

Improving the Efficiency of Public Service Delivery through Outsourcing and Management

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Improving the Efficiency of Public Service Delivery through Outsourcing and Management

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The current scarcity of public funds has inflicted strict deficit objectives at both the national and local government level for public service delivery. The pressure to deliver more for less has steered public management focus towards the objective of improving the efficiency of public service delivery. This objective has resulted in the growing popularity of different options of separating the service purchaser and provider: service outsourcing. Regardless of the popularity of public service outsourcing, a debate remains about the best way to achieve the benefits of outsourcing in a public context and whether there is a trade-off between improved cost efficiency and service quality. The increase of public service outsourcing has altered the role of public organisations from service providers to managers of service provision.

The altered nature of public management and increase in outsourcing inspired this interdisciplinary study combining the disciplines of purchasing and public administration. This study has set out to determine the means to improve the efficiency and effectiveness of public service delivery through service outsourcing and management. This dissertation consists of four papers which investigate this phenomenon of public service outsourcing and the challenges of public service management. The research aim is divided into more specific research objectives investigated and discussed in the papers. Case study and a focus on qualitative data are chosen as the methodological approaches for each paper as these approaches enable an in-depth investigation of the research objectives.

Paper I set to study and empirically analyse the bases for make-or-buy decisions in private and public service organisations. The main contribution to both theory and practice is the make-or-buy process framework, building on empirical analysis, and previous literature. The phases of the framework include regular evaluation of service functions, market analysis, cost analysis as well as benchmarking and evaluating relevant service activities. The aim of Paper II was to investigate and empirically analyse the most effective public service management approaches for outsourced services with a focus on the phases of transition and service management post provider selection. The findings indicate that managing an outsourced service should not be a separate area of public management research nor practice, but rather a part of service management overall. Paper III identified the most significant risks of outsourcing a public health service function and the management means to mitigate them. The most significant risks are political, service quality and market risk. To mitigate these risks: i) the procurement unit should engage with the market, ii) risk management focus should primarily be on service quality risk, and iii) service specification and contract terms should be created through an open dialogue with the tenderers in the negotiated procedure. Finally, Paper IV investigated cooperation models between the service purchaser and

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Tekijä

Suvituulia Taponen

Väitöskirjan nimi

Julkisen palvelutuotannon tehokkuuden parantaminen ulkoistamisen ja johtamisen keinoin

Julkaisija Kauppakorkeakoulu

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Tiivistelmä

Julkisen talouden säästöpainet ovat luoneet tarpeen julkisen sektorin tehokkuuden parantamiselle sekä kansallisella että paikallisella tasolla. Paine tuottaa enemmän palveluita yhä alhaisemmilla kustannuksilla on ohjannut julkisia organisaatioita asettamaan palvelutuotantonsa vaikuttavuuden ja kustannustehokkuuden lisääminen tavoitteekseen. Yleistynyt tapa tavoitteen saavuttamiseksi on palvelun tilaajan ja tuottajan erottaminen. Seurauksena julkinen palvelutuotanto nojaa enenevässä määrin yksityisen sektorin varaan. Palveluiden ulkoistamisen suosiosta huolimatta ei ole määritelty, miten ulkoistamisen hyödyt julkisella sektorilla ovat saavutettavissa. Lisäksi kustannustehokkuuden parantumisen vaikutuksista palvelun laatuun ei ole saavutettu yksimielisyyttä. Ulkoistamisen merkittävä lisääntyminen on siirtänyt julkisen palvelujohtamisen keskiön tuotannon johtamisesta tuottajien johtamiseen.

Tämän logistiikan ja hallintotieteen tutkimusaloja yhdistelevän poikkitieteellisen tutkimuksen ovat innoittaneet julkisen palvelujohtamisen muutos sekä ulkoistamisen lisääntynyt suosio. Tämän tutkimuksen tavoitteena oli keinojen määrittäminen julkisen palvelutuotannon tehokkuuden ja vaikuttavuuden lisäämiseksi ulkoistamista ja johtamista hyödyntäen. Tämä väitöskirja koostuu neljästä eri tutkimuspaperista, jotka tutkivat palveluiden ulkoistamista sekä julkisen palvelutuotannon johtamista eri näkökulmista. Tutkimuksen tavoite on tarkennettu alatavoitteiksi, joita tutkitaan jokaisessa paperissa. Tutkimuksen metodologiaksi on valittu case –tutkimus sekä pääasiassa kvalitatiivisen aineiston analyysi. Nämä valinnat mahdollistivat tutkimustavoitteiden syvällisen analyysin.

Tämän tutkimuksen ensimmäisessä paperissa tavoitteena oli tutkia empiirisen analyysin kautta julkisissa ja yksityisissä organisaatioissa tehtävien ulkoistamispäätösten perusteita. Tutkimuksen keskeisin löydös on prosessimalli julkisen sektorin ulkoistamispäätöksiin. Malli perustuu teoriaan ja empiiriseen aineistoon. Prosessimallin vaiheisiin kuuluvat palvelutuotannon säännöllinen arviointi, markkina-analyysi, kustannusanalyysi ja benchmarking sekä olennaisimpien palvelutoimintojen tunnistaminen.

Toisessa tutkimuspaperissa lähtökohtana oli ulkoistetun palvelutuotannon tehokkaimpien johtamiskäytäntöjen määrittäminen. Tutkimus keskittyi erityisesti vaiheeseen, jossa palvelutuotanto siirretään ulkoiselle tuottajalle sekä sitä seuraavaan sopimuksella johtamiseen. Löydösten perusteella ulkoistetun palvelutuotannon johtamista ei tule nähdä palvelujohtamisen erillisenä tutkimusalueena tai osa-alueena, se on kiinteä osa palvelujohtamista.

Kolmannessa tutkimuspaperissa tunnistettiin julkisen terveyspalvelun ulkoistamiseen liittyvät merkittävimmät riskit sekä keinot niiden hallinnoimiseen hankintamenettelyn aikana.

Avainsanat palvelut; ulkoistaminen; julkinen sektori; julkinen palvelutuotanto; palvelujohtaminen

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Saba Hinrichs-Krapels at the Policy Institute at King's College, London. The project we did together ended up being the most interesting part of my PhD due to its relevance both for the Finnish policy process and the development of the English NHS. During the time I worked at the Policy Institute, I learned a great deal about research impact, communication and conducting research itself.

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me that even though research is fun, there are quite a few other fun things to engage in as well.

Helsinki, January 2017

Suvituulia Taponen

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List of Key Concepts and Definitions

Generally, the **service-producing sector** is essentially defined as everything except manufacturing and farming. This includes the following divisions: transportation, communication and utilities; wholesale trade; retail trade; finance, insurance and real estate; public administration; and finally, services (Ellram, Tate and Billington 2004). This dissertation will concentrate on such service organisations' service deliveries that deliver services to consumers and citizens in the public and private sector, such as health care services.

In the context of this dissertation, **outsourcing** of service functions is seen as giving the responsibility of delivering a service or a part of a service function to an external supplier. In the public sector context, this includes following through with the competitive tendering process. The term "contracting" is used as a synonym for outsourcing in Paper IV.

The purchaser-provider model indicates a model in which public organisations are separated into service purchasers and service providers. The term "purchasing" is defined as commissioning care from an external public provider within the purchaser-provider-model.

An outsourcing risk is understood and defined as follows: "Risk is the expected outcome of an uncertain event, i.e. uncertain events lead to the existence of risks" (Manuj and Mentzer 2008: 196). The fact that risks exist in the future distinguish them from problems (Pontre et al. 2011)

Internal service delivery is defined as service that is delivered by the same public entity responsible for organising it. Thus, public services delivered by another public entity under the purchaser-provider model are not internal service deliveries.

Public health care is discussed in this study in relation to two countries, Finland, and the UK. In the context of this study, public health care refers to publicly funded health services. Finland separates public health care into two categories: i) primary care, and, ii) specialised care. Primary care (delivered in local outpatient clinics) covers health services from disease prevention to treatment of non-urgent and non-severe symptoms. Specialised care refers to specialised treatment, such as surgeries (typically delivered in hospitals). For consistency, the same terms are also used in the UK context.

List of Publications

This doctoral dissertation consists of a summary and of the following publications which are referred to in the text by their numerals

1. Taponen, Suvituulia; Kauppi, Katri. Service outsourcing decisions – A Framework for Public Organizations

Status: Working paper

2. Taponen, Suvituulia; Kauppi, Katri. 2016. Forget “Blind Leading the Seeing” – Improving Public Service Management. *International Journal of Public Administration*. DOI:10.1080/01900692.2016.1242617.

3. Taponen, Suvituulia. 2017. Identifying and Mitigating the Risks of Outsourcing a Public Health Service Function. *Global Public Procurement Theories and Practices*. 18: 269-290. Editors: Thai, Khi V. (Ed.) Springer. DOI 10.1007/978-3-319-49280-3_15.

4. Taponen, Suvituulia; Hinrichs-Krapels, Saba; Kauppi, Katri. The Effect of Purchaser’s Control Mechanisms on Health Care Outcomes: A focus on the English National Health System

Status: Working paper

Author's Contribution

Publication 1: Service outsourcing decisions – A Framework for Public Organizations

Idea of the paper was Suvituuia Taponen's and developed together by both authors. The interview questions were designed together, as well as the research model and hypotheses. Suvituuia Taponen analysed the interview data after both authors had coded the findings.

Suvituulia wrote an initial version of the paper based on the results of the literature review and the interview data. Several rewritings and improvements of the paper were done by both authors. Katri Kauppi especially worked in structuring the paper to meet the criteria of a publishable article.

Publication 2: Forget "Blind Leading the Seeing" – Improving Public Service Management.

Idea of the paper was developed together with both authors. The interview questions were designed together, as well as the research model and hypotheses. Suvituuia Taponen conducted the interviews and analyzed the interview data after both authors had coded the findings.

Suvituulia wrote an initial version of the paper based on the results of the literature review and the interview data. Several rewritings and improvements of the paper were done by both of the authors. Katri Kauppi especially worked in structuring the paper to meet the criteria of a publishable article.

Publication 3: Identifying and Mitigating the Risks of Outsourcing a Public Health Service Function.

Sole authorship.

Publication 4: The Effect of Purchaser's Control Mechanisms on Health Care Outcomes: A focus on the English National Health System

Suvituulia Taponen and Saba Hinrichs-Krapels developed the idea of the paper together. The interview questions were designed together by Suvituuia Taponen and Saba Hinrichs-Krapels, as well as the research model and hypotheses. Suvituuia Taponen collected and conducted the analysis of the empirical data.

Suvituulia Taponen wrote an initial version of the paper based on the results of the literature review and empirical data analysis. Several rewritings and improvements of the paper were done by both, Suvituulia Taponen and Saba Hinrichs-Krapels. Katri Kauppi contributed to rewriting and improving the paper by providing the theoretical framing of agency theory. Saba Hinrichs-Krapels and Katri Kauppi especially worked in structuring the paper to meet the criteria of a publishable article.

1. Introduction

1.1 Motivation and background

This dissertation was initially inspired by the public discussion on means for service economies to recover from the widespread and longstanding recession of 2008, which has especially affected public sector budgets throughout Europe. As a result of the ongoing global economic turbulence, new cooperation forms have emerged between public and private organisations in service delivery (Sullivan et al. 2013). Public organisations have sought to deliver services more efficiently, while the consumption of privately delivered services has simultaneously been encouraged as a means for improving the economic situation in service economies, such as Finland and the United Kingdom (Barlow, Roerich and Wright 2013; Marques and Berg 2011). Different applications of separating the purchaser and provider vary from purchasing under the purchaser-provider model to full privatization (Barlow, Roerich and Wright 2013). Separating the service purchaser from the provider under the purchaser-provider model and service outsourcing have become popular aims to meet the target set by the World Health Organization to provide necessary services to all citizens whilst protecting them from financial risks (Wong et al. 2015). Privatization refers to public-private partnerships which are formed to use the resources of private organisations to establish and maintain public functions, such as hospitals or schools (Barlow, Roerich and Wright 2013). However, privatization is not within the scope of this study. As a consequence of the economic and financial crisis, the UK and Finland, for instance, are implementing programmes reducing public sector expenditure and welfare (Eurofund 2015). Although health and social services are only a part of public service delivery, much focus has been steered towards increasing the efficiency and effectiveness of their delivery. This is due to their financial significance and the growing demand as populations age across Europe (Grudinschi, Sintonen and Hallikas 2013). Especially in Finland, the programme is focused on the delivery of social and health care services as the service delivery tackles more than 10% of the GDP (Eurostat 2012; Kunnat.net 2015). The current government of Prime Minister Sipilä has set out to restructure the delivery of social and health care services in 2015 and announced the aim of reducing the costs of the delivery by 4 billion euros annually (Ratkaisujen Suomi 2015). Additional goals for the reform are centralising the delivery and decision-making to larger population bases, thus eliminating overlapping systems (Meklin 2015).

According to previous literature, the motivation of separating the service purchaser from the provider and outsourcing are typically driven by the pursuit of cost efficiency (see, e.g. Farneti and Young, 2008; Marques and Berg 2011). The simple logic behind the expectation of achieving cost efficiency through outsourcing is that as providers have more customers than one, the economics of scale lowers unit costs for services (Jiang and Qureshi 2006). Outsourcing services can also be used to generate new service concepts and to allow new, often smaller, providers to access the market (Pelkonen and Valovirta 2015). According to Reeves (2008), the goal of service outsourcing is to develop the service delivery processes in cooperation with the external provider, thus enhancing the service quality and effectiveness. However, the level of private sector involvement in public service delivery depends on national policy goals and programmes as well as the benefits the purchaser expects to gain through outsourcing (Sekhri, Feachem and Nii 2011).

Although these many potential benefits of outsourcing have been recognised in previous literature, there is a debate and lack of empirical evidence on the best approach to guarantee the realization of these benefits in the public sector context (Sullivan et al. 2013). The debate arises from the risk of the public organisation trading improved cost efficiency for poorer service flexibility and quality as they can be challenging to specify in the service contract (Eurofund 2015; Barlow, Roerich and Wright 2013; Pelkonen and Valovirta 2015). Nevertheless, a further benefit of outsourcing is the allocation of risks with the private sector provider which can lead to risk mitigation strategies, thus improving service efficiency and quality (Marques and Berg 2011). Although outsourcing increases cost efficiency, it also incurs transactions costs for the outsourcing public organisation (Reeves 2008). Resources are required to follow through with an outsourcing consideration, that is, a make-or-buy decision, competitive tendering process or supplier selection as well as contract management and monitoring. These costs are especially high during the transition phase and may rise to a level many public organisations are not able to bear (Barlow, Roerich and Wright 2013).

Already in 2004, Ellram, Tate and Billington suggested that attention to the services supply chain is necessary in order to improve service processes, cost control, and minimise value leakage. Thus, the importance of service outsourcing decisions is highlighted due to their strategic implications in both public and private organisations (McIvor 2000). The quickly changing outsourcing environments demand efficient and effective decision-making mechanisms that gain high strategic importance (Scheider et al. 2013). Decision-making in outsourcing has not recently been researched, although the importance of service outsourcing decisions has been emphasised, particularly in the public sector context. However, the need for better determining the make-or-buy decision process has been recognised in public administration (Feiock and Jang, 2009). The research considering decision-making in service organisations has been focused upon the performance effects of make-or-buy decisions for different kinds of services rather than different service processes (Nordin 2008). Yet organising

the service delivery cost efficiently is the premises for the existence of service organisations and a sustainable public economy; hence, the make-or-buy decisions related to the service delivery are strategically very important. In the private sector context, the guideline of specialising in the delivery of core services and outsourcing non-core services is widely implemented and accepted (see, for instance, McIvor 2000; Nordigården et al. 2014). As the division of core and non-core services is less clear in the public context (Harland et al. 2005), the outsourcing consideration is also more complex yet equally important strategically.

Due to the increased popularity of separating the purchaser from the service provider and outsourcing public services (Feiock and Jang 2009; Van Slyke 2003), the focus of public management has shifted from service provision to managing their provision (Breul 2010). Service management, whether the delivery is outsourced or internal, is the core function for most public sector organisations. The role of service management and the demands on public service managers have significantly altered since providing services in-house has become less mainstream (Carboni and Milward, 2012). This change has brought about the need to introduce performance management and a measurement of service performance in the public context (Noordegraaf and Abma 2003). Additionally, management attention needs to be steered towards considering the most appropriate delivery method for services as well as more effectively managing the delivery. Previous research on service management in the public context has primarily focused on governance rather than management processes or establishing best practices (Ditillo et al. 2015).

Managing externally delivered, that is, outsourced, services requires a different perspective from internal service management. An important aspect of the management of an external service delivery is establishing a functional relation with the provider in order to facilitate cooperation, as the effectiveness and service quality of the service delivery are closely linked to the quality of public management (Van Slyke 2007). The recommended form of the cooperation with a service provider varies as do the forms of outsourcing; the type of recommended relation and control mechanisms depend on the service content and objectives (Abbott, Procter and Iacovou 2009). The idea of cooperation with private sector providers is to achieve greater value by sharing knowledge and resources (Steijn, Kleijn and Edelenbos 2011). The position of the outsourcing organisations depends on the number of purchasers and providers operating in the market; competitive provider markets provide the purchaser with a powerful position (Sheaff et al. 2013). In a traditional form of outsourcing, the purchaser dictates the objectives and conditions of service delivery (Forrer et al. 2010). For specialised service function, such as complex health care, this approach is not necessarily optimal as dialogue with provider(s) is needed to define the purchaser's needs (Chever and Moore 2012). Wong et al. (2015) identified the following factors as critical in building a relation that enables service development: i) building trust with the provider; ii) clearly defining the objectives of the service function, cooperation and roles; iii) openness and candid communication,

iv) modifying the service contract, if needed; and, v) accepting structural changes to the division of responsibilities, if needed.

Agency theory is often referred to in the context of outsourcing public services (see, for instance, Aulakh and Gentruck 2000; Eisenhardt 1989; Van Slyke 2007). Through the contractual relationship, the public organisation becomes the “principal” trying to apply control mechanisms over the service provider, the “agent” (Aulakh and Gentruck 2000). According to agency theory, the relation between the purchaser and the provider is characterised by two assumptions: i) there is a misalignment of goals between a public principal and a private company as an agent seeking profit maximization, and, ii) agents have more information on the service processes than the principals (Van Slyke 2007; O’Flynn and Alford 2008). Thus, the service contract is needed to mitigate the risks that arise from these characteristics, rendering the service contract a critically important tool in managing outsourced service delivery. However, there are also findings indicating that strict and formal control mechanisms do not deliver the best results in all circumstances (see Holma, Bask and Kauppi 2015). Hence, principals that are able to clearly incentivise improvement of service processes and apply vigilant monitoring practices both formally and informally, typically have less issues with provider opportunism and goal misalignment (Van Slyke 2007).

Through outsourcing public services, significant benefits can be achieved, but there are several risks involved with outsourcing decisions and challenges when achieving the benefits of outsourcing as well as the management of outsourced service delivery, which provide an intriguing field for research. The fact that service organisations operate in increasingly turbulent environments has emphasised the meaning of service outsourcing considerations, which induces research opportunities (Scheider and Wallenburg 2013). Additionally, previous literature indicates that the relatively new system of publicly funded, but privately provided, services could benefit from more attention from both academics and practitioners (Van Slyke 2007). Especially as the field of service outsourcing and contract management in the public sector context has remained relatively unexplored within the research fields of purchasing and supply chain management, and public management. Outsourcing decisions are one of the least researched areas in public administration alongside the management of outsourced services (Van Slyke 2007; Scheider and Wallenburg 2013). One reason for this is the EU-wide directive, introduced in 2004, on public procurement which regulates public service outsourcing. The directive created the need for more structured outsourcing processes. At the time of data collection for this study, ten years had passed from the introduction of these regulations. These years have allowed public organisations in countries, such as Finland, to begin focusing on their outsourcing processes from a wider perspective of achieving outsourcing benefits, such as cost efficiency and improved service availability, rather than just following the regulations (see Bovis 2012; Marques and Berg 2011; Rouillard 2004).

The altered nature of public service management, the increased pressure to deliver cost-efficient and effective public services and, thus, highlighted importance of outsourcing considerations have created a demand for further contributions to public management literature and for practitioners. More specifically, contributions are needed from the perspectives of outsourcing decisions and contract management. Additionally, research is called for identifying best practices and recommended processes for public management practitioners. Therefore, this dissertation aims to build on existing theory on outsourcing decisions and service management to determine the means to improve the efficiency and effectiveness of public service delivery.

In the following sections of this chapter, this study is positioned against the backdrop of existing literature on outsourcing in the public sector context and the specifics of outsourcing health services. Finally, this introductory chapter concludes by presenting the research question of this dissertation.

1.2 The public sector as a context for service outsourcing

The empirical analysis of this dissertation is founded on data collected from mainly public organisations both in Finland and the UK. Thus, public sector outsourcing is introduced as a theme in this chapter.

A significant amount of previous research has focused on outsourcing in the private sector context, which is not directly applicable to outsourcing practices in public organisations. This is due to differing operating environments and the public values of openness, as well as obligating regulations (Brown, Potoski and Van Slyke 2008). Thus, public sector-specific research is needed to provide guidance to public organisations in the ways to make outsourcing decisions and review the outsourcing outcomes (Harland et al. 2005). The cooperation in service delivery between public and private organisations ranges from the purchaser-provider model to full privatization (Barlow, Roerich and Wright 2013). A significant difference from the outsourcing perspective is that public service markets are often uncompetitive, which prevents the application of economic models that require perfect information or low barriers to service providers to entry and exit as such (Caldwell et al. 2005). The level of private sector involvement in public service delivery depends on policy goals and the benefits the purchaser expects to gain through outsourcing (Sekhri, Feachem and Nii 2011). The influence of politics is a public sector-specific dimension of the outsourcing consideration (Harland et al. 2005) which complicates pragmatic outsourcing considerations.

In the private sector context, outsourcing decisions are typically made based on identifying core competences and analysing costs (Jiang and Qureshi 2006). The idea of dividing all operations to core and non-core activities, and then outsourcing all non-core functions is widely supported in previous literature (see, for instance, McIvor 2000; Nordin 2008; Van de Water and van Peet 2006). Core competencies are defined as the function that generate most value for the

organisation (see, for instance, Quinn and Hilmer 1995). However, there is a lack of wider consensus on the definition of ‘core competence’ especially in the public sector context (see Quinn and Hilmer 1995; Harland et al. 2005). Hence, Harland et al. (2005) suggest that in public organisations, core as well as non-core service functions should be candidates for outsourcing. This demonstrates the fundamental difference between public and private organisations. A further fundamental difference between public and private organisations is demonstrated by their aspirations for service demand: public organisations would ideally prefer a steady or decreasing demand, private organisations, on the contrary, aim to increase revenue, that is, demand, for their core services (Ellram, Tate and Billington 2004).

An application that aims to achieve the benefits of outsourcing without actually outsourcing, is the core idea of New Public Management: separating the purchaser and the provider (see, for instance, Andersen and Blegvad 2006). This purchaser-provider model is defined as “the purchaser (public organisation) outsourcing the delivery of a service function whilst holding on to the regulatory and monitoring mechanisms” (Eurofund 2015). Ever since introducing the ideas of New Public Management (NPM) in the 1990s (Barlow, Roerich and Wright 2013), outsourcing public services has become increasingly popular throughout Europe in the public sector. This increased popularity has gradually transformed the public sector’s role from being a service producer to a purchaser of services (Regan, Love and Smith 2015). This has created a need for public sector specific research within the field of purchasing and supply chain management, since in order to fully benefit from the provider’s expertise, the purchaser has to have corresponding expertise in order to benefit from their experience and knowledge (Forrer et al. 2010).

Traditionally, contract monitoring has not been seen as a strong area of expertise in public management (Whitfield 2012), but its importance in commissioning cannot be ignored. Establishing comprehensive and descriptive performance measures for service delivery is critical for establishing a trusting relation with the service provider by improving accountability on both sides (Forrer et al. 2010). Further high dependency on external service providers demands administrative personnel resources due to the emphasis of the role of the commissioning policy and a firm service management approach (Rubery, Grimshaw and Hebson 2013). Managing relations with providers across public and private boundaries and different time periods is a demanding task (Barlow, Roerich and Wright 2013). In 2012, Whitfield identified the main trends in public service delivery as enhancing i) competition between public, private and non-profit providers for contracts; and ii) increasing the use of partnerships and payment-by-results/outcomes.

The idea behind outsourcing to private sector providers is to achieve greater value by sharing knowledge and resources (Steijn, Kleijn and Edelenbos 2011). This involves integration of responsibilities which cannot be established in a short-term contractual relationship (Forrer et al. 2010). Generally, however, the service quality and likelihood of meeting the allocated budget have been shown to increase when outsourcing to private providers (Marques and Berg 2011).

Furthermore, it has been established that cost efficiency can be achieved through outsourcing to private providers through competitive tendering; however, specifically in the health care setting, there is a debate over the impact on total quality of care and service effectiveness on patient well-being (Pelkonen and Valovirta 2015). This is further discussed in the next chapter which introduces the outsourcing within the context of health services.

1.3 Outsourcing health services

In this dissertation, a special focus is paid to organising the delivery of public health care services; Papers III and IV specifically discuss health service outsourcing and delivery. Therefore, health service outsourcing is briefly introduced in this section.

Health services are chosen as a special focus area for three primary reasons: i) providing health care is one of the biggest items of expenditure in government in EU countries, ii) the demand is only expected to grow (see Eurostat 2012; Grudinski, Sintonen and Hallikas 2013), and, iii) Finland is currently in the process of reforming the delivery of public health services, which has created a need for research supporting the policy process. The impact of the economic recession and changes in citizens' age structure have affected the public sector in such a way that restructuring its operations is required especially in countries, such as Finland, in which the GDP has declined since 2009 (Kunnat.net 2015). Politicians have met this challenge by planning a reform of social and healthcare services. The outlines of the reform are clear, but several details related to the provider-purchaser split and the delivery of services have remained unclear.

Wade (2011) defines outsourcing of health care as a cycle with the following phases: i) assessment of health needs and improvement objectives, ii) prioritizing and specifying the objectives to meet identified needs, iii) purchasing or outsourcing the service, iv) monitoring the service delivery and reimbursements of providers and finally before returning to Phase one, and v) estimating how the objectives have been met. This procurement cycle does not differ from purchasing or outsourcing other services. However, the complexity of defining health needs and improvement objects in Phase one is challenging due to the many aspects of health care from preventive care to treating long-term conditions. An additional challenge lies in monitoring the service delivery in terms of estimating the care outcomes as they often are not visible in the short-term and can be subjective, rather than quantitatively measurable. Successful outsourcing of health services requires good knowledge about the market conditions, the service at hand and the relations between the service providers, in other words, conducting a market analysis (Bovaird 2006). The main task of a public purchaser is to ensure that delivered health services meet the needs of the most relevant stakeholders in a geographic area: patients and taxpayers (Wade 2011).

Thus far, experiences from public service outsourcing only hint at improved service quality and cost efficiency (Barlow, Grimshaw and Wright 2013). Therefore, further research is required to fill the evidence gap related to the benefits using external service providers in health care service delivery (Roerich, Lewis and Gerard 2013).

In Finland, the role of private organisations in providing public (mostly primary care) is relatively significant (approximately 25 % of services). Private providers are generally viewed as an essential part in ensuring adequate service delivery as well as improving care outcomes and effectiveness. This role has developed over the years as the Finnish public sector has struggled to employ adequate personnel, thus meeting the demand for services. Additionally, the strong trend of outsourcing occupational health care over the last ten years, both in the public and private sector, has created a market for private providers.

In the UK, the NHS was established in 1948 after the Second World War and has been a national institution alongside the BBC ever since. Although the NHS has struggled with efficiency and care outcomes over the years, unlike the Finnish public sector, the NHS has not had issues in providing prompt access to care to all citizens nor in attracting employees (Paper IV). These factors combined with quality issues private providers have had, which have been extensively covered in the British media, have resulted in negative attitudes towards private sector involvement beyond simple care functions, such as physiotherapy or eye-examinations. Additionally, the NHS is structured in a purchaser-provider model which creates a quasi-market rather than an open market for a private sector provider as in Finland. The market situation and the role of the public sector differ between countries; however, both countries share the issue of a lack of adequate skills and resources locally in outsourcing, which at times leads to a lack of professionalism, especially in contract management (see Papers II and IV).

1.4 Research problem and objectives

The previous section described the motivation and background of the growing popularity of service outsourcing, and the way it has changed the nature of public management. It was identified that the increased popularity of outsourcing public services has transformed the role of the public sector from that of a service producer to a purchaser of services by creating a demand for new skills in public management (see Regan, Love and Smith 2015). The main differences between the outsourcing of public and private sector organisations were discussed, concluding that the separation of core and non-core services is not clear nor relevant in the public context (see, for instance, Harland et al. 2005). Finally, the specific characteristics of outsourcing health services were introduced and the importance of health service delivery in the public sector context elaborated on.

Due to the recently increased popularity of service outsourcing and the research gaps discussed in the previous sections, there is a demand for research on service outsourcing decisions and service management particularly in the public sector context. In addition, as mentioned previously, decision-making in outsourcing (make-or-buy) decisions in relation to services, is an entity that has not been much studied by scholars. As these two research areas are combined, an intriguing research topic is formed: What are the bases for outsourcing decisions in relation to organising service deliveries? What are the benefits that can be achieved through outsourcing? This study will concentrate on determining the means to improve the efficiency and effectiveness of public service delivery through service outsourcing and management.

The research aim is divided into more specific research objectives, which are approached from different perspectives in separate research papers:

- 1) To study and empirically analyse the bases for make-or-buy decisions in private and public service organisations in order to further develop existing theory on outsourcing considerations to better fit the context of public service delivery and to determine best practices for public managers (Paper I).
- 2) To investigate and empirically analyse the most effective public service management approaches for outsourced services (Paper II).
- 3) To identify the most significant risks of outsourcing a public health service function and the management means to mitigate them (Paper III), and,
- 4) To analyse the relationship between different agency theory control mechanisms that exist between the purchaser and provider, and their impact on health care outcomes, as well as to identify the most effective methods of managing provider cooperation in health service development (Paper IV).

The conclusions of each individual paper are then drawn together to answer the overall aim in order to contribute to existing theory on public service management and develop practical guidelines for managing public service delivers. This will assist in establishing the goals of increasing effectiveness, especially in the context of growing demand for public health services.

The research aim is approached from the perspective of cost and organisational efficiency and service effectiveness: the outcomes. The efficiency discourse views outsourcing of services as a mean to use resources more efficiently through cooperation with external (private) providers (Sullivan et al. 2013). Efficiency is chosen as a measure since public organisations are under pressure to function more cost efficiently as public spending must be decreased. Service effectiveness, although very closely linked to efficiency, is equally important and a separate goal for public service delivery development through outsourcing or management means. Service effectiveness describes the quality of service as an effective service decreases the demand for the services which is the idea behind, for instance, preventive health care.

As Lee (1991) states, after defining the research questions based on theory, they should be tested empirically. Thus, these questions are further analysed in four different empirical settings as described next.

1.4.1 Structure of the dissertation

This dissertation consists of two parts. The first part introduces a general overview of the topic and research approach within which a summary of research findings and contributions are presented. The second part comprises four individual research papers that address the topic from different perspectives, and provides the empirical part of this research.

This introduction chapter discussed the background and motivation of this work, after which the research problem and research questions were formulated. Furthermore, the research approach and position are discussed in more detail. In the third chapter, the methodology used in each research paper is presented which is followed by describing the process of data collection and analysis. The methodological approach of this study is positioned within the methodologies used in public sector and outsourcing research. Chapter 4 presents an overview of key findings of each individual research paper. Finally, in Chapter 6, conclusions of the findings of each paper are drawn and the limitations and avenues for further research suggested.

2. Positioning and outline of study

This section first introduces the positioning of the whole study. This is followed by a brief introduction of the positioning of each individual research paper. This section is concluded with an overview of the research framework and an introduction of the key challenges within the field of public service outsourcing identified in previous research. In this study, the mutually supportive approaches of positivist and interpretive approach are combined (Lee 1991). Prior to combining methods, it is important to specify the features of individual research approaches (Dubois & Gadde 2014): positivism is the core nature of empirical research (Stace 1944) and interpretivist approach on the other hand is most applicable to interpreting social environments (Lee 1991). Furthermore, a combination of approaches provides means to confront theory with practice throughout the process of building the theoretical foundation and case analysis (Dubois and Gadde 2002). A positivist case study researcher ultimately aims to test and verify findings which arise from simple and general cases (Dubois & Gadde 2014). Thus a purely positivist approach was not applicable for this study, as some of the cases are complex and original rather than simple (papers I, II partially and paper III). According to the interpretive approach, social reality cannot be interpreted by the methods of natural sciences as people operating and creating the social reality are fundamentally different from physical reality (Lee 1991). The same human actions can have different meanings through the eyes of different observers or in different situations (Lee 1991). The idea in the heart of the positivist approach is that the methods of natural science are required in order to achieve a high standard in research results, but in practice availability of data constrains the demand (Lee 1991).

Other options would have been i) empiricism, stating that the most important way of gaining knowledge is through observations or experiences, and ii) rationalism, stating that rational intuition is the most important means of gaining knowledge (Hjørland 2005). Both were discarded due to the data (archival and interview) of this study. An organisational researcher verifies conclusions by relying on both deductive arguments and causal inferences (Lee 1991; Stace 1944). In addition to deductive arguments, researchers can rely on inductive and abductive research processes (Kovacs and Spens 2005). An inductive research

process goes through the following phases: i) analysis of theoretical knowledge from prior research, ii) observations of real-life, and iii) drawing (final) theoretical conclusions (Kovacs and Spens 2005; p.137). The abductive research process shares the starting point of the inductive process as first: i) prior theoretical knowledge is analysed, followed by ii) deviating real-life observations, iii) theory matching, iv) going back to deviating real-life observations if necessary, and, finally, v) theory suggestion based on the final conclusion and the application of conclusions (Kovacs and Spens 2005; p.139). In contrast to both induction and abduction which start out with empirical observations, deductive research is always based on theory (Kovacs and Spens 2005). Thus, the deductive research process described below was an obvious choice for this study as its starting point was to test and build on existing theory.

The research questions discussed above are based on theoretical propositions which are empirically analysed and verified according to hypothetico-deductive logic (Lee 1991). By following this logic in analysis and verifying conclusions, one passes through the following phases: i) making a significant observation, ii) accompanied with supporting observations (significance minor), iii) drawing a conclusion, and iv) finally making an observation that verifies the conclusion (Lee 1991). Due to the challenges of verifying conclusions by literally observing them in organisations and the impossibility of observing the past, the interpretive approach verifies that indirect and partial verification are sufficient bases for drawing conclusions (Stace 1944).

Table 1 below presents an overview of each research paper analysing one of the research questions. These research papers are discussed in more detail in the following chapters of this dissertation. The research methods are elaborated in Chapter 4 and the key findings are presented and discussed in Chapters 5 and 6.

Table 1. Overview of papers

Paper	Main viewpoint	Approach	Research Method(s)
I	Comparing the processes of outsourcing evaluations in public and private organisations	Empirical, comparative, theory elaboration, prescriptive	Qualitative, structured interviews and analysis of archival data
II	Comparing service and contract management approaches in public and private organisations	Empirical, comparative descriptive, prescriptive	Qualitative, structured interviews
III	Identifying the risks of outsourcing and the means to mitigate them during the competitive tendering procedure	Empirical, descriptive, prescriptive	Qualitative and quantitative, survey, semi-structured interviews and AHP analysis
IV	Identifying different forms of purchaser-provider cooperation and best practices for managing cooperative care development.	Empirical, theory elaboration, prescriptive.	Qualitative and quantitative, analysis of archival data and semi-structured interviews.

Outsourcing has been looked through several theoretical lenses of which transaction cost theory has been the most popular (Holcomb and Hitt 2007). In this dissertation, the logic of transaction cost theory as a driver for outsourcing is introduced in Paper I. Additionally, agency theory has been often applied to interpret the relation between the outsourcing organisation and the provider (Eisenhardt 1981). In this study, agency theory is applied in the context of the purchaser-provider model in Paper IV.

An interdisciplinary approach for this study was not selected solely due to the author's personal background which entails a master's degree in public administration and practice within the field of logistics and supply chain management as a sourcing consultant. Indeed, the challenges within the field of supply chain management have become increasingly complex which has led to a need for multidisciplinary research identifying the means to meet the globally increasing demand for health services, global value creations and service deliveries (Sanders, Zacharia and Fugate 2013). The different forms of cooperation between public and private entities varying from outsourcing to public-private partnerships provide an opportunity to reflect on cooperation results across disciplinarians for both practitioners and academics (Sullivan et al. 2013). For simply academic purposes, a narrower perspective might have been more convenient, but the identification of best practices for public managers demanded a wider interdisciplinary scope, including the considerations of strategic management issues, such as efficiency and quality improvement (Nordin 2008).

The findings of this dissertation are applicable to other Nordic Countries as well as to countries with similar maturity in public procurement as Finland and the UK, and a relatively low rate of corruption, such as the Netherlands, Belgium and Germany.

2.1 Overview of the research framework and positioning of the papers

This section proffers the research framework of this dissertation (see Figure 1 below) and the positioning of the papers is presented. Each research paper adopts a different approach to the research aim of determining the means to improve the efficiency and effectiveness of public service delivery. Papers I and III focus more on the strategic management area of outsourcing considerations and the outsourcing process following the consideration. Paper II is concerned with the process phases of managing the transition to external service delivery and contract management. Then finally, Paper IV investigates the correlation between different cooperation models within the purchaser-provider model and service outcomes. Each paper provides both theoretical and managerial contributions to public service outsourcing which are drawn together in Chapter 4 of this introduction.

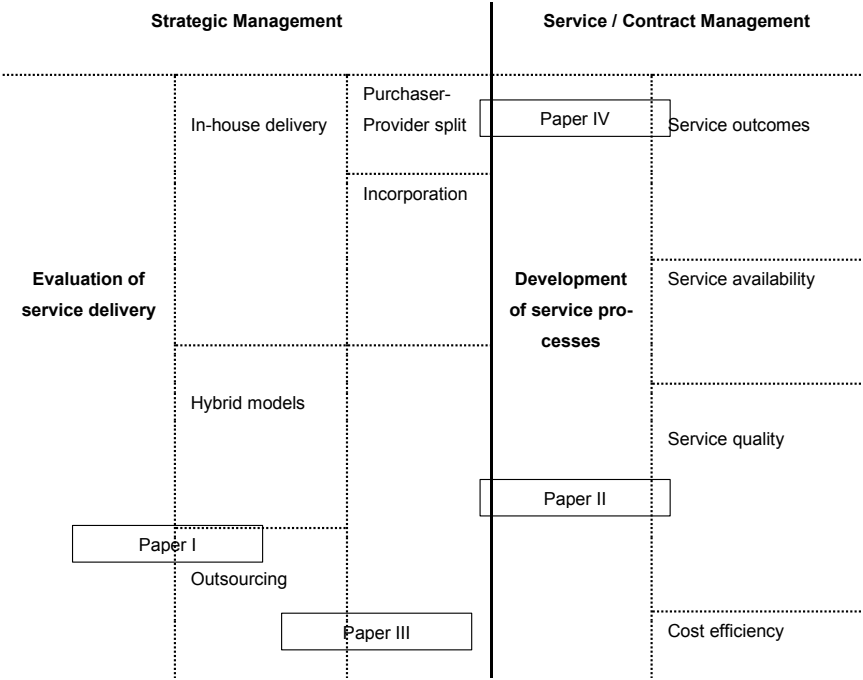


Figure 1. The research framework

The question “why” (triggers of outsourcing) (Jiang and Qureshi 2006) is discussed in both public and private sector contexts in Paper I of this dissertation in which the processes of make-or-buy decisions in public and private organisations are compared to identify best practices. More specifically the question “why” is asked in relation to the outsourcing consideration: Why is it triggered? Furthermore, why is the outsourcing decision made? Additionally, Paper III is partly concerned with the question “why”, it focuses on analysing the reasons outsourcing poses risks to a public organisation.

The question “how” (the process of supplier selections, that is competitive tendering in the public context) (Jiang and Qureshi 2006) is approached from different perspectives in Papers II, III and IV. Paper II shares the same comparative view in Paper I, but concentrates on the service outsourcing process after supplier selection. The question “how” is asked through the lenses of managing the transition phase and service delivery after partially or totally outsourcing; that is, how should these phases be effectively managed? In Paper III, the research question is formulated so as to ask what are the most significant risks of outsourcing and what are the means to mitigate these risks. Finally, Paper IV focuses on analysing the kinds of cooperative models under the purchaser-provider split deliver the best results in cooperative public health care development aiming to improve care outcomes. Each paper is founded on theoretical propositions which then are analysed and tested against the backdrop of empirical data. As a result of empirical analysis against existing literature, the literature is further developed in each paper. In Papers III and IV, novel contributions are made to the existing body of literature in public sector service outsourcing. In addition to contributing to theory, all papers establish best practices for public sector organisations from the research results as a managerial contribution. The purpose of the papers of which this dissertation consists is to form a comprehensive understanding of the ways public organisations can benefit from outsourcing service deliveries in terms of improving the effectiveness of public service delivery.

The papers of this dissertation are built on the literature discussed in this introductory chapter and more specifically in each paper. It was recognised that the trigger for separating the service purchaser from the provider, outsourcing, is typically the pursuit of cost efficiency (see, for instance, Farneti and Young, 2008; Marques and Berg 2011). Furthermore, public service markets are often uncompetitive (Caldwell et al. 2005), which creates challenges. Additionally, the increased popularity of outsourcing has transformed the public sector role from that of a service producer to a purchaser of services, creating a demand for new skills in public management (see Noordegraaf and Abma 2003; Regan, Love and Smith 2015). This change raises the question of the best way to manage the outsourcing process. Table 2 below sets forth the main challenges that arise from these observations and the specific literature discussed in each individual paper. Reflecting on these challenges, the findings of this study are presented and discussed in Chapter 5.

Table 2. Challenges in public service outsourcing

Public sector specific challenge	Aspects to consider
Challenge 1: What and when to out-source?	<ul style="list-style-type: none"> - Which triggers result in achieving out-sourcing benefits? (Mclvor et al. 2009) - What is the objective of outsourcing? (Noordegraaf and Abma 2003) - Does the market situation enable out-sourcing? (Avery 2000; Girth et al. 2012; Freytag, Clarke and Evald 2012; Mclvor 2000) - Is total outsourcing the best option? (Breul 2010; Hefetz and Warner 2012; Malatesta and Smith 2014).
Challenge 2: How to manage the out-sourcing process?	<ul style="list-style-type: none"> - Which competitive tendering procedure is the most suitable? (Farneti and Young 2008; Mori and Doni 2010; Tshipouri et al. 2010) - Do we have the resources and competences to manage the process? (Breul 2010; Romzek and Johnston 2002).
Challenge 3: How to manage external service provision?	<ul style="list-style-type: none"> - How to facilitate successful cooperation? (Aulakh and Genctruck 2000; Forrer et al. 2010; Wong et al. 2015). - What kind of measures are needed to ensure service quality? (Aulakh and Gencturk 2000; Gelderman et al. 2015; De Bont and Grier 2012). - How to cooperatively develop service processes? (Abbott, Procter and Iacovou 2009; Steijn, Kleijn and Edelenbos 2011; Wong et al. 2015).

3. Methodology

The empirical part of this dissertation draws from service outsourcing processes and the management of external service delivery in multiple-case settings. More specifically data collection was carried out by investigating the outsourcing consideration processes in both public and private organisations, mapping and analysing the risks of a public organisation outsourcing a health service function, and finally, investigating the outcomes of different control mechanisms under the purchaser-provider model. These studies are reported as four individual research papers that together form this dissertation. This chapter presents the methodological approaches chosen for each paper, including an overview of the research process and details of data collection for each paper. Figure 2 below provides an overview of the research process of this dissertation.

2014	2015	2016	2017
	Paper I	Paper III	
Data collection	Paper II	Paper IV	
	Data collection	Data collection	
	Analysis, reporting	Analysis, reporting	

Figure 2. The research framework

Papers I and II are based on the same data. Thus, the papers share a comparative view and same case organisations as described in the following pages. Paper III and IV are individual research projects, Paper III being a single-case study from Finland, and Paper IV a multiple-case study from England. The methodologies of each papers are described as follows. This dissertation consists of case studies as answering the research questions demanded analysing the service outsourcing processes in-depth (Yin 2014).

As a researcher can only theorize the existence of phenomenon, such as best practices in service sourcing (Lee 1991), empirical case studies are needed to provide evidence to support theory. Thus, all the research papers in this dissertation are based on empirically collected and analysed data. The empirical evidence used in this dissertation were drawn from two different countries, Finland

and England. Finland was selected due to data availability and the relatively significant role of outsourcing to private sector organisations in public (health) service delivery (Sosiaali- ja terveystieteiden ministeriö 2013). England was selected due to the long traditions of the English National Health System (NHS), which offered an intriguing environment for investigating the relations between public purchasers and external service providers.

Paper I is a comparative study between public and private sector organisations looking at the decision process of outsourcing consideration. The sample size is eight cases, four services, and four organisations from both sectors. Documentary sources for analysed data were, for instance, a process model for decision-making and annual reports. Comparative research was chosen as a research method, due to the assumptions that i) a comparative study would increase applicability of results, and ii) that private organisations would have more structured and developed processes than public organisations enabling identification of best practices transferable to public organisations.

The objective of this paper was to define what drives and triggers service outsourcing decisions (“why”) as well as identify best practices and pitfalls from the results. The method used was theory elaboration which does not test the logic of the theory, but rather its suitability for a different context (Ketokivi and Choi 2014). Paper I evaluates the suitability of a private sector-specific outsourcing framework originally designed for manufacturing (see McIvor 2000) in both the public and private sector service outsourcing context.

The cases selected for Papers I and II are the most similar cases, meaning that the “cases are similar on specified variables other than X1 and/or Y” (Seawright and Gerring 2008:298). In the context of this study, Seawright and Gerring’s definition is applicable as the cases are the most similar except for the different context of the public or private sector. Selecting the most similar cases was seen as a means to improve the applicability of findings. Cases were selected by applying purposeful sampling by choosing cases that allow a deep insight into the outsourcing decision processes (Araujo and Dubois, 2007). The analysis in Paper I focused on the outsourcing consideration as a process in each organisation. The selected cases and overview of the sample organisations of Papers I and II are described below in Table 3.

Table 3. Overview of Cases and Sample Organisations of Papers I and II

Type of Service Function	Case organisation	Branch of Government/ Key Business Area	Outline of Service Function	Budget/ Turnover
A. Occupational Health Care	Company A: Multinational Corporation	Forest Industry	Outsourced	3 715 000 000 (2013)
A. Occupational Health Care	City A	Municipality. Approx. 11 000 employees	Partly outsourced	1 401 000 000 (2014)
B. Leasing Services	Company B: National Corporation	Demolitions of industrial equipment and machinery	Outsourced	5 013 000 (2013)
B. Leasing Services	Municipality B	Municipality. Approx. 900 employees.	Outsourced	76 016 089 (2014)
C. Translation Services	Company C: Multinational Corporation	Media Industry	Outsourced	243 688 000 (2013)
C. Translation Services	Agency C	Governmental Organisation. Approx. 300 employees.	Partly outsourced	26 526 000 (2014)
D. Customer Services	Company D: Multinational Corporation	Travel Industry	Outsourced	2 284 000 000 (2014)
D. Customer Services	Agency D	Governmental Organisation. Approx. 550 employees.	Outsourced	134 000 000 (2014)

Data was collected by conducting structured interviews which were based on the tested framework (McIvor 2000). A multiple-case study was a natural choice for this comparative study as the purpose was to analyse the outsourcing decision process in differing organisational settings (Stewart 2012). Multiple cases allowed viewing the findings in the contexts of sectors as well as similar services (Eisenhardt and Graebner 2007). Although our case selection was led by the idea of finding cases that allow in-depth analysis (Araujo and Dubois 2007), an additional aim for case selection was to choose sufficiently standard cases that would allow generalization of the results (Seawright and Gerring 2008).

Paper II is based on the same empirical data as Paper I. However, it concentrates on different parts of the outsourcing process (see Figure 2). The scope of Paper II covers the process phases after selecting the service provider, which are defined as the transition phase and contract management phase. Paper II shares the comparative approach of Paper I. The practices of managing and measuring outsourced service functions are compared across public and private sector organisations in order to identify best practices and validate existing theoretical findings. The more specific research question is: How should we effectively manage the public service delivery of outsourced services?

A multiple-case study approach was used with a deductive approach to enable a cross-case analysis and applicability of findings across and within both sectors (Weston et al. 2001; Eisenhardt and Graebner 2007; Miles et al. 2014). Eight cases were included, four from the public and private sector each. Each organisation has a “pair” from a different sector which has outsourced a similar ser-

vice. The unit of analysis was the most similar case—the outsourced service function—with differing context variables (Voss, Tsikriktsis and Frolich 2002). A same case approach was not possible as cases were included from both sectors. Case selection was led by relying on our network of purchasing professionals and their knowledge of the most similar outsourcing cases which would fit our timeline. Our sample includes two types of services, simple and complex, both acquiring a different kind of outsourcing process. The inclusion of both kinds of services arises from transaction cost economics: the difficulty of measuring service outcomes and supplier performance increases outsourcing risks (Brown, Potoski and Van Slyke 2008).

Data collection consisted of structured interviews with employees who had participated in the outsourcing decision process and were either part of the transition phase and contract management phase or supervising the employees responsible. The structured interviews enabled a comparative approach and analysis of theoretical propositions (Weston et al. 2001). As this Paper II was part of the same research process as Paper I, some interviews also covered the phases of outsourcing decision and competitive tendering. However, that data was excluded from this study.

For the purposes of this study, in relation to Papers I and II, it was important to identify similar services from both the public and private sector. As it is core functions which are typically different between the sectors, the selected cases are all non-core services. However, the services in Papers III and IV discussed below are core services. As the division into core and non-core services has been established as being less relevant in the public sector context (see Harland et al. 2005), this is not seen as limiting the applicability of the findings in the public sector context.

Paper III aimed to answer the following questions: What are the most significant risks related to outsourcing a health service function for a public organisation? In addition, what kind of attention and procedures—means—do these risks require during the outsourcing consideration and competitive tendering process? A single-case study was conducted in order to answer these questions. The focus of the analysis was the process of outsourcing primary health care delivered in outpatient clinics. The documentary sources of analysed data were those such as the minutes from board meetings and internal documents. A single-case study was selected as a method since it was estimated to provide an opportunity for an in-depth analysis of risks related to health service outsourcing, which has become increasingly popular (Eisenhardt and Gaebler 2007; Wong et al. 2015). Case research is typically categorised into single and multiple-case studies based on the argument that the replication enabled by multiple cases provides more rigorous data (Dubois and Gadde 2002). However, as multiple cases set limitations on the depth of analysis, a deeper analysis of one study contributes positively to the analysis of a phenomenon (Dubois and Gadde 2002). An in-depth analysis was seen as essential in order to not only identify the risks, but understand their origin, development through time and mitigation. The case selection was led by first determining the service function as primary care. Primary care was selected due its complexity as a service delivery.

Primary care contains a wide array of services which increases the risks of outsourcing, the complexity rendering it a suitable case for this particular study (Dubois and Araujo 2007). After selecting primary care as a focus, the aim was to identify an organisation in Finland which would be in the process of considering outsourcing outpatient clinics. The case organisation met this criteria as it had outsourced two clinics and was at the time of data collection in the process of considering outsourcing further clinics. The case selection was driven by timing of the organisation's actions and data availability. An overview of the case organisation is provided below in Table 4.

Table 4. Overview of Case Organisation of Paper III

Outsourced primary care	Case organisation	Budget / Turnover 2015
Primary health care in 3 of 12 outpatient clinics.	Population of 137 000.	Total expenditure: 1 017,8 M
10 % of the case organisation's population lives in the areas covered by outsourced clinics.	5 618 employees (2014) of which 1 395 work in health and social services.	Expenditure on health and social services: 305,5 M (30% of total)

There is no optimal number of respondents, this is always determined case by case, but especially a single-case study demands several respondents in order to ensure robust findings providing their own subjective view (Voss, Tsikriktsis and Frolich 2002). Therefore, multiple respondents were included from the case organisation. The respondents consisted of the team members, described below in Table 5, who had been and were involved in the outsourcing processes of the outpatient clinics.

Table 5. Overview of the Respondents of Paper III

Position	Role in the outsourcing process
Finance Manager	Participated actively in the outsourcing of the first two outpatient clinics and the ongoing consideration. Focus on impact on service costs, but also viewed the impact of outsourcing as a whole.
Financial Controller	Participated actively in the outsourcing of the first two outpatient clinics and the ongoing consideration. Responsible for counting the costs of internal service function and setting fixed prices for RFPs.
Service Manager 1	Participated actively in the outsourcing of the first two outpatient clinics. Focus on service specifications. Previous work experience as a nurse.
Service Manager 2	Participated actively in the outsourcing of the first two outpatient clinics and the ongoing consideration. Focus on service specification, change management and impact on internal service functions. Previous work experience as a nurse.
Service Manager 3	Participated actively in the outsourcing of the first two outpatient clinics and the ongoing consideration. Focus on service specification. Previous work experience as a nurse.
Procurement Specialist	Participated actively in the outsourcing of the first two outpatient clinics and the ongoing consideration. Focus on managing the competitive tendering process.
Directing Doctor	Participated in the outsourcing of the first two outpatient clinics. Focus on service specification and impact on internal health care personnel.
Lawyer	Participated in the outsourcing of the first two outpatient clinics and the ongoing consideration. Responsible for the contract.

Data collection was conducted by using a combination of document analysis, survey and semi-structured interviews. Triangulation of data was implemented

in order to ensure a comprehensive and thorough analysis (Yin 1981). The survey was used to map all the risks the respondents were able to identify prior to interviews. In the survey, the group of respondents, a team of eight people, named the risk and estimated its significance and likelihood. The survey was conducted by the respondents prior to the interviews. Each interview began with reiterating the identified risks in order to ensure that the risks were understood similarly by both the interviewee and interviewer. The main focus of the interviews was the ongoing outsourcing consideration of two of the organisations' 12 outpatient clinics, but respondents also reflected experiences from previously outsourcing two clinics. The respondents were a multidisciplinary team consisting of a lawyer, two finance professionals, one sourcing specialist, three service managers (health care), and one doctor. In a single-case study, the importance of having a group of respondents with different perspectives is often emphasised (Dubois and Araujo 2007).

After data collection, the data from the documents, survey and interviews were combined for analysis. The risks identified by three or more respondents were included in a deeper analysis and defined as "significant." The Analytical Hierarchy Process (AHP) was implemented in the analysis phase of the risks of different outsourcing options. AHP is traditionally applied to decision scenarios to break down complex issues, such as the outsourcing consideration (Ishizaka, Pearman and Nemery 2012).

Paper IV set out to define the ways in which different forms of purchaser-provider cooperation affect the health care service delivery and more specifically its quality and outcomes. An additional aim was to discern best practices from amongst the results. The example of cancer care was used in order to achieve these aims. Multiple-case study was determined as the method to enable generally applicable findings (Eisenhardt and Gaebler 2007). Data was collected by using a combination of archival (and document) analysis and semi-structured interviews. Documentary sources of archival analysis were the case organisations' annual reports, commissioning plans and quantitative data of allocation, spenditure and quality of health care. Multiple data sources were used in order to improve the reliability and generalizability of findings (Voss, Tsikriktsis and Frolich 2002; Yin 1981). The document analysis focused on investigating the impact and costs of care over a longer timespan than the interviews allowed (Meredith et al. 1989). Publicly available data on the productivity of the case organisations was used in the analysis.

The data covered the service processes of local English Clinical Commissioning Groups (CCGs). The first phase of analysis was to examine the archival data and the second phase to conduct the interviews. The case selection was accomplished by using theoretical sampling which aimed at finding representative cases of purchaser-provider cooperation (Eisenhardt and Gaebler 2007). Selecting the case organisations is the most important decision in research (Araujo and Dubois 2007); thus, it was implemented carefully in three phases. These phases were: i) data analysis to identify the CCGs which had attempted to cooperate with their service providers, ii) pilot interviews to test the questions and

narrow the scope of the study, and iii) case selection was completed by theoretical sampling. The unit of analysis in this paper is both formal and informal co-operation related to cancer care services between the service purchaser and provider. The sample size is 12 CCGs. A total of 11 interviews were conducted with a professional working with purchasing and outsourcing cancer care or monitoring the delivery from the purchaser's perspective. CCGs 1 and 2, and 3, 4 and 5 share management resources, hence, the higher number of CCGs than interviewees. An overview of the case organisations and the interviewees is provided below in Table 6.

Table 6. Overview of Case Organisations and Interviewees of Paper IV

Case Organisation	Interviewee	Budget Allocation 2015–16	Registered Population 2013–14
CCG 1.	Cancer programme manager	150 000 000	>150 000
CCG 2.	Cancer programme manager	250 000 000	< 200 000
CCG 3.	Chief Officer	150 000 000	>150 000
CCG 4.	Chief Officer	220 000 000	<200 000
CCG 5.	Chief Officer	150 000 000	>150 000
CCG 6.	Director of Commissioning and Strategy	330 000 000	>250 000
CCG 7.	Externally funded GP	200 000 000	<200 000
CCG 8	Lead Cancer GP	650 000 000	<500 000
CCG 9	Commissioning Manager	600 000 000	>500 000
CCG 10	Lead Cancer GP	150 000 000	>150 000
CCG 11	Lead Cancer GP/Planned Care Deputy Director	650 000 000	<600 000
CCG 12	Associate Director – Planned Care and Cancer Commissioning	250 500 000	<200 000
SCN 1	Quality Improvement lead	-	-
SCN 2	Clinical Director for Cancer	-	-

4. Review of the results

This chapter describes the overall main findings and summarises them in the context of each individual paper. The final part of this chapter discusses the key results in the general context of public management. Throughout this chapter, the main findings are discussed and reflected in the challenges in public service outsourcing previously presented in Table 2: i) Which services should be outsourced and when? ii) how should the outsourcing process be managed? and iii) how should the external service provision be managed? In Chapter 2, it was mentioned that the mutually supportive approaches of positivist and interpretive approach are adopted in this study; in addition, a hypothetico-deductive logic has been applied in data analysis to achieve the findings next described. Thus, these findings have been established through the following phases of analysis: observation, supporting the observation with additional less significant observations, and forming a conclusion (Lee 1991). The research papers are presented in a chronological order starting from the outsourcing consideration (Paper I), and concluding with the area of service management, development (Paper IV), as presented in the research framework described in Figure 1.

4.1 Paper I: Service outsourcing decisions – A framework for public organisations

The outsourcing consideration or the “make-or-buy” decision was the primary scope of Paper I which compared the processes in public and private organisations in order to identify best practices. The scope of the paper is positioned within the early stages of service evaluation within the area of strategic management. This paper is concerned with the service outsourcing challenge of what to outsource. Recommended triggers and realistic outsourcing objectives were identified

The selected approach was to test the applicability of a private sector specific process framework in the public sector context. Thus, the main contribution of this paper is a process framework which builds on our empirical analysis and previous literature (see McIvor 2000). The process steps include: i) proactive evaluation of service functions to identify outsourcing triggers, ii) analysis of the market situation (does it enable outsourcing), iii) analysing the costs of service processes and benchmarking, and iv) evaluating and identifying the most relevant service activities. Applying this framework in practice in service management improves the likelihood of achieving outsourcing benefits, and will in the

public sector context bring organisations closer to the professionalism identified in the private sector through our analysis.

This framework differs from what has been established in previous literature. For instance, Van der Valk and Rozemeijer (2009) established that the success of service outsourcing is determined in the first stage of the process which they identify as defining the scope of outsourcing and specification of an outsourced service. Based on the analysis conducted in Paper I, we also found stages prior to supplier selection impacting process outcomes. Market engagement and evaluation should be done before initiating the outsourcing process, as the market situation determines whether outsourcing is a viable option for the service function.

A significant amount of previous research has been based on surveys or case study methodologies; especially many outsourcing frameworks have been developed based on practices identified from case organisations rather than applying theory to practice (Busi and McIvor 2008). We selected a different approach in Paper I in which an existing theoretical framework, a process model for an outsourcing consideration in a private service organisation (see McIvor 2000) was tested in practice and then further developed to fit the public sector context. We found that the order of McIvor's (2000) process steps should be changed to establish a sustainable decision. We suggest that the market analysis should be conducted before the cost analysis and benchmarking, because outsourcing cannot be initiated if the market is not suitable for it. This suggestion is grounded in relatively strong evidence from our case data.

In addition to identifying best practices within the outsourcing process, we also looked at the triggers for outsourcing. Typical triggers for outsourcing a service function are that the service delivery is experienced as toilsome or/and inefficient when delivered internally; however, these qualities also often create challenges for the external provider (Jiang and Qureshi 2006). We found that public organisations primarily outsource their service deliveries with problems (risks that have been realised internally), while private organisations tend to outsource to prevent risks from turning into problems.

Handley and Benton (2009) found that an extensive strategic evaluation of outsourcing possibilities creates an understanding about the overall impact and risks related to the outsourcing option. We agree and expand on this argument; in Paper I, we found that regular evaluation of an organisation's service delivery is crucial in order to identify triggers for outsourcing prior to them becoming problems in internal service delivery. Examples of these triggers would be service availability or high demand variations which can be better managed in external provision (see Jiang and Qureshi 2006). A benefit of a comprehensive outsourcing consideration is the knowledge gained (Handley and Benton 2009) through a dialogue with potential service providers and internal analysis, regardless of the analysis outcome. Through an internal analysis, the organisation is also able to identify areas in their own operations that need to be developed or co-developed with an external provider (Handley and Benton 2009). One of the barriers to more competitive markets in sectors that traditionally have relied on public service provision has been the lack of accurate data on the costs of

service functions and other performance metrics (Caldwell et al. 2005). In Paper I, we found this to hold true as a comprehensive service evaluation was lacking as a best practice in public organisations. This causes issues, such as inadequate volume information in the request for tenders, which is a demonstrative example of a barrier to private providers, preventing them access to public service provision due to financial risks.

4.2 Paper II: Forget “blind leading the seeing” – Improving service management

We began this study by establishing an aim to investigate the best approaches to managing external service provision. However, our findings steered us to the conclusion that managing outsourced service is not a separate management area; thus, the scope of this study was expanded to public service management as a whole. More specifically, this paper focuses on the phase of handing over the responsibility of service delivery to an external provider, and the management of services after the outsourcing process. Within the research framework, this paper is positioned in between strategic and service management. This paper is concerned with the challenges in outsourcing services, such as should the final stages of an outsourcing process be managed and what of managing service performance?

The transition phase has been identified as critical in achieving outsourcing benefits in previous literature (see, for instance, Romzek and Johnston 2002; Yang et al. 2009). We established that the transition phase is especially important for founding the purchaser-provider relationship. The complexity of the transition phase depends on the contract value, length and complexity which all increase service and outsourcing risks (Jiang and Qureshi 2006). Based on our analysis, it is crucial in the transition phase that the public outsourcing organisation is able to demonstrate firm contract management and ensure that issues with service quality, which often occur in the transition phase, are corrected promptly to avoid sanctions.

Caldwell et al. (2005) have identified that lack of coordination, known as proactive service management, prevents the public organisation from gaining any benefits from benchmarking the provider's service processes and learning from their operations. Mutual learning is a goal in a win-win relation (see Nordin 2008) that enables service development. By building on this finding from earlier literature, we were able to identify that lack of coordination in internal service delivery also causes issues in achieving a state of effective service management. Lack of coordination prevents a public organisation from conducting process analysis and identifying possible process bottlenecks which might cause issues in service quality and availability. We found that many Finnish public organisations do not collect or analyse internal performance data, thus preventing them from performance management.

The theoretical contribution of this paper is to further expand on the previous findings in the context of public sector service management. Brown et al. (2003

& 2008) noted that the success of outsourcing is linked to an organisation's contract management resources. Our findings support this, but we broaden the argument: the keys to achieving a level of effective service management are the outsourcing organisations' overall service management capacities and abilities. We further established that regular evaluation of service delivery enables outsourcing if issues with internal service delivery's availability or quality are about to become problems.

According to Henderson and Bromberg (2015), there is limited empirical research on performance management of outsourced services. In this research paper, we discovered that although performance management and measurement practices are applied to external service provision, they are internally non-existent. The lack of internal performance management causes issues as service performance data is essential to a comprehensive service evaluation (see Torres, Pina and Yetano 2011) and to improving service outcomes.

As a result of our findings on performance management, we established recommendations to introducing performance management to the public service management as a managerial contribution. For public organisations in which internal performance management is completely lacking, we recommend introducing performance management as a practice with a simple approach of two performance measures, in addition to following the output measures, to be precise, the costs of services. These two are service availability (response time) and feedback from service users (see Henderson and Bromberg 2015). As performance management has been established as a practice, more measures can be introduced.

4.3 Paper III: Managing the risks of outsourcing a public health service function

Paper III set out to investigate the risks related to public services and to determine the means to mitigate these risks. Within the research framework, Paper III is positioned in the area of strategic management (outsourcing consideration). From the challenges of public service outsourcing presented in Table 2, this research paper is concerned with questions of which services to outsource and how best to manage the process of service outsourcing.

The most significant identified risks related to outsourcing a health care service at a local government level are: the political risk, quality risk and the market risk. This result confirmed the findings of previous literature (see, for instance, Bovis 2012; Schoenherr, Tummala and Harrison 2008; Roberts 2001). Nonetheless, it was interestingly established that in the local government context, the political risk assumes a different form. This risk has been identified as policy reforms causing alterations to required service content or to service demand (Bovis 2012). At a local government level, the risk is that the elected members of city council, who have the ultimate decision-making mandate in make-or-buy considerations, dismiss pragmatic decision-making criteria and render a political decision. In a country, such as Finland, the social democrats (political left) have traditionally been against the ideology behind outsourcing. The political opposition may complicate local government's ability to improve service quality and/or cost efficiency through outsourcing. This finding contributes to existing theory by expanding the definition of the political risk of outsourcing in the local government context. Managerially, this finding indicates, as established also in Paper I, that it is critical for a local government organisation to follow through with a comprehensive outsourcing consideration, including the process steps of benchmarking and internal cost analysis, as these contribute to internal service development when outsourcing cannot be followed through, due to political opposition or the market situation. The market risk in the public sector context acquires the form of a lack of competition or viable tenderers or undesired tenderers.

As a further managerial contribution, the means were established to mitigate the market and the quality risk. The public organisation should: i) actively engage with potential tenderers in the market, ii) as resources for risk management are often limited, they should be focused on the quality risk, and iii) for complex services, such as primary care, the selected competitive tendering procedure should be the negotiated procedure. Engaging with the market already during the outsourcing consideration phase and the negotiated procedure are the most essential tools, because they enable specifying the scope and content of procurement to be created cooperatively with tenderers. The recommendation of concentrating mainly on the quality risk arises from quality risk possessing the most severe potential negative consequences. Contradictory market engagement and negotiated procedure increase the likelihood of achieving outsourcing benefits.

4.4 Paper IV: The effect of purchaser's control mechanisms on health care outcomes: A focus on the English National Health system

Paper IV linked to the same themes as Paper II as it is concerned with service/contract management within the research framework. The challenges of outsourcing public services that are focused on in this paper are: how should the cooperation with an external service provider be managed, and how should service outcome improvement be incentivised?

Based on the analysis conducted in Paper IV, we identified three main activities as a managerial contribution that are linked to achieving better outcomes under the purchaser-provider model in public service delivery: "(i) relying also on social controls by involving health care professionals in service development, (ii) introduction of qualitative outcome measures alongside quantitative output controls to incentivise care improvement, and (iii) using the contract as a primary tool for process control." As a theoretical contribution, we established that, in addition to more formal process controls, mainly the contract, social controls involving doctors and nurses in both the principal and agent organisations is key to service improvement. Additionally, we recognised that these improvements have also generally had a positive impact on the cost efficiency of the service delivery. According to our review of previous literature, the key role of health care professionals seems to be a novel theoretical contribution to the stream of research in health service outsourcing.

The main output control we recognised are currently qualitative measures, such as patient waiting-times in the health service context. These quantitative, often national, measurement have provided needed targets and incentives for improving care quality and overcoming local variance in quality. However, the qualitative targets also enforce the misalignment of goals between the purchaser and the provider as they encourage providers to focus on quantity of provided care, rather than its outcomes. Managing with this misalignment of goals requires the purchasers to adopt process controls in the form of the service contract, in addition to involving clinicians as a social control. According to our analysis, the use of the service contract as a process control also results in improvement in cost efficiency. The importance of the service contract we recognized is in line with previous research results (see, for instance, Eisenhardt 1989; Simonsen and Hill 1998). Based on our analysis, we also recommend similar use of the contract under the purchaser-provider split with public providers.

5. Discussion and conclusions

This dissertation set out to investigate what means exist to improve the efficiency and effectiveness of public service delivery through service outsourcing and management. A research framework was presented and portrayed in Figure 1 on service delivery evaluation (outsourcing consideration) and service delivery development (improving service outcomes). The four research papers discussed in the previous chapter investigated these challenges, which were established based on an extensive review of previous literature from various perspectives. This dissertation contributes to both descriptive and prescriptive knowledge of the topic. The main theoretical and practical contributions are discussed in this final chapter. Finally, the known limitations of this study are raised as well as suggestions for further research.

Paper I identified the recommended process steps for an outsourcing consideration in the public sector context. Furthermore, it was established that outsourcing considerations should be initiated proactively, in other words, prior to outsourcing triggers (risks) actualising as problems in service delivery, in order to ensure efficient service delivery. Paper II was concerned with service and contract management continuing where the scope of Paper I ended, covering the process steps that follow after a decision to outsource and the process of provider selection. The recommended practices for public service management were drawn by combining existing theory and empirical findings. Papers III and IV both had a focus on public health service delivery. Paper III, similarly to Paper I, is concerned with the strategic management phase described in the research framework. In Paper III, the most significant risks of service outsourcing were identified, and the means were determined to mitigate them during the process phase of provider selection through the competitive tendering procedure in order to ensure achieving the outsourcing benefits. Finally, Paper IV focused on service and contract management, and cooperation with external service providers within the purchaser-provider model. Agency theory was applied in order to establish recommended control mechanisms in cooperative service development: improvement of the effectiveness of service delivery.

In the introduction chapter of this dissertation, it was identified from earlier studies that cooperating with private providers has become a popular means in pursuing greater cost efficiency and improved outcomes in public service delivery (see, for instance, Barlow, Roerich and Wright 2013; Marques and Berg 2011). However, it was further outlined that it is yet undetermined to what extent these outsourcing benefits can be achieved through outsourcing and its different forms, such as the purchaser-provider model (see Harland et al. 2005;

Pelkonen and Valovirta 2015). It was identified that the outsourcing consideration is a critical process step which is, however, quite unexplored in the context of the public sector (see, for instance, Scheider and Wallenburg 2013). The consideration is followed by a transition phase which determines the foundation of cooperation throughout the contract term (see Yang et al. 2009). Finally, it was established that effective contract and performance management are prerequisites for successful outsourcing, yet these practices have not traditionally been a strong suit in public sector (see, for instance, Barlow, Roerich and Wright 2013; Rubery, Grimshaw and Hebson 2013).

5.1 Theoretical Implications

This chapter presents the main theoretical contributions of this dissertation. The contributions are discussed in the context of the main challenges within the research field of service outsourcing decisions and public service management introduced in Table 2.

This dissertation contributes to descriptive knowledge by providing an improved overall understanding, in addition to new insights of the management of the outsourcing process, and the management of both outsourced and internal public service delivery. The main contributions can be identified as: i) identifying service quality as a more relevant trigger for outsourcing than service costs, and ii) validating the finding from previous literature that the contract is an essential management tool within the purchaser-provider model.

The findings of this dissertation are based mainly on an empirical data analysis which has been accompanied with an archival data analysis. The analysis of archival data held an especially significant role in identifying the management tools, more specifically the control mechanisms, to cooperatively develop service processes with service providers in Paper IV. The data for this dissertation was collected from Finland and England as well as from several case organisations which mainly operate in the public sector. The strongest evidence was identified, both from Finland and England, to support the importance of using the contract as a process control in service management, and in the context of health care to delegate the responsibility of service development to health care professionals, instead of economists. Moreover, the risks related to outsourcing, especially quality risk, were identified to be a significant concern in both countries.

Previous research on service management has concentrated on make-or-buy decisions, or outsourcing considerations, from a strategic perspective (e.g. McIvor 2000). In this dissertation, the strategic importance of the outsourcing consideration is recognised and expanded from a perspective of service delivery efficiency and effectiveness which are more relevant factors in the public sector context. In the public sector context of this work, the outsourcing consideration as a part of service evaluation was observed as being a more pragmatic, rather than strategic consideration. A likely reason for this is the nature of many public organisations as they do not seek to make profit or operate in competitive markets.

5.1.1 What and when to outsource?

Due to the distinctive differences of public and private sector organisations, the multitude of frameworks that have been established in previous literature for private organisations are not applicable as such in the public sector context. Paper I evaluates McIvor's (2000) simple process-like model, suitable for services. Through an analysis, this framework was further developed to fit the public sector context. In Paper I, we also identified the ineffectiveness of internal service as a trigger for outsourcing public services. In Paper II, it was concluded that internal issues with service delivery efficiency or quality could often be solved with more effective internal service management rather than outsourcing. However, we recognised that in situations in which the demand for service varies significantly or there is a lack of competences internally, outsourcing is a recommended option. Furthermore, in Paper III, the trigger for an outsourcing consideration was identified as the public organisation having issues in recruiting staff to deliver required services in their secluded areas. This caused issues in service availability and further internal inefficiencies. The issues in recruiting were somewhat due to economics of scale, as the lack of colleagues in rural public administration organisations in local government is driving personnel to prefer private employers. Due to the risks that were realised as problems identified in Paper I and the case organisation's situation in Paper III, it is acknowledged that at times public organisations find themselves in situations in which outsourcing is the only option. In these situations, the consideration is not whether to make or buy, but rather how much to make or buy, in other words, a consideration between complete outsourcing and hybrid models (see Nordigården et al. 2014). In a hybrid model, the public organisation outsources a part, for instance, 40 % of the service delivery, whilst maintaining part of service delivery in-house. The benefits of this model have been recognised as constant benchmarking and mitigation of the risk of information asymmetry (see Nordigården et al. 2014; Puranam, Gulati and Bhattacharav 2013). In fact, from the empirical evidence collected for Paper II, we recognised that a hybrid model provides these benefits and can be used in improving the internal service delivery through the access to benchmark service processes with a private provider. The public organisation may even use the threat of total outsourcing as a lever to drive internal development of service processes. This was recognised as a means to incentivize service process improvement within the purchaser-provider context in Paper IV. Based on the findings of this dissertation, hybrid models can be recommended as a means to improve the efficiency of an internal service delivery at least as a short-term solution in situations in which outsourcing is an only viable option. However, the issue of costs that maintaining the hybrid model long-term incurs demands further research.

At times, public organisations are in situations in which they are "forced" to outsource as discussed above. On the other hand, public organisations also face situations in which outsourcing is not an option, even though it would be recommended as a result of an outsourcing consideration. This situation is the realisation of the political risk at the local government level as identified in Paper III. Since the ultimate decision-making mandate lies with the elected politicians

in city council, they can decide to withhold outsourcing according to the current political agenda. The impact of policy goals and programmes to the implementation of outsourcing has also been recognised in previous literature (see Sekhri, Feachem and Nii 2011). In a traditional welfare state, such as Finland, outsourcing is typically opposed by the political left. The finding of Paper III about the nature of the political risk in local government context contributes to existing theory by expanding the definition of the political risk of outsourcing in the local government context. This finding also emphasises the meaning of the recommendation made in Papers I and II: the results of the outsourcing consideration, especially benchmarking of service processes and their costs, should be taken into account in internal service development, even if the consideration is concluded with a decision not to outsource.

5.1.2 How should the outsourcing process be managed?

The outsourcing consideration is followed by first selecting the service provider which, in the public sector context, includes selecting the most suitable competitive tendering procedure. This has been established as one of the most critical phases in relation to achieving the benefits of outsourcing. In Paper III, the use of the negotiated procedure is recommended when outsourcing complex services; however, it is also noted that as the negotiated procedure increases the transaction costs of the outsourcing process compared, for instance, to the open procedure. Thus, the selection of the most suitable tendering procedure should be implemented service by service, and should include a consideration of process costs as well as benefits, such as mitigation of the service quality risk.

After the competitive tendering procedure resulting in provider selection, the transition phase follows. Its criticality has been established in earlier works (see, for instance, Yang et al. 2009), and resting on the findings of Paper II, we agree with its importance. Based on the empirical evidence, we further state that effective service management is especially crucial in this phase as the foundation to the relation between the purchaser and service provider is created based on the purchasers' ability to use the control mechanisms established in the service contract. The importance of establishing control mechanisms, as well as incentives for improving service process has been established in previous literature contributing to adapting agency theory to purchaser-provider relations (see, for instance, Eisenhardt 1989; Simonsen and Hill 1998). The findings of Paper IV further support the importance of the transition phase. Thus, it can be concluded that a trusting relation resulting in improvement of service outcomes is based on the purchaser using control mechanisms—the service contract—as well as social controls effectively starting from the transition phase. The identification of the importance of combining both formal process controls and more informal social controls in managing an external service delivery contributes to the stream of literature establishing the optimal control mechanisms applied in agency theory.

5.1.3 How should outsourced service delivery be managed?

As discussed in the introductory chapter of this dissertation, the backdrop of public service management has changed from managing internal service delivery to contract management (see, for instance, Breul 2010). This change has also inflicted a need for different management capacities resulting in a need for further or different resources (see Carboni and Milward 2012). Previous literature has noted that the success in achieving the pursued benefits of outsourcing is linked to the public organisations' resources and competences in service management (Brown et al. 2003 & 2008). The findings of Paper II support this argument, but also expand it in the context of the effectiveness of an organisation's service delivery as a whole. The outsourcing organisation's overall service management capacities and abilities are essential in achieving an effective and efficient public service delivery. This finding is also supported by the empirical evidence of Paper IV: the abilities of the purchaser organisation are key to establishing and maintaining a relation with an external service provider which enables the development of service process in order to improve service outcomes, that is, its effectiveness.

An additional contribution to the stream of research of the needed capacities and resources in modern public service organisations is verifying the finding (see, for instance, Bovis 2012; Johnson, Leenders and McCue 2003) that the inclusion of a multidisciplinary team is crucial in achieving outsourcing benefits. A multidisciplinary team is required especially during the outsourcing consideration as the risks of outsourcing are identified, during the competitive tendering process and before, as the service specification and contract are created as established in Paper III. Furthermore, Paper IV contributes to existing literature on health service management by concluding that the involvement of health care professionals, in addition to administrative personnel in service development during the contract management in both purchaser organisations, is key to achieving improvement.

In this section, and the two that preceded it, the contributions were presented to the challenges of service outsourcing and service management established in previous literature. In the following section, which concludes this chapter of the theoretical contributions of this dissertation, contributions in the contexts of transaction cost economics theory and agency theory are discussed.

5.1.4 Transaction cost economics and the agent theory in the public service outsourcing context

Transaction cost economics is often applied in the outsourcing context as it provides the foundation to the logic of outsourcing non-core services and internally holding onto core service activities (see, for instance, Nordigården et al. 2014). Outsourcing decisions in the private sector context typically follow this logic. However, as the separation to core and non-core services is less relevant (Harland et al. 2005), if relevant at all, in the public sector context, outsourcing cannot be applied following transactions cost theory without an outsourcing consideration consisting of a careful analysis and evaluation. Often the out-

sourcing “analysis” and discussion is dominated by political ideology in the public context. This was also recognised in Paper III in which it was concluded that, in the local government, the political risk assumes a different form than established in previous literature (see Bovis 2012). In earlier studies, it is argued that outsourcing considerations concerning public services should be influenced by policy (Harland et al. 2005). Based on the findings of Paper III, the political influence can result in negative outcomes for the quality of service delivery. In local government, the political risk manifests itself when politicians prevent outsourcing when the outcome of the outsourcing consideration would strongly recommend so. Due to this risk, public organisations should include the identification of the means to improve internal service management in their process of outsourcing consideration, as discussed in the last section.

However, transaction costs are relevant to an outsourcing consideration in the public context from the perspective of process costs of: i) competitive tendering procedure, ii) mitigation of increased risks, iii) management of the transition phase, and iv) establishment of contract management practices. These costs should be included with the cost analysis and benchmarking of an outsourcing consideration.

The theoretical basis on Paper IV relies on agency theory which provides a lens to the relation between the principal (purchaser) and the agent (provider) characterized by information asymmetry, outcome uncertainty and incentives (Eisenhardt 1989). According to agency theory, the service contract is used to solve these issues by agreeing upon controls and incentives between parties (Simonsen and Hill 1998). Thus, according to agency theory, the contract is in the essence of efficient management of outsourced services. This was confirmed in the findings of Paper II and even more so in Paper IV. Based on these findings, we strongly agree with the previous findings related to the contract as a control mechanism, but also expand upon it in the context of health service delivery: in addition to using the contract as a process control, social controls that involve health care professionals in service management improve service outcomes. Furthermore, these improvements in service quality have also resulted in cost efficiency, due to process improvement, indicating that unlike speculated in previous literature (see, for instance, Barlow, Roerich and Wright 2013; Pelkonen and Valovirta 2015) these goals might not contradict one another. Nonetheless, these findings demand further validation in different contexts.

Based on our findings in Paper IV, which discusses the management of external service provision in the context of the purchaser-provider model, we broaden the recommendation to also using the contract as a primary process control with external public providers within the purchaser-provider model. In Paper III, it was identified that the service quality risk is the most critical risk for an outsourcing organisation due to the significance of potential negative outcomes. This risk was also identified in the empirical analysis of Papers II and IV. By mitigating this risk, the importance of the contract as a process control is yet again highlighted.

5.2 Implications for practice

This section outlines the main contributions to prescriptive knowledge and implications to practice. Overall, this dissertation contributes to prescriptive knowledge by: i) outlining a modified decision-making process for a service outsourcing consideration in the public sector context, ii) identifying the means to mitigate risks during the competitive tendering procedure, and iii) to facilitate successful service outcome improvement cooperatively with external service providers. The practical contribution of this dissertation are guidelines for improving the efficiency of public service delivery both in the areas of strategic service management (service evaluation), as well as service and contract management (service development). Additionally, a better understanding is provided of the current and most relevant challenges in public service management. Furthermore, the contributions to prescriptive knowledge can be applied in practice and will bring public organisations' service outsourcing and service management to a more effective level, thus also increasing cost efficiency. In this chapter, these three main contributions to prescriptive knowledge are accompanied with a summation and gathering of the identified managerial guidelines of each paper.

5.2.1 Best practices in service evaluation

Van der Valk and Rozemeijer (2009) determine the phases of the outsourcing process as follows: i) creating a service specification, ii) provider selection, iii) contract management and monitoring, and iv) evaluation of the outsourcing outcomes. The framework we created in Paper I (see Figure 3 below) contains the process steps prior to Van der Valk and Rozemeijer (2009). This framework is strongly influenced by that of McIvor (2000). However, based on our findings, we recognised a need to alter the process steps to fit the public sector context. McIvor's model begins by identifying core competences; however, we recommended regular evaluation to identify triggers for outsourcing as a first step. McIvor's second phase is to evaluate relevant service activities; instead, we encourage the conducting of a market analysis. Our recommendation is founded on the importance of the result of the market analysis: if there are no providers in the market, outsourcing simply is not an option. Regardless of the result of market analysis, we recommend moving forward to Phase three which is the same as in McIvor's model: cost analysis of service processes and benchmarking. The outcomes of the analysis are beneficial in internal improvement if the market situation does not allow outsourcing. McIvor's model concludes with a market analysis. As our framework already entailed this phase, we conclude by introducing the final phase of determining the most relevant service processes. This should be done by engaging with potential tenderers in the market as recognised as a best practice in previous literature (see, for instance, Whyles, van Meerveld and Nauta 2015) and verified in Paper III.

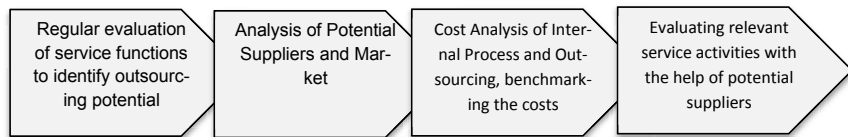


Figure 3. Framework for outsourcing service process (influenced by McIvor 2000).

Paper III identified the most significant risks of outsourcing a public health service function through an empirical analysis. These risks were the political risk, the market risk and the quality risk. The key managerial findings were the means to mitigate these risks during the competitive tendering procedure and also prior to the formal process, which is especially so with the political risk. It is recommended that data resulting from the application of the framework described above in Figure 3 is also documented to be used in internal service improvement, in case the political risk is realised. Engaging with potential tenderers is encouraged throughout the outsourcing consideration (informal communication) and during the competitive tendering process (formal communication). Communication with the potential tenderers is needed in creating a comprehensive service specification, to determine the scope of the outsourced service as well to agree on the control mechanisms and incentives for the service contract. Engagement with the tenderers mitigates both risks, related to the market and service quality.

5.2.2 Best practices in service development

Paper IV focused on service development from the purchaser's perspective in the health service context. Thus, we recognised best practices for public service managers responsible for external, often outsourced or delivered within the purchaser-provider model, service delivery. As the purchaser and the provider have different goals for the delivery, the providers need to use the service contract to manage this misalignment of goals through process controls. However, in addition to this more formal approach of relying on the contract, the purchasers are recommended (in the context of health and social care) to employ doctors and nurses to engage with providers' health care professionals to establish a form of more informal communication, trust and shared objectives of process and outcome improvement. Furthermore, in order to manage the improvement of service processes and outcome, performance management and concrete service measurements are needed. As recognised by Noordegraaf and Abma (2003), there is a need to introduce performance management to public organisations. Based on the findings of Paper II, and supported by the findings of Paper IV, we strongly agree with this argument. Public organisations need to introduce performance management and performance measurements in both their internal and external service delivery. In the Finnish context of Paper II, we discovered that measurement and performance management practices are lacking in managing internal service delivery. We strongly recommend the introduction of

measurements to management of internal service provision equally to external provision to prevent situations in which issues cumulate and outsourcing becomes the only option as described above.

Based on the comparative analysis between public and private organisations conducted in Paper I, we recognised one best practice from private organisations which is lacking in the public sector: regular evaluation of service delivery in order to proactively identify issues in service quality or alterations in service demand. Thus, this is established as the first process step of our framework presented above in Figure 3. Applying this step, followed by other steps of the framework, service management and the efficiency of public service delivery will be brought closer to the professionalism in strategic and service management identifiable in the private sector. However, this will not happen without applying the best practices in public service management as identified in Paper II, risk management according to the recommendations of Paper III, and finally, enabling productive cooperation during the contract term with the methods established in Paper IV.

After a regular evaluation has resulted in identifying a potential service as a candidate for service outsourcing, mapping the market is recommended. If potential tenderers are identified, the outsourcing considerations is continued whilst engaging with potential tenderers. The outsourcing consideration is followed by the transition phase. This phase is critical in setting the tone of the cooperation; hence, the outsourcing organisation is strongly recommended to ensure adequate resources in order to demonstrate the use of process controls by intervening, for instance, with inadequate service availability or quality immediately as issues emerge. Finally, after the transition phase is over, the outsourcing organisation can focus on service management activities. These activities should, in addition to the process controls introduced as a management approach in the transition phase, include informal communication with providers, preferably by personnel familiar with service processes and content.

In this final section of this dissertation, the main theoretical contributions were presented and discussed, including subsections on descriptive and prescriptive knowledge contributions, as well as the main practical implications. This dissertation set out to determine the means to improve the efficiency and effectiveness of public service delivery through service outsourcing and management. The theoretical contributions of this dissertation contribute to the research field of purchasing and public service management. The more practical contributions of this dissertation, founded on empirical evidence and extensive data analysis, can be applied to improve the efficiency and effectiveness of public service delivery as the financial situation within Europe, especially in Finland, demands.

5.3 Limitations and future research

This study has some limitations that require acknowledging. The empirical data of Papers I, II and III was collected from Finnish organisations, whereas the empirical data of Paper IV from England. However, in these countries, the public procurement function is regulated by EU directives which set the guidelines for the outsourcing process itself, not for the outsourcing consideration or service management. Furthermore, both of these countries have reached a relatively mature level in public purchasing professionalism, which is shared by the Nordic Countries and, for instance, the Netherlands. A limitation linked to the empirical data of this study is that the applicability of the recommended means to increase the effectiveness and efficiency of public service in less countries outside the EU or with less developed purchasing professionalism remains an open question.

This dissertation builds on qualitative analysis of a limited amount of data. This method was chosen in order to allow an in-depth analysis and investigation of the research phenomenon, but a recognised disadvantage of this approach is that verification of the generalisability of the findings becomes more difficult. The generalisability of the result in the context of this dissertation was especially difficult in relation to the findings of Paper III, which is a single- case study. A single-case study allowed acquiring a more detailed view on the case than the multiple-case study method used in Papers I, II and IV. On the other hand, the results of these multiple-case studies are more generalizable. The strongest validation of results was conducted as a part of the data analysis in Paper IV as the data was triangulated. A limitation in the public procurement context for Paper IV arises from the fact that the case organisations operate within the purchaser-provider model instead of outsourcing from an “open” market as discussed in the paper.

The data collection for this study was conducted with public purchasers. This data provided a very buyer-centric view throughout the course of the study. It is acknowledged that also collecting data from service suppliers would have added depth to the data analysis, especially in the contexts of Papers III and IV. In relation to Paper III, further study could explore the most significant risks of taking on a public service delivery as a private provider, and the risk mitigation processes during the competitive tendering process. To explore the dynamics of the purchaser-provider relation, the provider’s perspective on control mechanisms and communication with the purchaser would be intriguing to establish.

As the aim of this dissertation was set in the context of the public sector, a significant limitation of the applicability of the results was introduced: the results are not directly applicable in the private sector context. This limitation does not solely arise from the regulations on public procurement, but also from the special characteristics of public organisations, such as the demand for openness in operations. Previous research has established that with some limitations, the best practices of the private sector can be implemented in the public

context, this idea is also the foundation of the popular movement of New Public Management. Yet as is widely acknowledged, applying best practices vice versa is not applicable. Whilst acknowledging this, the themes of service management discussed in Papers II and IV, even though conducted in the public sector context, could provide inspiration to research in the private sector context, especially in cooperative service improvement with external providers.

A decision was made to adopt the perspective of service purchasers, not service providers, in order to focus the scope of this study. However, data collection from the provider side would have provided a wider and interesting aspect especially to Papers III and IV. Further research could explore the kinds of risks the potential tenderers identify in relation to public outsourcing processes and the ways these risks are mitigated. Furthermore, providers' aspects on overcoming issues, such as the misalignment of goals within the principal-agent relation, would be an intriguing addition to existing findings.

Papers I and II relied on data from multiple cases and several different service deliveries from different industries, and represented both simple and complex service deliveries. This increased the generalisability of the findings. In contrast, Papers III and IV focused on specific health service deliveries. This enabled a deeper analysis and contribution to the current discussion, ongoing in many EU countries, on improving public health service delivery. However, this focus leaves open whether the findings apply outside the context of health service delivery or in relation to less complex services.

These limitations, the scope and context of research, are a valuable part of the contributions of this dissertation as they outline prospects for future research beyond the idea of testing the applicability of the findings of Paper IV and Paper II in a private sector context. Especially in relation to the findings discussed in Papers I and III on public sector outsourcing, further research is called for to establish whether applying the same means can be recommended or are different means required in different outsourcing environments in which issues, such as corruption, emerge more frequently. Furthermore, as Papers III and IV concentrated on complex health service delivery, further research is needed to determine if simpler services or services in other industries require the use of different control mechanisms by the outsourcing organisation.

The timespan of data collection is relatively short as presented in Figure 2. The data collection for each paper was done in less than a year, especially the data used for Paper III and IV were collected within a few months. This does not allow for analysing the effect of time or changes in national policies on the processes of public organisations. This limits the applicability of the results especially in the national context of Finland which implements a significant reform of its public sector operations over the next few years. The contributions of this dissertation might be helpful within the reform process, but further research is needed to establish the recommended practices in the new operation environment as well as the effect of the reform on public sector operations.

Furthermore, using methodological approaches that differ from the ones adopted for the papers would provide new insights on the means to improve the efficiency and effectiveness of public service delivery. Quantitative research

methods could be beneficial in calculating the impact of different management methods and process controls in a much wider sample than was conducted in Paper IV.

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Forget “Blind Leading the Seeing” – Improving Public Service Management

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ABSTRACT

The aim of this research is to identify the most effective public service management approaches for outsourced services. Our focus is on the phases of transition and service management post provider selection. To reach this aim, comparative case studies across sectors were conducted. The studied cases indicate that managing an outsourced service should not be a separate area of public management research nor practice, but rather a part of service management. Best practices in (outsourced) public service management are provided. Management focus on transition phase after provider selection, performance measurement, and evaluation will bring efficiency to public sector service production.

KEYWORDS

Public–private comparison;
public service management;
service purchasing

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2. Introduction

The focus of public management has shifted from providing services to managing their provision (Breul, 2010) due to the increase in contracting to private service-providers in the recent years (Feiock & Jang, 2009; Van Slyke, 2003). Managing the service delivery, whether outsourced or internal, is the core function for most public sector organizations and thus organizing the service provision effectively is a premise for their existence. Thus, a strategic challenge for public organizations is to define the means to increase the effectiveness and efficiency of the service delivery (Gagnon, Posada, Bourgault, & Naud, 2010). This is especially the case as over the recent years, the scarcity of public funds has become a rule rather than an exception (Barlow, Roerich & Whirght, 2013). In relation to this task, however, the public administration backdrop has changed significantly through an increasing reliance on complex arrangements in providing public services (Carboni & Millward, 2012). Public organizations are no longer the primary providers of public services, rather they are facilitating the delivery of services (Westrup, 2015). This change requires public managers to increasingly measure service performance (Noordegraaf & Abma, 2003). This shift from service-provider to service manager has created new skill and perspective demand for public managers. Management attention needs to be focused on considering the most appropriate delivery method effectively. Public service management needs to be examined from this new

perspective to identify the most effective practices for managing external service providers (Van Slyke, 2002).

According to Ditillo, Ligouri, Sicilia, and Steccolini (2015), previous research on managing public service outsourcing has had a strong focus on governance structures instead of decision processes or practical contributions. Various studies have been published on the outsourcing decisions, but few have looked into public management procedures after the outsourcing decision (Joaquin & Greitens, 2012). Our aim in this study is to identify the most effective public service management approaches for outsourced services, with a focus on the phases after an outsourcing consideration that has been followed through, that is, the transition and change management phase and ensuing service management. In the context of this study, the transition phase is defined as the actions that take place after either (i) outsourcing a service function and provider selection, (ii) organizing a competitive tendering resulting in provider change, or, (iii) change management inflicted by an outsourcing consideration resulting in in-house delivery development. To reach our aim, eight comparative case studies of public and private sector outsourcing were conducted. Thus, a practice-relevant approach in our multi-case study was adopted (Stewart, 2012). In each of the cases, the focus is on the transition phase and the process steps that it includes and on also the monitoring and measurement of the service delivery after the immediate transition phase. Outsourcing or in-house delivery are, however, not the only options for services as well as on managing the delivery more service delivery, also hybrid models combining the two are available, requiring alternative manage-

ment skills (Hefetz & Warner, 2012). Two cases of hybrid models are included (while the other six represent full outsourcing) to provide contrast and allow for a more comprehensive analysis of service management. The inclusion of private sector organizations, not only public sector ones, in our empirical data provides a richer perspective to different managerial approaches and is important given the current increasingly market-based context in which public sector organizations operate (Roodhooft & van den Abbeele, 2006; Tadelis, 2012). The market-based context is fundamental to the core idea by New Public Management: market competition increases efficiency of public services (Andersen Bogh & Blegvad, 2006) as the service-providers are operating in a competitive market environment (O'Flynn & Alford, 2008). The comparative approach of this study enabled observing the differences in the practices applied and the ensuing differences in outsourcing process and service delivery success that follow after the transition phase. The comparison also made the identification of potential gaps in public sector practices compared with private sector when outsourcing similar services (or vice versa) possible. Thus, an evaluation of what best practices there still are to learn from private sector's more "businesslike" (Diefenbach, 2009, p. 892) approach in relation to the areas of public service management which have been left to little attention so far (see Ditillo et al., 2015; Joaquin & Greitens, 2012) are included in the aim of this study.

In the following, a review of related literature is first presented. Methodology is then explained in detail, followed by within-case and cross-case analysis, including a discussion of results. Finally, conclusions are presented.

3. Literature review

Our literature review consists of first briefly presenting the methods for delivering public services, then recommended service management approaches, and is concluded with a section on performance measurement.

Options for service delivery

In this section, the three options for organizing a service delivery are presented: (i) in-house delivery, (ii) outsourcing, and (iii) hybrid-model (combination of the first two) (Hefetz & Warner, 2012). Public managers need to have flexibility to make logical and reasoned choices between in-house service delivery, outsourcing, insourcing, or combining different methods in a hybrid model (Breul, 2010; Malatesta & Smith, 2014). The optimal form of the delivery is dependent on the service content, market situation, external pressures, and organizational aspirations which vary from service to service (Breul,

2010; Malatesta & Smith, 2014). Hence the analysis should be based on the particular service, not on a larger scale (Petersen, Christensen, & Houlberg, 2015).

The in-house service production is favored by the following factors (Williamson, 2008): (i) failing to benchmark and assess internal cost-efficiency against the supplier, (ii) failure to manage the contract and support the supplier, and (iii) changed conditions. Recent trends of bringing service back to in-house production indicate that outsourcing does not always provide the aspired benefits (Joaquin & Greitens, 2012). The outsourcing option, based on transaction cost theory, suggests that outsourcing is the best option for all of an organization's non-core functions to minimize the risks of outsourcing and maximize cost-efficiency (Van de Water & van Peet, 2000; McIvor, 2000). The idea behind outsourcing public services is to aspire benefits such as increased competition, management flexibility, and reduced red tape (Van Slyke, 2002). Outsourcing is also not always possible due to uncompetitive markets, regulations, or external pressures even if an analysis would otherwise indicate it beneficial (Puranam, Gulati, & Bhattacharaya, 2013).

Yang, Hsieh, and Li (2009) argue that the most suitable model for delivering public services is not pure outsourcing but cooperation with the private sector by forming a hybrid model. The parallel function exists to facilitate mutual learning and lower the risks of outsourcing (McNally, 2004; Nordigården, Rehme, Brege, Chicksand, & Walker, 2014). A hybrid model often becomes a "win-win" exchange that benefits both the buying and supplying organization in improving their operations through mutual learning (Kim & Brown, 2012, p. 688; Puranam et al., 2013). An example of a hybrid model is demonstrated by our case organization city A, which provides 60% of occupational healthcare for its employees and has outsourced the remaining 40%.

Managing outsourced services

Three skills crucial to successful public service management have been identified in previous literature:

- (i) feasibility assessment of outsourcing (cost calculations, market analysis, benchmarking);
- (ii) Transferring the service production from inhouse to an external supplier or between suppliers; and
- (iii) evaluation (monitoring and managing the service delivery) (Breul, 2010; Brown & Potoski, 2003).

As the focus in this study is on analyzing the management of completely or partially outsourced services, we concentrate on the latter two aspects mentioned above. For feasibility assessment, the reader is referred to, for example, McIvor (2000) and Canez, Platts, and Probert (2000).

The transition phase following the supplier selection is concerned with practicalities in the actual production of the service (facilities, personnel, equipment), thus adequate resources with fitting expertise should support the supplier (Yang et al., 2009). In the transition phase, managers are required to effectively manage change rather than stability (Memon & Kinder, 2016) which is the traditional state of a public service delivery. According to Romzek and Johnston (2002) public organizations make outsourcing decisions at ease, but face difficulties in the transition phase following the formal competitive tendering process due to lack of structure. The effects of improved cost-efficiency through outsourcing may decrease over time, but transition capacity in the organization does not suffer from inflation, it remains as a valuable asset with positive impacts (Yang et al., 2009). Yang et al. (2009) identify developing a partnership with the service-provider in the transition process as a tool for managing with uncertainties in the delivery and as a best practice for achieving long-term performance benefits. Organizations also manage the complexity of service functions by granting flexibility to the provider in the contract, thus relying on the provider's expertise in service delivery (Malatesta & Smith, 2014).

In order to manage services effectively the objectives for service outcomes must be defined, different delivery options weighted, and performance measures developed, monitored, and evaluated (Noordegraaf & Abma, 2003). The more specific approach in managing an outsourced service should depend on the service content (Ditillo et al., 2015). Uncertainty caused by factors such as provider opportunism or service complexity also call for different management approaches (Malatesta & Smith, 2014). Romzek and Johnston (2002) highlight the importance of resource alignment to contract management and measurement of supplier performance.

Previous literature on public sector outsourcing suggests that an outsourced service should be monitored more closely than internal service production (Marvel & Marvel, 2007). As the costs and performance of an outsourced service function are different from internal production, monitoring and management may require new approaches (Breul, 2010). However, it is equally important to determine the measures and means of monitoring for internal service functions (Marvel & Marvel, 2007). Monitoring and managing internal service func-

tions as closely as outsourced services is essential to enable cost-efficient public service delivery through benchmarking and cost analysis (authors, unpublished).

The contract between the buyer and the supplier has been identified as a critical tool for managing the risks in outsourcing (Malatesta & Smith, 2014). Performance measures included in the contract offer a tool for ensuring provider accountability (Henderson & Bromberg, 2015; Van Slyke, 2002). Yet it is essential to bear in mind that the effectiveness of the contract, and the performance measures in it, are dependent on the capacity and ability to manage the contract (Awortwi, 2012). Relying too much on the contract must be avoided as it is impossible to include all things necessary in it (Joaquin & Greitens, 2012). Overreliance on the contract as a management tool creates an obstacle for cooperation with the supplier and thus improving the service performance (Joaquin & Greitens, 2012). The contract itself only sets the parameters for contract management, while motivation and monitoring rely on the buying organization's resources and assets (Enquist, Camén, & Johnson, 2011). The public organization's resource adequacy and the ability to plan and conduct performance measurement contribute to the service delivery's effectiveness (Romzek & Johnston, 2002). Lack of resources and/or abilities in contract management expose the public organization to risks (Awortwi, 2012) such as poor service quality and supplier opportunism. Even though investing in these areas by training and/or recruiting resources will inflict costs (see Yang et al., 2009), the improved cost-efficiency will balance the organizations' economy in long term.

Measuring service deliveries

Public management is, or at least should be, "management by measurement" (Noordegraaf & Abma, 2003, p. 854), which requires measuring performance in order to enable public managers to rely on facts rather than their interpretations (Diefenbach, 2009). Previous research indicates that measuring service performance at the very least provides much needed support for outsourcing considerations and other organizational decisions (Torres, Pina, & Yetano, 2011) and if not, the data can be utilized as a service management tool. Data management and use of data as a management tool are essential to effective management of efficient service delivery (Memon & Kinder, 2016). The idea of "management by measurement" (Noordegraaf & Abma, 2003, p. 854) comes from new public management (NPM) which aims to increase cost-efficiency and improve service quality by capturing and evaluating data systematically and regularly (Diefenbach, 2009). Public sector is increasingly contracting



out services in the pursuit of costefficiency, thus requirement for better performance measurement has been emphasized (Slater & Aiken, 2015) to evaluate impact on this goal. Performance management is an important tool for evaluating the outsourced service delivery as public organizations often fail to conduct site visits, audits, or collect citizen feedback due to lack of resources (Van Slyke, 2002).

Agency theory is often referred to in relation to performance measurement and contract management. However, as performance measures in the public sector typically provide data for both internal and external use, the agency relationship is more complex than in the private sector (Torres et al., 2011) and thus agency theory perhaps is less applicable. From agency theory, the two key areas of measurement focus, that is, output and process/behavior (Eisenhardt, 1989), are still relevant though. Process measures refer to controlling the agent's—here the service provider's—behavior and the means to produce the service, while output control is about measuring the end outcomes and goals, that is, the economic value of the service in monetary terms (Aulakh & Gencturk, 2000; Gelderman, Semeijn, & De Bruijn, 2015). According to Kang, Wu, Hong, Park, and Park (2014), for efficiency-seeking outsourcing, both types of control/measures are appropriate, and highly important in developing the inter-organizational collaboration. According to NPM, the emphasis on measurement should be on outputs (unit costs), whereas public values steer the focus to processes in order to identify the effectiveness of meeting the outcomes set for the service (Memon & Kinder, 2016). Measurement of service performance plays a dual role in monitoring also in that it enables internal evaluation of meeting the service objects and outcomes and external evaluation by producing data for evaluating the organization's performance (Noordegraaf & Abma, 2003). These equally important intra- and extraorganizational dimensions mix together easily (Bouckaert, Laegreid, & Van de Walle, 2005).

The buying organization must reach an internal consensus on the most relevant evidence about the service performance (De Bont & Grit, 2012). There exists no rule of thumb on how many measurements are optimal, yet it is important to align buyer and service-provider goals through the identification of correct measures (Tate & van der Valk, 2008). The quantity and content of measures, whether output or process oriented, is related to the specific service characteristics and the outsourcing organization's resources. Public organization should be aware of their capacity to handle and go through the data produced by the measurements (Malatesta & Smith, 2014; Torres et al., 2011), before adding too many of them to the contract.

A single indicator is not adequate as “public performance is multiple, the measurement of this performance should also be multiple” (De Bont & Grit, 2012, p. 498). An organization with too many measurements wastes time on collecting, collating, and reporting the data (Holloway, Alam, Griffiths, & Holloway, 2012). Instead, scarce resources should be aimed at following the key indicators. Typically, more output-oriented measures are used given the difficulty of measurement during the service delivery itself.

The measurement of cost-efficiency development as outsourcing output indicators is easier than measuring service quality as an output due to the ambiguousness of quality measures (Pollitt, 2000). Essential to service measurements is that they allow the manager to travel from detailed data to generic indicators enabling viewpoints from the whole service function to specific service activities (De Bont & Grit, 2012). Slater and Aiken (2015) suggest that instead of applying standardized measures to evaluate the output of the process, a more realistic goal for public organizations would be to evaluate the achieved benefits and the process leading to it. Torres et al. (2011) identified that lack of actions based on the measures is an issue in public organizations.

In determining the performance measures both parties (buyer and supplier) should agree on the specific performance measures in a service level agreement (SLA) which are simple enough to comprehend and follow (Quinn, 2000). The first step in this process is to establish an understanding over what is quality in relation to this specific service (Pollitt, 2000). Regardless of the service-specific definition of quality, these measures should include at least the response time and service outcome (Henderson & Bromberg, 2015), that is, two output measures. The SLA should be flexible enough to allow modification of performance measures as the relation between the buyer and the supplier evolves (McIvor et al., 2009).

4. Methodology

Questions Addressed in This Study

In the literature review, the different options for organizing a service delivery and the key areas of managing the service delivery it was described. It was identified that the optimal method for service delivery should be evaluated service by service and include both output and process measures. The importance of the transition phase post provider selection as well as performance measurement were also highlighted. Drawing on this, this study now proceeds to examine the research question: how to effectively manage the outsourcing process, transition to

outsourced service delivery, and public service delivery of outsourced services? Specifically, the focus is on the following aspects of an outsourcing process and ensuing service delivery as depicted in Figure 1. The methodological approach is described next.

Research approach and case selection

Our study takes a comparative approach to enable learning across sectors (private vs. public). A multiple case study approach is used with a relatively tight, pre-structured design with a mainly deductive approach to ensure cross-case comparability and generalizability and to allowing an analysis whether findings are replicated across sectors (Eisenhardt & Graebner, 2007; Miles, Huberman, & Saldanã, 2014; Weston et al., 2001). Specifically, eight cases were included, four from public and private sectors each. Further, these cases represent four “pairs” of services, that is, four service functions that are typically outsourced by both sectors were selected. Discussions with service purchasing professionals mainly from the public sector were used in identifying potentially relevant service functions where outsourcing is taking place. In the selected cases, two different types of service function outsourcing processes are included: complex and simple. This selection draws from transaction cost economics; difficulty of measurement increases the risks in service contracting, hence ease of measurement or straightforward service output should in fact be a qualification to outsourcing (Brown, Potoski, & Van Slyke, 2008). Theoretical replication is used (Yin, 2014) and a “most similar cases” approach (Seawright & Gerring, 2008) where service functions outsourced are as similar to each other as possible in each “pair” not including the sector (public or private).

An overview of our cases, including information about both the outsourced services as well as the organization itself is presented in Table 1.

Data collection and analysis

The data for the study was collected in Finland in fall 2014 and spring 2015. Data collection took place by face-to-face interviews with employees who had participated (and in many cases were still taking part) in the outsourcing processes, including both the outsourcing consideration as well as the contract management. A structured interview approach was mostly followed (see Appendix 1 for interview outline), but follow-up questions were asked when necessary; this structuring enabled consistency across the interviews as well as linkage to the literature reviewed (Weston et al., 2001).

The questions focused on actions after the tendering process and supplier selection, implementation, monitoring, and measurement of the new service supplier/ service delivery. In this study, our focus is on post supplier selection, that is, actions after the outsourcing decision has been made and the tendering process completed. This study is part of our larger research project on public sector service delivery outsourcing, and during the data collection for this study, the same respondents were also interviewed regarding the phases pre-supplier selection considering the same outsourcing processes as studied here. The first phase of this research project focused on determining the process steps that are followed through prior to the transition phase and service management, that is, an outsourcing consideration. Specifically, the focus was on those stages of an outsourcing process depicted in Figure 1 as outside the scope of this study. That data are, however not used in this study, but rather in a separate manuscript on the outsourcing decision-making process (authors, unpublished manuscript).

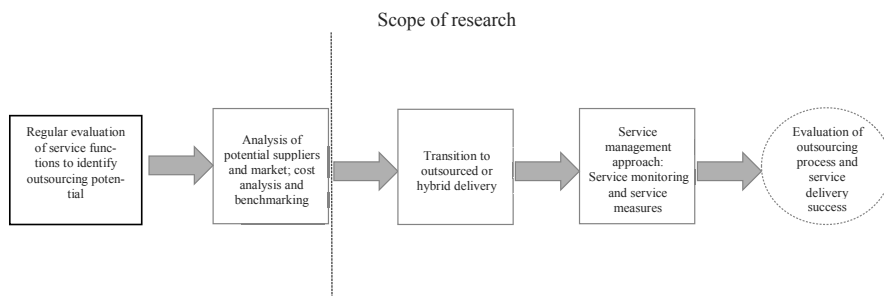


Figure 1. Scope of research.

Table 1. Overview of the cases.

Type of service function	Case organization	Branch of government/key business area	Outline of service function	Budget/turnover
Occupational healthcare	Company A: multinational corporation	Forest industry	Outsourced	3,715,000,000 (2013)
Occupational healthcare	City A	Municipality: approximately 11,000 employees	Partly outsourced	1,401,000,000 (2014)
B. Leasing services	Company B: national corporation	Demolitions of industrial equipment and machinery	Outsourced	5,013,000 (2013)
B. Leasing services	Municipality B	Municipality: approximately 900 employees	Outsourced	76,016,089 (2014)
C. Translation services	Company C: multinational corporation	Media industry	Outsourced	243,688,000 (2013)
C. Translation services	Agency C	Governmental organization: approximately 300 employees	Partly outsourced	26,526,000 (2014)
D. Customer services	Company D: multinational corporation	Travel industry	Outsourced	2,284,000,000 (2014)
D. Customer services	Agency D	Governmental organization: approximately 550 employees	Outsourced	134,000,000 (2014)

For each case, where possible, two employees were interviewed who are involved with the service outsourcing and management of the external delivery. Interviewees included both top and middle management (preferably a combination of both in each organization). Interview duration was between 45 min and 1 h 12 min, and all were recorded and ensuingly transcribed.

The analysis began already with the coding (Miles et al., 2014). The first step was a provisional coding scheme and overall used descriptive coding categories (Miles et al., 2014), with both researchers working independently, and review meetings being held after each interview coding to both ensure consistency and to update the coding scheme when needed based on emergent findings, that is, some level of induction was allowed. Specifically, while the focus *a priori* was on management of outsourced services, many of the interviewees in relation to this discussed the management of internal services (in general and prior to outsourcing), leading to a *posteriori* inclusion this aspect of contrast in service management approaches into the case analysis (see, e.g., Table 2).

Data validity was safeguarded through multiple measures (Yin, 2014). Use of multiple informants (as well as organizational documentation shared in some of the cases) was utilized for construct validity. Furthermore, respondents were sent a draft of the key findings for review. The replication logic and selection of most similar cases is used to guarantee external validity, while internal validity takes place through our crosscase analysis and the structured coding scheme. Overall reliability

is ensured through the structured approach and protocol as explained above (Yin, 2014).

Within-case descriptions of the case studies and the selected services are presented in Table 2 and the next section.

Occupational healthcare

Company A

Company A's implementation process took 4 months and was launched as soon as possible after the outsourcing decision as it meant employees transferred to the supplier. The company assigned a different project manager for the transition process. Due to adequate resourcing, the process was very successful. Several units were involved in the process as representatives from IT, HR, facilities, and communication were added to the original project team. The company was able to increase service availability.

City A

City A's outsourcing was implemented in 2006. Outsourcing 40% of the service delivery, that is, implementing a hybrid model, made developing the internal service function possible. However, the city does not want to transfer to total in-house production as the current situation is seen as ideal due to the benefits of constant benchmarking between external and internal service-providers.

Based on benchmarking with other public organizations, the service costs are at an average level or even below.

Leasing services

Company B

Company B's implementation process was very straightforward due to the service type. The desired benefits have materialized and the company is satisfied with the outsourcing decision. However, the company.



Table 2. Within-case descriptions.

	Company A, occupational healthcare	City A, occupational healthcare	Company B, leasing services	Municipality B, leasing services	Company C, translation services	Agency C, translation services	Company D, customer services	Agency D, customer services
Transition	In terms of communication, pre-assigned steps were taken ASAP after supplier selection. The process was successful, thanks to a skilled project manager.	Transition was not identified as a process step/project. As the service delivery was in crisis, a quick transition was priority. However, each supplier goes through orientation on the city's processes.	After the decision was made the following steps were straightforward due to the nature of leasing services.	The transition was recognized as a separate phase which included administrative procedures.	A project was formed and all tasks were listed and categorized. Changes inflicted to HR, invoicing, IT, and facilities. The company is satisfied with the current service after struggling with few issues in the transition phase.	The transition phase was not identified as important. Lack of focus inflicted issues into establishing the service process with the supplier.	First step of the transition is training the suppliers' personnel. The transition is executed in batches, not all at once.	Through trial and error the agency had learned the importance of the transition. Training the suppliers' personnel is the most important task. It takes 8–9 months to achieve a solid service delivery.
Service management approach	Service specific. The company has a separate service unit which provides measurement data on services.	Service management is based on measuring service output and comparing internal and external service function	The management is quite focused on day-to-day issues. There is not a structured approach.	Services are managed within the cost centers. There are no official guidelines.	The same stern management approach is applied overall in the organization. The intensity of evaluating the service performance is dependent on the service function.	Internal service management is recognized as ineffective. Management approach and level of monitoring vary depending on the service function.	In terms of outsourcing the company has taken it very far and is now at the point where possibly returning some service functions in-house is more relevant than extending outsourcing.	Contract management is formalized and best practices have been developed. Internal management processes are lacking behind. The agency is in the process of focusing more on managing the services instead of processes.
Service monitoring	Very detailed, service-specific measures; up to 50 measures per service; some measures are followed monthly, some once a year. Everything is transferred into euros, if possible.	The services are monitored individually mainly based on outputs. Internally, the employees' time allocation is used as a process measure and the data are used in management.	Regulations obligate reporting of certain services, otherwise there is no structured monitoring.	The output, i.e., cost of each service function are monitored.	Monitoring is done at a very detailed level through a performance monitoring system. The system allows broad and specific views on the service performance in terms of outputs and processes.	The use of external service is followed on a monthly basis. No comparison between the internal and external outputs or processes.	The key performance indicators (KPIs) are followed on both the service function level and service category level. Monitoring is done from two viewpoints with different indicators: the customers' and the company's.	Outsourced services are monitored quite closely. Performance-based pay for suppliers is based on used measures. The process of creating measures for internal services is ongoing. Process measures aim to improve service quality.
Service measures	Each service has specific key indicators. Service impact and costs are especially focused on. The impact of this service is measured in sick days and rehabilitation of those partially able to work.	The city has not come up with satisfactory measures to monitor service impact. They feel that the for instance the amount of sick days only provides indirect information.	The company has not defined measures. Lack of knowledge on service-specific costs; i.e., outputs.	Costs are the only variable measured. This reflects the nature of leasing services which is to provide funding.	Outputs and processes are measured as there are indicators for euros, productivity, and quality. All services have specific measures, but the level of detail varies a lot.	Agency C relies on the supplier's reporting on their volumes and do not use data as management tool.	Customer satisfaction is one of the most important measures as it represents the company's strategy. For instance, the response percentage is followed, and indicators for productivity and efficiency.	Service-specific measures are used such as the response time, which is the type of measure that provides a picture of the service as a whole as the agency aims for.

(Continued)

Table 2. (Continued).

	Company A, occupational healthcare	City A, occupational healthcare	Company B, leasing services	Municipality B, leasing services	Company C, translation services	Agency C, translation services	Company D, customer services	Agency D, customer services
Differences in monitoring and managing an outsourced service and internal delivery.	Same measures for internal and external service function. Service management is never outsourced.	The measures are same for internal and outsourced services. In a hybrid model, the identical data are the precondition for benchmarking.	There is more information on outsourced services due to invoicing. Monitoring is not regular or structured.	The cost monitoring approach is the same for outsourced and internal services.	Measures are dependent on the service function, not on the provision type. Suppliers are categorized and the management approach is dependent on the category. Some resources remain in-house in order to enable supplier changes.	The supplier manages their employees efficiently, but internally the volumes or their variations are not measured at all. The supplier's service quality is improved through reclamations.	Day-to-day management tasks are outsourced with the service. Weekly and monthly management levels are handled internally. The internal service management approach is not as stern as supplier management.	An outsourced service is monitored more closely as the measures are defined in the contract. The agency forms steering groups for each outsourced service. Internal service functions are evaluated once a year.
Outcome of outsourcing	The aim of outsourcing was to maintain service availability in all locations of the company. This aim was met.	The city is very happy with their hybrid model, which has enabled improvements in internal service function.	The company's asset management and thus visibility to internal costs and predictability of its finances has improved.	The quality of asset management has improved significantly and internal resources are able to focus on their primary tasks. Costs have stayed the same.	The company's outsourcing created a new line of business in the market. As the service delivery stabilized after the implementation, the quality has remained on a high level as it was internally and costs have lowered.	The agency was not happy with their outsourcing process – they also identified that their hybrid model is not cost-efficient, but justified due to quality benefits.	The company is currently cutting down the number of suppliers through centralizing. The service quality has improved and cost savings are achieved through outsourcing.	The transition phase was seen as toilsome, but as the outsourced service, it is more cost-efficient than internal production, and service availability is better. The current situation has been achieved after several contract rounds providing a learning curve.

continues to struggle with detaching from “ad hoc” management and becoming more proactive.

Municipality B

The implementation of leasing services was not a significant project in municipality B. Outsourcing did not affect the ownerships costs, but had a positive impact on the organization’s productivity as resources previously responsible for asset management had more time to other tasks.

Translation services

Company C

Company C overall exhibits stern service management internally and externally. The company formed a project team for the transition process. There were some initial problems, but after resolving them, the company is content with the results of outsourcing.

Agency C

Agency C applies a hybrid model in delivering translation services. The model does not offer cost benefits, but is justified as the agency’s operation requires specific language and terminology which often cause quality issues with suppliers. The agency has experienced that the management of an outsourced service-provider is easier and of the quality they aim for, unlike internal service management. They consider complete outsourcing to a private or another public organization as a future possibility.

Customer services

Company D

The implementation is seen as a separate project from the actual outsourcing and tendering, with several phases. The first and most significant phase is training the supplier’s personnel. The company has achieved cost savings and better service quality through outsourcing. The company is currently weighing whether they have outsourced too much of their customer services. The current contract is coming to an end and the target for the next term is to cut down the number of suppliers to enable controllable service delivery.

Agency D

The transition process was identified as a project, including training the supplier’s personnel. It took almost a year to achieve a satisfactory service quality

levels. The outsourcing benefits have been clear: better availability and cost-effectiveness. Regardless, the decision has been under debate as the supplier operates abroad. In the agency, outsourced services are managed and monitored more sternly than internal delivery.

Cross-case analysis and discussion

Transition phase’s criticality

Overall, the private organizations paid more attention to their transition processes and identified that successful transition requires involvement across the organization from different units. The public organizations did not highlight the transition phase as important. However, with hindsight they stressed the importance of adequate resources and proactive management and measurement of this phase as issues such as poor service quality within the first few months of outsourced service delivery had occurred. The private organizations’ proactive management approach to identify and focus on mitigating the service quality risks highlighted in the transition phase, had served them well. Accordingly, Romzek and Johnston (2002) point out that public organizations often face difficulties in the transition phase due to lack of preparation.

Transferring the service production from in-house or between two suppliers is one of the most critical steps of the outsourcing process as it creates the foundation for the buyer–supplier relationship and determines how the outsourcing decision is evaluated by the service uses and other stakeholders. As described by company D: “A lot depends on, it is very much depended on, the company’s outsourcing capabilities.” Agency D experienced issues with supplier’s personnel: “First the person responsible for the service delivery was not up to speed with his/her assignments and that caused some issues. After the person was replaced everything functions in a totally different way.” Agency D demanded a change of the person based on the contract with the supplier. This was identified demonstrating two important aspects of service management in the transition phase: stern proactive approach as issues arise and an inclusive contract to rely on.

The transition should be approached as an individual project separate to the outsourcing process as it requires different skills than outsourcing or contract management. Company A added a new project manager to the team in order to allow original project team to focus on the service content. Company C



shared a similar approach to company A's. Their transition project was launched immediately after the supplier was selected and the news about outsourcing published. Several units from the company were involved: "The chosen supplier set up an office in our facilities from which they later left, but the implementation started from service processes to HR, billing, facilities, and IT."

Agency D analyzed their previous transitions and identified a lesson learned regarding the supplier's training process: "An important observation that we made was that the reason why we failed in time was; they knew their business very well, but no one told them how it is to deliver the service and what kind of language our service-users use." Similarly linked to customer services, company D noted that: "We are all and all talking about a service that is delivered by persons, the path of learning, knowhow and kind of, it takes us 6 months to get a customer service agent to the needed level."

The private sector organizations highlighted the importance of constant quality monitoring in the transition phase for two reasons: the risk of quality issues is higher and data to prove them are very useful if modifications to the contract or other measures are required.

Outsourced services are monitored in very detailed levels and measures

All the case organizations measured at least the euros spent on the service and the monthly volumes of service use as outputs. The amounts of measures varied according to the service complexity and the organizations' resources. Company A described their measures for occupational healthcare, which was one of the more complex deliveries, as follows: "There are, if I just throw a figure here, about 50 indicators. . . Some of which are monitored each month and some once a year. And everything is measured in euros, if possible." Processing all this data is possible due to an offshore center which is responsible for it. On the contrary, municipality B only measures the costs of their service production, which reflects the simplicity of leasing services.

City A did not see that quantitative measures could indicate the output of service delivery: "It [service impact] cannot be measured. . . It is very difficult in our own operations, that's why we, we kind of are simple, measure euros and products and quantities and such." Accordingly, Brown and Potoski (2003) noted that public goods are more difficult to monitor

and evaluate. The challenge in evaluating public services based on output measures are the often ambiguous goals of service functions (Noordegraaf & Abma, 2003); but then again in the case of city A, occupational healthcare is not exactly a public good as it is produced for their employees and not the citizens. The private sector case organizations did not share city A's view as company C elaborates how they use both output and process measures: "We measure in euros, productivity, service quality, we have this kind of monitoring system for everything from which we can export calculations." Similarly company A had solved this issue by adding several measures that produce a combination of data which provides indicators on the provider's process: "For instance, we measure the realization of alternative work assignments, the rehabilitation of partially able to work. . . and of course the amount of sick leaves and different appointment types." Agency D had issues when estimating the service volumes for the request for tenders. This kind of lack of data inflicting costs as volume information is identified to affect tender prices.

As demonstrated by municipality B, city A, and agency D's approaches, it is noted that although the key learnings from NPM such as adopting a market-like approach to public management, using outsourcing to drive cost-efficiency, and the involvement of citizens as "consumers" have been globally widely applied in public sector reformations (Santiago, Carvalho, & Sousa, 2015, p. 757; Pollitt, 2000), service measurement and performance management are still inadequate today compared with private organizations. Private organizations are able "manage by measurement" (see Noordegraaf & Abma, 2003) as public organizations are still lacking behind.

Applying a stern management approach is easier externally

Company A's philosophy is that the management is never outsourced with the service function. As a public organization, agency D describes their responsibilities related to outsourced services as follows: "Monitoring of the service output and process belongs to us and we are responsible for the service, so it in that is our core function as well as the supplier management and selection."

Agency C did not monitor their outsourced service delivery constantly: "These challenges, they come up mostly in these meetings we have once a year or every 6 months." Similarly agency D only reviewed their



internal services once a year. On the contrary, company D monitored their outsourced service function in several different levels: “We have the weekly and monthly level. . . the supplier has the responsibility of managing the everyday operations.” Similarly, as we identified private organizations more effective in their management approach, agency C saw their private supplier as significantly more effective in day-to-day management as they are: “Their operations are much more efficient than ours as we don’t actually manage our translator, s/ he just accepts tasks as they come and we don’t know how idle-time there is.”

Agency D experienced that the management of a outsourced service is easier as it is based on quite strict contract terms: “As things are clearly agreed on, it is easier to both parties as it would be in internal service delivery, we included so much more to the contract than just the cold contract.” Agency D had included bonuses and sanctions to their service contract, which depend on the supplier’s performance. These contract clauses are a good example of justifications for performance measurement that do not exist internally in public organizations as Torres et al. (2011) identified. Lack of internal incentives to justify performance measures was identified as one of the reasons for inadequate internal measurement in public organizations and in company D: “With an external partner individual targets can be set, they can pay bonuses based on them. [...] Internally this is not possible.” Agency D also observed that monitoring of an outsourced service is organized better “Yes, the monitoring of these suppliers in of course on much better level.”

The stern management approach visible in the private organizations is not identifiable from the public organizations nor from company B. Company B’s CEO described the situation: “I’ve been trying to calculate key ratios . . . Trying to evaluate as a whole how we are doing and what is our efficiency, but it is not systematic.” Similarly agency D noted that, “We haven’t defined those measures at the level of a service, but we are of course aiming to.” In order to manage services effectively, the goals for the function must be defined and the performance monitored and evaluated (Noordegraaf & Abma, 2003). Neither the findings of this study nor previous literature displayed any proof for justifying the lack of focus to internal service monitoring and service management. As Marvel and Marvel (2007) state, it is equally important to determine the measures and means of monitoring for internal service functions.

Most research has examined either public service management or management of outsourced service delivery, but very few have recognized the interlinkages. Marvel and Marvel (2007) even note that contracting literature has often implicitly assumed that in an in-house service delivery monitoring of performance it is not as necessary as when contracting out. Based on these results, it is crucial that future research no longer consider contract management and outsourcing as a separate research avenue but rather draws on the full literature base of public (service) management when investigating the management of external service providers.

5. Conclusions

This study began with the aim of investigating the best management approaches to outsourced service delivery. The findings strongly indicate that managing an outsourced service is not a separate area of public management, and thus the focus of this study in the conclusion shifts to include public service management as a whole. A comparison of public organizations’ service management approaches with private sector practices was made. This is in line with the wide implementation of the NPM (see Pollitt, 2000) where aligning public organizations to private operating models for efficiency purposes is increasing (Arlbjorn Stentoft & Vagn Freytag, 2012). It has been recognized that transferring best practices from private sector can be problematic due to different goals for service delivery especially in the welfare sector (Westrup, 2015). In the context of this study, this was not identified as an issue due to the nature of investigated services. Hence, implementation of best practices identified from private organizations can be encouraged.

As Brown and colleagues (2003, 2008) note, service outsourcing success depends on contract management efficacy and capacity. The findings support this but encourage expansion on the argument: the success factor is not only in contract management skills but in service management skills overall. Without a clear *a priori* monitoring and view of the service performance inhouse, that is, service management efficacy, a situation of “blind leading the seeing” can occur once the public organization should oversee the for-profit service-provider. Thus, Brown and Potoski’s (2003) and Joaquin and Greiten’s call to paying attention to management capacity in contracting research is extended to pay attention to service management capacity in contracting research. Perhaps with such a proactive approach, future literature will be



less filled with examples of ineffective contract management than the past research has been (as noted by Joaquin & Greitens, 2012).

Regular and structured performance measurement and management for both internally and externally produced services are needed in order to define the optimal method of service delivery and optimize the service delivery processes. Brown et al. (2008) suggest that public service managers have begun to gather stakeholder feedback before initializing outsourcing procedures to develop service delivery goals. Such an approach is much too belated; if service goals have not been in place for in-house service delivery, significant cost and quality problems may have been brewing for much too long, and outsourcing might not even be needed if attention was placed into internal service delivery.

A proactive management approach also includes performance management of public service production. In the context of public sector, previous literature has mostly concentrated on the citizens' attitudes toward the operations of public organization or on the impact of the supplier's organizational form to the buyer-supplier relation (see Amirkhanyan, 2010; Bouckaert et al., 2005). There has been limited empirical research on performance management related to outsourced public services (Henderson & Bromberg, 2015). In this study, it was found that performance measurement is applied through contracts to suppliers, but it is lacking internally. This is an issue as internal performance data are essential to comprehensive outsourcing consideration (see Torres et al., 2011). Applying the same approach internally will be a significant change of attitude and management approach in many public organizations.

Public organizations should pay extra attention to the transition phase as they are outsourcing a service or changing the service supplier. The transition phase is crucial as it creates a basis for the contract term and the supplier relationship and there is an increased risk for quality or other issues in initial delivery which may require modifications to the contract. Any issues should be handled without delay to avoid accumulation of problems and a negative impact on the organization's image and/or finances during the contract term. Thus, the importance measuring both the service output and process is emphasized from the beginning of the cooperation. For public organizations only starting to develop these capacities, such as the case organizations, starting performance management with a simple approach of applying at least two

performance measures to evaluating each internal and external service function in addition to following the output, that is, costs of the service delivery, is recommended. These two are response time and customer satisfaction (Henderson & Bromberg, 2015). In time, more measures, including those for the delivery process itself, can be added to display the service impact reflecting the service objectives.

The same stern service management approach—performance measurement and management—should be applied internally as is done externally. Data on service performance are essential for developing the service cost-efficiency through modifying service activities internally or outsourcing a part of or the whole delivery. Combining contract and service management functions will bring the public organizations' service operations into the efficient level the scarcity of public funds calls for.

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7. Appendix 1. interview outline

Interview questions

Theme: Planning and monitoring of services

- Can you give me a brief overview of your background and your role in the organization?
- How do you plan the commissioning of services?
- How often do you review the plans?
- What are your organization's core service deliveries and which services are supporting their delivery?
- On what basis is this division done?
- How do you monitor the service delivery? Do you monitor it as a whole or on a service level?
- What kind of measures are you using?
- Do you measure the cost-efficiency of your service delivery?
- If so, what kind of measures are you using?
- Does your approach on monitoring, or the measures used, differ between internal and outsourced service deliveries?

Theme: Decision-making process: Outsourcing consideration

- Do you have a structured process for decision-making?
- Do you apply a certain decision-making model? (If so, I would be happy to see its description.)
- Do you have a separate decision-making model for outsourcing considerations?
- If so, would you describe this model?
- Which roles within your organization participate in the outsourcing consideration?
- What kind of data is the decision based on?
- Do you identify potential service-providers prior to making the decision?
- Do you use cost calculations to support decision-making?
- If so, how do you make these calculations?

Theme: Case-specific questions

- What triggered the outsourcing consideration?

- Were there changes within your internal operations? Or did the market situation change?
- What kind of decision-making process was followed through in this particular case? What kind of roles were involved?
- What kind of data did you collect before making the decision?
- Did you identify potential providers?
- Did you benchmark your service delivery against other public or private organizations?
- What was the decision-making criteria and their relative importance?
- What was the decision outcome? (In-house, outsourcing, a hybrid model)
- What actions did you take once the decision was made?
- Are you satisfied with the decision what was made?
- What is the current situation in the service delivery?
- If outsourced, were pursued benefits achieved?
 - If the delivery remained in-house, was the consideration process beneficial?
- How have you evaluated and measured the decision outcomes?
 - Has there been an effect on customer satisfaction, cost efficiency, or service impact?
 - Do you think that you will reconsider the decision in the future? If so, why?



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