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Conceptualizing modes of service governance

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Implementing Global Business Services in a Plural Sourcing Context: Conceptualizing Modes of Service Governance

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Abstract

To increase organizational responsiveness, firms nowadays seek various approaches in delivering global shared business services. Today, global operating firms apply a plural sourcing model that consists of both in-house and outsourced business services. As such, service governance is needed to manage interdependencies between vendors, both in-house and outsourced. However, as far as we know, no study has yet addressed how global business services are governed within the context of plural sourcing. We conducted 68 semi-structured interviews with executive management of international firms and distributed a survey questionnaire to explore service governance modes. As a result, we identify five service governance modes: regional, global, centralized, de-centralized and multifunctional. Our paper contributes to research on global business services and plural sourcing by exploring various service governance modes. Theoretical and practical implications are discussed.

Keywords: Business Services, Plural Sourcing, Service Governance, Explorative Research, Mini-Cases

1. Introduction

Due to the convergence of rapid business developments and challenges imposed by digitization of work processes, firms nowadays again seek various approaches in delivering global shared business services to achieve organizational responsiveness [1-2]. As such, shared services have become more popular as a service management option for globally operating firms when delivering business services [3-5]. The focus of this paper is not on business-to-end-user services (consumers or other businesses), but on business services that are used to support firms’ internal business processes; for example, Finance and Accounting (F&A), Human Resources (HR), Supply Chain Management (SCM), Information Technology (IT) or Procurement [6].

During the last decade firms decided to bundle in-house and outsourced business services and create flexibility to cater for changing internal circumstances. This approach resulted in a plural sourcing arrangement [7]. Today, plural sourcing is considered to be the modus operandi of firms [8]. Literature demonstrates multiple explanations for plural sourcing, ranging from safeguarding against vendor opportunism [9] to complementarity of knowledge and incentives [7]. In contrast to make-or-buy relationships, plural sourcing arrangements create an inherent coordination problem. Hence, service governance is needed to manage interdependencies between vendors (e.g., in-house and outsourced).

As far as we know, no study, however, addressed how global business services are governed with in the context of plural sourcing. Aier et al. [10] argue that within the context of business services, service governance is still not well understood. The authors state that research in this field is required due to network externalities, involvement of business departments, and diversity of stakeholders, as the probability of inconsistent design and implementation of business services will increase.

Against the background of this call for more research, we suggest that service governance merits specific attention. This paper argues that firms may differ in how global business services are implemented and as such, require various service governance modes. The aim of this research is to explore how firms deal with service governance of global business services within the context of plural sourcing. Based on the above discussion, following research question is formulated:

**What type of service governance modes are used by firms to implement global business services when applying a plural sourcing strategy?**

Taking explicitly firm service governance choices into account, we answer the call of [11] for more exploratory research in the context of business services. The authors argue that service sourcing and service outsourcing are examples of broad topics with firm relevance in need of scrutiny in marketing and business...
management (p 2460). By investigating the service governance in the context of plural sourcing, we contribute to literature by highlighting that process excellence and aligning firms’ operating model are key rationales to implement global business services. Moreover, by identifying different service governance modes, we contribute to global business services, service governance and plural sourcing research.

This paper is organized as follows. Based on a literature background, first, we address the concepts of business services, plural sourcing, and service governance. By applying grounded theory as a theoretical lens, we introduce the research methodology, data collection and data analysis in Section 3. Next, we present our findings in Section 4. In addition, based on the identified service governance modes, we provide an embedded case studies to elaborate on the findings. Discussions and the conclusion are presented in Section 5 and 6, respectively.

2. Literature review
2.1. Business services

Previous studies show that a firm’s service strategy is influenced by the availability and need for their business services [11]. As argued by Wirtz et al. [5] business services consist of a variety of services (e.g., legal, accountancy, research and development, information technology). To improve effectiveness, organizations decompose their enterprise and corresponding business services into smaller autonomous business components. As such, business services can be integrated and, or disintegrated to create enterprise ecosystem flexibility. Global Business Services (GBS) has been applied to a variety of models attempting to coordinate service delivery across multiple functions [1]. According to [12], GBS can be defined as an “integrated compilation of service offerings for any (multiple) support functions within a company […] global in nature and with respect to both delivery centers and customers”. As a result, GBS models are different from the traditional approach of shared services and the past wave of outsourcing/offshoring and seeks to leverage the capabilities of vendors [134].

Market research shows that GBS models can be characterized by their ‘multi-nature’ [1], namely: multi-function, multi-region, multi-business, and multi-sourcing approach. Applying a multi-sourcing strategy fits with the concept of plural sourcing. To implement a plural sourcing strategy, both a firm and its vendors have to focus on collaboration as they have to work together intensively to exchange business service information. However, literature shows that collaboration within a plural-sourcing context is often problematic, because it is difficult to establish and monitor control and coordination mechanisms [15].

2.2. Plural sourcing

Plural sourcing research shows various definitions that address the combination of make, buy, and ally in a systematic way [7, 16]. We build on the definitions of [17] and [18] and define plural sourcing as “the degree of simultaneous insourcing and outsourcing (make-and-buy) the same business service activities by a firm but differ from each other in their particular capabilities and limitations”. Importantly, [18] argue that the boundaries of ‘same’ are inconsistently defined across and even within papers. We follow the authors reconceptualization of ‘same’ as a spectrum of degrees of ‘similarity’ and propose to study plural sourcing tasks that are complementary in nature.

The intuitively appealing assumption in the plural sourcing literature is that this concept ameliorates the weaknesses of insourcing and outsourcing [19]. Or in other words, plural sourcing creates best of both worlds when providing GBS. Interdependencies between in-house and outsourced business services may influence the criticality of GBS and as such, the degree in which a business service is viewed as a critical enabler of business success [20]. Interdependencies increase the degree of plural sourcing complexity with additional challenges, such as measuring end-to-end services, aligning contracts across providers, managing relationships and collaboration, and defining standardization and modularization [21]. The traditional conclusion that firms will prefer to integrate complementary components now faces service governance challenges as GBS functions are provided by both in-house and outsourced vendors.

2.3. Service governance

Literature on governance shows that some studies focus on the importance of contractual governance agreements to manage outsourcing arrangements [6]. Specifying long-term contracts is complex and inherently incomplete because firms have to deal with uncertainty and unanticipated obligations. Hence, firms should govern an outsourcing arrangement beyond traditional contractual agreements and also consider relationships [22]. Literature suggests that contractual governance and relational governance influence each other and can be perceived as complementary [6]. More specifically, service governance corresponds to the responsibilities within a firm to manage business services. We build on the definition of [10] and define
service governance as “a firm’s overarching capacity and responsibility to direct, monitor and manage business service operations”.

Global business services within the context of plural sourcing differ in their approach compared to firms traditional shared services (see Figure 1). Due to the characteristics of GBS, the degree of complexity to govern business services increases. Consequently, a firm has delegated resources, processes, and managerial control to independent external vendors. Wirtz et al. [5] argue that firms have to apply a centralized approach when governing their business services in order to integrate into corporate strategies. Importantly, due to plural sourcing, the supply chains of technology-intensive business services become more fragmented. This creates a new source of complexity because GBS are introduced in the context of plural sourcing that may require other service governance approaches.

Figure 1. Evolution of GBS (adapted from Wirtz et al, 2015)

3. Research methodology

We used Grounded Theory (GT) as a qualitative interpretative framework that is used in business [11]. Grounded theory is an appropriate methodology for this study for two reasons. First, GT is specifically used for theory generation and is oriented towards actions [23]. Due to the multi-faceted nature of GBS it can be argued that exploratory research is a relevant method [24]. Second, GT allows us to consider many variables at the same time. Previous studies in the field of GBS have used methods where few variables were introduced such as economics [5], technology [25], and business processes [26]. As we had a general idea of where to begin, we opted for the Straussian approach [27]. The researchers started by describing the situations that may occur when governing GBSs in a plural sourcing context, and secondly, they played an active role during the interviews, and structured the data to reveal the theory.

Our exploratory study design consists of two stages face-to-face interviews supported by an online questionnaire; and mini cases to create insight in the conceptualization of service governance modes. These approaches helped to identify and measure the service governance dimensions (degree of centralization, degree of functionality) and collecting complementary data for cross-validation and quantification of specific aspects of service governance. All variables were measured using 5-points Likert scales from validated sources.

Regarding the first stage, data was gathered between January 2015 and February 2019, and based on in-depth face-to-face interviews supported by a web questionnaire that was sent to the interviewees afterwards. As confidential and sensitive information is concerned, we anonymized the firms. A semi-structured interview protocol was designed to gather data. Interviews varied from 60 minutes to 120 minutes in duration. The interviewees that participated in the interviews and questionnaire held positions like CEO, CIO, CFO, Head of business services, (Senior) Vice President, and director. We distributed in total 267 invitations and the final sample contained 68 respondents, as such response rate was 25%. As the data was collected on a global level, this rich dataset is quite unique, representing a population of internationally operating firms in diverse industries.

Addressing the second stage, we drafted five (5) mini cases to operationalize the identified service governance modes. We used closed, prompt and pre-coded questions to collect data. As coding is the key process in grounded theory [23], we transcribed the 68 interviews and thoroughly and manually coded the data by focusing on main ideas in paragraphs (open coding). As a next step, the codes were grouped into categories (axial coding), which correspond to [28] suggested coding paradigm. Consequently, we divided the categories into subcategories and grouped the codes accordingly. Each category and subcategory were developed in a memo, and memos were sorted to create the theory around the core categories [28].

4. Findings
4.1. Context

The descriptive analysis of the 68 respondents show that the firms operate across ten different industries. Firms in Energy & Utilities, Manufacturing, Financial Services, and Pharma are overrepresented,
whereas, Food and Beverage is the least represented firms, as shown in Table 1. To indicate the degree of outsourcing of the firms under study, we followed [29] differentiation in three levels of outsourcing. A low degree of outsourcing denotes a budget of less than 20%, a medium degree of outsourcing exists of shares between 20% and 50%, while a high degree of outsourcing means that more than 50% of the annual budget is used for outsourcing. The descriptive analysis shows that the majority of the firms: F&A (N = 34), HR (N = 48) as well as Procurement and SCM (N = 54) have a low degree of outsourcing. However, with respect to IT, we observe that as much as 32 firms have more than 50% of their IT outsourced, see Table 2 for more information. We also measured the size of firms (small firms = < 10,000 fte and large firms > 10,000 fte), 33 (49%) were small firm and the rest (N = 35) were large firms. The business services under study are supported by Enterprise Information systems and range from 1 up to 10 systems per firm (e.g., SAP, Oracle, JD Edwards).

Table 1. Distribution of Firms within their Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Firms</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Products</td>
<td>4</td>
<td>6%</td>
</tr>
<tr>
<td>Diversified Conglomerate</td>
<td>5</td>
<td>7%</td>
</tr>
<tr>
<td>Energy &amp; Utilities</td>
<td>13</td>
<td>19%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>8</td>
<td>12%</td>
</tr>
<tr>
<td>Food &amp; Beverages</td>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>Logistics</td>
<td>4</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7</td>
<td>0%</td>
</tr>
</tbody>
</table>

To explore how the firms under study deal with service governance, we observed five service governance modes in which GBS are governed. These modes refer to: a) decentralized, b) centralized, c) regional, d) global and e) multifunctional. When addressing a decentralized approach, each organizational department per country governs business services on their own behalf. By using a centralized approach, business services are consolidated and owned by a centralized function (i.e., organizational entity per country). Next, when applying a regional approach, business services are consolidated in a regional organizational entity (i.e., Europe). Business services that are implemented at a global level are governed by a global organizational entity, which is accountable for business service delivery and performance. Finally, when applying a multifunctional approach, various business services, for instance F&A and HR, are governed from an integrated perspective, applying an end-to-end process ownership and accountability. Based on the findings, we identified the relationship between the service governance modes and the degree of outsourcing (Table 3).

Table 2. The Degree of Outsourcing

<table>
<thead>
<tr>
<th>Degree of outsourcing</th>
<th>F&amp;A</th>
<th>IT</th>
<th>HR</th>
<th>Procurement/SCM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low (&lt;20%)</td>
<td>34</td>
<td>50%</td>
<td>28</td>
<td>41%</td>
</tr>
<tr>
<td>Medium (20%-50%)</td>
<td>18</td>
<td>26%</td>
<td>8</td>
<td>12%</td>
</tr>
<tr>
<td>High (&gt;50%)</td>
<td>16</td>
<td>24%</td>
<td>32</td>
<td>47%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100%</td>
<td>68</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: F&A = Finance and Accounting; IT = Information Technology; HR = Human Resource; SCM = Supply Chain Management.

Table 3. Service Governance and Degree of Outsourcing

<table>
<thead>
<tr>
<th>Service governance mode</th>
<th>Degree of outsourcing</th>
<th>F&amp;A</th>
<th>IT</th>
<th>HR</th>
<th>Procurement/SCM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decentralized (4 firms)</td>
<td>Low (&lt;20%)</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Medium (20%-50%)</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>High (&gt;50%)</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Centralized (30 firms)</td>
<td>Low (&lt;20%)</td>
<td>20</td>
<td>8</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Medium (20%-50%)</td>
<td>9</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>High (&gt;50%)</td>
<td>1</td>
<td>19</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Regional (14 firms)</td>
<td>Low (&lt;20%)</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Medium (20%-50%)</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>High (&gt;50%)</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>
To create a better understanding of why firms implemented a specific mode of service governance, we identified various type of rationales (see Table 4). The findings illustrate that the rationales “alignment of a firm’s operating model to mitigate business risks and ensure compliance” and “drive process excellence and collaboration” are perceived as important across all service governance modes. On the other hand, we find distinctions between service governance modes, such as “drive growth in emerging markets” and “build internal repository of high-quality talent” that are perceived as less important for the decentralized form of service governance.

### Table 4. Rationales

<table>
<thead>
<tr>
<th>Rationale</th>
<th>Decentralized</th>
<th>Centralized</th>
<th>Regional</th>
<th>Global</th>
<th>Multifunctional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive growth &amp; realize synergies from acquisitions</td>
<td>1.75</td>
<td>3.15</td>
<td>3.93</td>
<td>2.87</td>
<td>2.60</td>
</tr>
<tr>
<td>Drive growth in emerging markets</td>
<td>1.50</td>
<td>1.78</td>
<td>2.93</td>
<td>2.50</td>
<td>2.60</td>
</tr>
<tr>
<td>Align the operating model to mitigate overall business risk and ensure compliance</td>
<td>4.50</td>
<td>4.28</td>
<td>4.57</td>
<td>4.00</td>
<td>3.80</td>
</tr>
<tr>
<td>Optimize the global operations footprint and ability to scale</td>
<td>3.75</td>
<td>3.38</td>
<td>3.86</td>
<td>3.60</td>
<td>4.60</td>
</tr>
<tr>
<td>Unlock the power of data &amp; analytics to drive greater insight</td>
<td>3.50</td>
<td>3.54</td>
<td>3.71</td>
<td>3.27</td>
<td>2.80</td>
</tr>
<tr>
<td>Establish consistent customer and brand experience</td>
<td>3.50</td>
<td>2.96</td>
<td>3.50</td>
<td>2.86</td>
<td>3.00</td>
</tr>
<tr>
<td>Drive process excellence and collaboration</td>
<td>4.00</td>
<td>4.44</td>
<td>4.00</td>
<td>4.58</td>
<td>4.50</td>
</tr>
<tr>
<td>Build internal repository of high-quality talent</td>
<td>1.25</td>
<td>3.39</td>
<td>2.80</td>
<td>3.80</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Note: we asked respondents to indicate their perception of the identified rationales with 1 “less important” to 5 “most important”.

The mini case under study provides services in the field of hospitality and real estate services in more than 50 countries. We studied firm’s decentralized situation in Denmark specifically. The motivation to implement GBS is twofold. First, the firm’s business strategy is to establish a consistent customer and brand experience. Second, originally, the customer experience driven strategy required processes that were customized to some degree. Currently, the firm aims to standardize these processes to cater for changing customer needs (drive process excellence). To respond to changing client needs adequately, customized business services are provided. This decision corresponds to the firm’s strategy to develop a service brand experience in each country. More recently in 2018, the firm experienced that services lead times increased due to the high degree of customization. To improve lead times, the firm started an optimization initiative. As such, business processes are analyzed from the view of standardization with the goal to improve process excellence while remaining the focus on customer needs.

During the implementation of business services in 2014, the firm developed a plural sourcing strategy. Due to the focus on decentralization, we found that F&A, HR, and SCM services are predominantly provided in-house (low degree of outsourcing: <20%). An exception is found with regard to IT services which...
are partially outsourced specifically in the field of IT infrastructure services (medium degree of outsourcing: 20%-50%). Based on the plural sourcing strategy the responsible business executive argued that: “Over the last few years, we built a true business platform. This allows us to offer consistent and integrated facility service solutions to our customers. One common IT vendor will further help us strengthen our offer to customers with operations in the region”.

### 4.2.2. Mini-Case Centralized Service Governance Mode

The mini case that reflects a centralized service governance mode represents a consulting firm. The firm provides consulting services in the field of financial services and digital strategies in more than 100 countries. We studied business services in the Netherlands. The firm’s main rationale to implement a centralized approach in 2016 was to improve the degree of effectiveness of their operating model to mitigate business risks (increase of consulting lead times). Before organizing business services on a centralized level, the firm did not pay sufficient attention to manage existing business processes. As a consequence, the lead time to provide essential financial and HR information to employees increased and resulted in internal debates about quality and professionalism. The firm decided to optimize existing business processes to improve the quality. The firm’s Chief Operating Officer (COO) in the Netherlands stated:

“We do have to improve and strengthen existing internal business services and processes first to safeguard our consulting services to clients. Repairing and optimizing our business processes is essential to streamline business activities and increase client satisfaction”.

The firm redesigned their organizational structure and made a split between a Business Service Center department (standardized services) and a Center of Excellence department (customized services). The head of business services, which is responsible for both the BSC and CoE, argued that:

“The split between standardized and customized type of tasks support our centralized business processes. By using this approach each business service is able to maximize the support towards our employees and improve the quality and ease of use”.

Considering the firm’s plural sourcing approach, our findings show that F&A, HR, and Procurements services are provided in-house (low degree of outsourcing: <20%). In contrast, the vast majority of IT services are provided by external vendors (high degree of outsourcing: >50%).

### 4.2.3. Mini-case Regional Service Governance Mode

The mini case under study is a European manufacturing firm providing products in the field of consumer goods. Business services are provided by means of a regional (captive) delivery center located in Poland. The main rationale to initiate a regional approach is driven by cost reductions and the need to become a more agile organization. The firm established a dedicated organizational unit in 2016, labeled as the business services organization (BSO) to govern all internal business services. We find that standardizing business processes is perceived as a barrier as commercial business units and the BSO have to align business process tasks. The firm’s decision to regionally govern all business services resulted in the harmonization of existing business processes. One of the interviewees put forward that:

“Where to start, that is the question? So, we decided to transform by means of ‘waves’ in which we transform our business services each at the time. We started to redesign F&A services first as we have a long history and experience based on our captive services”.

The BSO is staffed with over 1,000 dedicated employees and is responsible to develop and maintain a plural sourcing strategy, corresponding policies and processes, and contract and manage external vendors. Our analysis shows that from a plural sourcing perspective F&A business services are outsourced to external vendors (high degree of outsourcing: >50%), while IT, HR, and Procurement/SCM services are provided in-house (low degree of outsourcing: <20%).

### 4.2.4. Mini-Case Global Service Governance Mode

Addressing a global service governance mode, we studied a firm operating in the consumer market specialized in beverages production. In the 90’s, the firm initiated the implementation of captive shared service centers and importantly, in 2016 the firm merged with a market competitor. The motivation to implement a global service governance mode was based on two drivers: achieve growth based on synergies from the merger and acquisition and the design of a single operating model. The firm under study established a new organizational entity (global business services unit) that exists of three layers. First, a global capability center in India was set up that
focuses on off-shore, language-independent services to support day-to-day business processes. Second, five regional capability centers (Czech Republic, Mexico, Brazil, South Africa, Malaysia) were implemented to execute business services. Third, country capability centers are introduced to execute business processes that are still in an incubation phase and cannot be transferred to a regional of the global capability center. An executive manager stated that:

"we decided to create a clear demarcation between strategic (client) and operational activities (external vendors) in supporting business services. This approach contributes to a strict focus on applying standardization. From a governance view, it becomes clear who is responsible for what type of activities".

Due to the merger and acquisition between both firms the need arose to harmonize business processes. At strategic level, the decision was made to implement a top-down strategy and harmonize business processes by means of information systems. From a plural sourcing perspective, we found that F&A and IT business services as delivered by the regional capability centers, are outsourced to external vendors (high degree of outsourcing: > 50%). HR and procurement services on the other hand are mainly provided in-house (low degree of outsourcing: < 20%).

4.2.5. Mini case Multifunctional Service Governance mode

When studying the multifunctional governance mode, we noticed that the firm undertakes provides machine equipment components in the field of civil engineering. The firm faces fierce market competition and initiated a cost reduction program to reduce overhead. Hence, their drivers to implement the multifunctional mode relate to improve their business processes (process excellence) as well as align their operating model. From an organization view, a global centralized team was responsible for business services strategy tasks while each country was responsible for the operationalization of business services. To achieve cost reduction goals the firm decided to change their organization into a full centralized model. At a global level the firm started to bundle business services and manage them as a whole since various services are interrelated (e.g., HR and IT, F&A and IT, Procurement and Legal). Next, the firm identified F&A, HR, and Procurement as outsourcing candidates (> 50% degree of outsourcing) that contribute to the cost reduction goals. A senior director mentioned:

"up till now we provided all business services in-house by means of our captive centers in India which offered interesting cost reductions in the past. As we have to decrease our cost level again, we intent to outsource various services to multiple global service providers”.

From a plural sourcing view, the interviews showed that by outsourcing business services external vendors will automate routine-oriented business services tasks by means of robotics, machine learning, and cognitive solutions. In doing so, the vendors are able to reduce the cost level by 30%. The multifunctional approach, however, increases the degree of governance as interrelated business services are partially provided in-house and partially outsourced.

5. Discussion

We discuss our findings on the basis of four sections (e.g., rationales, organizational structure, service governance modes and plural sourcing), which allowed us to answer our research question "what type of service governance modes are used by firms to implement global business services when applying a plural sourcing strategy?"

5.1. Firms’ rationale

Analyzing firms’ rationale to implement global business services, our findings show that process excellence and alignment of firms’ operating models are indicated as key drivers. Irrespectively of the type of service governance mode, both rationales are considered to be the key drivers of firms’ objective to implement global business services. The key driver process excellence corresponds to a firm’s need to decrease their cost level which is consistent with previous findings. Literature shows that firms’ original motivation to establish shared service centers were mainly based on achieving cost reductions as confirmed through many case studies [30-32]. This finding is supported by a literature study of [6], who argue that achieving cost reductions is perceived to be a main motivation that drive sourcing decisions. Importantly, our analysis on firms’ rationale to align their operating model can be perceived as a novel finding. Our interviews provide evidence that firms develop a coherent view to align the delivery of internal and external (outsourced) business services, business processes, technology, knowledge and skills. In doing so, firms’ aim is to achieve a balance between various determinants in which they are complementary when implementing global business services. We argue that alignment of a firm’s operating model forms a key prerequisite to implement global business services and contribute to a successful plural sourcing strategy.
doing so, firms become more adaptive to cater for changing needs.

5.2. Organizational structure

When studying the mini cases our findings show that each firm, with the exception of the decentralized mode, established an organizational entity to govern global business services. We found that this entity is responsible for various tasks including developing policies, managing internal and external service providers, harmonizing business processes, and sharing knowledge. Hence, these determinants can be perceived as a firm's dynamic capability. Teece et al. [33] argued that organizations require dynamic resources to manage and organize both content and processes to achieve sustainability.

This dynamic capability is needed to implement and sustain global business services within a plural sourcing context. Moreover, the organizational entity can be perceived as a bridging role (boundary spanner) between internal customers and internal and external vendors. Our analysis indicates that developing policies and guidelines and exchanging knowledge to manage the plural sourcing environment supported the implementation of global business services. Employees as a part of organizational entity are responsible to communicate agreements, such as policies and performance towards internal customers as well as external vendors. Literature indicates that knowledge transfer is an important aspect of exchanging information between geographically dispersed teams [34]. Therefore, we would argue that boundary spanners should be an essential part of knowledge transfer within a plural sourcing environment and, as such, they can help improve communication and trust between actors.

5.3. Service governance modes

While studying the various service governance modes, we found that the vast majority of firms opt to apply a central mode (30 firms out of 68) to govern their business services. This finding is consistent with [5] that firms have to apply a centralized approach when governing their business services in order to integrate them with corporate strategies. Interestingly, our study indicates that both a regional mode (14 firms) and a global mode (15 firms) are perceived as alternatives for the central mode. Our findings on the firms’ key rationales (i.e., align firms operating model and process excellence) corresponds to the objective of international operating firms to decrease the level of complexity. This may explain why a certain degree of centralized type of service governance mode (i.e., central, regional, global) is implemented as a favorable option. Importantly, we find two exceptions. First, four firms choose to govern their business services from a decentralized perspective, while five firms decided to apply a multifunctional governance mode. An explanation may be found in a lack of standardization of business services and supporting business processes, which increases governance complexity. According to [26] the choreography of services is essential to create business process flexibility and, as such, modularized business services that can be managed in various configurations, are a precondition to support business services. We argue that firms which have modularized business processes can implement global business services more effectively.

5.4. Plural sourcing context

In general, we found that firms vary in their decision to deliver business services in-house or outsource services to the market. Our analysis indicates that firms who apply a centralized service governance mode decided to keep their F&A services predominantly in-house (low degree of outsourcing). Interestingly, the more F&A services are governed from an international perspective (i.e., regional, global), the more the degree of F&A outsourcing increases. This may be explained by the historical experience of firms that established captive centers in order to benefit from labor arbitrage, while standardizing services at the same time [35]. Moreover, our study reveals that IT services, which are governed from a centralized perspective, are predominantly outsourced to the market (19 out of 30 firms). Remarkably, the degree of IT outsourcing varies with regard to the other service governance modes. We expected to find that firms outsource IT services to a large extent as the IT service provider market is perceived as mature since its growth in the 90s [6].

In contrast, HR and Procurement/SCM findings indicate that for the vast majority of service governance modes the degree of outsourcing is low. Cooke et al. [36] argue that a loss of in-house knowledge and capacity as well as quality reductions in HR work cause firms to be hesitant in outsourcing these tasks to the market. This maybe an explanation why firms are reluctant to outsource HR tasks. Addressing Procurement/SCM services, our findings also illustrate a low degree of outsourcing (< 20%), which is contrasting with research of [37]. The authors found that decentralized decision-making will result in a higher degree of outsourcing SCM functions.
6. Conclusions

The aim of our research is to explore how firms deal with service governance of global business services (GBS) within the context of plural sourcing. In doing so, we respond to the call of [11] for more explorative research from a buyer perspective in the context of service sourcing and service outsourcing. Our findings operationalize and extend the view of [5] addressing a new wave of global business services, which are applied across borders, that have emerged as drivers of growth in the world’s service sector. Based on a rich and unique dataset that represents 68 international operating firms in various industries, our study contributes to service-oriented [5], [11], [12] and sourcing literature [6], [17] in a number of ways. First, by studying firms’ rationales to implement global business services, the variance of key drivers was made more explicit. The main rationales are driven by process excellence and the need to align firms’ operating model. Irrespective of the type of service governance mode, both rationales are considered to be the key drivers. When achieving these rationales, firms’ degree of effectiveness in delivering business service will increase. In particular, our insights on firms’ rationale to align their operating model go beyond the findings of [38] as research on motives show that economic motives are the most common, followed by strategy and service quality.

Second, by identifying five different service governance modes, we theoretically contribute to service governance, global business services and plural sourcing research. Research reveals that shared service centers use both market and bureaucratic practices [39]. We extended these findings and illustrated that service governance is a prerequisite to create a clear demarcation between in-house or outsourced business services and as such, contribute to enterprise ecosystem flexibility. Third, firms differ in the degree to which they outsource business services. In particular, F&A and IT services are outsourced to a medium and high degree. In contrast, HR and Procurement/SCM services predominantly correspond to a low degree of outsourcing.

This research has implications for practitioners and particularly for executive management of business services organizations. Our results suggest that firms require a certain degree of maturity to implement business services within the context of a plural sourcing strategy. Thus, we argue that organizations leadership have to create a fit between the level of management maturity, the selected service governance mode, and degree to which business services are outsourced. Based on that fit firms are able to improve the value of implementing a global business service arrangement. This research is not without limitations. Even though we attempted to objectify interpretations of the interviews when coding, subjective bias might not have been entirely eliminated, thus, the validity of the results could be influenced by the authors’ initial point of view in terms of conducting, coding and interpreting the interview.

10. References


