Aalto University
School of Business

# Organizational Decision-Making in Purchasing Outsourcing Services

Technology Management and Policy

Master's thesis

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# ABSTRACT

**Objectives of the Study**

Master's Thesis studies outsourcing services' purchase decisions at an organizational decision-making point of view in the context of financial management and accounting outsourcing in Finnish municipalities. Aim is to answer following research questions: (1) What kind of organizational decision-making process is behind the purchase decision related to financial management outsourcing service in Finnish municipalities? (2) What decision criteria impact the purchase decision related to financial management outsourcing services in the Finnish municipalities?

**Academic background and methodology**

Research is conducted as multi-case study. The organization decision-making process is examined by using Simon's (1960) model organizational decision-making and Dibbern et al.'s (2004) adaptation of it. The decision criteria are examined by using Lacity et al.'s (2011, 2010) models for business process and IT outsourcing decisions are outcomes.

**Findings and conclusions**

Organizational decision-making in Finnish municipalities consists of five phases: (1) Initiation, (2) preparation, (3) decision-making, (4) the service of decision and implementation. Organizational decision-making in the outsourcing context consists on three decision points: (1) Decision on outsourcing or insourcing, (2) decision on an outsourcing mode and (3) decision on an outsourcing service provider. Decisions were made at the same time and the decision points were dependent on each other. IT and business process outsourcing purchase decisions were dependent on each other. Persons involved in the initiation and preparation phases affected the final decision. Most important decision criteria are cost reductions either in the financial management operations or in the whole municipality through improved resource planning and control, scalability, partnership view, access to skills and expertise, rapid delivery to enable more real-time reporting, technical reasons and outsourcing services' quality and reliability.

**Keywords**

Organizational decision-making, outsourcing decision-making, purchasing decision-making, outsourcing decision criteria, outsourcing purchasing, financial management outsourcing, accounting outsourcing, outsourcing in the public sector, public sector, Finnish municipalities

AALTO-YLIOPISTON KAUPPAKORKEAKOULU
Tieto- ja palvelutalouden laitos
Pro Gradu-tutkielma, Paula Talvensaari

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# ABSTRAKTI

**Tutkimuksen tavoitteet**

Pro Gradussa tutkitaan ulkoistuspalveluiden ostoa organisaation päätöksenteon näkökulmasta suomalaisissa kunnissa. Tutkimuksen tavoitteena on vastata seuraaviin tutkimuskysymyksiin: Minkälainen päätöksentekoprosessi on taloushallinnon ulkoistuspalveluiden ostopäätöksen takana suomalaisissa kunnissa? Mitkä kriteerit vaikuttavat päätökseen ostaa taloushallinnon ulkoistuspalveluita suomalaisissa kunnissa?

**Kirjallisuuskatsaus ja metodologia**

Tutkimus on toteutettu usean tapauksen tutkimuksena. Organisaation päätöksentekoprosessissa tutkittaessa hyödynnetään Simonin (1960) luomaa teoriaa organisaation päätöksenteosta. Myös Dibbern et al. (2004) on soveltanut Simonin teoriaa organisaation päätöksenteosta ulkoistuspalveluiden tapaukseen. Päätöksentekoon vaikuttavia kriteereitä tutkittaessa hyödynnetään Lacity et al. (2011) tekemää tutkimusta päätöksenteon kriteereistä liiketoimintaprosesseja ja informaatioteknologiaa ulkoistettaessa.

**Tulokset ja päätelmät**

Ulkoistuspalveluiden ostoon liittyvä päätöksenteko suomalaisissa kunnissa koostuu neljästä eri vaiheesta: Aloite, valmistelu, päätöksenteko sekä tiedoksianto ja toimeenpano. Ulkoistuspalveluista päätettäessä organisaation päätöksenteko jakautuu kolmeen eri pääkohtaan: Päätökseen ulkoistuksesta, ulkoistusmallista ja ulkoistuspalveluiden palveluntarjoajasta. Tutkituissa kunnissa kyseiset päätökset tehtiin samanaikaisesti ja ne olivat riippuvaisia toisistaan. Päätökset IT:n ja liiketoimintaprosessien ulkoistamisesta olivat riippuvaisia toisistaan. Aloitteen tekemisessä ja valmistelussa mukana olleet henkilöt vaikuttivat lopulliseen päätökseen. Tärkeimmät päätökseen vaikuttaneet kriteerit kunnissa olivat: Kustannusten lasku joko taloushallinnossa itsessään tai koko kunnassa parantuneen toiminnanohjauksen myötä, skaalaedut, valtakunnallinen yhteistyö, osaamisen vahvistaminen, parantunut reaaliaikaisempi raportointi, tekniset asiat sekä palvelun laatu ja toimintavarmuus.

**Avainsanat**

Organisaation päätöksenteko, ulkoistus, ostaminen, ulkoistuspäätös, ostopäätös, ulkoistuspalveluiden ostaminen, taloushallinnon ulkoistuspalveluiden ostaminen, taloushallinnon ulkoistus, julkinen sektori, suomalaiset kunnat.

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# 1. INTRODUCTION

Organizations are outsourcing business processes and IT systems nowadays in a large extent. Outsourcing and related IT services business has grown significantly over the past 20 years and that trend seems to continue also in the future. The estimated value for the IT services market globally is 952 billion dollars (Fersht et al., 2013). Although organizations outsource IT for many reasons, the growth of IT outsourcing can be attributed to two primary phenomena: organization wants to focus on core competencies and lack of understanding of IT value – IT is viewed as a burden cost. Organizations often decide to focus on core competence and outsource the rest. IT is often viewed as a cost or support function, which leads to outsourcing decision in order to reduce IT costs. (Lacity et al. 1994, Lacity & Willcocks, 2001; Dibbern et al, 2004)

This Master's Thesis examines outsourcing as an organizational decision-making point of view. In the empirical study, organizational decision-making in purchasing outsourcing services is studied in the context of financial management outsourcing in Finnish municipalities. Companies are outlined from the study. The aim is to answer following research questions related to organizational decision-making when purchasing outsourcing services:

1. What kind of organizational *decision-making process* is behind the purchase decision related to financial management outsourcing services in the Finnish municipalities?
2. What *decision criteria* impact the purchase decision related to financial management outsourcing services in the Finnish municipalities services?

Organizational decision-making process and decision criteria behind the outsourcing services purchase decisions are researched. Outsourcing is a big decision that organization makes. Outsourcing situations are often complex and have many stakeholders. Outsourcing decision can affect organizations in many ways: organization's structure, business processes and technologies used. Because of that, it is meaningful to examine outsourcing as an

organizational decision-making point of view to understand better decision-making related to outsourcing. The aim of the study is to gain deep understanding on how companies and municipalities make purchase decisions in outsourcing accounting services and to understand which aspects affect the decision-making.

Understanding the organizational decision-making process benefits the service providers. Outsourcing is a big and growing business offering good business opportunities for outsourcing service providers. On the service provider's point of view, better understanding about the organizational decision-making process in purchasing outsourcing services helps them to sell those services more effective to the new and existing clients and to serve the customers better. It also helps service providers to form attractive product and service bundles when they understand better what customers' value in the services.

Organizational decision-making in the outsourcing context consists on three decision points: (1) Decision on outsourcing or insourcing, (2) decision on an outsourcing mode and (3) decision on an outsourcing service provider. Firstly, organization needs to make decision whether they want to use outsourcing or insourcing. Secondly, organization needs to decide which outsourcing mode suits the best the outsourcing situation. Thirdly, organization should decide from which service providers they buy outsourcing services. Case municipalities decided everything related to these three decision at the same time and the decisions were dependent on each other.

The organizational decision-making process in the Finnish municipalities consists on following phases: (1) initiation, (2) preparations, (3) decision-making, (4) the service of decision and (5) execution. Phases are described in detail in Chapters 5.2 and 5.3. The most important phase in the decision-making process is the decision preparation phase. Information gathered during the preparation activities is used to form the final decision. The leader of the preparation activities has impact on the final decision because he is responsible for preparations activities, solution proposal and consensus development in the municipality. The consensus developed in the organization during the preparation phase defines the final decision. The actual decision-making phase is more straightforward. The solution proposal developed during the preparation phase leads to final decision in the case municipalities.

Legislation for decision-making in Finnish municipalities sets the framework for outsourcing decision-making in the municipalities. It also explains the decision-making timeline as it is less time and resource consuming for the municipalities to decide all the decision points related to the outsourcing at once. Otherwise they would need to run the formalities of the decision-making required by the legislation multiple times. Also, municipalities can consider the dependencies (related to three decision points) early in the process, which is good because the case municipalities had restrictions for the future setting - for example lack of suitable service providers. The outsourcing decision-making process in the municipalities has similarities but also differences with the theoretical organizational decision-making models which are discussed in Chapter 6.2.

Most important decision criteria affecting decisions about outsourcing in Finnish municipalities are cost reductions either in the financial management operations or in the whole municipality through improved resource planning and control. Important decision criteria include also scalability, partnership view, access to skills and expertise, rapid delivery to enable more real-time reporting, technical reasons, quality and reliability of the outsourcing service and improved resource planning in the municipality. In addition to that, following decision criteria affect the decision of outsourcing financial management operations: Focus on core capabilities, business process improvement, fear of losing control after outsourcing or without outsourcing, trust to the service provider, political reasons, prior IS department performance in the municipalities, client's previous experience with outsourcing, an outsourcing service provider's prior firm performance, personnel reductions after outsourcing, physical distance between the outsourcing service provider and financial management operation's service level increases or decreases after outsourcing. Decision criteria are discussed in detail in the Chapters 5.4 and 6.2.2.

This study consists in two parts – a theoretical part and an empirical study. In the theoretical part of the study key definitions and concepts, methodology and theoretical framework are presented. In the empirical study organizational decision-making process and decision criteria affecting decision-making in the case context are analyzed. In addition to that, case organizations are presented, legislation concerning decision-making in Finnish municipalities

is discussed and conclusions are made. In the empirical study, organizational decision-making related to financial management outsourcing in Finnish municipalities is studied. Also, an overview of the outsourcing business is presented.

## 1.1. History of Outsourcing

Over the past 20 years outsourcing practice has grown to meet the organizations' IT needs. During that time also the academic literature about IS outsourcing has evolved rapidly. (Dibbern et al, 2004) This Chapter presents an overview of the outsourcing history.

The first significant outsourcing deal was made in 1989 when Kodak outsourced its information systems to IBM, DEC and Businessland. The outsourcing deal was worth one billion dollar and Kathy Hudson, Kodak's CIO at the time, described it as a strategic alliance with its IT partners led by IBM. Many studies refer that as a starting point for IS outsourcing business in a large scale because it was the first time when a company, in which information system played a significant role, outsourced its information systems to external companies. Since then organizations have started to outsource their information systems, assets and personnel to outsourcing partners. (Dibbern et al, 2004; Applegate and Monatealegre, 1991; Arnett & Jones, 1994; Hirscheim & Dibbern, 2006; Grover et al, 1996) Well-known companies around the world have followed Kodak's example - companies like Xerox, General Dynamics, Xerox, Swiss Bank and Lufthansa. (Dibbern et al., 2004; Hirscheim & Lacity, 2000)

Even though Kodak's outsourcing deal in 1989 was the first large outsourcing partnership gaining global attention, outsourcing has been around long before that. Initially IS outsourcing consisted of an external outsourcing vendor providing single basic function for the customer. The vendor took operational responsibility of customer's technology assets, which typically was a data center. IS outsourcing began to evolve in 1963 when Ross Perot and his company Electronic Data Systems, EDS, signed an agreement with Blue Cross of Pennsylvania to handle its data processing services. That was the first time when a company

gave the entire data processing department to be operated by a third party. This agreement was significant because EDS took over the responsibility of Blue Cross's employees who were working with the information systems. EDS continued to sign similar deals during the upcoming years. In the mid-80's, EDS signed a deal with Continental Airlines, First City Bank and Enron, which signaled the acceptance of outsourcing. EDS took the equal position to its client and purchased software as an aim to attract more customers. EDS thought that Continental Airline's System One on-line reservation system could be used not only in the airline industry but also in other industries. (Dibbern et al., 2004).

According to Hirscheim et al. (2006) IT outsourcing through the turn of this century was primarily domestic outsourcing. While it had considerable impact on the way organizations structured, the impacts were largely limited to the client's and vendor firms' boundaries with the possible exception of the creation of some new intermediary organizations like outsourcing consultancies. A prominent change in the outsourcing arena is the growth in offshore outsourcing (Lacity and Willcocks, 2001). Driven by the pressures of globalization and global competition, companies are increasingly looking at less expensive resources available in offshore locations. An outsourcing arrangement is considered 'offshore outsourcing' when the responsibility for management and delivery of information technology services is delegated to a vendor who is located in a different country from that of the client (Sabherwal 1999).

## 1.2. Outsourcing Business Today

Outsourcing and related IT services business has grown significantly over the past 20 years and that trend seems to continue also in the future. According to the study "Finance and Accounting BPO Market Landscape, 2013: Market Evaluation, Forecast and Competitive Analysis" conducted by HfS Research with the support of KPMG total market size of the global IT services market is 952 billion dollars. In Figure 1 can be seen how the whole IT service market it is divided across different types of IT services and IT outsourcing businesses. Financial and accounting outsourcing is a growing business. According to HfS

Research's study financial and accounting outsourcing business is expected to surpass $25B globally in 2013, at a growth rate of 8%. In addition to that 4 out of 10 enterprises worth over 5 billion dollars intend to expand their financial and accounting BPO operations over the next year. (Fersht et al., 2013)

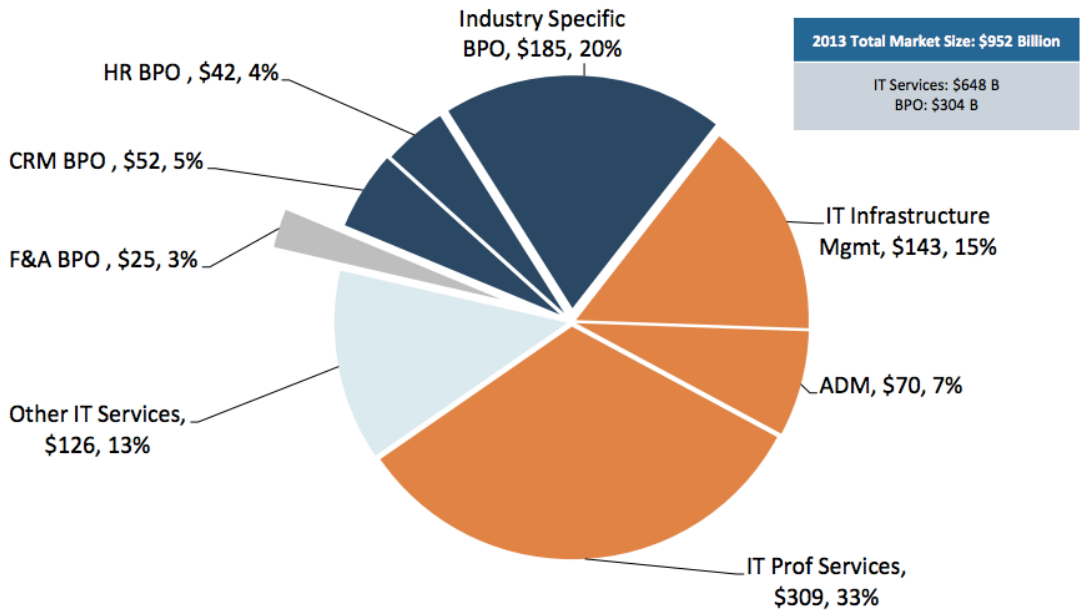


**Figure 1: Global BPO and IT Services Market in 2013 ($B) (Fersht et al., 2013)**

Although organizations outsource IT for many reasons, the growth of IT outsourcing can be attributed to two primary phenomena: organization wants to focus on core competencies and lack of understanding of IT value – IT is viewed as a burden cost. Organizations often decide to focus on core competence and outsourcing the rest. IT is often viewed as a cost or support function, which leads to outsourcing decision in order to reduce IT costs. (Lacity et al. 1994, Lacity & Willcocks, 2001; Dibbern et al, 2004)

Nowadays organizations focus is shifting towards how to best obtain needed IT services. The importance of IT is growing in today's society and business. IT is not only viewed as support

function but also as a source of strategic competence. Outsourcing has evolved from one vendor and one client arrangement involving multiple vendors and multiple clients. Outsourcing embraces nowadays partnerships and alliances where client and vendor share risk and rewards. The focus has also shifted from cost savings to include value-based outsourcing, equity based outsourcing, eBusiness outsourcing and business process outsourcing. (Dibberd et al, 2004) Anyhow, at the same time the outsourcing has become popular setting in organizations, outsourcing has also gained critics. Researches have noticed that outsourcing has not always yielded the benefits that organizations had hoped for. According to Hirscheim and Lacity (2000) companies don't need to use outsourcing to improve IT performance and reduce costs as it is possible to replicate cost reduction tactics when IT services are produced inside the company

Development and growth of the outsourcing industry has lead to new business models like the industry focusing on outsourcing contract negotiations. Web and e-Business outsourcing is also growing. Outsourcing vendors provide web-based applications to help customer organizations transform and digitalize their business models. (Dibbern et al, 2004) For vendors outsourcing deals are attractive because those provide long-term income streams. It helps the vendor to stabilize business volume, makes planning more predictable and increases shareholders comfort levels. According to Mitchell and Fitzgerald (1997) outsourcing vendors can be categorized into five categories: IS consultancies / solution providers, systems houses, hardware vendors, Ex-IS departments and generic outsourcers. IS consultancies / solution providers are large global players providing all IS service functions. Systems houses specialize in systems integration where hardware vendors specialize in IT hardware. Ex-IS department's focuses on industry specific sourcing and generic outsourcer specialize in infrastructure management. In addition to these, freelancers may be considered as sixth type of external service provider.

# 2. DEFINITIONS AND CONCEPTS

In this Chapter different definitions and concepts for outsourcing used in this study are presented.

## 2.1. Definitions Related to Outsourcing

Information system outsourcing, IS outsourcing, has been defined in many ways in the literature. As an example, Dibbern et al. (2004) analyzed IS outsourcing literature and found many different and partly overlapping definitions for IS outsourcing. The concept of IS outsourcing has been changing over the past 20 years reflecting the changes in outsourcing business. The history of outsourcing is described in Chapter 1.1. Different definitions and concepts for IS outsourcing in the literature will be presented in this Chapter. Synonyms for IS outsourcing that are used in the outsourcing literature and researches are IT outsourcing, IT systems outsourcing and ITO referring to information technology outsourcing.

In the 90s, IS outsourcing was in its early days as a large-scale business, which is reflected also in IS outsourcing definitions at the time. Loh and Venkatraman (1992) define IS outsourcing as "involving a significant use of resources - either technological and/or human resources - external to the organizational hierarchy in the management of the Information Technology (IT) infrastructure." Grover et al (1996) defines IS outsourcing as “the practice of turning over part or all of an organization's IS functions to an external service provider(s)”. External services in the definition include applications development and maintenance, systems operation, networks or telecommunications management, end-user computing support, systems planning and management, and purchase of application software. In the definition external services do not include business consulting services, after-sale vendor services, and the lease of telephone lines. According to Grover et al (1996) organization can obtain these services through the following types of outsourcing: complete outsourcing, facilities management, systems integration, time-sharing, and other contracts (including rental, installation and procurement, and maintenance and programming).

In the 2000 century, IT outsourcing definitions reflected the changes in the IT outsourcing business. In the early 2000s outsourcing is commonly used in the organizations and the IT outsourcing business has grown significantly. The same IT services have been outsourced repeatedly. Nowadays outsourcing business includes new business models like business process outsourcing, BPO, and consultancies for outsourcing contract negotiations. Dahlberg and Nyrhinen (2006) defines IT outsourcing as "a conscious decision to contract out to an external service provider IT activities, processes and/or related services, which are necessary to the operation of the organization. Outsourcing has specified objectives and the goal of the outsourcing transaction(s) is to achieve these objectives". According to Dibbern et al. (2004) outsourcing in general "reflects the use of external agents to perform one or more organizational activities". They define IS sourcing "as organizational arrangement instituted for obtaining IS services and the management of resources and activities required to produce these services". In the definition IS services refer to the manned where IS products are delivered. An organizational arrangement refers to the formal structure of the responsibility and delegation of tasks within the IS functions which can be handled either internally (insourcing) or externally (outsourcing).

As a contrast to outsourcing, in-house services refer to the business processes or IT systems that are not outsourced but produced in-house. Centralized financial management service centers in the empirical study refers to the centralization of the financial management IT systems and business processes that are produced in-house in one unit.

## 2.2. Forms of IT Outsourcing

In this Chapter different forms of outsourcing that are relevant to understand IT outsourcing in financial and accounting outsourcing are presented; business process outsourcing (BPO), financial and accounting outsourcing (FAO), IT offshoring and near shoring and the characteristics of the IT outsourcing situation.

Business process outsourcing, BPO, is a form of outsourcing where specific business

functions or processes are outsourced to a third-party. Lacity et al (2011) defines BPO as "the sourcing of business processes through external third parties". As a contrast, they define IT outsourcing as "the sourcing of information technology services through external third parties". BPO has occurred in many business areas, including finance, accounting, logistics, legal services, marketing, and customer care. Functions outsourced are those considered as a non-income earner, for example payroll, human resources, call centers, and IT help desks (Kelly, 2007). According to the report "Finance and Accounting BPO Market Landscape, 2013: Market Evaluation, Forecast and Competitive Analysis" conducted by HfS Research with the support of KPMG finance and accounting is one of the most commonly outsourced business process functions. In financial and accounting outsourcing, FAO, organization transfers part of accounting functions to a third party provider. (Fersht et al., 2013)

Driven by the pressures of globalization and global competition, companies are increasingly looking at less expensive resources available in offshore locations. An outsourcing arrangement is considered offshore outsourcing when the responsibility for management and delivery of information technology services is delegated to a vendor who is located in a different country from that of the client (Sabherwal 1999). Ranganathan and Balaji (2007) defines IS offshore outsourcing capabilities as "a set of organizing processes a firm uses to exploit internal and cross-border IS resources to achieve its offshore outsourcing objectives."

Dibbern et al. (2004) proposed four different but essential characteristics of IT outsourcing: Degree of outsourcing, ownership, an outsourcing mode, and a time frame. Different combinations of these characteristics yield different types of outsourcing arrangements. The degree of outsourcing means whether the client organization is outsourcing all (total outsourcing), some (selective outsourcing) or none of its IT operations to an external outsourcing service provider. Ownership in the outsourcing can be internal, partial or external as presented in Table 1. The outsourcing mode describes the outsourcing setting whether it is a single client/vendor relationship or does in include multiple clients or vendors as presented in Table 1. The outsourcing time frame refers to the contractual length; it can be either long term, mid term or short term.

**Table 1: Types of outsourcing arrangements (Dibbern et al, 2004)**

| Degree of outsourcing | Ownership | | |
|---|---|---|---|
| | *Internal* | *Partial* | *External* |
| *Total* | Spin-offs (Wholly Owned Subsidiary) | Joint-Venture | Traditional Outsourcing |
| *Selective* | | | Selective Sourcing |
| *None* | Insourcing / Backsourcing | Facilities Sharing among multiple clients | N/A |

**Table 2: Outsourcing modes (Dibbern et al, 2004)**

| *Vendor* / *Client* | ***Single Vendor*** | ***Multiple Vendors*** |
|---|---|---|
| ***Single Client*** | Simple Dyadic (1:1) | Multi-Vendor (1:n) |
| ***Multiple Clients*** | Multi-Client (n:1) | Complex Relationship (n:n) |

# 3. METHODOLOGY

The aim is to study organizational decision-making process and decision criteria behind the outsourcing services purchase decisions. The empirical study is conducted as multi-case study by investigating how Finnish municipalities buy financial management outsourcing services: what kind of decision-making process and decision criteria is behind the decisions to purchase financial management outsourcing services? This study is made as a part of the Aalto University's Real-Time Economy research program's project called "Taloushallinnon runkoverkko". The research project collaborates with the companies Service Provider X, Administer Oy, Aditro Oy and Tieto Finland Oy.

Theoretical frameworks used in the study are discussed in detail in Chapter 4. Simon's (1960) organizational decision-making process and Dibbern et al.'s (2004) adaptation of it is used to examine the outsourcing decision-making process in the empirical study. Lacity et al.'s (2011) models for business process outsourcing and IT outsourcing decisions and outcomes are used to examine outsourcing decision criteria in the empirical study.

The empirical study is a multi-case study. We interviewed eight financial management outsourcing decision-makers in five different municipalities in Finland. Municipalities are presented in Chapter 5.1. Companies are outlined from the study. Research interviews consisted on questions related to the municipalities' current and past financial management organization and its future plans, the outsourcing decision-making process, the outsourcing decision criteria, value-added services in the outsourcing and questions related to the interviewees background.

# 4. THEORETICAL FRAMEWORK

A theoretical framework for the study is presented in this Chapter. Outsourcing decision-making process is examined by using Simon's (1960) model organizational decision-making and Dibbern et al.'s (2004) adaptation of it. Outsourcing decision criteria is examined by using Lacity et al.'s (2010, 2011) models for business process outsourcing and IT outsourcing decisions are outcomes. In addition to that, background of the outsourcing research is discussed.

## 4.1. Background

Outsourcing research is evolved during the past decades. During that time many different theories and frameworks has been developed and adapted to frame and explain the outsourcing situations. These theories include game theory, innovation theories, relationship theories, resource theories, social exchange theories and strategic management theories to name a few. (Dibbern et al., 2004) Anyhow, Transaction Cost Economics, TCE, has been the most frequently appropriated theoretical framework for the study of IT outsourcing to explain and predict IT outsourcing situations. (Dibbern et al., 2004; Lacity et al., 2011; Karimi-Alaghehband et al., 2011) TCE's use for IS outsourcing situations has also been criticized; the latest IS outsourcing research propose that IS outsourcing situations should be looked as an organizational decision-making point of view and the factors affecting outsourcing situations should be understood in a broader perspective. (Lacity et al., 2001; Dibbern et al., 2004.; Lacity et al., 2011) Because of that, we will use Simon's (1960) organizational decision-making process as a theoretical framework in my study. Simon's theory has been also previously been used in the IS outsourcing context by Dibbern et al (2004).

### 4.1.1. Theory of Transaction Cost Economies

Ronald Coase originally developed TCE in 1937. According to him, people begin to organize their production in firms when the transaction cost of coordinating production through the market exchange, given imperfect information, is greater than within the firm. (Coase, 1937)

Later TCE has also been used in the context of IS outsourcing. It is one of the well known and most widely adopted theories in IS outsourcing research. TCE is a theory specifically addressing make-or-buy decisions and has therefore been viewed as a strong theoretical base for analyzing IT outsourcing decisions. In its essence, TCE posits that there are several characteristics of a given transaction; asset specificity (specify of resources in the transaction), transaction frequency and uncertainty surrounding conditions of the transaction. These characteristics impact the total transaction and production costs of the transaction and these costs, in turn, determine the governance structure (for example outsourcing or insourcing) that is the most efficient for the activity. If the right decision is made based on the transaction characteristics, then the transaction is likely to be conducted in a cost-efficient manner. (Karimi-Alaghehband et al., 2011; Lacity et al., 2011; Vasiliauskiene & Vytautas, 2009)

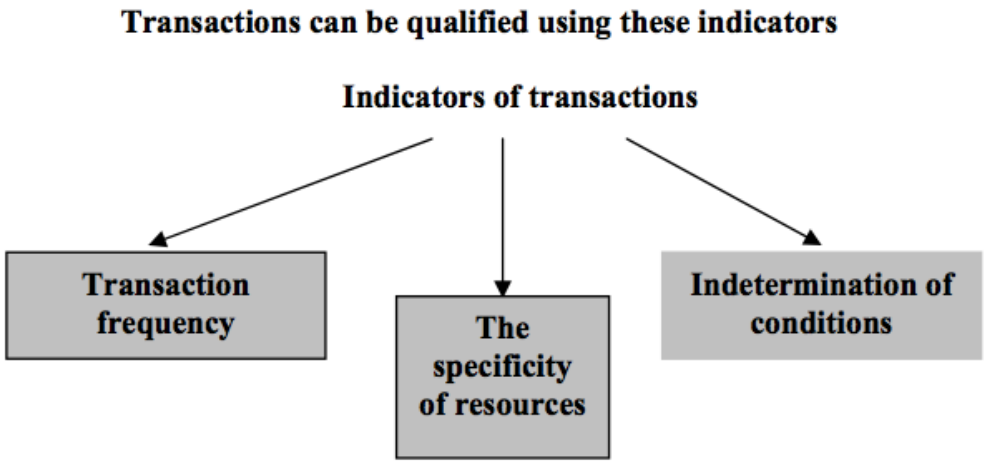


**Figure 2: Indications of the transaction according to TCE (Vasiliauskiene & Vytautas, 2009)**

The use of TCE in the context of IS outsourcing has also been criticized. According to Lacity et al. (2011) and Karimi-Alaghehband et al. (2011), the empirical results of the TCE tests in the context of IS outsourcing are mixed and IS outsourcing researchers frequently misappropriate TCE theory as they ignore the interaction effects. Many TCE transaction attributes including asset specificity, uncertainty, measurement difficulty, and transaction

frequency have produced mixed results in empirical tests. Lacity et al. (2011) argue that IS outsourcing phenomenon is more complex than can be accommodated by TCE as one decision-making theory and they suggest that new theories should be developed to capture the phenomena. Outsourcing situations are a complex and big decision points for the organization. TCE is a too narrow framework to understand the whole complexity of the situation. Latest IS outsourcing research propose that is outsourcing situations should be looked as an organizational decision-making point of view and the factors affecting outsourcing situations should be understood in a broader perspective. (Lacity et al., 2001; Dibbern et al., 2004.; Lacity et al., 2011)

## 4.2. Organizational Decision-Making Model

Simon published a model for organizational decision-making in 1960. It has become one of the best-known models in the management literature and it has been used widely in the later research. Even though Simon's model is a generic model for organizational decision-making it suits the outsourcing situation because outsourcing is a major decision that organization makes. Simon's decision-making model has also been previously used for that purpose; Dibbern et al. (2004) adapted Simon's decision-making to fit the organizational decision-making process in the case of IT outsourcing. Simon's decision-making model and Dibbern et al.'s adaptation of it will be presented in this Chapter.

According to Simon (1960) there are four different stages in decision-making: intelligence, design, choice, and implementation. "*Intelligence"* stage relates to the identification of the problem that needs to be solved. It requires the problem solver to gather information about the topic. "*Design"* stage refers to the consideration of alternative solutions, which requires the problem solver to gather additional information beyond what was collected in the intelligence phase. In the "*choice"* stage phase, the problem solver chooses the solution among solutions identified in the design stage. This stage could also require obtaining additional information on what was collected during the intelligence and design stages.

"*Implementation"* stage relates to the execution of the chosen solution including continuous progress reporting. (Simon, 1960; Dibbern et al., 2004)

Dibbern et al. (2004) developed a framework that parallels Simon's decision-making model as a decision-making process that organization goes through when evaluating outsourcing options. Dibbern et al. adapted the original decision-making model to five outsourcing stages that is presented in Figure 3. Outsourcing stages frames decision points that organization goes through when considering outsourcing. First outsourcing stage called "*why"* or more specific *"why to outsource"* is similar to Simon's intelligence phase; organization weights up the advantages and disadvantages of considering the outsourcing of IS. At this stage, the organization considers outsourcing as one option and evaluates its advantages and disadvantages. Second outsourcing stage called "*what"* or *"what to outsource"* is similar to Simon's design phase; organization addresses what alternative outsourcing arrangements are to be considered and which of those are the most suitable. In order to be able to make the decision at this point, organization needs to have at least two different options available and there needs to be rationale that serves the selection criteria. Third outsourcing stage called "*which"* or *"which choice to make"* is similar to Simon's choice stage; organization makes a decision by comparing various options. After the organization has considered what it should outsource and why, it will adopt procedures and make the final decision. In Dibbern et al. (2004) model these three stages combined are the first phase of the outsourcing: the decision process.

The next two steps frame second phase of outsourcing - implementation. Fourth outsourcing stage called "*how"* or *"how to outsource"* is similar to Simon's implementation phase; organization chooses a vendor, negotiates a contract and implements tools, which helps them to manage the outsourcing relationship. Fifth outsourcing stage "*outcomes"* reflects the consequences of making the outsourcing choice – the success or failure of the arrangements and lessons learned. Organization should consider results and implications of its outsourcing decision during and after the implementation. These two stages frames the second phase of the outsourcing – implementation. In this study we will focus on the first three stages of the outsourcing decision-making process but it is also important to understand the nature of the

whole process because the outsourcing implementation phase may have an impact on the outsourcing decision-making process.

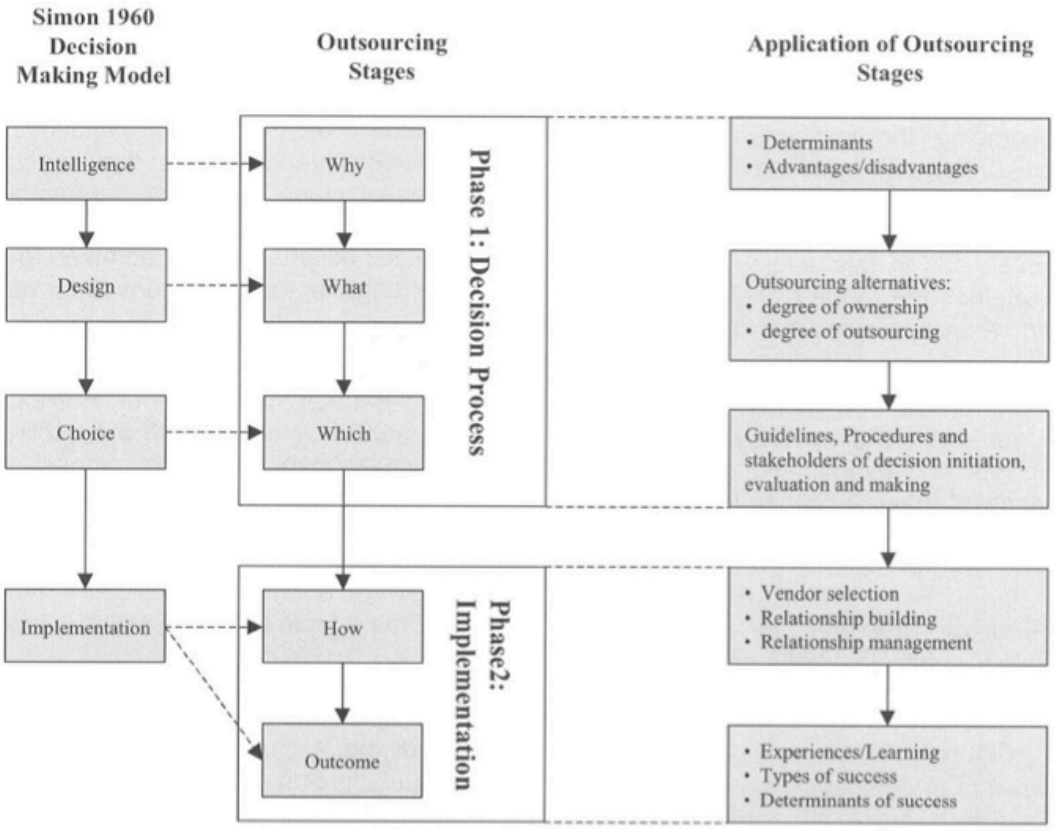


**Figure 3: Organizational decision-making model in outsourcing (Dibbern et al, 2004)**

## 4.3. Outsourcing Decision Criteria

Lacity et al. (2011) conducted a study to review existing business process outsourcing, BPO, research in order to examine variables affecting BPO decisions and outcomes. They develop a model on BPO decisions and outcomes and compare it with the model on IT outsourcing, ITO, decisions and outcomes developed in 2010 in Lacity et al.'s previous research. Financial management services outsourcing in the case municipalities is both ITO and BPO decision as the municipalities considers outsourcing both financial management IT systems and business operations. In this study, we will focus on studying decision-making process and decision criteria in outsourcing decision-making situations. We will compare the findings of the empirical study with Lacity et al.'s (2011 and 2010) models related to variables affecting BPO and IT outsourcing decisions.

Lacity et al. (2011) examined 87 empirical BPO articles published between 1996 and 2011 in 67 journals and compares the findings related to BPO decisions and outcomes to the previous research related to ITO decisions and outcomes. Previous research considering ITO decisions and outcomes conducted by Lacity et al. in 2010 was published in the article "A Review of the IT Outsourcing Empirical Literature and Future Research Directions". Both studies use the same review method so the results are comparable. According to Lacity et al. (2011) academic research on ITO is more mature than academic research on BPO. Lacity et al.'s (2010, 2011) creates models for BPO and ITO decisions and outcomes. Models are presented in Figure 4 and Figure 5.

According to Lacity et al.'s (2011) findings, organizations outsource business processes to reduce costs, to focus on core capabilities (other than the business processes chosen for outsourcing), and to inject organizations with supplier resources – for example skills and expertise to improve client's business process performance and scalability. They also found out that clients are less likely to outsource business processes that have high levels of complexity or criticality in the organization. They also found out that in terms of BPO outcomes, both contractual and relational governance are important. Both clients and suppliers need strong complementary capabilities to make relationships successful, and

cultural distance between clients and suppliers hurt performance. These outcomes can be seen also from Figure 4.

Lacity et al. (2011) compared the existing ITO and BPO research and found out that those have produced mostly consistent results. Both ITO and BPO research found that motives for outsourcing, transaction attributes, and client firm characteristics affect outsourcing decisions. Both research streams also found that relational governance, contractual governance, country characteristics, supplier capabilities, and client capabilities affect outsourcing outcomes. According to Lacity et al. (2011), despite what client firms are outsourcing – information technology, human resources or finance – the motivations for outsourcing are largely driven by costs, the desire to access supplier skills and expertise, and an overall strategy for focusing on core capabilities. Also, after the outsourcing decisions have been made, the same enablers of success apply: sound contracts, strong relational governance, and complementary client and supplier capabilities.

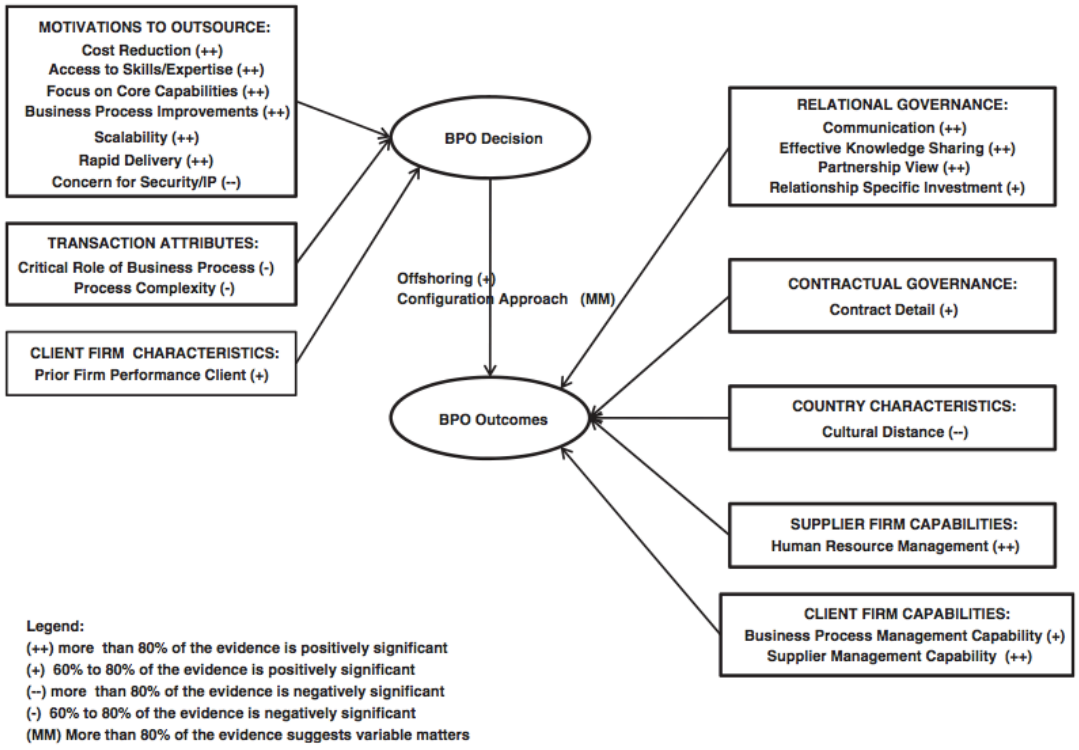


**Figure 4: Decision criteria for business process outsourcing (Lacity et al., 2011)**

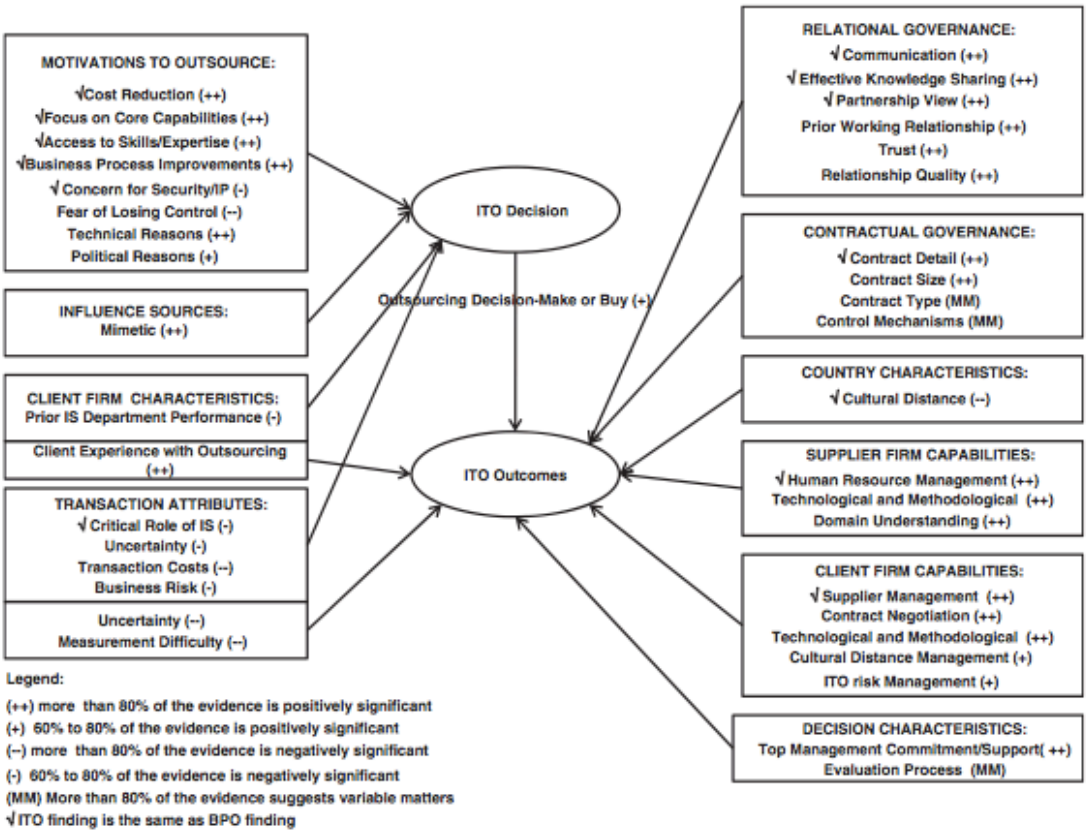


**Figure 5: Decision criteria for information technology outsourcing (Lacity et al., 2011)**

# 5. EMPIRICAL STUDY

Empirical study is conducted as a multi-case study. Financial management outsourcing decision-making process and decision criteria are investigated by interviewing key financial management outsourcing decision-makers in five Finnish municipalities. This Chapter consists of decision-making process analysis and decision criteria analysis. In addition that, organizations participating in the study and the legislation concerning the decision-making in Finnish municipalities are presented in this Chapter.

## 5.1. Organizations' Descriptions

In this Chapter municipalities and service providers participating the study will be presented. For the study we interviewed in total eight accounting outsourcing key decision makers from five municipalities. Municipalities include two big municipalities having over 100 000 residents (municipality A and B), one middle-sized municipality having less than 40 000 residents (municipality C) and two small municipalities having less than 20 000 residents (municipality D and E). During the research interviews municipalities were in different phases in their decision-making process which are presented in Figure 6. Municipality A and B had made the decision to either outsource or not to outsource, Municipality C had implemented the financial management outsourcing, Municipalities D and E were preparing the final decision.

### 5.1.1. Municipality A

Municipality A is one of the biggest municipalities in Finland having over 100 000 residents. Municipality A has centralized the FM operational services to a service center, which has approximately 100 employees. The service center is founded in 2007 and it is responsible for providing operational FM services to the municipality A and to five municipality A's companies. Operational FM services include personnel, procurement and financial administration services. Municipality A made the decision to outsource the service center's

business to Service Provider X at the time of the research interviews in 2014. Decision will be effective later the year 2014.

### 5.1.2. Municipality B

Municipality B is one of the biggest municipalities in Finland having over 100 000 residents. It has currently centralized its financial management operations to the service center that has approximately 80 employees. The service center is also responsible for conducting operations on personnel, procurement and finance administrations and it serves the municipality B, another small municipality and some of the municipality B's public utilities. The service center is founded in 2005. The service center is a public utility owned by the municipality B. Strategic financial management is conducted in municipality's other departments. Currently the service center buys only small services like scanning and postal services outside of its own organization. Municipality B recently considered outsourcing its financial management and personnel administration operations but decided not to outsource and continue with the centralized in-house solution.

### 5.1.3. Municipality C

Municipality C is middle-sized municipality in Finland having less than 40 000 residents. Municipality has divided its most important operations into five bureaus. Each of those currently has its own finance directors and small finance organizations responsible for strategic financial management. In addition to that, central government has its own finance director and few subordinates who are responsible for municipality's strategic financial management. In 2006 municipality C has outsourced the first time financial management operations, IT systems and 10 financial management employees to the external outsourcing service provider. Municipality C has recently changed the outsourcing service provider to Service Provider X. Service Provider X is responsible for municipality C's financial management operations and IT systems.

### 5.1.4. Municipality D

Municipality D is small municipality in Finland having less than 20 000 residents. It has currently centralized its FM operations to a service center. In addition to that, municipality

has financial and personnel managers who are responsible for strategic management and act as buyers for the service center's services. The service center is a limited company, it is founded in 2010 and its biggest owner is Municipality D. The service center is responsible for financial and personnel management and municipality's janitorial and catering services. Service centers has in total approximately 20 employees, approximately ten of them are responsible for FM operations. The service center offers FM services to the municipality D and to one federation of municipalities (union where municipalities can manage their common tasks). Municipality is currently considering outsourcing its FM service center but it has not yet made any decisions.

### 5.1.5. Municipality E

Municipality E is small municipality in Finland having less than 20 000 residents. Currently it has a centralized in-house FM service center, which has approximately 15 employees and is founded in 1992. The service center is responsible for FM's operative work – accounting, accounts payable and receivable, invoicing, payment transactions and budget. Municipality is currently considering outsourcing it FM functions but it hasn't made yet any decisions.

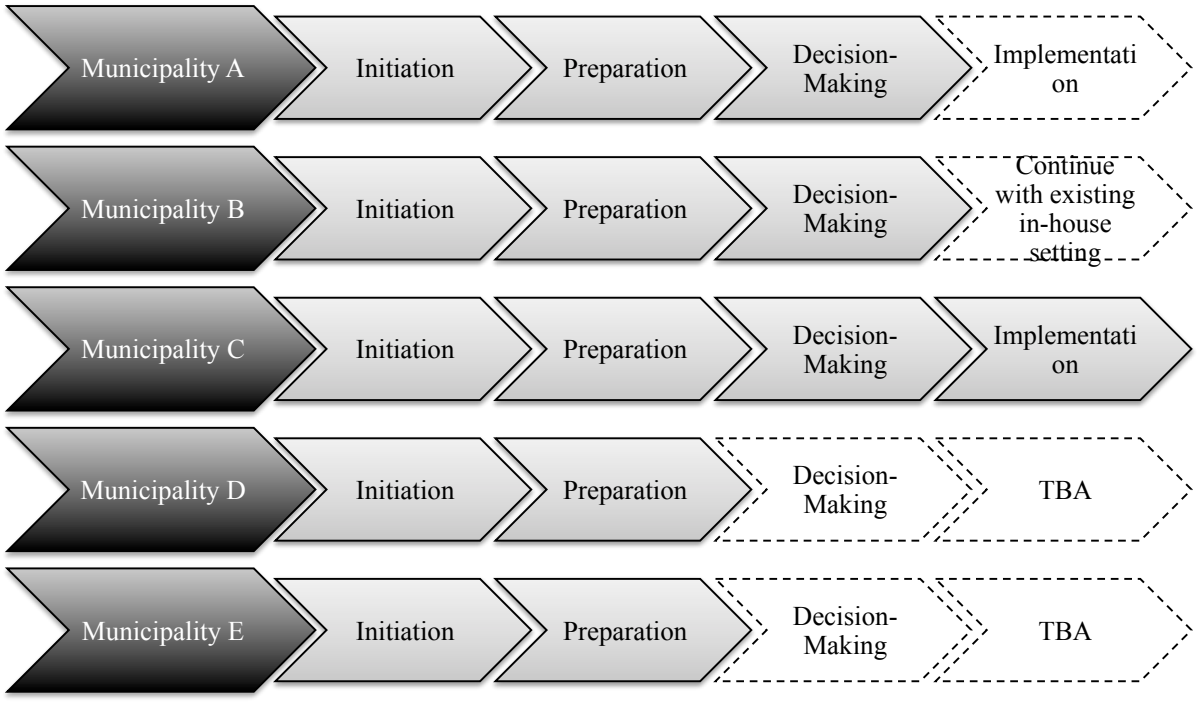


**Figure 6: Decision-making process progress and next steps in the case municipalities.**

### 5.1.6. Service Provider X

Service Provider X offers financial and personnel administration services for Finnish municipalities. Service Provider X was founded in 2010 and it has grown over the years in a fast pace. In 2013 Service Provider X had over 400 employees and its turnover was 23 million euro. It has become the biggest player in its field in Finland. Service Provider X provides financial and personnel administration by utilizing "in-house principle". It means that the municipalities buying services from Service Provider X become also owners of the company. When municipality purchases outsourcing services from Service Provider X, it also buys Service Provider X's stocks. The procurement law of Finland requires public organizations to organize public tender when buying products and services. When municipality is also owner of the company, it can pass the public tender, which applies when municipality is buying services from Service Provider X because of the in-house principle. By being owners of the company, municipalities can also impact Service Provider X's business operations and future plans. On the research point of view, Service Provider X is considered as an outsourcing service provider for municipalities because it is external company to municipalities' as Service Provider X operates independently and has its own management and executive board.

Service Provider X has a strategic partner aiming to develop a national network in Finland in order to standardize both information systems and processes around those. Together they provide solutions for financial and personnel administration outsourcing. Strategic partner offers its service to all fields of business in municipalities. Strategic partner operates with the same "in-house principle" as Service Provider X and it has currently over 250 municipalities, the federations of municipalities and companies owned by the municipalities as owners.

## 5.2. Legislation Concerning Decision-Making in Finnish Municipalities

The Constitution of Finland defines the foundations and rules for decision-making in municipalities. Legislation concerning decision-making in Finnish municipalities will be presented in this Chapter.

Finland is divided into municipalities that are self-government. Municipality's council has the power of decision. Council members are selected in local elections. (Finlex, 2014) Decision-making in Finnish municipalities can be divided into five categories: (1) initiation, (2) preparations, (3) decision-making, (4) the service of decision and (5) execution. All the facts affecting decision-making are investigated in the preparation phase after the initiation. All the parties involved in the decision-making and impacted by the decision have the right to express their point-of-views. Municipality needs to inform its residents about the plans, progress, decisions and affects of the decision. (Finlex, 2014; Suomen Kuntaliitto, 2014)

When the preparations for the decision-making are completed, municipality's executive board presents it to the municipality's council and executive board. Municipality's executive board consists of selected council members. Committees or jury can also be responsible for the preparation and presentation. Council can proceed with the decision-making if it is in the meeting notice and it is prepared well. In urgent cases council can also proceed with the decision-making with the well-prepared case even though it is not in the council's meeting notice, but in that case the majority of the council needs to agree with the decision. (Finlex, 2014; Suomen Kuntaliitto, 2014)

Every decision made by the council needs to be justified. Council needs to reason the decision and itemize the rules and laws applied. All parties affected by the decision needs to be informed. Also municipality's residents should be informed about the decision, which is done by publishing the meeting minutes. In case municipality's residents have the right to complain about the decision, council needs to make separate decision about the execution of the decision. Otherwise the execution can start after the decision is made. (Finlex, 2014; Suomen Kuntaliitto, 2014)

## 5.3. Outsourcing Decision-Making Process

Decision-making in Finnish municipalities follows the legislation, which is described in Chapter 5.2. According to the legislation decision-making in municipalities consist of five phases: (1) initiation, (2) preparations, (3) decision-making, (4) the service of decision and (5) execution. The decision-making process in the case municipalities will also be analyzed using the organizational decision-making theory presented in Chapter 4.2. Theory was developed by Simon in 1960 and adapted to the IT outsourcing situation by Dibbern et al. in 2011. The relation between decision-making in the case study, decision-making legislation and the decision-making theory will also be discussed in Chapter 6.

### 5.3.1. Initiation

We will discuss in this Chapter why the case municipalities consider outsourcing. That phase of the decision-making process is called initiation. The decision-making process related to outsourcing financial management services and IT systems was initiated mostly because of the desire to solve problems. Cost savings and effectiveness increases in financial management were the most common benefits desired by all the case municipalities. In addition to that, four out of five case municipalities stated that their willingness to be part of the larger organization or to contribute to building national ERP was the key decision criteria in considering outsourcing. Reasons for outsourcing decision-making initiation in each case municipality can be found in Tables 3 and 4.

All the case municipalities, that considered outsourcing their centralized in-house financial management service centers, pointed out that the decision to outsource the financial management is related to the bigger transformation on-going in municipalities. Municipalities are currently experiencing economic challenges because of various reasons: Finland is currently experiencing an economic downturn and structural changes in the economy, which have and impact on municipalities' economy. Government has also recently cut the municipalities' financial support and it encourages municipalities to unite. In addition to that urbanization affects especially small municipalities away from big cities. Because of these

reasons, municipalities in Finland are experiencing the pressure to cut the costs and to reorganize their functions, which had an affect also to financial management activities.

All case municipalities have pressures to increase effectiveness and cut costs by improving the business the processes, resource planning and control in all of its functions. Some municipalities wanted to cut costs in their financial management activities. On the other hand, some municipalities wanted to improve resource planning and reporting done by the municipality's financial management to be able to improve resource planning in the whole municipality. In other words, cost savings didn't mean only saving costs organizing financial management activities itself. With better financial management municipality can organize municipality's functions more effectively and gain cost savings in the whole municipality.

Service Provider X operates utilizing in-house principal, which means that if municipalities buy outsourcing services from the companies, they also need to buy companies' stocks. Most of the case municipalities bought Service Provider X's stocks already in 2010 when it was founded. Service Provider X is a leading financial management outsourcing service provider for Finnish municipalities. Service Provider X has a strategic partner providing financial management IT systems. More about Service Provider X can be found in Chapter 5.1.6. Increased trust to Service Provider X as an outsourcing service provider was a reason to consider outsourcing. Interviewees pointed out that Service Provider X has now grown enough, its business has improved and it has a good vision for the future. Because of that, municipalities were willing investigate whether they should also buy outsourcing services from Service Provider X. Interest to buy services from Service Provider X is related to the municipalities' willingness to build national ERP. Case municipalities perceive Service Provider X as the most successful service provider having the capability to build that national ERP system in the future. Trust for Service Provider X has increased among municipalities because Service Provider X has been able to grow and attract the customers, its business is high quality and it has a good reputation among the municipalities. There were different points of view among the case municipalities related to the technology and IT systems - especially that which technology or IT system national ERP should use. Currently, municipalities used the variety of IT systems from many different service providers. Service

Provider X doesn't require municipalities to use a certain technological platform when outsourcing services and systems to Service Provider X.

Initiation to investigate financial management outsourcing was usually made by the political decision maker in municipality's council. In some cases the leader of the financial management unit did the initiation, but also on those cases the political decision maker originally drove the initiation by giving the pressure to cut costs and increase effectiveness in municipality's operations. In that case, the political decision maker asked different unit managers, also financial management unit managers, to investigate how cost saving could be done in their area, which lead to outsourcing investigation.

**Table 3: The outsourcing decision-making process in the case municipalities. 1/2**

| | Municipality A | Municipality B | Municipality C | Municipality D | Municipality E |
|---|---|---|---|---|---|
| **Current FM setting** | In-house, centralized | In-house, centralized | Outsourced to 3rd party | In-house, centralized | In-house, centralized |
| **Reasons for Outsourcing Decision-Making Initiation** | Improved resourse planning and management in the whole municipality. Vision of the national ERP and FM service center to gain scalability benefits. | Cost savings in FM operations. | Negative experinences with the current FM outsourcing service provider in terms of service reliability and quality. | Desire to be part of the bigger organization in order to gain benefits from scalability in terms of cost and IT system development. | FM IT systems needs to replaced ans interest in national ERP, access to skills and a desire to be part of the bigger organization, cost. |
| **Persons leading the initiation** | Municipality's Strategy and Development Manager, City Manager, FM service center's manager | Municipality's political decision makers | City Manager, Finance Director | Municipality's political decision makers | Municipality's political decision makers |
| **Options for the future in the preparation phase** | 1. Outsource the service center's operations and IT systems to Service Provider X. 2. Continue with the existing in-house service center. | 1. Outsource FM operations and continue managing existingin-house FM IT systems. 2. Buy FM IT systems from outsourcing service provider and produce FM operations services in-house. 3. Outsource both FM operations and buy FM IT systems as service from outsourcing service provider. 4. Continue with existing centralized in-house FM service center. | 1. Organiza public tender to find best outsourcing service provider. 2. Outsource FM operations and IT systems to Service Provider X. 3. Start to operate FM operations and IT systems in-house. | 1. Outsource FM IT systems and services to Service Provider X with another municipality or alone. 2. Outsource FM IT systems and services to another service provider with another municipality or alone. 3. Other muncipalities start to buy FM services from the existing centralized service center. | 1. Outsource FM IT services and IT systems to Service Provider X. 2. Outsource only IT systems to outsourcing service provider and continue with existing in-house FM service center. |

**Table 4: The outsourcing decision-making process in the case municipalities. 2/2**

| | Municipality A | Municipality B | Municipality C | Municipality D | Municipality E |
|---|---|---|---|---|---|
| **Outsourcing arrangements considered** | Total outsourcing to external service provider. | Total outsourcing to external service provider. | Total outsourcing to the external service provider. | Total outsourcing to external service provider. | Total outsourcing to external service provider. |
| **Outsourcing modes considered** | Simple dyadic | Simple dyadic, multi-vendor outsourcing | Simple dyadic | Simple dyadic, multi-client | Simple dyadic |
| **Leader of the preparation phase activities** | Municipality's Strategy and Development Manager, City Manager, FM service center's manager | FM service center's manager. | City Manager, Finance Director | Municipality's political decision makers | Conroller (act also as ICT Manager) |
| **Decision making - Which choice to make?** | Outsource centralized FM service center to Service Provider X | Continue with existing centralized in-house FM service center. | Change FM outsourcing service provider to Service Provider X. | Not yet decided. | Not yet decided. |
| **Most important decision criteria** | Visio of the national ERP and FM service center, scalability benefits, trust for the outsourcing service provider | Outsourcing services costed too much and FM service level would have declined. Satisfaction to existing centralized in-house FM service center. | Trust for new service provider, desire for improved outsourcing service in terms of quality and reliability. | N/A | N/A |
| **Implementation** | N/A | N/A | Service provider changed succesfully. | N/A | N/A |
| **Timeline** | Approximately 6 months. | Approximately 6 months. | Approximately 1 year. | N/A | N/A |
| **Future plans** | Continue to the implementation phase. | Small improvements to for example increase effectiveness in the centralized in-house FM service center. | No big changes planned in FM for the future. | Negotiations are currently on hold and plan is to continue those in the future. | Continue to the decision-making phase. |

### 5.3.2. Preparation

This Chapter discusses how the case municipalities consider different outsourcing arrangements, modes and potential service providers. This stage of the decision-making process is called a preparation phase and it precedes the final decision-making. Preparation activities begin when the decision to start to investigate financial management outsourcing was made. Preparation is the most important and complex outsourcing decision-making phase in the municipalities because the outcome of the preparation activities and the consensus developed among the decision makers during the preparation phase determines the final decision. In preparation phase, municipalities develop proposal for decision-making by gathering information about the different scenarios both inside of the municipality and with stakeholders outside of the municipality. Case municipalities then narrowed the choices for future scenarios to 2-4 options by excluding others. Those scenarios were then investigated in detail and compared with each other. Final decision was in all cases one of those options.

Most of the municipalities conducted Service Provider X's standard pre-preparation work with Service Provider X's consultants. None of the municipalities utilized independent external consultants to the preparation work even though interviewees stated that independent consultants are usually used when making large and important decisions in municipalities. Municipalities' decision-makers also discussed the matter with other municipalities' decision-makers in both formal and informal networks. The interviewee from municipality B for example stated that they didn't systematically gather any information from other municipalities during the preparation phase, but they still know how other municipalities perceive the financial management outsourcing and service providers and what are other municipalities' future plans. It seems that there is plenty of tacit knowledge about the topic shared between municipalities in different collaboration networks, which affect the decision-making process.

Municipalities gathered information affecting decision-making also from the municipality's internal stakeholders. The Finnish legislation requires municipalities listen to stakeholders who are willing to contribute and who are involved in or impacted by the decision during the preparation phase. More about municipality's decision-making legislation can be found in

Chapter 5.2. Municipalities conducted internal workshops and discussed the matter widely with different internal stakeholders. Drivers of the decision-making aimed to build consensus inside of the municipality and especially with the key political decision-makers. Interviewees stated that drivers of the preparation activities have an impact on the final decision-making, as they are the ones building the consensus for the decision. Municipality A also started already at this phase to organize their financial management operations so that those could be outsourced to the external service provider at some point.

First municipalities mapped all outsourcing arrangements and service providers suitable for the municipality. Municipalities narrowed the choices for the future scenarios to 2-4 different options, which they investigated in detail and compared with each other. Choices for each municipality can be found in table 3 and 4. In some cases municipality had already made a choice investigate only a few options for the future scenario when entering the preparation phase. Those alternative options were complete future scenarios including the combinations of both outsourcing arrangement and service providers.

Case municipalities' future scenarios had these aspects in common: all municipalities had in-house service as an option and in addition to that they had 1-3 different outsourcing arrangements. As an outsourcing option, all municipalities consider only either to outsource most the financial management's operational tasks to an external service provider or continue with the in-house arrangement. In the case of outsourcing, municipalities stated that few financial management employees should stay in the municipality's organization to conduct strategic financial management, advice municipality's units and act as a buyer for the outsourced services. According to Dibbern et al. (2004) that is called traditional outsourcing (see Chapter 2). In traditional outsourcing setting, the degree of outsourcing is total and ownership is external. None of the municipalities considers partial outsourcing as an option. In partial outsourcing municipality outsources only some or parts of the processes and services.

Outsourcing modes considered in the case municipalities had more variance than outsourcing settings. Outsourcing modes are explained in detail in Chapter 2. Considered outsourcing modes in case municipalities were simple dyadic and multi-client outsourcing modes.

Municipalities considered that business processes and IT systems can be outsourced either together or separately. Municipalities also considered an option to keep either one in-house. Municipality D even considered on joining forces with another municipality to outsource financial management together to the external service provider. The detailed description of each municipality's outsourcing options, the arrangement and the modes considered can be found in Table 3 and 4.

### 5.3.3. Decision-making

A decision-making phase of the organizational decision-making process in the case municipalities is described in this Chapter. The municipalities' executive board or council makes the final decision. The municipality's executive board consists on selected council members. At the time of the research interviews, two municipalities had made the decision to outsource financial management to Service Provider X (Municipalities A and C), one municipality had decided not to outsource but to continue with in-house (Municipality B) financial management. Two municipalities had not yet proceeded to the decision-making phase (Municipalities D and E).

Municipalities' executive board or council chooses one option for the financial management's future state from the options decided during the preparation phase. Options are presented to them by the city manager or the presenter chosen during the preparation phase. The presenter presents the outcome of the preparation activities and different possibilities proposed for the future stage. In addition to that, presenter suggests one option for the future stage and municipality's executive board either agrees or disagrees. The time frame for the actual decision-making is short as it is done in the municipality's executive committees meeting.

The consensus developed during the preparation phase and the outcome of the preparation activities plays a big role in the final decision-making. According to the interviewees, the presenter and the persons involved in the preparation activities have a big impact on the final decision because they are responsible for convincing the executive board and the city manager to support a certain option. After the final decision-making, municipality needs to

inform people affected by the decision and municipality's residents about the decision, as it is required by the legislation.

### 5.3.4. Implementation

In this Chapter, the affects of the implementation phase to the decision-making process are described. Only one of the case municipalities (Municipality C) had outsourced its accounting to the external service providers earlier. In that case the past experience with the previous service provider affected the outsourcing decision in a great extent. The experience was negative in terms of the service reliability. Because of that, the service reliability became one of the most important decision criteria in the actual outsourcing decision. Other municipalities had not implemented accounting outsourcing solution previously but they gather information from the other municipalities that had done it, which affected their decision-making.

## 5.4. Outsourcing Decision Criteria

In this Chapter, we go through variables that affected either positively or negatively outsourcing decision-making in Finnish municipalities according to the empirical study. There were differences and similarities in decision criteria among the case municipalities, which we will also discuss in this Chapter. All decision criteria affecting the outsourcing decisions can be found in Table 5. In Table 6, decision criteria are compared between big municipalities (A and B) and small / middle-sized municipalities (C, D and E).

Desire for lower costs and increased effectiveness were the main reasons for all the municipalities start to investigate the possibility to outsource their financial management operations. Municipalities are experiencing at the moment pressure to increase effectiveness and lower the costs because of many reasons. Finland is currently experiencing an economic downturn and structural changes in the economy, which have and impact on municipalities' economy. Government has also recently cut the municipalities' financial support and it encourages municipalities to unite. In addition to that urbanization affects especially small municipalities away from big cities. Usually financial management outsourcing initiation was part of the bigger picture related to the desire to increase effectiveness in the whole municipality. Some municipalities in the empirical study weighted the cost decreases in the financial management operations through outsourcing where others were not searching cost decreases in the financial management operations itself but in the whole municipality through improved resource planning and control. Desire in those municipalities was to improve the resource planning in the whole municipality, which was possible when they were able to get improved and more real-time reporting. By that, municipalities would be able to control municipalities' resources better and move towards truly strategic resource planning and strategic financial management.

Many municipalities were also concerned about outsourcing. Municipalities who decided either not to outsource or are still considering the possibility to outsource pointed out worries that outsourcing might just seem to be a cheaper and more effective option but in real-life it leads to a higher cost or a declined service level. Declined service level with the increased cost was the main reason not to outsource in the municipality B. On the other hand,

municipality D expected increased service level after outsourcing. Financial management's service quality and reliability were important decision criteria. Municipalities considered Service Provider X as a trusted outsourcing service provider that could ensure quality and reliability of the basic financial management operations. This aspect was important especially to the small municipalities D and E who currently have small financial management organizations and for municipality C, who had negative experience with the previous outsourcing service provider.

All case municipalities, except municipality B, highlighted the partnership view as an important decision criterion. Municipalities A and C, that had already decided to buy financial management outsourcing services from Service Provider X, stated that partnership view was one of the most important decision criteria. Municipalities D and E, that had not yet made decision during the research interviews, stated that partnership view is one of the most important factor affecting positively on the decision outsource to Service Provider X. Financial management collaboration among the municipalities can be done at two levels - business process and IT systems levels. Service Provider X and its software development partner have a vision of national ERP to standardize the IT systems. In addition to that, municipalities could benefit in organizing the financial management business operations in collaboration with other municipalities in order to share responsibilities, resources, and skills. That could let municipalities to focus on their core competence and strategic aspects of financial management. Access to skills and resources was the important outsourcing decision criteria in small municipalities C, D and E because they have small financial management organizations. Bigger organization would help them to tackle challenges related to human resource management – for example sick leaves and retirements.

Financial management IT system's standardization and scalability – the vision of the national ERP - was important decision criteria in the municipalities A, C, D and E. One of the national ERP's benefits is collaboration among the municipalities to be able to respond to the government's requirements for example VAT changes. If the IT systems would be centralized and standardized those changes could be implemented into the information systems at once. In that case, all the municipalities wouldn't have to make changes to their IT

systems by themselves. Standardized and centralized IT systems or interfaces would be compatible with each other and product development efforts could be combined. Also, municipalities would be able to develop and automatize different kinds of functions because of compatible data and common interfaces.

Many municipalities stated that they need more real-time information about the municipality's finances to support management decision-making. Management reporting and real-time budget calculations were a challenge in many municipalities. One interviewee stated that in some cases no one in the municipality's management knows during the year how much the municipality has spent money on a certain activity or service and that can be calculated only after the fiscal year has ended. Municipalities would need more real-time financial information in order to be able to for example examine spent resources during the fiscal year, forecast the future, and be able to compare different options and future states when making decisions. That would be gained through the improved use of financial data and its rapid delivery.

Municipality E was concerned about the future of their financial management employees in terms of job security and future working location because of the physical distance of the outsourcing service provider. Also, labor unions could be against of the outsourcing in those cases and affect negatively the outsourcing decision. The reason behind is that small municipalities do not have many other job options for financial management professionals and that Service Provider X didn't have working in place in that municipality. Municipalities also considered close physical situation of the financial management services as a good thing and were afraid of how outsourcing would affect that. None of the case municipalities considered buying outsourcing service from service provider operating in different country or cultural environment.

Past negative experiences either with outsourcing or existing in-house service center affected the outsourcing decision. If the past experience was negative, it would be more likely that municipality considered outsourcing as safe solution and Service Provider X as a trusted partner in outsourcing. That was because they have heard positive experiences from other municipalities, shared the same vision with Service Provider X and recognized that it has

many municipalities as customers. On the other hand, past positive experiences with the existing in-house service center affected negatively on the outsourcing decision. In these cases municipality was concerned about losing control after outsourcing, cost increases and decreased service levels.

IT systems also played a role in outsourcing decision-making. In case municipality needed to renew its financial management IT systems, it considered at the same time outsourcing as one option, which was the case in municipality E. If municipality didn't need new IT systems in the near future, municipality would require that new service provider should be able to operate their existing IT systems. Some municipalities wanted also to improve their processes to for example reduce un-necessary paper work and in order to do so; they needed to improve their IT systems. They also wanted to offer better electronic services for the municipality's residents. Municipality E also stated that it would be nice if they bought the IT systems as service from one player like Service Provider X so that they would not need to negotiate directly with the software houses.

Trust to Service Provider X as service provider was one main criteria affecting positively outsourcing decision-making. Interviewees pointed out that Service Provider X has been able to grow and attract the customers, its business is high quality and it has good vision. Because of that, municipalities were willing investigate whether they should also buy outsourcing services from Service Provider X. Interest to buy services from Service Provider X is related to the municipalities' willingness to build national ERP. Case municipalities perceive Service Provider X as the most successful service provider having the capability to build that national ERP system in the future.

**Table 5: Decision criteria affecting decision to purchase outsourcing services in the case municipalities.**

Impacts positively to the decision to outsource = +
Most important decision criteria in grey background
Impacts negatively to the decision to outsource = -
Additional decision criteria in white

| **Municipality** | **A** | **B** | **C** | **D** | **E** |
|---|---|---|---|---|---|
| **Decision** | To outsource | Not to outsource | Change the s.p. | Not yet decided | Not yet decided |
| **MOTIVATIONS TO OUTSOURCE** | | | | | |
| Cost reduction | + | + | | + | + |
| Access to skills / expertise | | | + | + | + |
| Focus on core capabilities | | | | | + |
| Business process improvements | | | | | + |
| Scalability | + | | + | + | + |
| Rapid delivery (to enable more real-time reporting) | + | | + | | + |
| Fear of losing control (after outsourcing) | | - | | | - |
| Technical reasons | + | - | | | + |
| Political reasons | + | | | | - |
| Service level increase / decrease | | - | | + | - |
| Quality and reliability | | | + | + | + |
| Personnel reductions | | | | | - |
| Improved resource planning in the municipality | + | | | + | |
| **CLIENT FIRM CHARACTERISTICS** | | | | | |
| Prior IS department performance | - | - | | - | - |
| Client experience with outsourcing | | | + **and -** | | |
| Prior firm performance client | + | + **and -** | + | | |
| **RELATIONAL GOVERNANCE** | | | | | |
| Partnership view | + | | + | + | + |
| Trust | + | + **and -** | + | | + **and -** |
| Relationship quality | | | | | |
| **COUNTRY CHARASTERISTICS** | | | | | |
| Physical distance | | | | - | - |

**Table 6: Decision criteria comparison between big and small / middle-sized municipalities**

Impacts positively to the decision to outsource = +
Impacts negatively to the decision to outsource = -

**Criteria specific to big or small / middle-sized**
Criteria not specific to big or small / middle-s.

| | **Big muncipalities (A and B)** | **Small and middle-sized municilaities (C, D and E)** |
|---|---|---|
| **Most important decision criteria** | **Technical reasons (-)** | **Access to skills and expertise (+)** |
| | Cost reduction (+) | **Quality and reliability (+)** |
| | Scalability (+) | Cost reduction (+) |
| | Rapid delivery (+) | Scalability (+) |
| | Improved resource planning in the municipality (+) | Rapid delivery (+) |
| | Partnership view (+) | Improved resource planning in the municipality (+) |
| | | Partnership view (+) |
| **Additional decision criteria** | Fear of losing control (-) | **Access to skills and expertise (+)** |
| | Technical reasons (+) | **Focus on core capabilities (+)** |
| | Political reasons (+) | **Business process improvements (+)** |
| | Service level decrease (-) | **Rapid delivery (+)** |
| | Prior IS department performance (-) | **Quality and reliability (+)** |
| | Trust (+ - ) | **Client experience with outsourcing (- +)** |
| | | **Physical distance (-)** |
| | | Fear of losing control (-) |
| | | Technical reasons (+) |
| | | Political reasons (-) |
| | | Service level decrease / increase (- +) |
| | | Prior IS department performance (-) |
| | | Trust (+ - ) |

In Table 6 decision criteria are compared between the big municipalities (A and B) and the small and middle-sized municipalities (municipalities C, D and E). Decision criteria are divided into the most important criteria and into the additional criteria similar as in Table 5. Decision criteria can be both important and additional (for example "access to skills and expertise"). In that case, group's municipalities consider decision criteria as most important or additional. From Table 6, we can see that small and middle-sized municipalities value access to skills and outsourcing services' quality and reliability unlike big municipalities. Small and middle-sized municipalities also had more additional decision criteria when making decisions. On the other hand, big municipalities considered technical reasons having negative impact on outsourcing decision-making. Important notification is that many decision criteria are similar in big, middle-sized and small municipalities according to the conducted multi-case study (all the decision criteria written in the normal font in Table 6).

# 6. DISCUSSION

This study aims to answer following research questions:

1. What kind of organizational *decision-making process* is behind the purchase decision related to financial management outsourcing service in the Finnish municipalities?
2. What *decision criteria* impact the purchase decision related to financial management outsourcing services in the Finnish municipalities?

The empirical study was conducted as a multi-case study by interviewing key financial management decision-makers in five Finnish municipalities. Aim was to investigate how financial management outsourcing decisions are made in Finnish municipalities: what kind of decision-making process is behind the purchase decision and what kinds of decision criteria affect the decision-making in financial management outsourcing? In this Chapter, empirical study findings are discussed and reflected with the theoretical frameworks. In addition to that, managerial implications, limitations and suggestions for future research are discussed.

Organizational decision-making in the outsourcing context consists on three decision points: (1) Decision on outsourcing or insourcing, (2) decision on an outsourcing mode and (3) decision on an outsourcing service provider. Municipalities in the empirical study decided everything related to these decision points at the same time and the decisions were dependent on each other. Decisions on IT and business process outsourcing were dependent on each other.

The organizational decision-making process in the Finnish municipalities consists on following phases: (1) initiation, (2) preparations, (3) decision-making, (4) the service of decision and (5) execution. Phases are described in detail in Chapters 5.2 and 5.3. The most important phase in the decision-making process is the decision preparation phase. Information gathered during the preparation activities is used to form the final decision. The leader of the preparation activities has an impact on the final decision because he is responsible for preparations activities, solution proposal and consensus development in the municipality. The consensus developed in the organization during the preparation phase defines the final decision. The actual decision-making phase is more straightforward. The

solution proposal developed during the preparation phase leads to final decision in the case municipalities (A, B and C).

Legislation for decision-making in Finnish municipalities explains the decision-making process and decision points' timings: it is less time and resource consuming for the municipalities to decide everything related to the outsourcing at once. Otherwise municipality would need to run the formalities of the decision-making required by the legislation multiple times. Also, municipalities can consider the dependencies of the decision points already early in the process, which is good because the case municipalities had many restrictions for the future setting - for example lack of suitable service providers. The outsourcing decision-making process in the municipalities has similarities but also differences with the theoretical organizational decision-making models which are discussed in Chapter 6.2.1.

Most important decision criteria affecting municipalities' outsourcing decisions are cost reductions either in the financial management operations or in the whole municipality through improved resource planning and control. Also scalability, the partnership view, access to skills and expertise, rapid delivery to enable more real-time reporting, technical reasons, quality and reliability of the outsourcing service and improved resource planning in the municipality are the most important decision criteria in outsourcing decision-making. In addition to that, following decision criteria affect the decision to outsource financial management operations: Focus on core capabilities, business process improvement, fear of losing control after outsourcing or without outsourcing, trust to the service provider, political reasons, prior IS department performance in the municipalities, client's previous experience with outsourcing, the outsourcing service provider's prior firm performance, personnel reductions after outsourcing, the physical distance between the outsourcing service provider and financial management's service level increases or decreases after outsourcing. Decision criteria are discussed in detail in Chapters 5.4 and 6.2.2.

## 6.1. Managerial Implications

Desire for lower costs and increased effectiveness was the main reason for all the case municipalities start to investigate the possibility to outsource financial management operations. Municipalities are experiencing at the moment pressure to increase effectiveness and lower the costs because of many reasons. Finland is currently experiencing an economic downturn and structural changes in the Finnish economy, which have and impact on municipalities' economy. Government has also recently cut the municipalities' financial support and it encourages municipalities to unite. In addition to that, urbanization affects especially small municipalities away from big cities. Usually financial management outsourcing initiation was part of the bigger picture related to the desire to increase effectiveness in the whole municipality. Some municipalities in the empirical study weighted the cost decreases in the financial management operations through outsourcing. Others were not searching cost decreases in the financial management operations itself, but in the whole municipality through improved resource planning and control. Their desire was to improve the resource planning in the whole municipality, which was possible when they were able to get improved and more real-time reporting. By that, they would be able to control resources better and move towards truly strategic resource planning and strategic financial management.

The partnership view and desire to build a national ERP were important decision criteria in outsourcing decision-making. In addition to that, small municipalities highlighted the importance to be part of the bigger organization in order to access the skills and secure the service reliability. Municipalities' financial management organizations and related IT systems are currently fragmented, which creates inefficiencies and prevents many functions. Each municipality has different IT systems with no common interfaces or data that can be easily shared with each other. Also, acquisition and management of the IT systems is fragmented with very little collaboration between the municipalities meaning that each municipality purchases and customizes their IT systems independently. In addition to that, financial management services and business operations are fragmented, most of the municipalities produces needed services in-house. Municipalities realize that this fragmented organization of financial management activities generate inefficiencies, increases costs and

prevents many needed functions because of incompatible IT systems. Because of that, they are interested in the partnership with other municipalities through independent player like Service Provider X. With closer collaboration and national ERP municipalities could share costs and work related to financial management operations, IT system purchases and customizations and by that they could focus more on the municipality's strategic financial management.

Despite the benefits, municipalities were concerned about outsourcing. Municipalities, that decided either not to outsource or are still considering the possibility to outsource, pointed out worries that outsourcing might just seem to be a cheaper and more effective option but in real-life it leads to a higher cost or a declined service level. Municipalities were worried about personnel reductions, physical distance between the outsourcing service provider and need to change IT systems because of the outsourcing. Also, if the municipality was currently satisfied its financial management organization, it was more likely to be concerned about the outsourcing. In contrast, if municipality was not satisfied with its current financial management operations, it regarded outsourcing more positively. It seems that municipalities use outsourcing as a way to solve their current problems.

There is a risk is that municipalities are not able to gain effectiveness increases by using outsourcing. Challenge is that one source to effectiveness increases is personnel - personnel reductions or moving personnel to the outsourcing service provider's organization. Especially the small municipalities were suspicions on personnel reductions because of the physical distance between the service provider and challenging job situations in the municipality meaning that the personnel would be required either to move or find another job. Another risk of failing to get effectiveness and cost savings from outsourcing is related to IT systems. In case the municipality has recently invested in the IT systems or those are currently working well, it was not considered as a good decision (on individual municipality's point of view in the short term) to change those IT systems because of the outsourcing. Anyhow, on national perspective municipalities should start to standardize the systems to gain long term cost savings. In order to create true effectiveness increases, municipalities should be able to truly collaborate with each other organizing financial management services and IT systems.

In addition to that, municipalities should accept the personnel's moves or reductions because personnel are one of the main sources of the costs.

For outsourcing service providers, it is important to understand the municipalities' outsourcing decision criteria and the whole organizational decision-making process. Better understanding helps to sell outsourcing services, to create new services and to nurture existing customer relationships. It is important to be part in the decision-making preparations phase. During that phase, the solution proposal for decision-making is made and the consensus is created. Options for the future outsourcing or in-house setting are narrowed to a few different options. It is important for the service providers to be one of those options in order to be considered as a future service provider. It is also important to understand how the leader of preparation phase activities in municipality impacts the final decision-making. Municipalities had many similar decision criteria in their final outsourcing decision-making but the weights for each decision criteria varied. Because of that, it is important to understand special characteristics of each municipality and their outsourcing situation in order to be able to offer attractive outsourcing services. Municipalities investigated whether outsourcing could help them to solve their problems related to costs, technology, skills or municipality's management and resource planning. It is good for the outsourcing service providers if they can help the municipalities to solve problems on individual municipality's level or even at national level by offering solutions that can for example increase municipalities effectiveness, save costs or improve the compatibility of the different IT systems.

## 6.2. Theoretical implications and analysis

In this Chapter, the theoretical implications will be presented. The outsourcing decision-making process in the Finnish case municipalities will be reflected with the organizational decision-making theory. In addition to that, outsourcing decision criteria in the Finnish case municipalities will be reflected with the previous research.

### 6.2.1. Outsourcing Decision-Making Process

The similarities and the differences between the theoretical decision-making models and the empirical study findings are discussed in this Chapter by comparing the timing of three important decision points during the outsourcing decision-making process (see Table 7).

**Table 7: Comparing the organizational decision-making theory with decision-making in the case municipalities**

| | **Organizational Decision-Making Model by Simon (1960)** | **Outsourcing Modes by Dibbern et al. (2004)** | **Decision-Making in Municipalities According to Finnish Legislation** | **Outsourcing Decision-Making Process in the Case Municipalities** |
|---|---|---|---|---|
| *Before the decision* | Intelligence | Why to outsource? ***Decision on outsourcing / in-sourcing***. | Initiation | Initiation |
| | Design | What to outsource? | Preparations for decision-making | Preparation for the decision-making. Options for future stages narrowed into 2-3. |
| *Decision* | Choice | Which choice to make? ***Decision on outsourcing mode.*** | Decision-making | Decision-making - ***Decisions on outsourcing / in-soourcing, outsourcing mode and service provider.*** |
| *After the decicion* | Implementation | How to outsource? ***Decision on service provider.*** | Service of decision | Service of decision |
| | | Outcomes | Execution | Execution or continuing with the existing model*. |

*If the decision was to continue with the existing model.

The outsourcing decision-making process consists of three important decision points: (1) Decision on outsourcing or insourcing, (2) decision on an outsourcing mode and (3) decision on an outsourcing service provider. Firstly, organization needs to make decision whether they

want to use outsourcing or insourcing. Secondly, organization needs to decide which outsourcing mode suits the best the outsourcing situation. Different outsourcing modes are presented in Chapter 2. Thirdly, organization should decide from which service providers they buy outsourcing services. These outsourcing decision-making decision points are mapped to the outsourcing decision-making processes in Table 7 to illustrate differences between Dibbern et al.'s (2004) decision-making model and decision-making process in the case municipalities. Also Simon's (1960) model for organizational decision-making is added to Table 7 because it serves the basis for Dibbern et al.'s (2004) organizational decision-making process for outsourcing decision-making. Similarly, the legislation concerning decision-making in Finnish municipalities forms the basis for outsourcing decision-making in the case municipalities. More about Simon's (1960) and Dibbern et al.'s (2004) decision-making processes can be found in Chapter 4.2 and legislation concerning decision-making in Finnish municipalities can be found in Chapter 5.2.

The main difference between outsourcing decision-making in the case municipalities and in Dibbern et al.'s (2004) model for outsourcing decision-making is the timing of the three decision points in the outsourcing decision-making process. Case municipalities decided everything at the same time and the decisions were dependent on each other. In Dibbern et al.'s (2004) model the outsourcing decision points were decided independently and those were considered as independent questions without dependencies with each other. Another difference is "the service of the decision" phases in the decision-making process that case municipalities have because it is required by the legislation. In that phase, all the parties affected by the decision and municipality's residents are informed about the decision and in some cases they have the right to complain about the decision.

Despite the differences, the outsourcing decision-making process in the municipalities has many similarities with the theoretical decision-making models. Especially, Simon's (1960) organizational decision-making model reflects the decision-making in the case municipalities well. In both models organization first gathers information and intelligence about the situation as a whole, and then designs options for the future, which leads to decision-making and implementation. More about Simon's (1960) organizational decision-making model can

found in Chapter 4.2 and decision-making process in the case municipalities is described in Chapter 5.1. Similarities can be explained by the legislation for decision-making in Finnish municipalities. Legislation frames the municipalities' decision-making in different kinds of situations, not just in outsourcing decision-making, and the case municipalities are required to follow the legislation. Because of that, it is less time and resource consuming for the municipalities to decide everything related to the outsourcing at once, because otherwise they would need to run the formalities of the decision-making required by the legislation multiple times. In addition to that, municipalities can consider the dependencies of the decision points already early in the process, which is good because the case municipalities had many restrictions for the future setting - for example lack of suitable service providers.

### 6.2.2. Outsourcing Decision Criteria

In this Chapter, we will compare empirical study findings with the Lacity et al.'s (2011, 2010) models on BPO and ITO decision-making presented in Chapter 4.3. Lacity et al. (2011) has developed a model on BPO decisions and outcomes and compared it with the model on ITO decisions and outcomes developed in 2010 in Lacity et al.'s previous research. In this study, we focus on the outsourcing decision criteria. Because of that, we will put bigger emphasis on the Lacity et al.'s findings on the variables affecting outsourcing decisions than outcomes.

Financial management outsourcing in the case municipalities is both ITO and BPO decision as the municipalities are considering outsourcing both financial management operations and IT systems and infrastructure. As discussed in the previous Chapter on outsourcing decision-making, case municipalities made the decision to outsource or in-source the financial management business processes and IT systems at the same time. In other words, decision-making situation was both ITO and BPO decision. Detailed mapping on the decision criteria affecting case municipalities decision-making can be found in Table 5 and Chapter 5.4.

According to Lacity et al.'s (2011) findings, variables affecting ITO and BPO decisions are similar in nature: motives for outsourcing, transaction attributes, and client firm characteristics affect outsourcing decisions. Both research streams also found that relational governance, contractual governance, country characteristics, supplier capabilities, and client capabilities affect outsourcing outcomes. These decision criteria are close to the decision

criteria considered in the case municipalities in the empirical research. Comparison of the decision criteria in the case municipalities and the model for BPO and ITO decision can be found in Figure 7. In the Figure 7, decision criteria written in bold text were mentioned as one of the most important decision criteria affecting outsourcing decision-making at least in one municipality.

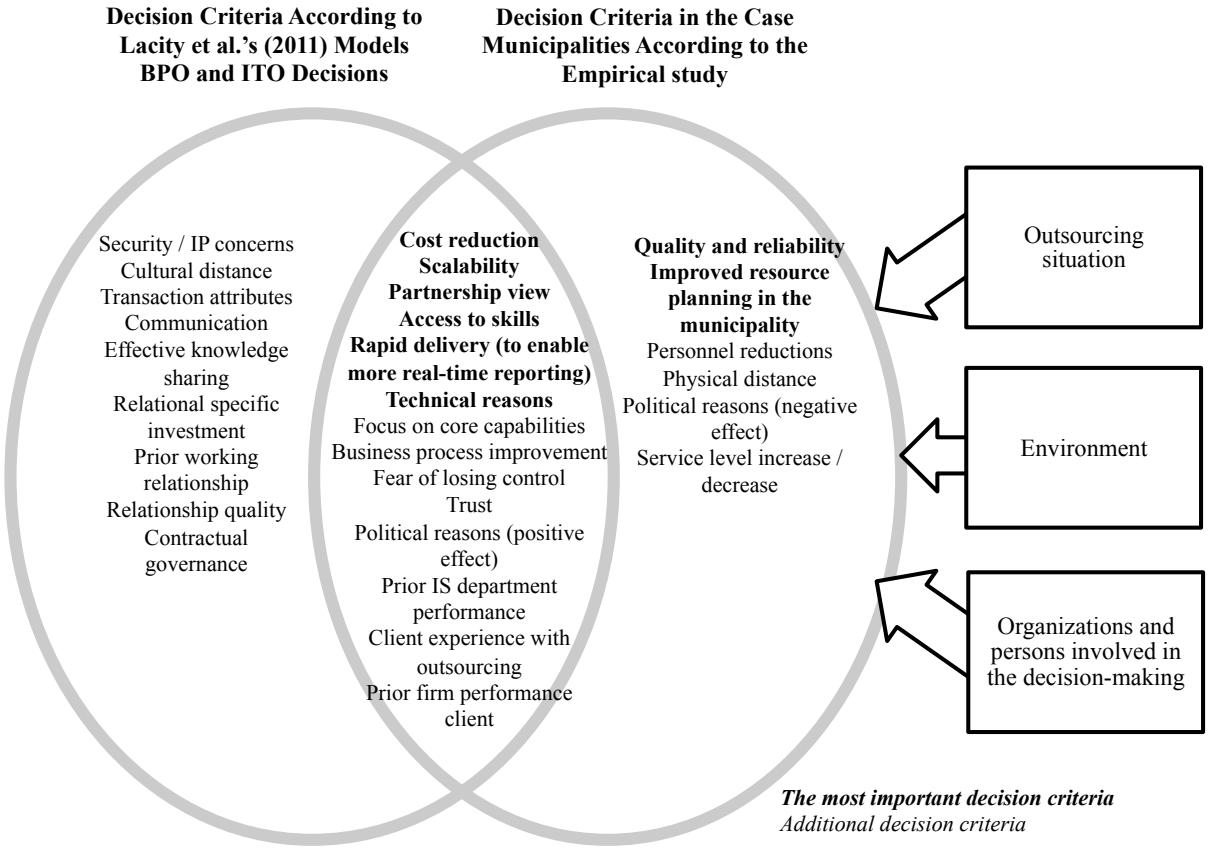


**Figure 7: Comparing Lacity et al.'s (2011) model for BPO and ITO decisions with the case municipalities' decision criteria.**

Case municipalities had many decision criteria in common with the model for BPO and ITO decision but there were also differences. Lacity et al.'s model for BPO and ITO describes the main characteristics of the outsourcing decision-making well but the special characteristics of the outsourcing situations and Finnish municipalities turned into additional decision criteria

affecting decision-making. These differences derive from the special characteristics of the Finnish municipalities, their outsourcing situations and organizations and persons involved in the decision-making.

Following decision criteria occurred in both, the empirical study's findings and in the BPO and ITO decision models: Cost reduction, scalability, access to skills, rapid delivery to improve reporting, technical reasons, willingness to focus on core capabilities and improve business processes, fear of losing control (after outsourcing), partnership view, trust, political reasons (having positive effect on outsourcing decision), prior IS department performance, client experience with outsourcing and a prior firm performance client. Detailed discussion and mapping of the decision criteria and its positive or negative effect on the decision to outsource in the case municipalities can be found in Table 5 and in Chapter 5.4.

Findings related to outsourcing decision criteria also differs from the BPO and ITO models. None of the case municipalities considered following as decision criteria in the outsourcing decision-making: Security / IP concerns, cultural distance, transaction attributes, communication, effective knowledge sharing, relational specific investment, prior working relationship, relationship quality or contractual governance. On the other hand, municipalities considered following decision criteria which were not in the Lacity et al's (2011) model for BPO and ITO decisions: political decision-making (having negative effect on the outsourcing decision), service level increase / decrease, service provider's physical distance, service's quality and reliability, personnel reductions and improved resource planning in the municipality.

Weights of importance in these decision criteria varied depending on the size of the municipality. Most important decision criteria are in bold in Figure 7. Cost reduction was important for all the case municipalities. Small / middle-sized municipalities put more weight on the access to the service provider's access and skills and service's quality and reliability because their financial management organizations were small and they wanted to secure the service reliability. Municipalities D and E had the need to renew their financial management IT systems in the following years so they put more weight on technical reasons than other municipalities. On the other hand, municipality B didn't have a need to renew IT systems and

that impacted negatively outsourcing decision. Trust for the service provider was important to all municipalities, but it had significant weight on the municipality C's decision-making because they had negative experience with the previous outsourcing service provider. Each case municipality's most important decision criteria can be found in Tables 3, 4, 5 and 6.

Political reasons referring to "a client stakeholder's desire or need to use an outsourcing decision to promote personal agendas" (Lacity et al, 2011) had in the BPO and ITO models a positive affect on the outsourcing decision-making, but in the case municipalities its effect was both positive and negative. As an example of political reason having the negative effect on the outsourcing decision is that according to the interviewees municipality's labor market organizations might promote against the outsourcing decision if it involves personnel reductions. As an opposite to the BPO and ITO models, the job security of the financial management personnel was decision criteria in the municipality E. This reflects the challenging job situation in the small municipalities away from the big cities. Municipality doesn't want to cut jobs, as municipality is an important employer in the area.

Financial management service level was also important for the municipalities, some of them fear that service level decreases after the outsourcing. Municipalities were also concerned that the outsourcing might just seem to be a cheaper option as it might lead to the decreased service levels. According to interviewee, municipalities are used to having high service level with highly specialized services and IT systems, which explains the concern of the decreased service level. Physical distance between the municipality and the service provider had negative impact on outsourcing decision-making where BPO and ITO models consider only cultural distance. None of the case municipalities considers outsourcing to a service provider located in the different country.

All in all, Lacity et al.'s model (2010, 2011) for variables affecting BPO and ITO decisions defined the outsourcing decision criteria in the case municipalities well. Anyhow, political decision-making, organizations and persons involved in the decision-making and the special characteristics of Finnish municipalities reflected as additional decision criteria in the outsourcing decision-making. When examining decision criteria affecting outsourcing decision-making, it is important to understand the special characteristics of the outsourcing

situations, organizations involved in and the environment in order to be able to understand all the reasons behind the outsourcing decisions.

## 6.3. Limitations and Recommendations

Limitations of this study and recommendations for future research are discussed in this Chapter. This research was conducted as a multi-case study. The idea was to make deep dive into a few municipalities' outsourcing purchase decision-making. Municipalities were chosen to be different in sizes. Also, their decision-making process was in different phases and had different outcomes. Because of that, results cannot be directly generalized to the certain types of municipalities. If we would have chosen for example only small municipalities, results could be better generalized to that type of municipalities. On the other hand, the chosen case municipalities are also a strength for this study. Now the results shed light to the similarities and differences in decision-making depending on the municipalities' type and its' current situation. Results give understanding on how the specific characteristics of each municipality shape the decision-making. Results cannot be directly generalized, but those give understanding about the importance to take each municipality's special characteristics into account as those affects the decision-making.

Results related to the decision-making process can be better generalized as the process related to decision-making in Finnish municipalities is regulated by Finnish law. It is anyhow important to point out that decision-making process is different if municipality purchases outsourcing services from a company that doesn't operate with "in-house principle" (explained in Chapter 5.1.6). In that case, municipality needs to follow procurement law, which makes the decision-making process different. That type of purchase decisions were outlined from this study as none of the case municipalities followed procurement law on their decision-making.

As a limitation, the sample size of the interviewees and municipalities is relatively small. It would be interesting to conduct a large study about outsourcing decision-making at the

organizational point of view with the extensive sample size of Finnish municipalities' decision-makers. It would be interesting to find out whether it is possible to find decision criteria that apply to all the certain types of municipalities (for example small municipalities).

In addition to municipalities, outsourcing decision-making in the organizational points of view could also be studied in companies' context. Companies were outlined from this study. It would be interesting to compare outsourcing purchase decision criteria in municipalities and companies. It would be also interesting to study outsourcing decision-making in other municipalities responsible areas like in health care and see if the results are similar to this study.

# 7. CONCLUSIONS

This study examines outsourcing services purchase decisions on the organizational decision-making point of view. The aim is to answer following research questions: (1) What kind of organizational decision-making process is behind the purchase decision related to financial management outsourcing service in the Finnish municipalities? (2) What decision criteria impact the purchase decision related to financial management outsourcing services in the Finnish municipalities? Better understanding about the decision-making process and decision criteria behind purchase decisions benefits both municipalities and outsourcing service providers. Municipalities are able to understand and rationalize their decision-making. Service providers are able to sell their services better, to create new services and to nurture existing customer relationships.

Initiation to purchase financial management outsourcing service is often related to bigger transformation on-going in the Finnish municipalities. They are experiencing cost pressures because of the economic downturn, urbanization and because government has recently cut its financial support. Government encourages municipalities to unite, which affect also the organization of the financial management. Interest in national collaboration in organizing financial management is an important driver.

Most important decision criteria in outsourcing purchase decisions in all the case municipalities are cost reduction, improved resource planning in the municipality, partnership view, scalability and rapid delivery. Small municipalities also value access to skills and outsourcing services' quality and reliability. Municipalities are considering outsourcing as a solution to their current problems. If the municipality was satisfied with their existing financial management operations, it considered outsourcing more negatively. Municipalities were concerned that outsourcing leads to the increased cost and declined service level. They were also concerned on personnel reductions, physical distance between the service provider and the need to change IT systems because of outsourcing financial management business operations.

The outsourcing decision-making process consists on four phases: (1) initiation, (2) preparations, (3) decision-making, (4) the service of decision and execution. The preparation phase is the most important phase as the solution proposal and consensus is developed during that phase. The leader of the preparation phase activities has an impact on the final decision because he is responsible for making solution proposal for decision-making and developing consensus. Preparation phase leader's opinions, perceptions and the background may impact the final decision. Outsourcing decision-making consists of three decision points: (1) Decision on outsourcing or insourcing, (2) decision on an outsourcing mode and (3) decision on an outsourcing service provider. Decisions were dependent on each other and decisions were made at the same time. The decisions related to IT outsourcing and business process outsourcing were also dependent on each other.

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# APPENDICES

Interview 26.5.2014, Municipality D

Interview 28.5.2014, Municipality E

Interview 28.5.2014, Municipality D

Interview 30.5.2014, Municipality A

Interview 3.6.2014, Municipality C

Interview 9.6.2014, Municipality A

Interview 13.6.2014, Municipality E

Interview 3.9.2014, Municipality B