Building Service Provider Capabilities
The Impact of Clients and Service Types in Service Offshore Outsourcing
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Abstract

In this paper we study whether and how the interaction between clients and the service providers contributes to the development of capabilities in service provider firms. In situations where such a contribution occurs, we analyze how different types of activities in the production process of the services, such as sequential or reciprocal task activities, influence the development of different types of capabilities. We study five cases of offshore-outsourced knowledge-intensive business services that are distinguished according to their reciprocal or sequential task activities in their production process. We find that clients influence the development of human capital capabilities and management capabilities in reciprocally produced services. While in sequential produced services clients influence the development of organizational capital capabilities and management capital capabilities.

Keywords: Offshore outsourcing; offshoring; services; resource-based theory; capabilities; organizational learning.

INTRODUCTION

When Texas Instruments established a research and development facility in India in 1985 to develop software for the company, it was in retrospect an event that marked the start of a new phase in the globalization of services and business activities. From this point onwards the continuing global integration of firms and markets has included a wide and steadily growing range of services of a technical and administrative nature as well as knowledge-intensive and professional business services. While Texas Instruments from the early days kept its activities in India as part of its own global organization, a whole industry of service providers has appeared, especially in emerging markets and developing countries, to serve clients across the world in the provision of various kinds of services. Interestingly, studies from the Offshoring Research Network indicate that offshore outsourcing, as opposed to in-house, or "captive", offshoring, is increasing (Lewin and Volberda, 2011), due to the co-evolution of a range of enabling factors. These include improvements in the institutional framework in the host countries, commoditization, advances in IT and communication technology, growing client firm operational experience, and the building of host firm capabilities to cater to the needs of international clients. In this study, the latter aspect concerning the development of capabilities in the service provider firm forms the topic of our inquiry.

While the strategy and practice of firms regarding the global sourcing of services has attracted significant interest from the academic community since the turn of the new millennium, the resulting research has predominantly focused on the client firms. Various aspects pertaining to the service provider firms remain understudied topics of research (Jensen, 2012; Lahiri and Kedia, 2011). From a corporate strategy perspective, notably in the literature on the resource-based view of the firm, the building of firm resources and capabilities is central for the future competitiveness of the firm. Whether and how the firm is able to build resources and capabilities over time, either internally (Dierickx and Cool, 1989; Helfat and Peteraf, 2003), or in inter-firm relationships (Dyer

and Singh, 1998; Jensen, 2012; Johanson and Vahlne, 2009; Kedia and Mukherjee, 2009; Maritan and Peteraf, 2011), is a critical determinant of the firm's competitive situation.

Based on a multiple case sample, i.e. five cases of offshore outsourcing relationships between client firms from developed countries and service provider firms from India, we investigate the relation between offshore outsourcing of knowledge-intensive business services and the outcome in terms of the development of capabilities in service provider firms. Our research question in this study is twofold. First, we analyze *whether the interaction between the client and the service provider in fact does contribute to the building of capabilities in service provider firms*. Second, in situations where such a contribution occurs, we further analyze *how different types of activities in the production process of the services, and the related processes for execution of activities, influence the development of different types of capabilities*. We take an activity-based perspective on the analysis (Johnson et al., 2003) to derive the strategic implications for the service provider firms, and we base our capability construct on the work by Lahiri and Kedia (2009). Our capability construct therefore distinguishes between, respectively, organizational capital capabilities, human capital capabilities, and management capabilities.

We overall suggest that offshore outsourcing of services from client firms has a positive influence on the service provider firms and therefore result in the building of capabilities in the service provider firms. In most instances our findings provide support for this hypothesis. However, the study also shows that the development of specific capabilities is contingent upon the nature of the service activities in the outsourcing and the underpinning work processes. These findings suggest, first, that there are possibilities for capability development in the service provider firms in many different types of partnerships. Furthermore, the findings indicate that the nature of the service characteristics and production process influence the outcome in terms of service provider capability development. Knowledge-intensive business services that are characterized by sequential task

activities resulted in the building of organizational capital capabilities through offshore outsourcing. Offshore outsourced knowledge-intensive business services that are characterized by reciprocal task activities resulted in the development of human capital capabilities. Managerial capabilities were developed in both service characteristics but for different reasons and with different client influence.

With this study we aim make research contributions in the following manner: First, we address the research gap regarding the impacts of offshore outsourcing on the competitiveness of service provider firms. Second, we combine the call for more activity-based studies in firm strategy (Johnson et al., 2003) with theoretical perspectives from resource-based theory (Dierickx and Cool, 1989; Maritan and Peteraf, 2011) and business network theory in international business (Forsgren, 2008; Johanson and Vahlne, 2009). Third, we extend previous empirical studies in the field with elaborate data from multiple case studies. Finally, we contribute to further research in this field with a set of propositions concerning the determinants of capability development in service provider firms.

The remainder of the paper is structured as follows. First, we discuss relevant literature on capability development and offshoring and design a theoretical framework. After explaining our research methods, we analyze the generated empirical data and conclude the paper with implications.

THEORETICAL FRAMEWORK

Capabilities in offshore outsourcing

The question concerning the capabilities and capability development of service provider firms is an emerging research theme and has been addressed by a range of scholars. Research on this question

is rooted in earlier theoretical works on the resource-based view of the firm (Barney, 1991; Penrose, 1959), including research on the development of resources and capabilities (Dierickx and Cool, 1989; Eisenhardt and Martin, 2000; Teece et al, 1997). We follow Barney's (1991) definition of capability as: "the ability of firms to use their resources to generate competitive advantages" (Barney, 1991: 647). It follows that this understanding of the capability construct denotes an organizational ability possessed by the firm to deploy its resources.

Few studies have explored the role of capabilities in the context of offshore outsourcing. One example is Ethiraj and colleagues (2005) who extend the current understanding of capability development from the service providers' perspective. The authors examine two specific types of capabilities: client specific capabilities and project management capabilities. This finding is similar to literature on the provider-client relationship arguing for the importance of clients in offshoring relationships. The literature in the provider-client relationship has paid considerable attention to social exchanges between the two parties, and the impact these have on the relationship and the co-creation of capabilities. Vivek and colleagues (Vivek et al, 2009) propagate the idea of relational capabilities. Similar to earlier works (Cohen and Bacdayan, 1994; Dyer and Singh, 1998), the authors argue that in dynamic relationships such as outsourcing relationships between the client and service provider, relational exchanges between the client and service provider foster the transfer of knowledge and intangible assets, and can lead to the development of joint capabilities. Similarly, research in relationship governance shows relationship-specific capabilities that involve the ability to configure resources in order to meet the requirements of the clients, leading to enhanced exchanges, efficient use of resources and the development of trust and commitment between partners (Nooteboom, 2004). Not only improved performance and lower coordination costs are the benefits for clients, also the service provider benefits with an improved quality of relationship, the opportunity to develop in-house capabilities and engage in joint learning (Vivek et al., 2009).

Supplementing the relational view of capability development, research has also examined the joint development of knowledge and capabilities developed between the client and providers. There are two main arguments presented: the first argument states that during the course of the relationship between the service provider and client, the service provider may develop knowledge and capabilities that are essential to the client (Barthélemy and Quélin, 2006). Additionally, the service provider can also adapt to the needs of the client, and develop specific capabilities that cater to a specific vendor's requirements. On the other hand, there are also risks involved in the relocation of services, such as the clients' potential loss of service quality, the loss of process knowledge, protection of intellectual property, and dependence upon the service provider (e.g. Lewin and Couto 2007). A general solution to these potential problems would be to internalize operations and thus keep knowledge-intensive services in-house as this could reduce such risks (Jensen and Petersen, 2013).

Knowledge-intensive business services are characterized as being complex, dependent on knowledgeable experts, tailored to specific clients, require fast turnarounds and precision in production and delivery with high level of data and security measures (Bettencourt, et al., 2002). Moreover, knowledge-intensive business services have high information processing requirements and are highly interdependent and require extensive coordination (Luo et al., 2012). These characteristics of the services, demonstrate that the services are highly complex, and idiosyncratic to the client, and require significant adjustments between the client and provider in order to meet the requirements, thus supporting other arguments regarding the joint investment in relationships by the client and service provider.

Human capital capabilities, organizational capital capabilities and management capabilities

In this study we follow the definition of the capability construct developed by Lahiri and Kedia (2009). In their study, Lahiri and Kedia (2009) examined the significance of pre-existing capabilities possessed by the service provider and the impact they have on the performance of relocated services. For the purpose of this paper we use the terms *human capital capabilities, organizational capital capabilities* and *management capabilities* for the three types of capabilities. Compared with Lahiri and Kedia (2009), who looked at the role of these capabilities as pre-existing factors in the outsourcing relationship, we consider whether and how these capabilities are further developed in the service provider firms as a result of the outsourcing relationship and the exchange of activities with the client firm. Our approach thus falls within the strand of literature that takes a dynamic view on the role of firm capabilities, as mentioned above. From the resource-based theory perspective, the central assumption is that creating and retaining such capabilities directly influences the firm's ability to create and sustain competitive advantage.

For service production, human capital capabilities are the capabilities of the individuals in the firm and closely related to the analytical, technical and quality related aspects of the services. Broadly speaking, the human capital capabilities of a firm rest on a foundation composed of, respectively, the formal education of individuals that builds analytical, technical, and language skills, professional experiences, and firm- and activity-specific knowledge (Hatch and Dyer, 2004; Jensen, 2009; Lahiri and Kedia, 2009). Such capabilities are especially important in knowledge-intensive service production, and in related outsourcing arrangements, since they incorporate both explicit and tacit knowledge, and knowledge of routines, that are not easily substitutable and transferable (Almeida, Song and Grant, 2002; Starbuck, 1992; Szulanski, 1996) and they are important for understanding the problem-specific needs of the client (Lahiri and Kedia, 2009; Stabell and Fjeldstad, 1998).

At the aggregate level of the firm, the organizational capital capabilities result in the collective behavior of employees, and their use of institutionalized knowledge and routines combined with input from the client in the production of offshored services. According to Lahiri and Kedia (2009) the possession of organizational capital capabilities is crucial for service providers since it enables them "to utilize their accumulated codified knowledge-base in better serving their clients' sourcing needs through use of various project-related documents and manuals, learning obtained through feedback from clients on earlier projects, unique methodologies and adaptive technologies developed and found useful in prior contracts, organization wide norms that stresses efficient practices, processes and programs, and culture that promotes innovativeness in providing new and superior services" (Lahiri and Kedia, 2009: 213). The importance of such capabilities is broadly discussed in the literature on strategy and organization which mentions the ability to combine capabilities at the organizational level as a foundation for the creation of new capabilities (Kogut and Zander, 1992), the importance of higher order capabilities as a foundation of value creation (Henderson and Clark, 1990), and the possession of organizational capabilities as a source of innovation (Subramaniam and Youndt, 2005).

Finally, management capabilities assist in the assembly and deployment of resources to fulfill the contracts. In our definition of management capabilities we follow the definition of Lahiri and Kedia (2009) and Desarbo et al. (2005). This implies that the management capability construct refers to firm-level capability that integrates and supports various capabilities related to logistics systems, cost control, financial and human resources, profitability and revenue forecasting, and marketing planning in order to fulfill two central overall objectives, i.e. serving client needs and generating new business. From a business development perspective it follows that service provider firms that possess strong management capabilities are able to generate business from new clients in international markets (Ethiraj et al., 2005). As Lahiri and Kedia (2009) point out: "higher

management capability should enable providers to better manage i.e., bundle and leverage various firm-level resources and capabilities in attaining superior performance" (Kedia and Lahiri, 2009: 213).

In addition to these capabilities, the literature on emerging market firms has noted that these firms from the outset do not always possess many capabilities. For this reason linkages with and spillovers from developed market firms (in our case the client firms) are crucial for the building of capabilities in the emerging market firms (Matthews, 2002; 2006). Such findings underscore the importance of the absorptive capacity possessed by the service provider firms, since this is necessary to explore and exploit the knowledge input from the client firms and build capabilities. While this is important, our focus in this paper is primarily on the *outcome* of this process, in terms of the resulting building of capabilities, and to a lesser degree on the possession and quality of the absorptive capacity of the service provider firms, which is the firm-internal mechanism by which these capabilities are built.

The role of activities in offshore outsourcing

Earlier reviews of the literature on the global sourcing of services observed that previous research focused on the aggregate level and discusses "services" in general terms without considering the specific nature of the service activities involved (Doh et al, 2009; Jensen, 2012; Jensen and Petersen, 2012). However, some works do focus on the specific value chain activities in question (Jensen, 2009, 2012; Kedia and Mukherjee, 2009; Kumar et al., 2009; Mudambi and Tallman, 2010; Stringfellow et al., 2008), and we position our study in this strand of research.

Moreover, this positioning reflects a current discussion on micro-foundations within strategy research. A number of scholars of strategic management and organization have argued for the need

to move the level of analysis from the macro level to a micro level. The core argument in the discussion is that motives and behavior of individuals, and the nature and characteristics of activities need to be taken into account (Foss, 2009; Johnson et al., 2003; Priem and Butler, 2001; Rouse and Daellenbach, 1999).

The discussion concerning the activity-based perspective and micro-foundations may be extended to offshore outsourcing research. We argue that the characteristics of the services are important in an offshoring context and that these characteristics impact the activities and the development of capabilities. Especially the dependency on tasks within services and how these tasks and activities are designed is important. Various service researchers have studied the characteristics of services based on for example activities related to the contact with customers (Chase, 1981), the degree of customization of the services (Groenroos, 1978; Maister and Lovelock, 1982) or the knowledge intensity of the services (Alvesson, 2001). Based on the argument of slicing and relocating the services abroad, we will argue for a characterization of the services according to the tasks and activities within the production process of the services. We argue in line with Thompson (1967) who distinguishes these tasks according to the interdependence of activities, into reciprocal and sequential task interdependencies. In a service production process context, this means that tasks within the production process are either reciprocally or sequentially executed.

Reciprocal task interdependence indicates strong interconnectedness of activities making it difficult to distinguish clear task borders within the production process of the services. This reciprocal task interdependence reflects services that are strongly dependent on the judgment of individuals and on activities that need to be executed simultaneously. There is no modularization of activities with clearly defined borders when activities start and end. The service is fully produced when delivered to the client. More modularized and clearly defined borders of tasks are evident in sequential task interdependent service production processes, where one activity is building on another activity in a

sequence of activities. This characterization of activities in the production process of the services is argued to be independent from the knowledge intensity of the services. For example, according to Stabell and Fjeldstad (1998) both service characteristics are argued to be part of the production process of professional and knowledge-intensive business services.

Analytical Model

We are now able to develop an analytical model (see figure 1) that combines the above-discussed theoretical concepts and helps us studying whether the interaction between the client and the service provider does contribute to the building of capabilities in service provider firms and how different types of activities in the production process of the services influence the development of different types of capabilities. The first dependency in the model is based on the characteristics of the services. The activity types of the services are impacting the production of the services and thus, are also expected to have an impact on the capabilities that are developed in the organization that produces the services. We distinguish the production of knowledge-intensive business services in this paper into services with sequential and reciprocal task activities. Merely by offshoring these services to the service provider and asking to produce the services offshore, the client is influencing the development of capabilities by the provider. A moderating affect is also evident by the absorptive capacity of the provider to understand the requirements of the client and the service type.

As argued above, we argue for three capabilities that Lahiri and Kedia (2009) argue to necessary for the offshore outsourced production of services; Human capital capabilities, Organizational capital capabilities and Management capabilities. The question remains though whether the interaction between the client and the service provider in fact does contribute to the building of capabilities in

service provider firms and if in situations where such a contribution occurs, how the two types of activities, influence the development of different types of capabilities.

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METHODOLOGY

Research Approach and Setting

The aim of the paper is to extend existing literature on organizational capabilities. Thus, we apply a multiple case study research approach (Eisenhardt, 1989). Qualitative multiple case study methods allows us to gain a detailed understanding of the development of capabilities and factors as well as actors that influence this development. It enables to distinguish between activities by the service provider and the client firm. In order to provide such a detailed perspective, we conduct a cross case analysis. We apply an abductive research approach (Dubois and Gadden, 2002) that allows us to use data and theory in an alternating manner.

The research is set in the Indian offshore outsourcing industry of knowledge-intensive business services that are produced by educated and knowledgeable experts in their field of expertise (often referred to as the KPO industry). We study five services/cases that require knowledgeable and educated employees to produce the services but are of different knowledge intensity and production characteristics. Thus, the unit of analysis is the offshored service including the transition of the service to the offshore location and the production of the service at the offshore location. The focus is on the service providers' activities and capability development that is influenced by the client and its offshoring activity. We study how the activities with regards to the production of the services

impact the organization that produces the services as a whole. This perspective allows studying the implications of a production on organizational capabilities.

The five services are termed Measurement sciences (Case A), Client services (Case B), Market Research (Case C), Competitive intelligence (Case D), as well as Intellectual property and R&D research (Case E) (see table 1 for more information). Cases A, B and C are produced by a big Indian multinational enterprise that offers business process and knowledge process services (popularly referred to as BPO and KPO respectively). In this study, we focus on the knowledge process outsourcing department. It has global representative offices and several production sights in India and around the world. We call this firm ServiceNow. Cases D and E are both produced by a service provider that offers solely KPO services. The firm has sales representatives around the globe that travel to client locations and production sights in India, Chile and Romania. We call this firm COVALU.

Data generation

Data was collected predominantly through primary data, such as semi-structured interviews with key personnel for the production of the services, including for example executing employees, team managers, trainers that educate the employees or knowledge manager. Each interview lasted on average 45 minutes ranging from 30 minutes to as much as 1 ½ hours. In total 55 interviews were conducted between October and December 2011. All interviews were recorded, transcribed, and analyzed using NVivo 10. Additionally to the interviews, secondary data in form of firm internal documents and publicly available information was used to triangulate information.

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Research Process

In order to study the development of organizational capabilities in the service provider and the impact of client firms in this development, we study the production of the services at the offshore location. We grouped services of similar characteristics in line with their activity types together and distinguished between sequential and reciprocal services. We then conducted a cross-case analysis in order to identify changes of the chosen cases and common patterns within the activity types and across activity types. Thus, we study first sequential services (cases A and B) and then reciprocal services (cases C, D, and E). Our investigation was informed by the earlier outlined theoretically derived model based on three identified capabilities, *Human capital capabilities*, *Organizational capital capabilities*, and *Management capabilities* (Lahiri and Kedia, 2009).

FINDINGS

The development of capabilities in sequential services

Human capital capabilities. In Case A and B the services were predominantly produced by young and newly hired statisticians, media experts, or commerce graduates. Despite their highly educated background, the new employees were trained to execute comparably standardized and routinized tasks to produce the services, such as using automatically collected data, applying statistical analysis that are provided to them and making result based future progress assumptions as in Case

A. The individual employees had to use own knowledge and critical thinking only when analyzing the results of their applied statistical analysis in order to development of the media industry in relation to the client as in Case B. Arguably in both cases, employees outlined the routine and standardized method of producing the services as leading to low motivation, as personal progress and individual learning was restricted. Team managers and HR managers in both cases argued that the newly, predominantly young and highly driven employees hired for the production of the services were often after a very short period of time leaving the company to progress in more challenging positions or in other firms. These employee turnovers were argued to cause instable working environments, changing team dynamics and high attrition rates. In both cases, ServiceNow was not able to retain a constant employee base. In order to secure a constant communication base and also based on the offshoring set-up with the client, in both cases only the management was communicating with the client, executing employees had no own contact to the client and gained training and task experience not through primary sources, aka the client directly.

Organizational capital capabilities. The production of the services in Cases A and B were comparably standardized and followed a set and documented sequence. In Case A the employees used electronically collected data for statistical analysis in order to show trends and developments of purchasing behavior of customers. The way to analyze this data is a common and standardized method of data analysis, which was provided by the client firm, as it produced the service onshore before it was offshored to ServiceNow. Thus, various documents and standard operating procedures (SOPs) existed and were transferred from the client to the service provider. These SOPs were easily shared among employees. In order to share these documents and standardized production processes, ServiceNow used an online operated platform. Although the access to this platform was restricted to the seniority of the employees, the platform allowed an easier and more efficient transfer of documents. In line with the integration of the services into the organizational context, ServiceNow

used the provided SOPs and documents by the client and inherited the procedures into firm processes that could be transferred to other contexts and clients.

Management capabilities. In both Cases A and B the management of resources was predominantly based on the staffing of the right resources to the necessary task. Due to the comparably high attrition rate within both cases, this staffing activity and the constant hiring and training was the predominant management activity. Although, the client had hardly any influence in the management of the employees, ServiceNow developed routines in the staffing for both cases. The hiring of new employees and their training was done without the recognition and involvement of the clients. However, due to the characteristics of the services, the development of these resources was restricted. Employees were not provided with possibilities to progress and develop skills further. The sequential and routines services were not requiring any of these further developments.

The development of capabilities in reciprocal services

Human capital capabilities. All three reciprocal services required the individual who produced the services to use own skills, educational background and capabilities to critically analyze the business environment in its respective field. The individual had to judge information according to their relevance and importance to the services. This judgment required skilled and experienced workforce. For further developments and the necessary knowledge for a qualitative high service production, the client was requested to communicate and built up a personal relationship with the executing employees. For example in Case C, the onshore and offshore employees have weekly phone calls to strengthen the relationship between the client and the offshore employees. Similarly, in Case D, the responsible client manager travels at least once a year to the offshore location and at least once a year an offshore employee travels to the client. The management team as well as the

executing employees emphasized the need for personal contact between the client and the offshoring employees to further the understanding of the services, allow for personal progress of the employees and thus motivation and as a consequence secure or even improve service quality. Employees are able to suggest improvements to the service production or develop a very deep and specialized knowledge on the task.

Organizational capabilities. As the required services are argued to be comparably unique and strongly context dependent on the client firm, only in Case C a standardized form for the service delivery was provided to the service provider by the client. The production process in itself was however not documented and standardized in all three cases. The service provide had to develop an own and unique approach to developing the services. This development approach was only restrictedly transferrable to other context and across ServiceNow and COVALU. The services are based on the specialized context of the client firms and strongly dependent on the skills, educational background and judgment by the experts executing the services. Only very general process related information could be transferred and documented as well as shared through firm internal knowledge sharing platforms.

Management capabilities. Reciprocal services are strongly dependent on the individual employees that produce the services. Routines and standardized production processes are argued to be not possible and each research that is required by the client is unique and requires individual judgment and knowledge about the industry. Consequently, the assembly and development of human resources was argued to be of major importance. Employees were strictly hired based in their educational background, experience and industry or service related knowledge. Furthermore, the training of the employees was extensive in all three cases in order to secure that the employee understood the service production but equally important understood the client context. Thus, the client was supporting the training and the development of the employee. For example in Case C

some executing employees of ServiceNow were trained at the client side and spent several weeks shadowing client employees to understand the firms specific requirements, context and service related execution processes.

DISCUSSION

After having outlined the two service types separately, we are now able to compare sequential and reciprocal services and study whether the interaction between the client and the service provider has contributed to the building of capabilities in the service provider firms and what types of capabilities (see table 2 for a summary).

Human capital capabilities reflect the significance of human resources and their analytical and technical capabilities to generate quality as Lahiri and Kedia (2009) emphasize. Thus, only in services that underline human resources and value their skillset and judgment abilities, these capabilities are important and as a result generated in the process. In cases with reciprocal task activities, the interaction with the client was much stronger and the individuals had a personal contact to the client. Through this interaction with the client the individual experts had the ability to gain additional knowledge and develop own capabilities. Thus, clients influenced the development of these human capital capabilities significantly, supporting findings by Vivek and colleagues (2009) on the importance of relationships in the development of capabilities.

Services based on sequential task activities, where a routine is predominant in the production process and the own individual employees do not need to possess specific capabilities, such as judgments on the importance of information, no generation of human capital capabilities could be found. The individual employees were not able to progress and develop individual capabilities. While the development of employees who produce the services was much more important to the

client in reciprocal services, clients in sequential services did not consider an interaction as their responsibility. With outsourcing the services to the service provider, all resource and employee related considerations were not considered as important any longer and the responsibility of the service provider. Thus, we propose:

> Proposition 1: Offshoring service providers develop human capital capabilities with the influence of clients when services are offshored that are based on a reciprocal service production process.

Counter to human capital capabilities, organizational capital capabilities could only be gained if services were dependent on routines and documented processes, such as evident in sequential service types (cases A and B). If the service provider was able to communicate clearly and document the production process for example in SOPs, service providers were able to develop organizational capital capabilities. The documents could then be efficiently shared and distributed within the firm as the processes were comparably standardized and could be applied and transferred to other contexts as well. With services that were reciprocal and could not be documented and formulated into SOPs as the services were strongly based on the judgment of individual experts or the unique characteristics of the client firm context, organizational capital capabilities could not be gained. This aspect draws back on the issues of codifying tacit knowledge (Nonaka, 1994; Szulanski, 1996). Moreover, the uniqueness of the client contexts in the services and the strong dependency on individual experts and their knowledge stock (Bettencourt et al., 2002), countered the possibility to generate organizational capital capabilities. Thus, we propose:

Propositions 2: Offshoring service providers develop organizational capital capabilities with the influence of clients when services are offshored that are based on a sequential service production process.

Management capabilities, as the assembly and development of resources that produce the services displayed importance in both service types, but for different reasons. In sequential service production processes, such as in cases A and B, the assembly and allocation of resources was very intense and frequent but less significant. The individual employee was required to use less of own judgment and skills, while executing routinized activities. It is easier to assemble and allocate resources as they imply less significance in the service production and are easier substitutable. The comparably high attrition rate let to more frequent assembly activities and thus, the development of management capabilities.

Similarly, in reciprocal service production processes such as in cases C, D and E, the assembly and allocation of resources was equally (or even more) important but less frequent. The employees needed to have the required expertise for the services and the ability to use their knowledge and abilities in the production of the services. Finding these employees was more challenging then in sequential services, but the frequency to assemble new resources was also lower. Thus, management capabilities were also developed in reciprocal services.

The clients influenced this development of capabilities not in the assembly of the resources but in the development of the resources. In both service types and all cases the client influenced the training and thus, development of the experts. In sequential services, clear training instructions were provided through documents that were then used to design training session. Due to the high employee turnover and constant need for training, these documents and training sessions were of

major importance and needed to be efficient and effective. In reciprocal services, the clients had even more active participation in the development of the employees as in all three cases, personal training and shadowing onside was offered to varying intensity. The personal and interactive relationship between client and service provider furthered the training and development of the employees and led to the development of management capabilities by the service provider.

> Proposition 3: Offshoring service providers develop managerial capabilities with the influence of clients when services are offshored that are based on a sequential as well as a reciprocal service production process.

CONCLUSION

We set out to analyze whether the interaction between the client and the service provider contribute to the building of capabilities in service provider firms and if different types of activities in the production process of the services influence the development of different types of capabilities. In conclusion we found that depending on the service characteristics and the activity type in the production process of the services, influenced by the client, service provider develop organizational capabilities. More specific we found that when sequential knowledge-intensive business service are offshored that follow a set routine, clients influence the development of organizational capital and managerial capabilities but do not support the development of human capital capabilities. When reciprocal knowledge-intensive business services are offshore outsourced, clients influence the development of human capital and managerial capabilities but do not support the development of organizational capital capabilities.
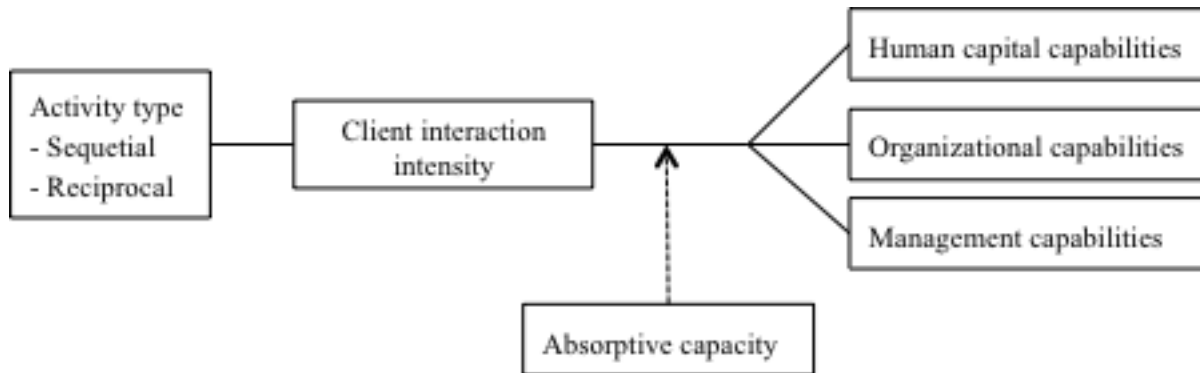
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Figure 1: Conceptual model

Table 1: Case descriptions

Charac-teristic	Case A	Case B	Case C	Case D	Case E
Service	Measurement science	Client services	Market Research	Competitive intelligence	Intellectual property and R&D research
Service description	Statistical analysis and global trend estimations - client provides data	Analysis and insights on business issues - client provides data	Analysis and insights on markets - data needs to be gathered	Analysis and insights on competition and business environment - data needs to be gathered	Analysis and insights on global intellectual property and R&D activities - data needs to be gathered
Activity type	Sequential	Sequential	Reciprocal	Reciprocal	Reciprocal
Firm name	ServiceNow	ServiceNow	ServiceNow	COVALU	COVALU
Client industry	Multimedia	Media consulting	Business consulting	Chemicals	Chemicals
Client location	US/Europe	US	US	Switzerland	Switzerland
Year of offshoring	2009	2010	2009	2006	2008
# of interviews	14	8	8	12	13

Interviewees positions	- Business analyst - Manager (Client, Delivery, Division, HR, Partnership, Regional, Service, and Transition) - Trainer	- Business analyst - Manager (Client, Delivery, Division, HR, Regional) - Trainer	- Business analyst - Manager (Client, Delivery, Division, HR, Team, Transition) - Trainer	- AVP - Business analyst - Division, HR, Team) - On-side representative - Trainer	- AVP - Manager (Division, HR, Team, Transition) - On-side representative - Research associate - Trainer
Required skills	Statisticians, researcher,	Commerce graduates, media experts, statisticians	Business analysts, economists	Chemical engineers, business analysts	Chemical engineers, lawyers

Table 2: Capability development of sequential and reciprocal services

	sequential services	reciprocal services	Propositions
Human capital capabilities	Not developed	Developed	P1
Organizational capital capabilities	Developed	Not developed	P2
Management capabilities	Developed	Developed	P3