

# OUTSOURCING FAILURES THAT HAMPER SERVICE INNOVATION

## - A CASE STUDY USING THE SERVICE BLUEPRINTING METHOD

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### **ABSTRACT**

*The key objective of this paper is to identify and analyse critical failure points that may prevent potential innovations introduced by an outsourcing service provider. The paper applies the service blueprinting method as a tool for systematic description and analysis of an industrial outsourcing process. The main benefit of the service blueprinting technique is that it makes the service provision process, failure situations and relevant actors clearly visible. Hence, it is possible to develop more specific suggestions for improvements in analysed industrial outsourcing cases and also in the wider context. These suggestions focus on the key dimensions of service innovations, which facilitate improvements of the existing service processes and therefore improve service suppliers' competitiveness on the marketplace. The analysis also yields more specific suggestions for improvements. For instance, different ways to facilitate the customer's role as an active "co-producer" of service innovations seem to emerge as a key success factor in the future development of industrial outsourcing services.*

*Keywords: Outsourcing, industrial services, service blueprinting, innovations.*

## **1. INTRODUCTION**

Outsourcing is an important trend across all industries (Deepen, 2007; McIvor, 2005) and it represents a major source of new service activities. Outsourcing refers to the purchasing of goods and services that were previously produced internally within the organisation from carefully selected external suppliers (Kehal & Sing, 2006; McIvor, 2005). Outsourcing thus imposes changes on the existing services, market approaches, processes, technologies and competences. Once the outsourcing has taken place, it acts as a key driver of business process improvement in industrial services. Outsourcing is not straightforward in the sense of financial or purchasing decisions for an organisation. In many cases, outsourcing constitutes a major strategic decision that has many implications for the entire organisation (McIvor, 2005). It also often involves the transfer of both people and physical assets from the client organisation to the service supplier. In addition to the trimming of manufacturing costs, there are several other reasons that can be recognised as drivers of outsourcing. These include increasingly demanding customers, advances in technology and new forms of competition (Bitner et al., 2000; de Brentani, 1995; Lovelock et al., 2001; Wymbs 2000) that are driving the development of innovative outsourcing services. It is argued (Fährnich & Meiren, 2007) that differentiation through innovative service offering is developing into a unique key selling point that can distinguish manufacturers from their competitors. At the same

time, many businesses realise that their present structures and processes are not ideally planned, organised or systematised for developing new services efficiently and positioning themselves in the marketplace (Fährnich & Meiren, 2007) on a continuous basis. Typically the roots of such difficulties are related to the fact that the services offered by the suppliers are not clearly defined on the basis of the client requirements, and there are no clear descriptions of what the service entails or the relevant processes and the resources required (Bullinger et al., 2003).

This paper provides new insights into the discussion on new service development in the outsourcing context. It systematically describes and analyses the service provision process in the case of outsourced industrial services. In particular, it identifies critical points of failure that may prevent potential innovations. Better ability to recognise, describe and tackle the potential failure points means that the outsourcing relationship has a greater chance to develop into genuine partnership. Such deep cooperation relationship provides a fertile ground for continuous improvements of the business process. Specific suggestions for improvements are made accordingly based on the existing theory of service innovation and its key dimensions. Although the paper is written from a service provider's perspective, customer viewpoints are essential in drawing conclusions as well as in clarifying empirical implications of the analysis.

Complexity of industrial outsourcing services provides a fertile ground for the utilisation of different types of tools and methods in the process development. In this case the industrial service provision process is described and analysed systematically with the help of the service blueprinting method originally introduced by Shostack in 1984. Essentially service blueprinting is an analytical visualisation tool for service concepts and processes. Therefore it provides a solid basis for process development that takes customers' as well as service providers' perspectives and interests into consideration (Fliess, 2006). It portrays service processes chronologically by depicting each step of the service delivery and the activities in the customer-contact points as well as backstage activities and further supporting service elements (Lovelock & Wright, 2002; Shostack, 1992). Secondly, blueprinting structures all activities of the service process according to the degree of customer proximity and customer integration or - the degree of co-production (Bowen, 1996; Grönroos, 1990). Such analysis helps service provider to develop the existing processes and their competitive positioning on the marketplace.

The *Theoretical section* of this paper provides an introduction to the conceptual issues around services outsourcing and the blueprinting method. The *Results and discussion* chapter first describes the interactive provision process of industrial outsourcing services, then identifies the points of failure from the provider's perspective and finally submits suggestions for improvements. *Concluding remarks* summarises the critical failure situations and proposes improvements to the existing practises and processes.

## **2. METHODOLOGY**

The purpose of this chapter is to present and justify the chosen methodology and to describe the adopted empirical data collection and analytical procedures.

The scarcity of research concerning outsourcing from the provider's perspective suggested that it would be desirable to adopt a qualitative approach where data collection was based on in-depth interviews and some observation. The research focused on two cases and could thus be characterised as a multiple case study (Yin, 2003). This involved 35 personal interviews in the supplier business and in its client

firms over a period of three years time. During this time researchers were able to gain a deep insight into case business and its service processes.

The cases consisted of two organisations providing either industrial maintenance or energy efficiency services to customer organisations. The two provider organisations are part of the same, large international corporation that operates in several European countries. By focusing on a limited number of provider organisations, it was possible to obtain several respondents' views and in-depth insight into each outsourcing case. Interviews with client organisations incorporated the customer perspectives into the study. Client organisations included technology- or manufacturing oriented industrial enterprises that had already outsourced or were considering outsourcing their business processes to a domestic service provider. In terms of their size, all of them were large businesses, each having 500 or more employees.

The purpose of this study is to analyse the outsourcing services provision process in order to identify the critical points of failures from the provider's perspective. The interviewees were asked to describe their cooperation between parties, critical factors or challenges that they faced during the projects, and potential requirements for development. The main themes were arranged according to the chronological order in relation to the outsourcing process. In addition to factual information, respondents provided also important qualitative insights into a situation. These included perceptions of the 'quality' of the interaction influenced by personal chemistry, nature of communications, feeling of trust between the parties etc. Each semi-structured interview lasted between 45 to 75 minutes. All interviews were tape-recorded and transcribed for analysis. Although the paper is written from a service provider's perspective, empirical implications of this study, however, have largely been influenced by a customer viewpoint. Both cases focused on a specific provision process of the outsourcing services being the actual unit of analysis. The research can be characterised as a primarily interview based multi-site study. These include a greater opportunity for studying a number of organisations, the possibility for comparisons, and hence the potential for greater generalisability (Bryman, 1989). In addition, observations were made during visits to the provider and customer firms and relevant documents were collected. Multiple sources of evidence included observations in meetings, field visits in connection with interviews, documentary material, such as brochures and sales agreements templates.

Construct validity was addressed in the data collection stage by presenting a chain of evidence from interviewees' quotes to developed concepts and by utilising observations during meetings, field visits, interviews and some documents as the sources of evidence. In addition, interviewees were offered the chance to review and comment on the summary of their interview transcript. In the research design stage multiple case studies allowed the replication of findings in another case. In short, triangulation was performed at the level of informants (multiple interviews per case) and investigators (three researchers).

### **3. THEORY**

#### ***3.1 BUSINESS PROCESS OUTSOURCING – A SERVICE PROVIDER'S PERSPECTIVE***

Most of the discussions in outsourcing literature deal with the customer's perspective, while the provider's perspective is largely absent (Dibbern et al., 2004; Hirschheim & Dibbern, 2009; Kehal & Singh, 2006). This focus on the demand side of outsourcing is widespread in the majority of the studies that analyse customer organisations'

outsourcing behaviours. Typically, these studies are seeking to answer questions such as why to outsource, what to outsource, how to organise the decision making process, how to build and manage an outsourcing relationship, and how to evaluate and determine the success of a sourcing arrangement. These types of analysis help in building a business case for outsourcing, predominantly from a client perspective.

However, efforts in analytical work that support service providers in the outsourcing context have been scarce (Aundhe & Mathew, 2009). While there seems to be little consensus on the best way for the customer firms to approach risk management in outsourced projects, even less is known about the provider perspective on managing risk and points of failures in these projects (Aundhe & Mathew, 2009; Gable, 1998; Levina & Ross, 2003).

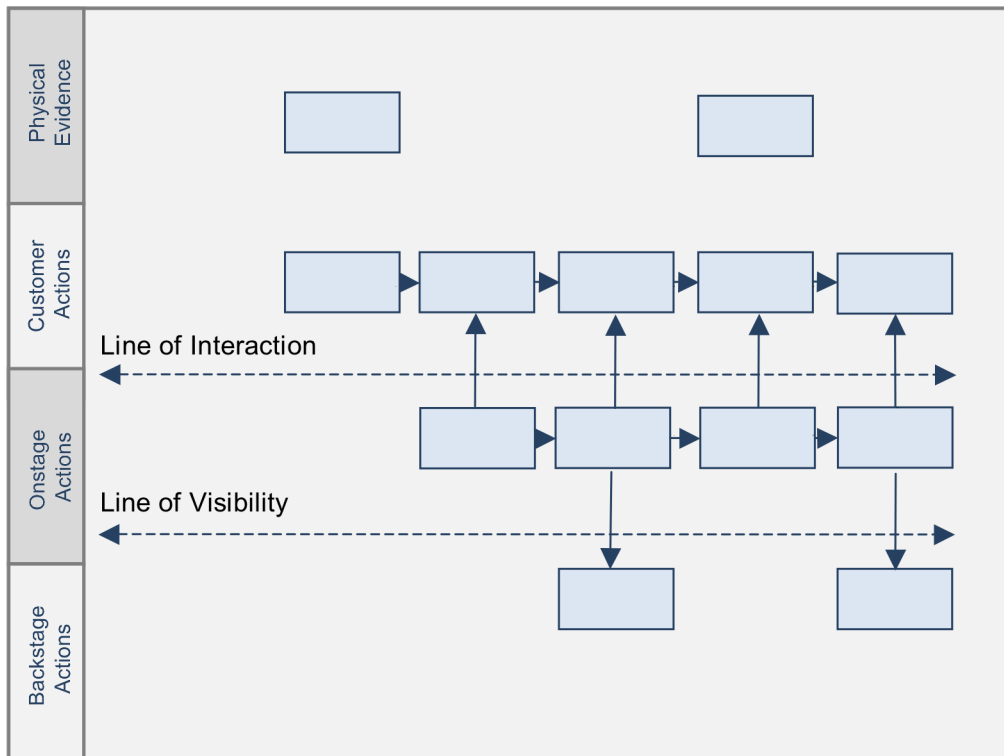
A lack of literature giving an insight into the provider perspective presents a unique opportunity that can be addressed in the near future (Kehal & Singh, 2006), which will lead to a greater understanding of the provider's perspective and existing practices. By adopting a service provider's perspective it is possible to make important academic and business relevant contributions for this nascent and thus growing industry. Therefore it is important to develop a clear conceptual understanding of the key issues that can drive continuous service process improvements in service supplier's growth. In this way it is possible to develop terminology that is more accurate and useful from the service provider's perspective.

This study seeks to fill the gaps that still remain on the understanding of outsourcing service provider's perspective. The focus is on identifying and analysing critical failure points that may prevent potential innovations. By learning to recognise the potential failure points, the outsourcing relationship has a greater chance for continuous improvements through innovations in the outsourcing service provision process. By introducing a more systematic approach to service innovation efforts, the study seeks to bring about practitioner relevant academic insights. This paper also brings together analytical thinking from several service innovations and outsourcing studies. By bringing these theoretical frames together this paper builds a novel theoretical perspective in outsourcing context.

### **3.2 SERVICE BLUEPRINTING METHOD**

The service blueprint is focussed on structuring all activities of a service process according to their degree of customer proximity and customer integration, or the degree of co-production (Bowen, 1996; Grönroos, 1990). The terms of customer integration or co-production refers to the notion that service performance implies the combination of the service provider's internal resources with the external resources from the customer's side, e.g. the customer in person, information data or the right of disposal.

Equally, the customer usually participates in the service performance by 'delivering' and contributing his/her resources (Lovelock & Young, 1979; Mills & Morris, 1986). Likewise, the service provider can not perform the service without the presence and participation of the customer. It is of particularly high relevance for both service design and delivery that the customer's integration is taken into account in all elements of the service and throughout the service process (Brown et al., 1994). The service blueprint maps exactly where and when the customer's integration needs to take place in the process. The steps in the workflow are chronologically depicted in a sequence that is read from left to right (Fig. 1).



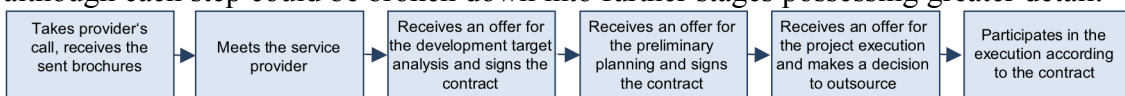
**Figure 1. Principles of the service blueprinting.**

#### 4. RESULTS AND DISCUSSION

This chapter firstly describes the interactive provision process of industrial outsourcing services. Secondly, it identifies and analyses the failure points from a provider's perspective and, finally, provides suggestions for improvements. The perspective is that of the service provider.

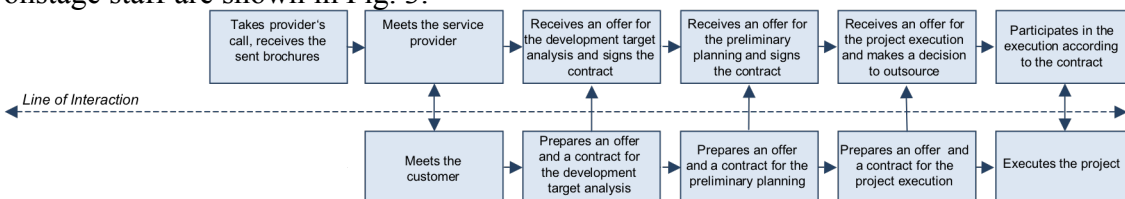
##### 4.1 DEFINING THE PROVISION PROCESS OF INDUSTRIAL OUTSOURCING SERVICES

To begin with, the main processes that a customer goes through, from initial contact with the service provider until the project is implemented, were identified. These processes included all the chronologically depicted steps that the customer took as part of the service provision process. Figure 2 shows the most important steps in this process, although each step could be broken down into further stages possessing greater detail.



**Figure 2. Customer actions within the service system.**

Secondly, the onstage/visible contact employee actions, separated from the customer by the line of interaction, were identified. The interactions between the customer and the onstage staff are shown in Fig. 3.



**Figure 3. Customer interactions with onstage staff.**

Next the backstage/invisible contact employee actions, separated from the onstage actions by the line of visibility, were defined. The customer observes everything that appears above the line of visibility, while everything below this is invisible (Fig. 4). Below the line of visibility, all remaining contact employee actions were described, such as those that were involved in non-visible interaction with customers (e.g. telephone calls).

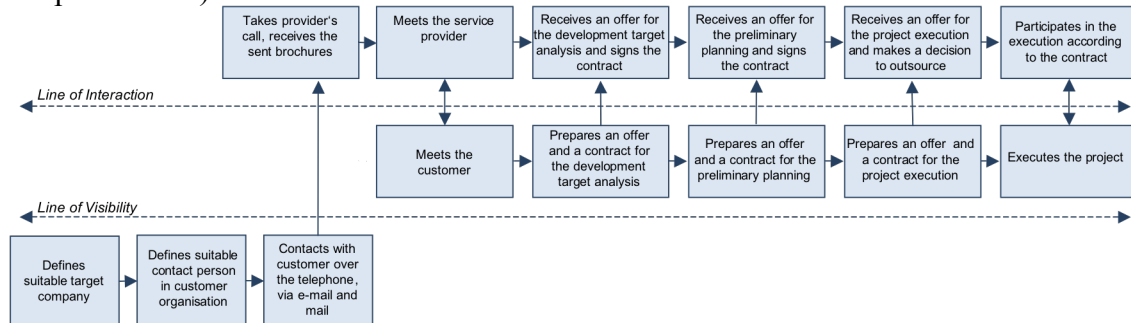


Figure 4. Interaction between customers, onstage and backstage staff.

The service provision process was then divided into three vertical sections which were separated with horizontal lines (see Fig. 5). These three service phases were the offer phase; the detailed service needs analysis and the transformation/integration phase. Physical evidence, which customers came into contact, was described at the very top of the blueprint.

When all the processes had been identified, possible failure points (symbol: circle with lightning bolt) were detected in the system (Fig. 5).

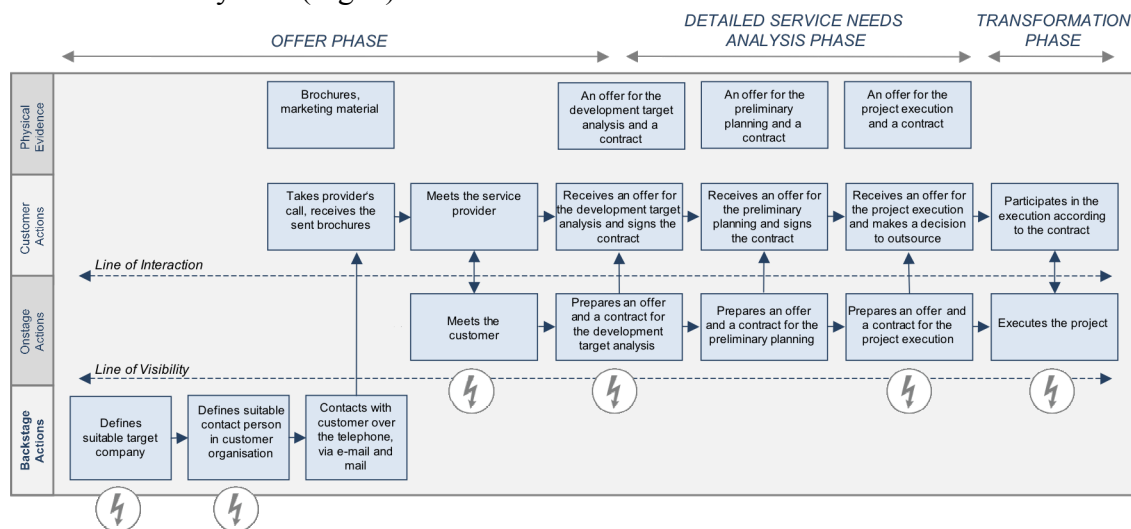


Figure 5. Failure points.

#### 4.2 BOTTLENECKS THAT CAN HAMPER SERVICE INNOVATION IN AN OUTSOURCING SITUATION

Outsourcing incurs many potential bottlenecks that can hamper innovation in different phases of the service provision process (Fig. 5). Outsourcing related clear failures represent an important bottleneck for a service provider's ability to introduce continuous improvements. Besides describing these failures, this section will further evaluate their impact on the provider's ability to innovate.

#### **4.2.1 OFFER PHASE OF THE OUTSOURCING PROCESS**

From a service provider's perspective the outsourcing process commences with an offer phase, which typically starts with the identification of a suitable target company to the submission of a proposal for preliminary planning (see Fig. 5).

At the beginning of the offer phase the provider attempts to define a potential target client company and the key persons inside the customer organisation with whom contact can be made (Fig. 5). The provider is required to prepare him\herself to deal with the potential failure points during these stages.

One of the identified strategic failure points from a provider's perspective was that provided outsourcing services were part of the customer's core business. As a consequence of this focus, customers do not usually outsource functions that are considered to be their core competence (Mahnke et al., 2005). Similarly, the customer might have made a strategic decision at a corporate level not to outsource either the provided services or anything at all. If this was found to be the case, contacting these customers tended to be pointless. Thus, such situations clearly represent a failure point for the service provider. The failures caused by the strategic level decisions of the customer organisation are mainly beyond the provider's influence. Such situations offer very limited chances for service related innovation because the game tends to be over before any serious outsourcing negotiations can commence. The provider should, however, consider the customer's reasons and motivations to outsource. The failure is more or less imminent if the customer's decision to outsource is based on a kind of survival tactic in contrary to a strategic development target. Customers that only outsource in order to survive tend to make their selection solely on the basis of the lowest price available at the time of making their final decision \ purchase. This kind of buying behaviour means that the selected solutions are typically not offering effective solutions through out the lifecycle. They are cost effective only at the moment of purchase when the supplier is selected. Such short-term optimisation impacts the provider's ability to innovate since unfortunately it does not offer an ideal platform for services development in the long term.

After the provider has identified a suitable target company, defining a suitable contact person within the selected company can commence (Fig. 5).

To start with, it is difficult to know which organisational level should be contacted. Meeting requirements at different levels of an organisation is, by no means, easy because of various perspectives. For example, the top management seems to think that there is no need for energy efficiency services. Often this is a pure assumption or may be based on propagating the image of a company that has highly efficient processes. Yet, the most beneficial contracts for the service provider, for example, total outsourcing of some functions, are in the end at the hands of the top management. Employees within the operational level are instead probably closer to the potential development targets because they are able to formulate many potential improvement suggestions. However, managers at the operational level tend to only outsource complementary services. So contacting an irrelevant organisation level may present a point of failure for the service provider. Another failure point may occur if the provider does not identify the decision makers in the customer organisation or is unable to make contact with them. A typical challenge to overcome is that critical issues from an outsourcing point of view are often divided between many individual decision makers. In addition, there are many executives that have a negative image of outsourcing and this alone may be enough to stall any further negotiations. In summary, discussing outsourcing is most difficult with

those individuals in a customer organisation who are not committed to outsourcing (Carmel & Tjia, 2005). These firms do not have any outsourcing projects, and may be reluctant to use outsourcing providers. Managers in these companies are aware of outsourcing, but tend to mainly see the negative aspects of it. The situation has an impact on the provider's ability to innovate, demanding a great level of planning and execution on the customer interface (den Hertog, 2000).

The next significant stage during the offer phase is when the provider has made an appointment and meets the customer face-to-face (Fig. 5). The aim of the on-site meeting is to find out the concrete target, which requires further development. The provider attempts to do this by conducting discussions with the customer about their needs and, as a result, gaining a greater understanding of their industry.

Typical failure at this stage is when a customer is not convinced of the provider's expertise. Many customers may be insecure about their own lack of experience with outsourcing or they may be sensitive to internal opposition by employees. Such situations have a direct impact on the service provider's ability to innovate since trust is one of the key elements of successful within an outsourcing relationship.

If the potential development target is not immediately identified, the service provider makes an offer for further analysis, which is typically related to the development targets of the potential outsourcing situation. In the case of an accepted offer, the provider makes a contract and then completes the analysis.

Development target analysis is the next significant step during the offer phase. The analysis is a kind of groundwork on which every following stage in the process is based on. According to the results of the analysis, the provider will make a suggestion on the development target to be preliminarily planned and executed. Thus, the provider then finalises almost all the risks of the forthcoming project. Besides the risks, the provider also finalises how much 'room' it will leave for innovations and non-conventional solutions thinking of the following stages. Thus, the start-up situation has an impact on the provider's final ability to renew services.

#### ***4.2.2 ANALYSIS OF THE DETAILED SERVICE REQUIREMENTS DURING THE OUTSOURCING PROCESS***

Once the proposal for preliminary planning has been submitted, the provider will analyse the detailed service requirements of the customer. The phase commences with the conclusion of preliminary planning between the project partners and ends with the conclusion of the outsourcing contract (Fig. 5).

The process involves proposing an offer and the possibility of a contract for executing the project.

One of the identified failure points during the detailed analysis stage is related to the unpredictable decision-making process in the customer organisation. It may be difficult to find out how the decision-making process will proceed and what circumstances are behind these decisions. In addition to an unpredictable decision-making process, it may be impossible to obtain any kind of answer at all from the potential client. One reason for this is that the decision to outsource is an investment for the customer and it needs to meet normal investment criteria. Thus, the project needs to pass through a very hard going and slow techno-economic process before it is either accepted or rejected. During the investment process the energy efficiency projects, for example, are easily eliminated



when they are set against some other investments, for instance those related to production development.

Another point of failure from a service provider's perspective is presented if the customer wants to have only a development target analysis and/or preliminary planning without the main project. The aim of the preliminary stages is to identify the development target for the main project. The activity is not profitable enough for the provider if the customer outsources only the preliminary stages without the main project. The customer receives a thorough analysis of an entire life cycle of services along with recommendations on how to move the organisation towards better and more efficient processes. At this point the customer may decide to execute the suggested development efforts on their own and utilise the provider as a "free" consultant. Thus, the customer itself emerges as the main competitor of the service provider. The customer speculates whether it is best to outsource services and pay for this or to execute the development efforts by itself. It is hard to protect oneself against this point of failure because the relationship between the service provider and customer should be based on mutual trust.

As described, at certain points of the provision process, the customer may reject the opportunity to cooperate or may not make the necessary decisions for a successful service delivery. These failures are at an operational level, if the provider lacks competence to manage these issues. Points of failure at the operational level influences the provider's ability to innovate since failures are mainly due to the malfunction of its own business processes.

#### ***4.2.3 TRANSFORMATION/INTEGRATION PHASE OF THE OUTSOURCING PROCESS***

From the perspective of a service provider the outsourcing process ends with the transformation/integration phase. The transformation/integration phase encompasses the actual transition from internal to external service provision, which is primarily the execution of the project.

Transfer of staff and assets is often part of the outsourcing process. In terms of staff, this means that the customer's employees are transferred to the employment of the provider (Burnett 2009). During the transformation/integration phase the transfer imposes a point of failure. As such the impact on the provider's ability to innovate requires inter- personal capabilities and skills, which need to be managed in a way that means developing and offering innovative services are not disturbed. When the decision to outsource goes out, the employee's opposition against the change makes the project execution more difficult for the provider. The situation creates large amounts of uncertainty for the staff, who may be anxious about losing their jobs and what is going to happen to them in the near future. Transfer of staff often divides personnel between two independent and accountable firms imposing new division between these functions that were formerly part of the same integrated industrial organisation. The outsourced employees often feel distressed and a crisis may occur.

#### ***4.3 SUGGESTIONS FOR IMPROVEMENT THROUGH KEY DIMENSIONS OF SERVICE INNOVATION***

Service innovations represent important process improvements in analysed industrial outsourcing cases. Adopted service innovation perspective consists of four-dimensional typology that characterises the multidimensional nature of service innovation. It facilitates discussions and provides a structured way to analyse opportunities for improvements. Service innovation typology brings together a number of key ideas

related to service innovation including: customer interface, delivery systems innovations, innovative service concepts, and new technology and product features (Bilderbeek et al., 1998; den Hertog, 2000). In addition, these dimensions appeared to be useful too for making suggestions for improvement, in preventing those points of failures. According to the theory (den Hertog, 2000), one of the above mentioned elements tend to be driving service innovation which is dependent on the nature of the business and service in case. However, these dimensions are also interrelated so that all of them are most likely needed to be adapted if the new innovative service is to succeed. Thus, in order to bring about a successful innovation, a particular feature of innovation will often require a set of changes in other dimensions.

Innovation in the client interface is the first dimension of innovation in services (Chase et al., 1998; den Hertog, 2000). In this study too, some of the suggestions for improvements were clearly focused on the client interface and could thus be the source of many service innovations. Improvement suggestions, such as contacting the customer organisation on multiple levels, contacting with those individuals that are already committed to outsourcing (Carmel & Tjia, 2005) and contacting as many relevant businesses as is possible in order to find a final customer (Carmel & Tjia, 2005) are clearly suggestions that focus on the customer interface. It is often said that effective use of interacting with customers are the key elements in organising a new service development process (Edvardsson et al., 2006). The argument is that systematic interaction is an efficient way to provide new value to customers, and a way to ensure the competitiveness of the service provider. Theoretical and empirical evidence suggests improvements also in the analysed outsourcing cases. The provider should, however, put more R&D effort into the dimension of customer interface since, up to now, the customer interface and in particular users role in service innovation process have not been utilised to their full extents. The provider should, on the one hand, search for customer information that is not immediately available, while on the other, make use of the customer as an essential resource and driver in innovation activities.

Innovation in the service concept is the second dimension of innovation in services (Avlonitis et al., 2001; Cook et al., 1999; den Hertog, 2000). It relates to the content and characteristics of a new or renewed service. Some of the suggestions for improvement were focused on the dimension of a new service concept. For instance, some outsourcing failures were caused by the customers' strategic decisions not to outsource any service or maintenance functions. In such situation the service provider is required to make adjustments in the existing service concept by offering alternatives to full outsourcing of services. They can develop more limited service concept that complements existing full scale outsourcing services. It can be said, that previously it was the service concept, which tended to drive the service innovation in the analysed cases. Typically, the provider was offering a uniform service concept instead of a tailor made solution to a customer needs. Instead, the provider could offer its know-how and capability as modular concept that can be tailored to customers needs. Although the uniform outsourcing concept seems to work fairly well at present, competitors are typically offering very similar services, which are also relatively easy to copy. Therefore, the provider could benefit from modular service concept that can be continuously renewed based on the customer's needs.

The third dimension refers to the internal organisational arrangements that require managing to allow service workers to perform their jobs properly, and to develop and deliver innovative services (Avlonitis et al., 2001; den Hertog, 2000; Gadrey et al., 1995). Such internal organisational arrangement, imposed by outsourcing, is for

example, a transfer of staff. As a solution against failures amongst transferred staff, the service provider should communicate openly about the positive effects of outsourcing, such as enhanced career prospects and increased variety of work in the core business that enables personal development. The provider has a greater vested interest than a customer in keeping up with the latest technology and methodologies and educating employees to be flexible in acquiring new skills and responsibilities. Using this approach the service provider may facilitate services related improvements. These organisational innovations may not always be the most visible innovations but still they are the most significant ones. Typically it is organisation that needs to adapt because of the changes in other service dimensions. Thus, in order to bring about a successful outsourcing innovation, also the supplier's organisation needs to be developed. The analysis also indicates that the service supplier and customer organisation need to allow a sufficient period of time to achieve organisational changes required in novel outsourcing services. The full potential and benefits of novel services can only be achieved once both organisations' groups fully support the new organisation resulting from the outsourcing decision.

The last service innovation dimension is the novel technological options. New and more effective technologies are often major drivers of service innovation. Similarly physical products often play an important role in service innovation. In the case study, however, there were no identified failures that could directly be solved through technological innovations. It is clear that service innovation is possible without technological innovation (den Hertog 2000; 2010); technology is not always a necessary dimension. Technology and product innovations, however, were important elements of service innovations playing a role as a facilitator and enabler for new innovative services. While innovative technologies are important they are not sufficient as such. Instead they need to be bundled together with services that provide solutions for clients.

#### ***4.3.1 INCREASING ABILITY TO INNOVATE BY SERVICE PROCESS CHANGES***

Portraying the provision process with the analytical service blueprinting technique revealed how strongly process tends to be provider-centred (Fig. 5). At first the provider defines a suitable target company and contact person, and then contacts the customer by various means. After the on-site meeting with the customer the provider prepares an offer and a contract which at first covers the development target analysis, followed by the preliminary planning and finally for the execution of the outsourcing project. If the customer makes a decision to outsource, it is likely that the provider is given the opportunity to execute the project too. During the process customers remain mainly as a passive receiving party, even if their role should additionally be viewed as that of a "co-producer" of services participating actively in the service encounter (Vargo & Lusch, 2004). A provider-centred way of action will largely miss the potential of "co-production". An interesting question is: How can the logic of co-creating be expanded into the services outsourcing context in order to avoid the service failures during the outsourcing process?

The logic of co-creating in an outsourcing context could mean, for example, that both parties openly share knowledge on their goals and expectations for outsourcing. This means communication openness in such a way that the outsourcing context is together defined and understood at the early stages of the project. Customers may be explicit about their outsourcing choices, such as focusing on core competencies, identifying the lowest total cost etc. Very often the customers, however, hold back part of their thoughts regarding outsourcing. In addition to the typical goals, a customer may pursue

some indirect goals such as shifting the problematic functions or challenges amongst employees. A customer just assumes that the provider will take care all of these problematic issues without clearly articulating these desires. The indirect intentions may be revealed to the service provider in the long run, preventing co-workers from performing their jobs effectively.

The provider should also communicate clearly its expectations and requirements for the outcome of the project while their first intention is to win the total outsourcing contract. This is often the case, even if it was not the best solution for the customer. Co-creating in outsourcing could mean that the project is not led according to the intentions of the customer or the provider. Nor is the dialog dominated by one individual party, proceeding linearly towards a certain goal. Instead, after the outsourcing context has been defined, a possible joint solution is built up. That is, the issue in question is no longer just an intention to sell or to purchase outsourcing services. Rather, it is to identify solutions that utilises the competencies of both parties, allowing them to work together more effectively. This could mean working as a team to identify the services that will be developed or performed by the provider and those that will be developed or performed by the customer (Mannervik & Ramirez, 2006).

Given that the context is properly understood, responses to any problems during the outsourcing process maybe feasible. Bettengourt et al. (2005) suggested that oncoming problems could be responded to together, by sharing the problem solving. Many problematic relationships stem from customers who assume that their role is limited to paying a fee in exchange for a service rather than assuming a shared role in problem solving and solution development (Bettengourt et al., 2005). In the outsourcing context, shared problem solving could be applied more intensively to problematic employee issues imposed by outsourcing. For example, transferred staff may require the customer to take a more intensive role by supporting the employee engagement. Supporting employees over the interface requires re-distributing typical roles between the provider and the customer.

## **5. CONCLUSION**

The study contributes the gap that still remains on the understanding of outsourcing from service provider's perspective. The focus is on identifying and analysing critical failure points that prevent potential innovations in nascent and growing outsourcing industry. By learning to recognize the potential failure points, the outsourcing relationship has a greater chance for continuous improvements through innovations in the outsourcing service provision process. Key critical points of failure can be identified on three different levels. These include failures at the operational level which are mostly due to service provider's own activity and, thus, they are avoidable. Secondly, there are failures at the level of personal interaction. Those are possibly avoidable, too, even if the failures often tend to be case- and relationship-specific. Finally, there are situations where potential client firms takes a strategic level decision not to outsource its activities. At least in the short terms such decisions are not easily influenced by the service provider's activities. In order to improve the chances of outsourcing related innovations service provider needs to recognize the failure points on all above-mentioned levels. Classification of the failures on the three levels enables more effective management outsourcing services and related innovations. Such business process improvements are relevant also in the wider context for most service suppliers and industrial firms developing their business models.

By bringing together analytical thinking from several service innovations and outsourcing studies this paper builds a novel theoretical perspective in outsourcing context. Current theoretical discussion implies that effective interaction with the customers is among the key elements in organising of a new service development process. The argument is that systematic interaction is an efficient way to provide new value to customers, and a way to ensure the competitiveness of the service provider. Theoretical and empirical material implies that customer interface represents one of the key drivers of service innovation and business process development also in the analysed outsourcing cases. As a result of close customer interaction service provider can develop knowledge on customer needs that are not immediately recognizable. As a result of close cooperation, customer can also become an essential resource and catalyst of innovation activities and continuous improvements. Up to now customer interface and in particular users role in service innovation process have not been utilised to the full extent. Service concept is another key element in new service development process. The literature implies that innovation in the service concept relates to the content and characteristics of the new or renewed service. In the analysed cases it was the existing service concept that the provider was offering instead of developing tailor made solutions based on customer needs. The provider could benefit from a modular service concept that can be continuously renewed and tailored to customer's needs. Overall, service development process where customer acts as a resource and driver of innovation activities emerges as a key success factor. This type of new service development process enables successful customer-oriented service concept development also in the industrial outsourcing context.

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