process - Projects should be conducted using standardized tools and templates - Active communication to all stakeholders	- Work instructions must be accurate - High employee turnover	- Projects should be conducted using standardized tools and templates - Project tools and templates will evolve in the first project - Outsourced process standardization important

Interview results, Group B

Group B, FSSC	Offering general risks	Transition risks	Indian organization	Open comments / Recommendations
Interviewee B.1	- Not done before -> unsuccessful first customer -> loss of credibility -> loss of business - Invoice processing exception handling	- Big bang transition - Too little process testing	- Service oriented - Knowledge & experience of A/P - Can bring input to service development - Process oriented - Team manager	- Instead of big bang, rather one service at a time, attempt to start small and scale up after successful milestones - Service provider should have ready role & responsibility matrix addressing each procedure. functions must be cut down to work package level - Customer core team committed with monetary incentives - Transition project key persons incentives tied to certain milestones - Indian operations bonuses based on SLA service levels
Interviewee B.2	- Management commitment (provider/customer) - Exception handling in India: inquiries from suppliers, unknown one-off suppliers etc.	- Insufficient customer process documentation	- Manager should have good knowledge of the A/P process - If team members have no financial knowledge, they should concentrate only one partial task	- Chart of accounts should be properly maintained

Interview results, Group C

Group C, PM	Offering general risks	Transition risks	Project success factors	Open comments / Recommendations
Interviewee C.1	- Loss of key persons - Knowledge too centralized to certain key persons - Technical (software bugs, infra) - Service description insufficient	- Projects never have sufficient resources - Project team experience - Lack of integrated end-to-end process testing	- Project management triangle - Project manager primary job is to communicate to different stakeholders - In project planning phase risks should be identified. If project has an issue = risk has realized -> must have audit trail and learn to prevent in future	- Integrated end-to-end testing important - Service provider must have a standard model for outsourced service, but give an impression to the customer that they are receiving unique service - Experienced project manager required who can communicate with the customer with common language - Provider must keep in mind that outsourcing is a bigger case to the customer than to provider
Interviewee C.2	- When project advances, unexpected matters may appear that the customer could not communicate -> must have experienced project team who are prepared for this - Customer simultaneous projects (ERP upgrade etc.)	- Typical risks appear already in the sales process when making promises to customers - Sales people have negotiated with too high level people, who have not understood the offering correctly - Inaccurate service description -> customer buys something that they do not fully understand	- Experienced project team members early enough involved in the pre-sales process	- Account managers skill level must increase and narrow when case company offerings portfolio is wider - Create detailed service description - Use experienced implementation project managers - Account managers & delivery team incentives must support outsourcing projects - Project change management is important
Interviewee C.3	- The knowledge transfer is going to be a challenge - The main risk is that all of the sudden the customer does not have the people that knew automatically what to do, when an issue arises. - The main source of problems in delivery side has been customized solutions	- Technical risks (software, bugs, technical platform) - Quality of the test data - Customer current process complexity. Large companies (target customers) probably have already started harmonizing and streamlining their processes. The challenge comes with the customers that have special non-standard processes and they feel like they need to keep them. Everything non-standard is a risk	- Clear perception of what you're trying to achieve (the project charter). Three elements: 1) clearly defined objectives 2) timeframe 3) resources - Change management & project management triangle: budget, timeline and scope. When one of these changes, it will have an impact on the other ones. The better you are analyzing how a change will impact on other things, the better you will be able to manage a project	If we try to automate an inefficient process, the result is bad and we are measured against the result. SAP for example enforces the standard processes to a company, which may cause in most cases severe challenges to the business, but result of having good processes in place is definitely worth the effort, but if the company survives that phase, they end up with a really efficient process. We should act like that too. We know how our software should work like.