Global services outsourcing:

Critical aspects and future directions

Authors

Martina Gerbl
University of Ulster
Department of International Business
Northland Road
Derry
BT48 7JL
Northern Ireland
Email: m.gerbl@ulster.ac.uk
Phone: +44 (0)28 71375764

Prof. Ronan McIvor
University of Ulster
Department of International Business
Northland Road
Derry
BT48 7JL
Northern Ireland
Email: r.mcivor@ulster.ac.uk
Phone: +44 (0)28 71375275

Prof. Paul Humphreys
University of Ulster
Department of Management
Shore Road
Newtownabbey
BT37 0QB
Northern Ireland
Email: pk.humphreys@ulster.ac.uk
Phone: +44 (0)28 90368410

POMS 20th Annual Conference
Orlando, Florida U.S.A.
May 1 – May 4, 2009
ABSTRACT
Services outsourcing has gained increasing importance in today’s global economy. Traditionally, operations literature has focused on manufacturing outsourcing. Services outsourcing has become increasingly complex and contrasts with manufacturing. This paper highlights the importance of operations management to the rapidly developing area of services outsourcing, and identifies important research areas for operations management scholars. Research is lacking in service design principles and outsourcing. Many service classification frameworks cannot fully explain global services outsourcing. Research is required to develop frameworks that consider the motives for location choice in services outsourcing, which will involve identifying the key influencing factors on offshore-nearshore-domestic services outsourcing arrangements. A further important area is the theories employed to understand global outsourcing. It is argued that theories from economics, strategy, and organizational behaviour should be linked with operations management concepts such as business improvement, service design, location choice, and operations strategy to better explain outsourcing.

INTRODUCTION
Historically, companies were vertically integrated organisations, aiming to control channels of both supply and distribution (Hannagan, 2005). Goods were manufactured from raw materials and then transported to self-owned retail outlets. Outsourcing in the form of subcontracting manufacturing work began as early as the 1800s, however documented instances of its use first appeared in the 1950s (Walters et al., 2006). Accompanied by the reduction of trade barriers, labour-intensive, low-skilled manufacturing positions were the first to be offshored in the 1980s. The outsourcing of services started with functions such as specialised legal work, followed by information technology (IT) outsourcing. Similar to manufacturing outsourcing, historically most firms had built their own service processes for processes that were either critical or not critical to the company’s strategy. These processes were generally performed by employees within the company. De-coupling of processes and thus outsourcing to other countries was allowed by the changing view of service processes from idiosyncratic to standardised
Outsourcing of service processes began to gain currency as a means of achieving rapid benefits. Business developments such as - amongst others - the advances in international information and communication technologies (ICTs) transformed the response time and the type of work that could be done offshore. The physical transport of documents overseas - involving considerable time delays - was replaced by electronically transmitted data, thus reducing both transportation costs and response times (Metters et al., 2008). Foreign governments aimed to improve the telecommunications infrastructure to enable stable electronic transmission. Starting with fairly low level work that entailed for example process and contact centres (transactional outsourcing), much of the service (as well as manufacturing) arena has taken on increasing levels of complexity in design and execution (transformational outsourcing) (Youngdahl et al., 2008). This shift from transactional to transformational outsourcing is the result of the increased experience with offshoring that many outsourcing companies have. Furthermore, service providers (as well as vendors) in offshore countries have steadily improved their quality through the continuous qualification of employees or the employment of skilled employees.

Service businesses differ from manufacturing businesses in several ways. Karmarkar et al. (1995) identified key distinguishing issues such as the intangibility of service output, the lack of inventories, the difficulty of portability, and the complexity in definition and measurement. Haynes (1990) continues that production and consumption may occur simultaneously, site selection may be dictated by customer location, and that quality is a function of customer perception at delivery. Fitzsimmons et al. (2006) also argue that services often involve joint production between the buyer and the supplier.

This paper highlights the importance of operations management to the rapidly developing area of services outsourcing and identifies six important research areas for operations management scholars. The discussed research areas include service classification frameworks, service operations management, global outsourcing, project management of (international) outsourcing ar-
rangements, performance measurement & productivity, and theory application. For each section a brief literature review and important areas for future research will be discussed.

**SERVICE CLASSIFICATION FRAMEWORKS**

Due to the differences between services and manufacturing businesses, service organisations need business models that more accurately account for the effects of service system designs and the roles of customer and service provider choices in the service delivery process. The development of a positioning matrix or framework for services is an important contribution to management literature. Many authors have attempted to develop classification schemes, positioning matrices, or frameworks for services. However, none of these concepts is truly satisfactory for services organisations and more suited for manufacturing companies. The most influential theories will be discussed briefly to provide an overview of the current state of literature.

**Hayes and Wheelwright (1979)** developed a widely accepted product process matrix that describes product process choices in manufacturing industries. The proposed matrix is drawn on the concept of the ‘process life cycle’ that suggests that a production process in the manufacture of a product passes through several stages similar to products and markets. It analyses the interaction of product life cycle stages as well as process life cycle stages. The horizontal axis describes the product life cycle stage ranging from low to high volume/standardisation. The vertical axis analyses the process life cycle stage ranging from jumbled flow to continuous flow processes. The emphasis of both low-volume products and jumbled flow processes is on flexibility and quality, moving to reliability, predictability, and cost emphasis for high volume products and continuous flow processes. The authors propose that the product mix determines the choice of process type. According to the matrix, companies act economically when they stay on the diagonal of the matrix because product and process characteristics are well matched. When organisations move too far away from the diagonal, they become more vulnerable as they are increasingly different from competitors. Whereas Hayes and Wheelwright’s product process matrix is valuable for manufacturing companies, it has some major shortcom-
ings for service businesses. The relationship between volume and process is not appropriate in some service businesses. In service operations volume increases can be made without any changes in the service process, which contrasts to manufacturing operations. Furthermore measuring volume in service organisations is more difficult than in manufacturing companies and also less meaningful due to the heterogenic and intangible nature of services. More problems can emerge as on the product axis of the product process matrix volume and customisation are combined. Also, mature ICTs allow companies to offer highly customised services without having jumbled flow processes. The authors propose that technology tends to be more prevalent in high volume products with continuous flow processes.

Chase (1981) developed the customer contact approach to services. This theory holds that ‘a service system’s potential operating efficiency is a function of the degree to which the customer is in direct contact with the service facility relative to the total service creation time for that customer’. Chase proposes that the potential facility efficiency (ratio of output to input) is a function which is determined by customer contact time in relation to service creation time. Services with a relatively high customer contact time are perceived as being limited in their efficiency because people bring uncertainty to the service creation process. The customer contact approach has the shortcoming that the customer contact time does not completely capture the nature of a service. As Schmenner (1986) points out, the theory identifies a functional relationship between efficiency, contact time, and service creation time but does not consider customer effectiveness on an individual basis with factors other than time. Another point is that Chase’s approach neglects the fact that customers can actively take part in the production of services (joint production), which implicates that the presence of the customer does not always lead to lower operating efficiency. Also, Chase does not discuss the influence of technology on high contact systems such as automatic teller machines, which are an example of a high contact system where management has high control and thus the operating efficiency is not limited. Moreover, low contact systems can also have a low operating efficiency when there are uncertainties in terms of task volumes etc.
Maister and Lovelock (1982) propose a matrix, which positions organisations along the two dimensions of customer contact and customisation (see Figure 1).

![Maister and Lovelock matrix (1982)](image)

The horizontal axis analyses customer contact from ‘back-room’ to ‘front-room’. The vertical axis is described by the extent of customisation. Maister and Lovelock suggest 4 positions in the matrix: factory, mass service, job shop, and professional service. Although the authors are generalising their findings, which are drawn from facilitator industries, they generally suggest that in these industries success lies in standardisation of customer contact and moving processes back-room that do not require customer contact. Maister and Lovelock suggest that technology will be applied at all levels in a company as through the impact of the computer ‘the expertise of the individual is converted into the expertise of the firm’. A major limitation of the Maister and Lovelock matrix is that the authors only applied it to facilitator industries, thus an application to other service organisations is restricted.

Schmenner (1986) refined the previously described Maister and Lovelock matrix. The horizontal axis describes consumer interaction and service customisation and thus combines the degree to which the consumer interacts with the service process and the extent to which the service is customised for the consumer. The vertical axis captures labour intensity of the ser-
vice process. It is defined as ‘the ratio of the labour cost incurred to the value of the plant and equipment’. The matrix includes 4 positions, which are named on the basis of Maister and Lovelock’s matrix (see Figure 2).

Schmenner discusses management challenges for the segments of his matrix. Services with a relatively low degree of labour intensity demand for careful choice of plant and equipment. For services that contain a high degree of labour intensity managing and controlling the workforce is a major challenge. The attention to physical surroundings as well as an attempt to make services appear ‘warm’ is a mission for services that have a low degree of interaction and customisation. Services with a high degree of interaction and customisation face the difficulty of higher costs and more talented labour. Schmenner argues that service processes are moving ‘toward the diagonal that runs from the service factory to the professional service firm’. Organisations already placed on the diagonal are moving upwards (from professional service to service factory). He suggests that the diagonal positions are attractive due to better control and also lower costs. Potential problems with Schmenner’s matrix arise as the horizontal axis combines the degree of consumer interaction and customisation of the process. This joint measure only has value when both components are either high or low. When there is a combination of high consumer interaction and low customisation (or vice versa) the joint measure cannot capture this difference. Another difficulty is the dimension of labour intensity, as information and
automation have replaced labour in some industries. Another shortcoming of the matrix is that there are no reasons offered why services are moving up the diagonal towards service factories. This argument is only evident for services that aim for cost efficiency and standardisation.

Youngdahl and Ramaswamy (2008) discuss a matrix around the dimensions of knowledge embeddedness and service contact. The horizontal axis captures the level of customer contact that is required in the process, reaching from low contact (back-office) to high contact (front-office). The vertical axis refers to the knowledge embeddedness in the process reaching from low (transaction services) to high (solutions). Youngdahl and Ramaswamy emphasise that knowledge embeddedness is closely related to the skills needed to execute a process and is often closely linked to the process itself. Knowledge can be either tacit, i.e. hardly captured in repeatable routines, codified, and transferred, or explicit, i.e. easily transferred. The knowledge embeddedness of a service provider determines whether the company offers simple transaction processing or solutions. The authors continue that the level of customer contact will influence whether the service provider has to be ‘empathetic’ with respect to language, non-verbal communication, and culture. A shortcoming of Youngdahl and Ramaswamy’s matrix arises around the vertical axis knowledge embeddedness. It remains unclear in what respect this dimension differs from a vendor’s skills. Furthermore, the argument that the knowledge embeddedness of a service provider determines the service offering is misleading. Tacit knowledge can only be learned by a vendor once the process has been outsourced to the service provider. Thus, a vendor’s skills have more importance than its knowledge embeddedness when selecting a vendor. The recognition of especially non-verbal elements in customer contact is very important, especially in an offshoring context.

Table 1 provides an overview of the service classification models discussed along with the limitations of each.
<table>
<thead>
<tr>
<th>Author</th>
<th>Criteria / horizontal axis</th>
<th>Vertical axis</th>
<th>Implications</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hayes and Wheelwright (1979)</td>
<td>Product life cycle stage (low → high volume/standardisation)</td>
<td>Process life cycle stage (jumbled flow → continuous flow)</td>
<td>Product mix determines process choice.</td>
<td>Services do not necessarily have a relationship between volume and process. Model ignores the impact of technology on process choice/flexibility.</td>
</tr>
<tr>
<td>Chase (1981)</td>
<td>Potential facility efficiency: a function determined by customer contact time in relation to service creation time</td>
<td></td>
<td>Services with relatively high customer contact are limited in their efficiency as people bring uncertainty to the service creation process.</td>
<td>Customer effectiveness is not only determined by time. Model ignores that customers can actively take part in the production of services.</td>
</tr>
<tr>
<td>Maister and Lovelock (1982)</td>
<td>Customer contact (back room → front room)</td>
<td>Extent of customisation (low → high)</td>
<td>Move processes back-room that do not require customer contact.</td>
<td>Matrix is drawn from facilitator industries. Authors do not generalise their findings for other types of services.</td>
</tr>
<tr>
<td>Schmenner (1986)</td>
<td>Degree of interaction and customisation (low; high)</td>
<td>Degree of labour intensity (low; high)</td>
<td>Each matrix segment has distinctive management challenges including plant and equipment choice and management of talented labour.</td>
<td>Combination of degree of interaction and customisation in one dimension is problematic. No explanation why service move towards service factories.</td>
</tr>
<tr>
<td>Youngdahl and Ramaswamy (2008)</td>
<td>Level of customer contact: Low (back-office) High (front-office)</td>
<td>Knowledge embeddedness: Low (transaction services) High (solutions)</td>
<td>Knowledge embeddedness of service provider determines the service offering.</td>
<td>Tacit knowledge can only be learned once the process is handed over to the service provider. Thus a vendor’s skills determine the service offering.</td>
</tr>
</tbody>
</table>

Table 1  Comparison of selected service classification models
The previously discussed models generally aid in classifying services; however most of these models are dated and do not take account of recent technological developments. Whereas research on manufacturing outsourcing is more mature, academics are increasingly concerned with services outsourcing as the direct applicability of manufacturing frameworks for services has been criticised (Javalgi et al., 2007; Grönroos, 1999). Balakrishnan et al. (2008) state that existing theories do not provide fully satisfactory explanation for the rapid growth in the outsourcing of business processes.

The following questions are important areas for future research in developing service classification models.

- What factors are significant in services/business process outsourcing and moreover offshoring?
- How does customer contact influence efficiency?
- What are the categories of service technologies and their impact?
- What is the impact of technology on process flexibility?
- Is a service positioning matrix defined by industry?

**SERVICE OPERATIONS MANAGEMENT**

Much of the coverage of outsourcing in the operations literature has focused on manufacturing. However, because services differ significantly from manufactured goods, some operations issues such as line balancing or stock control have little relevance in services. Instead, core issues that are of concern for services operations management scholars are service quality, service design, location choice, and operations strategy. As operations management concepts are increasingly market oriented and thus do not only support but contribute to competitive advantage (Hayes et al., 1984), they are an important tool to better explain services outsourcing. Service operations management has been characterised by a number of eras. After a realisation of the differences between physical goods and services, conceptual frameworks were devel-
oped and tested (Brown et al., 1994). Most recently, researchers have been concerned with the development of frameworks and the application of tools to improve service management (Johnston, 2005). Literature reflects that there is a lack of academic research on service process re-engineering and service process design respectively (Hill et al., 2002). Further research is required at the operational level.

- Can theories from economics, strategy, and organisational behaviour be linked with operations management concepts such as business improvement, service design, location choice, and operations strategy to better explain outsourcing?

- What process design should a service/business process have in order to be successfully offshored?

- Which criteria influence the disaggregating of service/business processes?

- What are the issues involved in separating front and back office processes?

GLOBAL OUTSOURCING

Governance model

Outsourcing activities can generally be classified through the relationship between the outsourcing company and the service provider. Generally outsourcing can take place to an affiliated firm (internal outsourcing, captive outsourcing) which means that the outsourcing company establishes an independent organisational unit (usually a subsidiary) to perform services for the outsourcing company (parent). Another classification can be made by investigating what customers the subsidiary has. If the only customer is the parent, this arrangement is often called captive outsourcing. Outsourcing can also take place to a non-affiliated firm (external outsourcing) which means that the services are performed by an external, independent company (service provider or vendor). Furthermore, there are other forms describing the outsourcing company-vendor relationship such as joint ventures. When companies make a choice regarding their organisational form, factors such as control and quality (internal outsourcing) as well as scale economies and gains from specialisation that external vendors offer, are taken into
account. The choice is strongly influenced by the operational and structural risks of the outsourcing process (Aron et al., 2005).

**Location choice**

When (internal or external) outsourcing, companies can choose, to stay in the country in which they are based (also called local or onshore outsourcing). Other choices are nearshore, which refers to sourcing work to a foreign, lower-wage country that is relatively close in distance, time zone, culture, or language. Alternatively, offshoring refers to outsourcing to a distant country, where there can be significant cultural or language differences. The location choice is strongly influenced by the operational and structural risk of outsourcing the process and is often made by evaluating costs. Much of the research conducted in the field of global outsourcing has been on cost considerations and macroeconomic impacts such as influence on jobs and a nation’s economy (Ellram et al., 2008). However, the decision to local, nearshore, or offshore outsource is likely to be driven by factors that transcend cost considerations alone (McIvor et al., 2008). As Mithas et al. (2006) state, information intensity and physical presence affect the outsourcing potential. Codifiability, standardisability and modularisability influence how easy processes can be (globally) disaggregated and thus how easy process parts can be performed near- or offshore. Codifiability describes how easy an activity can be specified in written instructions. Standardisability refers to the extent to which an activity can be performed using a set of consistent and repeatable, standardised processes. Modularisability describes whether an activity can be separated into components, which can be performed by independently working people. The impact of technology on offshoring also led to the assumption that common interactions such as communication or coordination could easily be resolved no matter how far the distance is. However, research in areas such as distributed organisation of work shows that distance is an important influencing factor (Carmel et al., 2007). Kiesler et al. (2002) found that proximity is critical to the development of social relationships and group interaction. The distance between an outsourcing company and its vendor influences the success of the outsourcing-
ing arrangement in subtle ways. Thus, for many companies nearshoring as opposed to offshoring is a much more viable alternative.

Relevant to service delivery is whether geographically dispersed people with differing cultural backgrounds are working together, which is the case in near- or offshoring arrangements. Issues such as culture, language, regulatory issues, data protection, geographical distance and related time zone differences have a higher importance for near- or offshoring arrangements than local outsourcing. It is important that these issues are managed effectively in order to ensure appropriate service quality.

- Differences in **culture** also referred to as ‘cultural distance’ relate to underlying values that are difficult to observe (Stringfellow *et al.*, 2008). However, conflicts may arise due to cultural differences, thus negatively affecting offshore relationships. Therefore, it is useful to consider underlying dimensions of culture, which have been studied by a number of researchers (e.g. Straub *et al.*, 2002; Stringfellow *et al.*, 2008).

- **Language** is an important issue in offshoring relationships. It assures reliable and clear communication between the near-/offshoring company and its service provider including its customers vice versa. When the service provider has customer contact with a customer not speaking the same (mother) language, this dimension also affects the customer’s perceived service quality. Language distance is a barrier to communication due to the fact that sender and receiver do not share a common mother tongue (Stringfellow *et al.*, 2008). However not only the verbal communication but also speaking rate, intonation and intensity, convey direct, subtle, or implied meanings and feelings along with the verbal message (Myers *et al.*, 1988).

- **Regulatory issues** play a lower role in services near-/offshoring than in manufacturing near-/offshoring. Whereas physical goods are subject to import duties, for example, in information services the duty applied rests on the physical good sent (e.g. magnetic tape) and not on the actual value of information. The General Agreement on Tariffs and Trade
(GATT) did not cover international trade in services (Metters et al., 2008).

- **Data protection** is an important issue in outsourcing and moreover near-/offshoring arrangements as outsourcing companies fear they cannot guarantee confidentiality when work is handled by distant service providers. Moreover, the service provider itself may further outsource processes to other providers (Karabulut et al., 2007). In a services outsourcing or near-/offshoring scenario, the outsourcing company transfers data to a service provider and thus relinquishes direct control of the way in which data is processed and protected. Data protection is necessary in mainly two areas. Firstly, the transmission from the outsourcing company’s host to the vendor’s internal network. Secondly, the processing of the outsourcing company’s data during the vendor’s control. This includes the storage on data within the vendor’s administrative control (Karabulut et al., 2007). Laws regarding data protection and the protection of intellectual property differ significantly from Western to (Far) Eastern countries. These differences have to be taken into consideration when an outsourcing company enters an offshoring arrangement.

- The geographical distance and related time zone differences also have to be evaluated when considering near-/offshoring. On the one hand relatively big time zone differences can have advantages such as 24/7 service provision for end customers. On the other hand however, there can be problems regarding direct, real-time communication between outsourcing company and service provider including its customers. Especially offshore outsourcing has experienced significant growth and is expected to grow even faster until 2011. Youngdahl et al. (2008) state that much of the service (as well as manufacturing) arena has taken on increasing levels of complexity in design and execution (transformational outsourcing).

The following questions are important areas for future research in global outsourcing.

- What characteristics influence the decision to outsource locally, nearshore, or offshore?

- Is there a direct link between ease of disaggregation (codifiability, standardisability, modu-
larisability) and nearshore and offshore outsourcing options?

- Is the size of the outsourcing company and whether the company is multinational influencing the level of global outsourcing?

- Is the size of the outsourcing company influencing its choice whether to internally or externally outsource?

- What factors besides cost advantages accelerate the trend towards services outsourcing and how important are these?

- Is there an optimum mix between offshore, nearshore and onshore services?

- What importance has data protection in the decision to local, nearshore, or offshore outsource?

- What is the impact of culture on service performance in global outsourcing arrangements?

- How does the ‘buyer country context’ (culture and other factors such as influence of trade unions/agreements) impact on the decision to outsource locally, nearshore, or offshore?

PROJECT MANAGEMENT OF (INTERNATIONAL) OUTSOURCING ARRANGEMENTS

Outsourcing and the globalisation of markets has made it necessary to integrate global managerial and business processes in organisations (Nohria et al., 1997). This integration is mainly achieved by people working in different geographical sites in a given project (Hamlin, 1994). Outsourcing can be seen as a project that includes professionals from multiple organisations. Moreover, both near- and offshoring involves geographically dispersed people working interdependently with shared purpose across space, time, and organisational boundaries. This new organisational form, which is enabled by modern ICTs, is often referred to as ‘virtual organisation’ or ‘workgroup’ (Sakthivel, 2005). Virtual projects such as near- and offshoring arrangements pose new challenges to project management that are higher than in a ‘face-to-face environment’. In virtual projects the project manager has a greater role in coordinating, communicating, facilitating the group process, and ensuring participation of all members (Bal et al.,
2000). In a near- or offshore project, the different approaches to project management in different nations/cultures have to be considered. Also, different industries show different maturity of project management (Cooke-Davies et al., 2003).

The following questions are important areas for future research in this area.

- How do organisations provide leadership in outsourcing?
- How should the work of global virtual teams including offshore service providers be coordinated?
- How does culture influence the management of operations in different countries?
- How can data be protected in (international) outsourcing arrangements?
- How should knowledge transfer between buyer and vendor be co-ordinated and managed?

**PERFORMANCE MEASUREMENT & PRODUCTIVITY**

Almost 50% of businesses that have shifted processes offshore failed to generate the financial benefits they expected to (Aron et al., 2005). Most companies are convinced that it is easy to offshore service processes – easier than with sourcing manufactured components. Processes are often analysed in isolation and interdependencies with other processes are not fully examined (Aron et al., 2005). Service processes cannot be easily standardised, thus performance management is often more complex in business services than in manufacturing processes (McIvor et al., 2008). When work is codified and processes measured using metrics, there are generally four categories (Aron et al., 2005): transparent processes (metrics available to measure process quality and work can be codified), codifiable processes (some ability to measure process quality and most work can be codified), opaque processes (work can be codified but process quality cannot be measured), and noncodifiable processes (work cannot be codified). Aron et al. (2005) continue ‘what a firm doesn’t measure, it can’t offshore well’.

The following questions are important areas for future research in performance measurement & productivity of (international) outsourcing arrangements.
How can difficulties in measuring performance be overcome?

In what situations are historical performance measures and targets appropriate and in what situations are externally based targets more appropriate?

How can service productivity be measured?

How does service productivity relate to service quality?

THEORY APPLICATION

Outsourcing research is dominated by the theories transaction cost theory (TCE) and resource-based view (RBV). Whereas these theories are one of the most influential ones in relation to outsourcing, a major limitation of TCE and RBV is that these theories are largely based on economic rationale (McIvor, 2009). Traditional theories have some major shortcomings for services/business process outsourcing (Balakrishnan, 2008; Levy et al., 2005; Mol et al., 2004). However, besides TCE and RBV there are also other important theories, which have implications for sourcing such as the resource dependence theory and network theory.

Transaction cost theory specifies the conditions under which an organisation should manage economic exchange internally (within its boundaries) or externally (i.e. outsourcing) (Coase, 1937; Willamson, 1987). TCE holds that transaction-specific investment with regard to the economic exchange should determine whether it should be managed internally or externally (McIvor, 2009). TCE advises to keep processes that are highly specific in-house, as the market transaction costs for communication and agreement are too high to make outsourcing a viable alternative. Asset specificity is regarded as the most critical variable influencing transaction costs; other factors are uncertainty and frequency.

Resource-based view views an organisation as a bundle of assets and resources that can create competitive advantage, assuming the resources are employed in distinctive ways (Peteraf, 1993; Barney, 1991). Superior performance achieved internally in an organisation relative to competitors would explain why these activities are performed internally and not outsourced (McIvor, 2009). Prahalad and Hamel’s (1994) core competence theory has
evolved from the RBV. It states that activities, which are considered as ‘core’ and thus deliver competitive advantage, should not be outsourced (Gottschalk et al., 2005).

In some instances the prescriptions of TCE and RBV/core competence theory can be contradictory (McIvor, 2009). Transaction cost theory advises to keep processes that are highly specific in-house and to outsource processes with low asset specificity. Core competence theory (Prahalad and Hamel, 1990) advises not to outsource processes that are regarded as core to an organisation.

- **Resource dependence theory** states that the acquisition and maintenance of resources is of crucial importance for organisations (Pfeffer et al., 1978). Companies that do not have resources in-house have to establish relationships with external partners. The decision to develop resources in-house or buying resources externally depends on how important the activity is for the company. Activities that are not critical and can be performed by many providers can be outsourced. If an activity is critical and there are only few providers, external sourcing should be avoided as the supplier would have excessive power (Shook et al., 2009).

- **Network theory** focuses on inter-company relationships and how these relationships influence a company’s behaviour and outcomes (Thorelli, 1986). Whereas network theory does not inform the choice of when to perform resources internally or buy externally, it gives insights on how a company’s ability to manage its supply chain can influence performance. Centrality is a key concept in network theory (Shook et al., 2009); high centrality equals status (Gulati et al., 2000). Hult et al. (2006) continue that centrality also offers the potential to enhance speed, quality, cost, and flexibility in supply chains. This means that if an outsourcing company is central in its service provider’s network the outsourcing company is likely to enjoy e.g. privileged response times or prices.

- Organisational politics involves the strategies that individuals employ to obtain and use power to influence organizational goals to further their own interests and ambitions.
(McIvor, 2005). This contrasts significantly with the rational model of management decision making, in which it is assumed that managers will agree on the strategic objectives of the organisation and the strategies that should be pursued to lead to their achievement (McIvor, 2009).

The following questions are important areas for future research in the application of theories.

- How can existing theories be combined in order to enhance the understanding of global services outsourcing?
- What theories from economics, strategy, and organisational behaviour can be employed?
- How can theories be linked with operations management concepts in order to provide more useful insights into global services outsourcing?

CONCLUSION

This paper discussed the importance of operations management to services outsourcing and identified six important research areas including key research issues as summarised in Table 2.

Fieldwork on these issues is currently being undertaken. German companies who have either locally, nearshore or offshore outsourced are used as case studies in order to get insights on e.g. location choices and the management of (international) outsourcing arrangements.
<table>
<thead>
<tr>
<th>Research area</th>
<th>Key research issues</th>
</tr>
</thead>
</table>
| Service classification frameworks                | - Factors influencing services outsourcing and offshoring  
- Impact of customer contact  
- Categories of service technologies and their impact  
- Service positioning matrix |


