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Why e-commerce firms outsource consumer credits from a transaction cost and resource-based perspective

A study of Swedish e-commerce firms

Master's Thesis in the Master's Programme
Management and Economics of Innovation

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Abstract

Swedish e-commerce has in the recent decade grown exponentially to hit 57,9 billion SEK in 2016. The increase in e-commerce activity is a driver of consumer credits that have higher penetration in online sales channels compared to physical stores. Most e-commerce firms outsource consumer credits to external suppliers although it becomes easier to offer consumer credits in-house due to technological advances. The purpose of this thesis is to describe and analyze why Swedish e-commerce firms outsource consumer credits. This thesis has applied two major theoretical approaches to outsourcing: transaction cost economics (TCE) and the resource-based view (RBV). The theoretical approaches have been combined to a common theoretical framework used to guide outsourcing decisions and to answer the research question of how firms' decision to outsource consumer credits are influenced by transactional and resource-based aspects. To answer the research question, a qualitative case study has been conducted where a set of e-commerce firms, suppliers of consumer credits and investors have been interviewed.

A trend of low asset specificity, limited opportunism, and increased costs of in-house production due to the need of capital and stable cash flows have been found within the context of TCE. A trend within the context of RBV is the belief that outsourcing consumer credits gives firms access to complementary capabilities that they lack internally. In addition, no firm is considering TCE and RBV as theoretical concepts in the outsourcing decision, but all firms are considering the theoretical approaches' underlying aspects. Both TCE and RBV generally suggest outsourcing and it is argued that both approaches influence the decision of outsourcing, although it cannot be stated that one of TCE and RBV is more influential than the other.

Keywords: consumer credits, e-commerce, outsourcing, transaction cost economics, resource-based view

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David Kron and Victor Nydén

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1 Introduction

This introduction chapter contains the background and purpose of this thesis. Both the background of the Swedish market for consumer credits and the background of the problem are presented. The scope is restricted in the demarcation section where we further define some core concepts. The chapter ends with an outline of the structure of the report.

1.1 Background

The Swedish Market for Consumer Credits

During the 1970's, consumer credits as means of financing private consumption grew in popularity (Högkostnadskreditutrednigen, 2016). Lending by banks was restricted through heavy regulations, this lead consumers lending from regular banks to turn to an increasing number of financial service firms that offered consumer credits in terms of credit cards and revolving credits. As regulations declined during the 1980's, consumer lending from both banks and financial service firms increased. It is debated whether the deregulation during the 1980's worsened the financial crisis in early 1990's (Överskuldsättningsutredningen, 2013), which resulted in increasing interest rates, falling housing prices and household over-indebtedness. However, in the 2000's, Swedish households had recovered and the use of consumer credits once again kept increasing. This time, IT facilitated new ways of offering credits, which were particularly useful in e-commerce.

Swedish e-commerce has grown exponentially from 4,3 billion SEK in 2003 to 57,9 billion SEK in 2016 (PostNord, 2016) and the trend seems to continue. The increase in e-commerce activity is a driver of consumer credits that have higher penetration in online sales channels compared to physical stores (Insight Intelligence, 2016). As a consequence of this trend, a collection of firms specializing in consumer credits online has emerged, amongst which some notable firms are Klarna, Collector Bank, Ecster, Qliro, Resurs Bank, and Svea Ekonomi. On the Swedish market, the majority of e-commerce firms offering consumer credits outsource this activity. Looking at the Swedish market, having an external supplier of consumer credits is the most common way for e-commerce firms to offer credits to consumers, and only a few firms offer their own consumer credits. Hence, most e-commerce firms choose to offer consumer credits to their customers by outsourcing consumer credits to external suppliers.

Problem Background

On behalf of Stena Adactum, the authors set out to deepen the understanding for why most e-commerce firms outsource consumer credits in contrast to doing it by themselves in-house. Stena Adactum is one of Sweden's largest investment firms and a part of the Stena sphere. The development in the Swedish consumer credit industry has led Stena Adactum into seeking understanding for why many firms choose to outsource consumer credits to external firms. Internal calculations point towards a loss of potential profit when outsourcing consumer credits, partly due to the cost of outsourcing itself and partly due to a loss of potential revenues. Also, firms that outsource consumer credits lose the control of the customer at the point of the credit being issued, which prohibits firms to reap gains from additional sales. Seemingly, producing consumer credits in-house would during the last decade have become cheaper, partly because the price for credit scoring has declined and partly because of increasing automation of routines due to increased utilization of IT. Owning consumer credits would also allow firms to control credit risk and credit default levels by controlling what minimum requirements in credit score that is accepted. It is not clear on what reasons e-commerce firms outsource consumer credits, and whether these reasons are the same on an aggregated level or differ from firm to firm.

1.2 Purpose

The purpose of this thesis is to describe and analyze why Swedish e-commerce firms outsource consumer credits.

1.3 Demarcations

The purpose of this thesis entails a couple of demarcations that must be done to properly address the core issue. It is natural to exclude other countries than Sweden from this thesis because the underlying outsourcing trend has been observed in Sweden and because it is this trend that is of interest. That said, it does not mean that the trend does not exist in other countries. The matter of resource availability forces us to restrict our area of study to only include the Swedish market. For the same reason, we must restrict how we define consumer credits.

A credit refers to an arrangement between two parties where one party (creditor) transfer the right to use a certain good or amount of money to the other party (debtor) for a certain time (Investopedia, 2017). Examples of credits are invoices, paychecks, mortgages, credit cards, revolving credits,

installment credits and a vast amount of different loans. All credits share the core characteristics of a credit but are each designed for its own purpose and use. It means that in our setting, not all credits are suitable to consider. The specific trend that has been observed in the Swedish market is mainly about consumer credits. The Swedish Law of Consumer Credits, SFS (2010:1846), defines consumer credits as credits that are provided by a business to a consumer. That definition suits the reality that has been observed why we add that definition into what has earlier been said about credits. Note that by doing so we exclude all credits where the creditor is a physical person (in accordance with the Swedish law) or where the creditor is a firm and where the debtors are either a firm or a government. The Swedish Law of Consumer Credits is guiding how credits should be provided and does consequently include all credits provided in a certain way. Therefore, we must restrict our definition further as we have noted that not all types of consumer credits face an outsourcing trend. For example, mortgages are excluded in this thesis, as mortgages are usually not provided by the seller of the property. This reasoning could generally be applied to what credits to exclude or not. Hence, we will investigate consumer credits that are provided from the seller, or other party that the seller has appointed, to a consumer and where a purchase of a good or service is being financed from the consumers' perspective by the credit. In practice, this means consumer credits common in e-commerce such as invoices, revolving credits and installment credits.

1.4 Report Structure

Chapter two will present current outsourcing literature. Based on the findings, a theoretical framework will be proposed and the chapter will end by presenting the research question. Chapter three will present the case methodology used to fulfill the purpose of this thesis and how we have ensured a satisfying level of research quality. Following the methodology chapter, the empirical findings will be presented in chapter four where we have applied the theoretical frameworks to structure the cases. All empirical data is presented in written form in Appendix I and II. The findings will further be analyzed in chapter five where we conduct a cross-case analysis. The cross-case analysis leads up to the last chapter where the conclusion is presented.

2 Theoretical Framework

The field of outsourcing has been influenced by two major theories: transaction cost economics and the resource-based view. The former theory is part of the new institutional economics while the latter one stems from the field of strategy. It is valuable to study the outsourcing decision from both perspectives as they have been argued to complement each other (Arnold, 2000; Chen and Chen, 2003; Holcomb and Hitt, 2007; McIvor, 2009;). The literature section starts by outlining the foundations of TCE and RBV, and at the end moves towards a common framework for how the theories together support the outsourcing decision.

2.1 Transaction Cost Economics

The concept of transaction costs was first coined by Ronald Coase (1937) in his article *The Theory of the Firm*, which sets out to explain the reasons for why firms exist in contrast to all production being carried out through the market. Coase concludes that a firm's existence, as well as its boundaries, is due the costs that market transactions give rise to. Firms exist when it cost less to carry out certain transactions within a firm than to purchase it from the market. A firm's boundaries are derived in a similar manner, as firms takes on activities where the cost of doing it by themselves are smaller than the cost of purchasing the same activity on the market.

Transaction cost economics (TCE) holds that the most efficient governance structure for a transaction is determined by the transaction's characteristics, referred to as dimensions. The dimensions of a transaction are asset specificity, uncertainty and frequency (Williamson, 1985). A transaction can be made hierarchically (internally within the organization), in alliances with another part, or on the market (Williamson, 1975). In addition, Powell (1990) presents a version of Williamson's alliance when he presents network as a form of collaboration. The organizational development in recent decades, toward more hybrid forms of organizing, needs an extended set of governance structures to choose from. Reality allows firms to choose governance structure from a continuous scale between the end-points of market and hierarchy. We agree on the usefulness of considering cooperation on the Swedish market for consumer credits as a hybrid form of cooperation because the *de facto* contracts established between suppliers and retailers usually run on a yearly basis. Hence, there is no pure spot market transaction worth considering, but the market transaction is conducted within a partnership. The characteristics of the partnership differ between cases but no partnership exhibits all the characteristics of, what Powell (1990) refers to as, a network. Therefore, would we visualize the

governance structure with a spectrum from market to the left, hierarchy to the right, and network in the middle, the governance structure to organize transactions a e-commerce firm can choose between are the ones between the middle-point and left end-point, and the one to the far right. What is referred to as a market transaction in this thesis is a transaction carried out in a governance structure which is somewhere between a pure market and network form.

2.1.1 Transaction Costs

As TCE holds that firms exist to minimize transaction costs, the objective for a firm is to choose governance structures with the least costs. Production costs and governance costs make up the cost difference between producing something within the firm (a hierarchical transaction) or through the market (Williamson, 1985). The market can usually produce goods or services at a lower cost than firms, since markets benefit from economies of scale. In theory, a firm could gain the same scale benefits by selling their surplus production on the market. However, this might not be feasible in practice since it assumes that a firm can sell its surplus as effectively as an independent supplier, which includes selling to rivals. Governance cost refers to the incompleteness in contracts between two parts and the effort in bargaining. The severity of governance cost depends on several difficulties that a firm that accesses the market to outsource an activity confronts. The main factors that create these difficulties are bounded rationality, opportunism, small numbers, and information impactedness (Williamson, 1975). Transaction costs depend both on transaction dimensions and transaction difficulties. The extents to which transaction difficulties lead to contractual problems also depend on the magnitude of the transaction's dimensions. These relationships are illustrated in Figure 1.

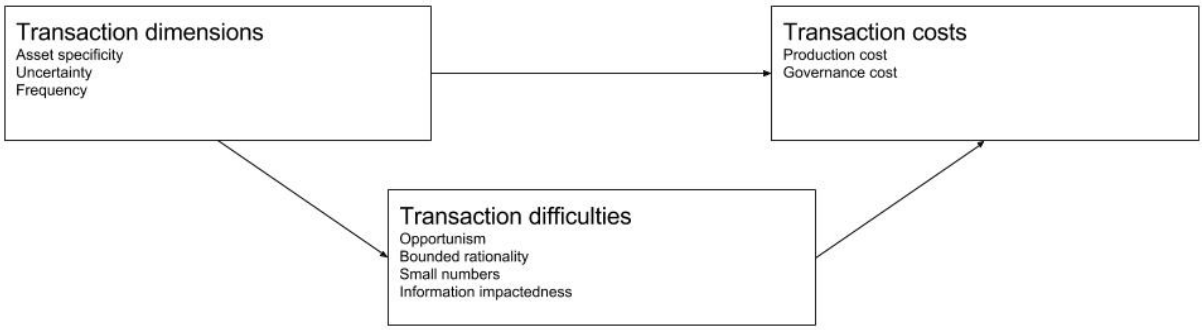

Figure 1. A model of how a transaction's costs, dimensions and difficulties are interrelated.

For example, difficulties from bounded rationality and opportunism are more likely to occur in complex transactions with high uncertainty. However, there are several ways that both transaction

dimensions and transaction difficulties will affect transaction costs. A more profound analysis of the impacts will be presented in the upcoming sections.

2.1.2 Transaction Dimensions

Williamson (1985) states that asset specificity, uncertainty and frequency are three dimensions used to describe transactions, where asset specificity is the most prominent when addressing governance structure. All dimensions will be elaborated upon to clarify how they are related to transaction costs.

2.1.2.1 Asset Specificity

The most prominent factor of TCE in creating cost differences between governance structures is asset specificity (Williamson, 1985). The factor is also the one that has gained the most empirical support (Macher and Richman, 2008). Asset specificity refers to the level of customization within a transaction. High asset specificity is coupled with transaction-specific investments, in which assets are hard to redeploy and have none or little value outside of the transaction (Williamson, 1985). Consequently, low asset specificity refers to standardized transactions with assets that are redeployable for many transactions. Typically, low asset-specific transactions are better suited to be contracted to the market while high asset-specific transactions are made hierarchically. The scale benefit the market holds in production costs diminishes and ultimately disappears as asset specificity increases (ibid.). Likewise, transaction costs by using the market also increase with high asset specificity. Transactional difficulties also increase with higher asset specificity, since opportunistic behavior being more likely on transaction-specific investments (Klein et al., 1978; Anderson, 1988), and consequences of bounded rationality are less severe in uncomplicated transactions (Williamson, 1975).

2.1.2.2 Uncertainty

Uncertainty is an important dimension affecting transaction cost (Williamson, 1985). The concept of uncertainty in TCE has historically, although the concept's important impact on transaction costs is undisputed, been neglected when it comes to its definition (Slater and Spencer, 2000; Macher and Richman, 2008). As the early notation of uncertainty in TCE appeared indefinite (Williamson, 1975), it has given following scholar space for own interpretations. For example, Holcomb and Hitt (2007, p.471) emphasize technological uncertainty as a "transaction-cost based consideration for strategic outsourcing" and consequently disregard other forms of uncertainty.

However, Williamson (1985) has clarified and divided the concept of uncertainty, which in his earlier work (Williamson, 1975) was briefly mentioned as one aggregated concept. In his later work, he differentiates between primary and secondary uncertainty, where the former refers to the inherent

uncertainty in the knowledge of the states of nature and where the later form of uncertainty refers to uncertainty present between agents engaging in economic transactions. In addition, Williamson (1985) notes that behavioral uncertainty, uncertainty that arises between an agent who are deliberately withholding information from another agent that the former agent engage in a transaction, should not be included in neither primary nor secondary uncertainty. Having three complementary disaggregated concepts of uncertainty is in line with other scholars' view on how uncertainty impacts transaction costs; although slightly different names are proposed (Sutcliffe and Zaheer, 1998). There is, however, no empirical consensus on how uncertainty affects governance structure and the reason is argued by Macher and Richman (2008) to be that the vast amount of different disaggregated notations and concepts of uncertainty make comparison hard.

To summarize, uncertainty in general is present in all states of the nature and has implications for transaction costs either directly or indirectly by affecting difficulties that in turn affect transaction costs. An example is opportunism that is affected by the degree of behavioral uncertainty. Another example is production and governance costs which are directly affected by primary uncertainty. Therefore, considering all forms of uncertainty affecting transactions in the consumer credit markets are important to assess firms' transaction costs and ultimately understand outsourcing decisions. The consequences of bounded rationality are also less severe when uncertainty is low (Williamson, 1975).

2.1.2.3 Frequency

In addition to asset specificity and uncertainty, frequency is an important dimension of a transaction (Williamson, 1985). Frequency is referring to the amount and recurrence of a transaction. Williamson (1979) differentiates between occasional and recurrent transactions and argue that transactions that only occur once could be incorporated in the concept of occasional transactions. He further states that considering the degree of frequency and the degree of transaction specific investments, i.e. asset specificity, should lead the firm to adopting a suitable governance structure.

Although frequency is proposed by Williamson (1991) to be an important dimension affecting transaction costs, researches have generally not been able to provide empirical evidence of governance structure based on transaction frequency (Macher and Richman, 2008; Anderson and Schmittlein, 2008; McIvor, 2009). Because of the lack of empirical evidence and the fact that Williamson (1981; 1991; 1998) himself is continuously emphasizing mainly asset specificity but also uncertainty as the most important dimensions and predictors of governance structure, we have reason to focus accordingly.

2.1.3 Transaction Difficulties

As noted in the beginning of the TCE section, the dimensions of a transaction affect the transaction costs indirectly via a set of difficulties. We will elaborate on how those difficulties affect transaction costs and we will clarify how the transaction's dimensions affect those difficulties. Note, however, that the difficulties presented here should not be regarded as a complete list of difficulties affecting transaction costs. Also, the mentioned difficulties are not exclusively affected by the transaction's dimensions and are consequently not present only due to the characteristics of the transaction. For example, bounded rationality exists not only because of the dimensions of a transaction but because human biology ultimately restricts our capacity of processing information.

2.1.3.1 Opportunism

An actor behaves opportunistically when trying to change the terms agreed upon in a transaction to be more favorable for itself by the effort of mislead, disguise or confuse the other party (Williamson, 1985). An example of opportunistic events is suppliers' interest to claim that their possibly opportunistic behavior is due to the rise of unexpected circumstances not covered by the contract. The other party of the contract is then unable to assess the validity of the claim due to asymmetric information in favor of the supplier. This makes it hard for firms to tell whether the suppliers' claim is genuine or not, worsening the important aspect of trust between the parties (Akerlof, 1970, Granovetter, 1985).

Opportunism is causing costs when at least one party acts in self-interest, but in bad faith (Williamson, 1985). In practice, it is hard to distinguish between bargaining cost and opportunism cost, where bargaining cost includes "opportunity costs of bargainers' time, the costs of monitoring and enforcing an agreement, and any costly delays or failures to reach agreement" (Milgrom and Roberts, 1990, p.72). Opportunism is causing bargaining costs to increase as it lies in both parties' interest to agree on a contract, which the other party cannot act opportunistically on. Hence, both parties want to set up the contract in such a way that it is covering all possible outcomes of the situation the contract is regarding. This action incurs additional bargaining costs as establishing complete contracts, i.e. contracts covering all possible scenarios, is a time-consuming effort to take on (Williamson, 1985). The bargaining cost can be infinite as it is impossible to set up such a contract. It is therefore space for opportunistic behavior by either party, making the creation of contract a hazardous situation. When comparing two contracts and where one contract possesses a greater hazard, the price level of the contracts should be reflected accordingly (Williamson, 1993). Even though both parties *de facto* honor the contract, the present of the risk that any party could change behavior should be considered and consequently reflected in the price.

A central part of offering consumer credits is to properly assess the risk of the consumer. By doing so, the creditor of the credit (usually the supplier of the credit) minimizes the risk of default. In this process, the supplier of consumer credits must assure that the decision to offer or reject a consumer's request to obtain a credit should be based on assured data. As the assessment of consumer risk (also known as credit score) is tightly linked to the performance of the supplier as it directly affects the default risk of the consumer, this scoring process is usually considered a trade secret (Friedman et al., 1991). Therefore, suppliers of consumer credits should not be able to include such information in a contract with a retailer to whom the supplier supplies consumer credits. It creates a possibility for opportunistic behavior of the supplier. We thus find reasons to believe that the risk of opportunistic behavior is present in the Swedish consumer credit industry why we must study this aspect further and to assess its impact on the outsourcing decision.

2.1.3.2 Bounded Rationality

In contrast to many economic theories describing humans as perfectly rational beings, bounded rationality refers to the limits in human decision making, in the sense that humans are limited in their knowledge and computational ability (Simon, 2013). Individuals who engage in decision making of establishing a transaction are limited in their ability to "receive, store, retrieve and process information without errors" (Williamson, 1975, p. 107). Therefore bounded rationality affects the transaction in that "all contracts are unavoidably incomplete" (Williamson, 1998, p.34). As contracts cannot be made perfectly complete, there are gaps and errors that could lead to opportunistic behavior. A firm that outsources a transaction therefore suffers from the bounded rationality of the decision-making individuals and the potential costs of being exploited due to incomplete contract.

2.1.3.3 Small Numbers

A market served by many suppliers that are equal in their offerings, will have a competitive landscape and narrow trading ranges. For a buyer, it's therefore more attractive to outsource when having multiple sources, that meets the buyer's requirements, to choose from. The number of suppliers a buyer can choose for outsourcing depends on the asset specificity of the transaction, where a high specificity limits or abolishes the number of suppliers (Williamson, 1975). A buyer's ability make the best choice among the number of suppliers is also limited by bounded rationality and information impactedness. If buyers cannot separate a superior product from inferior, opportunistic suppliers are not incentivized to create superior products, which in turn will shrink and possibly eradicate the market (Akerlof, 1970).

2.1.3.4 Information Impactedness

According to Williamson (1975, p.109), information impactedness is partly an information asymmetry condition, but the concept also includes the costs of overcoming information asymmetry. Information asymmetry reflects a situation where one agent possesses more information than the other agent. If the two agents were to engage in a business transaction based on the knowledge they possess, the transaction is facing the problem of adverse selection, where one party will exploit the information imbalance in an opportunistic way (Akerlof, 1970). Difficulties from opportunism are therefore more common when there is information impactedness. In the concept of impactedness, Williamson (1975) is also including costs associated with leveling out the information imbalances. If the imbalance is of such a degree that the cost of overcoming it is high the transaction is subject to another type of adverse selection that may cause one party to take on a disproportional amount of risk compared to what had been the case if there were perfect information. While adverse selection appears, *ex ante* contractual agreement, the phenomenon of moral hazard appears *ex post*. Moral hazard is defined as a situation when one party lacks information about the performance of the transaction (Arrow, 2001).

The neo-classical economic assumption of perfect information demonstrates a state too far from reality why the assumption of asymmetric information is argued to be more useful (Stiglitz, 2002). The difficulties of asymmetric information are real and cause problems in industries such as insurance, where the insurer cannot properly assess the risk level of the insured agent due to asymmetric information (Holmstrom, 1982). The phenomenon of asymmetric information is expected to be similar in consumer credits where the creditor do not have perfect information of the debtor and hence cannot properly address the *ex ante* risk of missing payments or default. Although the focal relation in this thesis is the one between the supplier of consumer credits and the retailer from which the consumer is purchasing goods or services, the behavior of the consumer will nevertheless indirectly matter. However, what is likely to matter the most is who possess the most information about contract-related information in general and consumer specific information. There is a risk of moral hazard as the retailers are unable to address how well the supplier of consumer credit score the consumer. The supplier of consumer credit could in such a setting optimize its credit policy opportunistically which may be harmful to the retailer as less consumers are offered credits with decreased sales of the retailer. Hence, information asymmetry is clearly a transactional difficulty and as we argue that it may be present in the consumer credit industry it must be addressed empirically.

2.2 Resource-Based View

The RBV is argued to be a useful approach in several research areas within strategic management (Mahoney and Pandian, 1992). A growing body of research in the field of strategic management has emerged from the urge to understand the sources of competitive advantage (Barney 1991; Porter, 2008; Grant, 2016). It is widely recognized among scholars that Penrose (1959) was one of the first researchers to emphasize the connection between resources and capabilities and a firm's competitive advantage. Although Penrose in hindsight has highly influenced the field of strategic management, it was Wernerfelt (1984) who first coined the term RBV when he proposed to evaluate firms based on resources rather than products. Simply put it, the RBV sees the firm as a set of resources and capabilities. The RBV could be focusing on one dimension of the SWOT framework commonly used in strategic analysis, where the RBV represents the internal factors of the framework, i.e. strengths and weaknesses (Barney, 1991).

2.2.1 Resources and Capabilities

As noted, the RBV assumes that the source of competitive advantage is a firm's resources (Barney, 1991), and it follows that resources are the basis to build the strategy upon (Grant, 1991). It is usually not the resources per se that are critical to a firm's performance, but what activities that could be performed using the resources, i.e. what capabilities that can be performed (ibid.). However, the distinction between resources and capabilities is not always clear. On one hand, some scholars such as Barney (1991, p.101) use a broad definition of resources where capabilities are included in the concept of resources and he consequently states, "firm resources include all assets, capabilities, organizational processes, firm attributes, information knowledge, etc.". Grant (2016, p.118), on the other hand, emphasizes the importance of distinction between resources and capabilities by stating that "resources are the productive assets owned by the firm; capabilities are what the firm can do". Although both authors have a slightly different view, they still divide the concept into similar sub-categories. Broadly speaking, both authors highlight the distinction between physical (tangible) and human (intangible) resources and capabilities as well as the importance of greater organizational resources and capabilities. One can extend the discussion about the distinction between resources and capabilities further, but it is of less interest in this study. What remains important, however, is that it is the internal factors, which the firm can decide on how to use, that affect the firm's performance. Whether it is resources, capabilities or both matters less. Therefore, we choose to focus on a firm's capabilities that we agree on stems from a firm's resource-base consisting of tangible, intangible and human resources.

To understand what capabilities that influence the decision to outsource an activity or not, Holcomb and Hitt (2007) list four resource-based considerations for strategic outsourcing: capability complementarity, strategic relatedness, relational capability-building mechanism and cooperative experience. We will go through all four to determine how well the considerations fit our purpose. But first, we will investigate the implications of competitive advantage on strategic outsourcing.

2.2.2 Competitive Advantage

Barney (1991, p.102) defines a firm with competitive advantage as a firm that is "implementing a value creating strategy not simultaneously being implemented by any current or potential competitors". A value creating strategy, which is also implemented by competitors, is not a competitive advantage. The fact that a strategy in general, and certain investments are value creating, i.e. returns a sufficient return on invested capital, is not enough to dictate whether the strategy or investment is creating a competitive advantage. Quinn and Hilmer (1994) describe several strategies of how managers can leverage a firm's capabilities to obtain a competitive advantage by focusing on core competencies. Their definition of core competencies is similar to our definition of capabilities. The central strategy of interest for this study is their proposition to use strategic outsourcing. Strategic outsourcing refers to a situation where a firm outsources activities that are not of highest strategic importance or where the firm lacks the capabilities needed to perform the activity internally. Quinn and Hilmer (1994) state that most firms focus on two to three activities of the value chain where the firm possesses competitive capabilities, i.e. capabilities that are superior to what can be acquired through the intermediate market. The concept of value chain we refer to here is the one proposed by Porter (1985) where the value chain is decomposed of primary activities such as inbound logistics, operations and outbound logistics as well as support activities such as firm infrastructure, technology and human resource management. The activities where the firm does not possess such capabilities should arguably be outsourced which enables the firm to reallocate resources to unique value creating activities.

The view of strategic outsourcing as a means of creating competitive advantage is agreed on by McIvor (2007) who presents competitive advantage as the main driver of strategic outsourcing. McIvor present a framework which states that a firm is more likely to outsource an activity which is not critical to maintain its competitive advantage and where the firm do not possess a distinctive capability position. Combining the thoughts of Barney (1991) and McIvor (2007) we can conclude that a firm should keep activities in-house that do create value in a unique way, compared to competitors. Value is in this case referring to shareholder value. We here assume that a firm's purpose is to satisfy its shareholders. In practice, shareholder value is usually expressed in monetary terms and proxies for measuring changes in shareholder value are obtained measuring changes in profit margin or return on equity. Although

the assumption that a firm exists solely to delight its owners has been challenge, we use this assumption with the argument that a firm would end its operations if it does not create, what the shareholders perceive as, enough value. In other words, shareholders have the uttermost power over a firm's existence.

We can conclude that exploring the capabilities leading to a competitive advantage in the Swedish consumer credit industry could be used to explain why firm outsource certain activities. However, to ensure that we do not overlook any factor that may influence the outsourcing decision from a RBV we must consider other factors as well.

2.2.3 Complementary Capabilities

Richardson (1972) defines complementary actions as actions of different phases of a production that must be coordinated. The notation of action is similar to what we have previously referred to as capabilities. He further states that such activities must be coordinated either internally, through partnership or using the intermediate market to create value. For example, scholars such as Tripsas (1997) and Teece et al. (1997) outline the importance of complementary capabilities to deliver new products and services based on technological innovations.

The capabilities are essential where there is a complementary relationship between two products or services. The technical definition of a complementary good is a good which has a negative cross-elasticity of demand, i.e. the demand of a certain good is increasing when the price of a complementary good is decreasing and vice versa. An example of a complementary relationship is the relationship between software and hardware. The higher the price of the software, e.g. the office package and windows license, the less the demand for hardware, e.g. the physical personal computer. Consequently, the better, in terms of performance, the software the higher demand for hardware. Complementary capabilities are consequently defined as capabilities that must be coordinated and supported to create value. As consumer credits seem to be closely linked to a purchase of a product or service, the value of the capability of providing the product or service depends on the capability of providing the right consumer credit. It hence appears that consumer credits are complements to produced products and services. Holcomb and Hitt (2007, p.474) suggest that "a firm will ally with partners whom the greatest complementarity exists between the firm's capability endowments and those held by partners in intermediate markets", where ally refers to the act of strategic outsourcing. This approach is having a similar perspective as Conner and Prahalad (1996) and Fine and Whitney (2002) who propose a complementary knowledge-based perspective to understand the boundary of the firm, i.e. firms will ally with firms from the intermediate market which hold knowledge which is

complementary to the knowledge hold by the focal firm. Hence, decision regarding strategic outsourcing could partly be explained by the relationship between the core capability of the firm and the capability obtained from the intermediate market. To summarize, we find arguments, in accordance with Richardson (1972), in favor of exploring the capabilities of a focal firm and the complementary capabilities of the market to understand the boundary of the firm.

2.2.4 Strategic Relatedness

Grant (2016) points to the difference between two concepts of firm relatedness: operational and strategic relatedness. While operational relatedness refers to a situation when two firms are similar in terms of manufacturing, marketing, logistics etc., strategic relatedness refers to a situation where two firms have similar resource allocation strategies, similar factors underlying the strategy formulation, e.g. key success factors, and similar performance and management control system. While it is often possible to decide if two firms are operationally related, there is often not a clear distinction between whether two firms are strategically related or not. According to Holcomb and Hitt (2007, p.474), strategic relatedness reflects "the extent to which firms produce similar goods and services, serve similar markets, utilize similar production and supply chain systems, or rely on similar technologies". It thus becomes clear that the concept of strategic relatedness is not easily grasped as the latter definition is more similar to what Grant (2016) refers to as operational relatedness. However, what is important is that firms could benefit by engaging in business interactions with similar firms (Gulati, 1995), whether they are operationally or strategically similar. The rationale of this statement lies in the organizational behavior strategic relatedness cause. Tsai (2000) propose that strategic relatedness is an underlying facilitator for inter-firm linkages. He states that the reason for this relationship is that "other things being equal, the higher the strategic relatedness between two organizational units, the higher their incentive to exchange or share their resources through an interunit strategic linkage" (Tsai, 2000 p. 929). As outsourcing requires firms in the transaction to share capabilities and information, we argue that, in accordance with some scholars (Holcomb and Hitt, 2007), strategically related firms are more likely to engage in outsourcing activities.

In addition to increased sharing of capabilities, there is another feature of strategically related firms that facilitates outsourcing: goal congruence. According to Granovetter (1985), sharing the same goal improve the quality of the relationship and reduce the risk of opportunism which would be harmful for the relationship between the firms. Goals that are not aligned may cause a firm to act at the expense of another firm (Williamson, 1975). For example, a premium automobile manufacturer is likely to outsource parts of its production to a supplier that share the manufacturer's goal of achieving premium quality. Consequently, the automobile manufacturer is less likely to outsource parts of the

production to a supplier that do not share this goal but instead focus on low cost products. If we apply the same reasoning to the consumer credit industry it is reasonable to think that retailers are more likely to outsource consumer credits to an external supplier if the two firms share the same goal concerning the consumer credit. To conclude, the degree of strategic relatedness and goal congruence are likely, but to some extent, to explain why firms choose to outsource.

2.2.5 Relational Capability-Building Mechanisms

Relational Capability-building mechanism is important to create value (Mahoney and Pandian, 1992). Holcomb and Hitt (2007) propose that the better you are at synthesizing and leverage relational capabilities the more likely you are to outsource. Relational capabilities are here referring to the capabilities of managing relations across the value chain. They start their reasoning by emphasizing dynamic capabilities and their importance to create value. Dynamic capabilities are defined by Teece et al. (1997, p.516) as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments". Eisenhardt and Martin (2000, p.1107) agrees on the view on dynamic capabilities as identifiable specific routines rather than "routines to learn routines". The notation of dynamic is used as it reflects how well a firm can reconfigure its resource base to create new capabilities that better meet the need of the current and future market. Note that the concept of dynamic capabilities already is considered in TCE and asset specificity. Holcomb and Hitt (2007) use this perspective on the RBV in the interface between a focal firm and the intermediate market. They therefore use a narrower set of dynamic capabilities, that is, relational building capabilities, to explain the event of strategic outsourcing. We argue that by investigating the current, historical and future interactions and relationships between the firm and agents on the intermediate market we have a better chance at understanding how those capabilities are created. Therefore, we will not explore the capabilities *per se* but the underlying interactions in terms of cooperative experience.

2.2.6 Cooperative Experience

Gulati (1995) explores the social structure between firms and how it affects economic actions. He emphasizes the importance of investigating the social structure and not only capabilities to understand interfirm relationships. A social structure that enables repeated communication between firms will improve information exchange (Granovetter, 1985). Hence we find evidence that there may be another factor, in addition to previous mentioned strategic relatedness and goal congruence, that affects the likelihood of information exchange between firms and ultimately the likelihood of outsourcing. If more information is exchanged between the focal firm and current and future partners from the market it will increase the reliability of operations conducted outside the focal firm, i.e. outsourced

operations. In addition, a continuous information exchange will increase the trust between the focal firm and the partner. Thus, we have two means of which an increase in information exchange will increase the likelihood of strategic outsourcing as both trust and operational reliability are argued by Holcomb and Hitt (2007) to increase such likelihood. A different view on how social structure impacts cooperation contains the aspect of how historical events may force a firm into a non-favorable lock-in situation (Arthur, 1989). The concept is more known as path dependency and could be found in more areas than technology and industry evolution where it is usually treated (Glasmeier, 1991; Sydow et al., 2009). Holcomb and Hitt (2007) propose that the length and quality of previous relationships affects the likelihood of continuous strategic outsourcing. The likelihood of strategic outsourcing could hence be argued to be influenced by path dependent theory. This would create a problematic situation for firms as they, due to the characteristics of path dependency, may outsource although it is not the long-term rational decision. It creates an irreversible investment situation (Penrose, 1959). The core issue is that the construction of path dependency makes it rational for the firm to stick to the historical chain of events. However, a similar concept in social sciences is imprinting. Some scholars equate imprinting with organizational path dependency while others argue that they are similar but different (Beckman and Burton, 2008; Sydow et al., 2009). Sydow et al. (2009) argue that while path dependency is a process that is causing it to cause outcomes that were unthinkable in the start of the process, imprinting is a process, which is constantly affected by the initial setting. What both concepts share, independent of the notation used, and what is useful when considering outsourcing in the Swedish market for consumer credits is that past events affects current decisions. We conclude that exploring the past and current events of the focal firm lead to some insights about why the firm chooses to outsource certain activities.

2.2.7 Resource-Based View Summary

The logic of the interplay among the factors in the RBV affecting strategic outsourcing may be puzzling. However, the logic may be summarized as follows (see Figure 2). Strategic outsourcing, from the RBV is affected by (i) how well the intermediate market complement the focal firm's offering by providing complementary capabilities and (ii) by how well the two firms engaging in market transactions share capabilities and information. The degree of complementarity is affected by the RBV of the firm, i.e. which capabilities does the firm possess and which do they lack. The sharing of capabilities and information is affected by (i) the strategic relatedness of the firms, (ii) how aligned the goals of the firms are, and (iii) the extent of the current and historical interface of social interplay between the firms. Strategic outsourcing is a strategy to leverage internal and external resources, which if done properly, create a competitive advantage and consequently shareholder value.

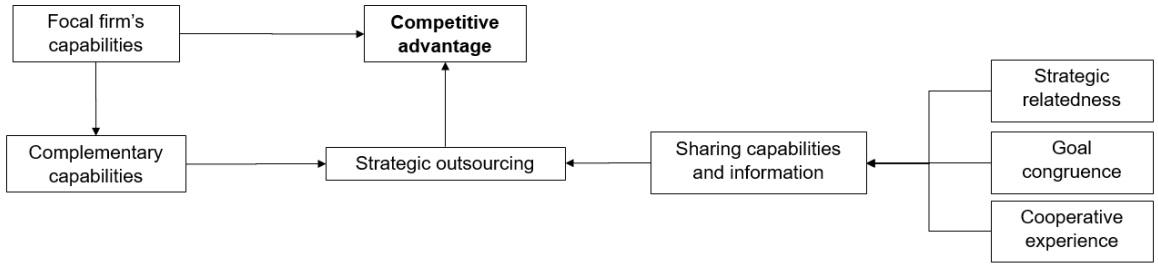

Figure 2. A visualization of how the concepts of the RBV are interrelated.

2.3 A Common Framework

So far, we have concluded that TCE and the RBV separately can be used to explain the boundary of the firm and consequently the occurrence of outsourcing. We have seen that some concepts appear in both views, for example asset specificity presented in TCE as it also affects competitive advantage in the RBV where assets are referred to as resources and capabilities. We have also found concepts in one approach that do not have a corresponding concept in the other approach. We thus conclude that the two approaches are complementary and as the approaches generally emphasize different causes of strategic outsourcing no view should be used alone. This is in line with most scholars' view, which states that both TCE and RBV should be used to describe the means of strategic outsourcing from a focal firm's point of view (Leiblein & Miller, 2003; Argyres, 1996; Jacobides & Winter, 2005; McIvor, 2009; Holcomb and Hitt, 2007; Combs and Ketchen, 1999). Although many scholars agree on the importance to consider both approaches, no common conceptual framework has been agreed on. Jacobides and Winter (2005) describe how a firm's capabilities and transaction costs are interrelated and how this relation decides the scope of the firm through a set of mechanisms. Holcomb and Hitt (2007) propose a simpler theoretical framework which incorporates both TCE and RBV as perspectives used to understand strategic outsourcing but where the perspectives are not interrelated.

While both Jacobides and Winter (2005) and Holcomb and Hitt (2007) propose theoretical models, McIvor (2009) presents a more practical framework for outsourcing where TCE is integrated with the RBV. The framework presented starts by identifying a firm's competitive advantage (RBV) and ends by identifying the opportunism of outsourcing (TCE) to which the firm should adopt accordingly. McIvor (2009), moreover, presents a set of proposition that consider cases where TCE and the RBV are complementary or contradictory in terms of which outsourcing decision they promote.

In a case where the two approaches promote contradictory behavior regarding outsourcing of activities, it could be argued that the firm is more likely to follow the RBV rather than following TCE.

The argument is based on a study by Combs and Ketchen (1999) who found evidence on such a behavior; firms put resource-based concerns above transaction costs concerns when considering interfirm collaboration.

The two theories, TCE and RBV, have different objectives for outsourcing. As has been shown in this literature section, the following statements can be made:

(1) The main objective of TCE is to minimize transaction costs.
(2) The main objective of RBV is to create competitive advantage to generate profits.

The governance structure for a transaction should according to the theories be carried out to meet their respective objectives. If the costs of a transaction are lower using the market compared to hierarchical governance, TCE argues for outsourcing. Likewise, if a transaction can create more competitive advantage if outsourced to the market than carried out in-house, RBV argues for outsourcing. The theories are complementing each other, as TCE provides cost-based view and take contractual difficulties into consideration in contrast to RBV that focus on long-term strategic perspectives. Figure 3 shows four scenarios for whether to outsource or not according to TCE and RBV. Activity falling under any of these scenarios can generally be described as:

S1. *An activity in which the transaction cost is minimized though hierarchical governance, and the competitive advantage is maximized through hierarchical governance.*

S2. *An activity in which the transaction cost is minimized through market governance, and the competitive advantage is maximized through hierarchical governance.*

S3. *An activity in which the transaction cost is minimized through hierarchical governance, and the competitive advantage is maximized through market governance.*

S4. *An activity in which the transaction cost is minimized through market governance, and the transaction cost is maximized through market governance.*

Whilst the theories are not contradicting in nature, they can lead to contradicting recommendations as in S2 and S3. In a contradicting situation, we expect the outsourcing decision to vary depending on the specific transaction and firm characteristics. Although it has already been mentioned that a study has shown a tendency among companies to give more emphasize to RBV. When applying Figure 3 to a

transaction that has already been made, it can assess whether a firm acts according to TCE, RBV, or both by measuring the transaction costs and competitive advantages linked to the transaction.

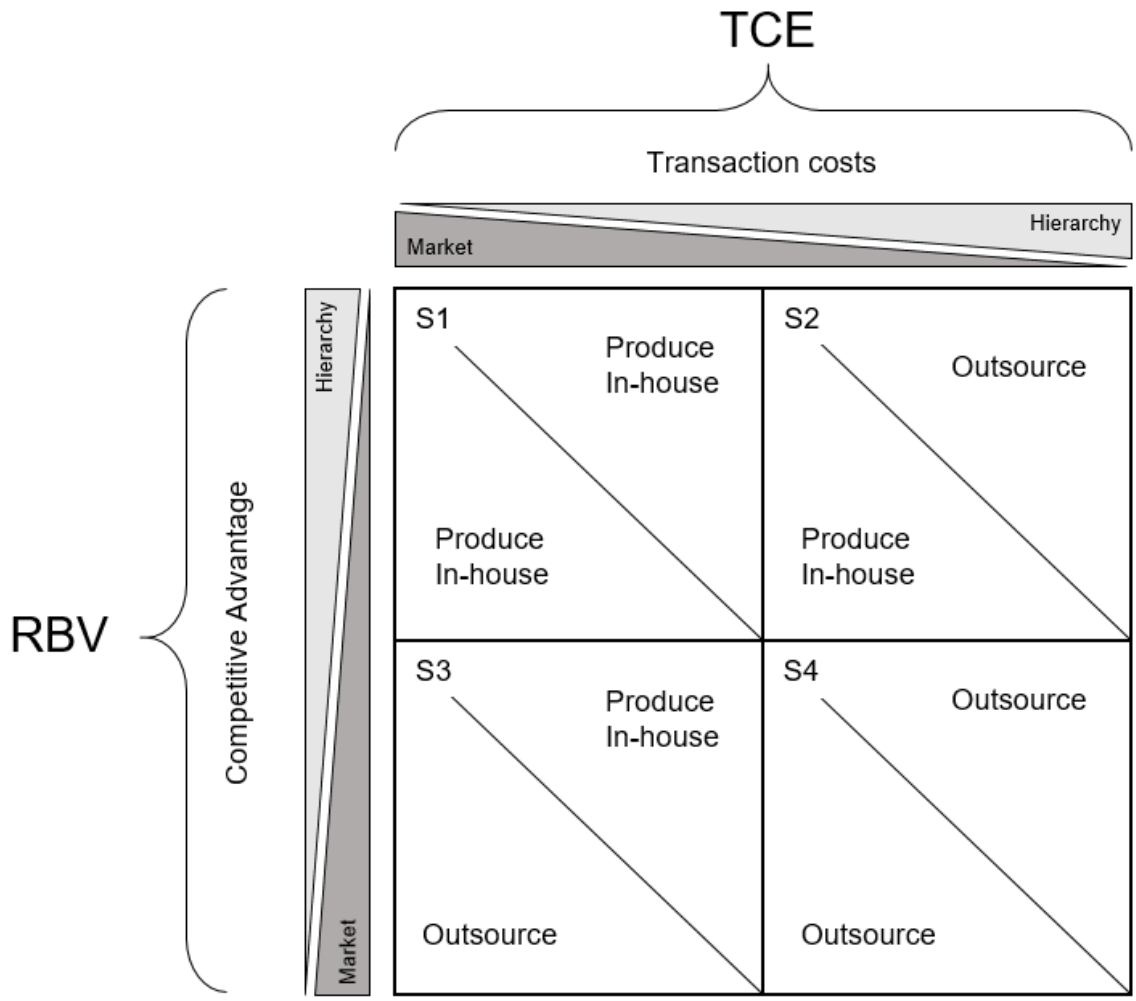

Figure 3. A model of how TCE and RBV affect the outsourcing decision

2.4 Research Question

To understand why firms choose to outsource consumer credits we must answer the following research question. The question is based on the two theoretical approaches to outsourcing.

How are ecommerce firms' decisions to outsource consumer credits influenced by transactional and resource-based aspects?

3 Method

In this chapter, we present the method used to come up with answers to the research question. The chapter starts by outlining the research design. Then, the case methodology applied is presented. The chapter ends by presenting how the used method has ensured sufficient research quality.

3.1 Research Design

There are several different research strategies that can be used when approaching a research question. The most advantageous strategy to use depends on the situation, which is described by three conditions (Yin, 2003). These conditions are; form of research question, the extent of control the research has over behavioral events, and the degree of focus on contemporary, in contrast to historical, events. In the view of this, the most suitable research strategy for this thesis was determined by the situation. (i) The research question is in the form of "how", with the aim to understand how firms outsourcing decision of consumer credits are influenced by transactional and resource-based aspects. (ii) As authors of this thesis, we have no control over behavioral events, here being firms' decision to outsource their consumer credit product. (iii) The thesis is focused on contemporary events, being firms' current governance structure of consumer credits. Given how our thesis relates to the three mentioned conditions, a case study was the most advantageous research strategy (Yin, 2003). Therefore, this thesis was conducted as a case study.

A case study can either study a single case or study multiple cases. The single case approach is usually most suitable for studies that cannot be satisfied by multiple cases, such as unusual or rare cases, critical cases, and revelatory cases (Yin, 2003). Otherwise, the study of multiple cases is often considered as more robust (Herriott & Firestone, 1983). Considering that our research question is including online retailers in general, it can be studied through multiple cases, and therefore the multiple case approach was selected for this study.

This thesis has both explanatory and exploratory elements. The research question was analyzed in an explanatory matter of how the cases synthesize with the theoretical framework. Although, we do not claim to provide a conclusive solution that can be perfectly applied to all firms since the answer to the posed research question will be based on a small sample size. Even though this thesis is restricted both in terms of time and resources that results in the chosen research design, a case study will still contribute to the understanding of why Swedish retail companies outsource credit products and are

hence assumed to be sufficient to meet the purpose of the thesis. Throughout the whole study a qualitative approach was used. A qualitative approach is useful when the aim is to understand or illuminate a certain situation where little is yet known (Hoepfl, 1997; Strauss & Corbin, 1990). Although a clear distinction between qualitative and quantitative research is sometimes regarded as obsolete, we stick to the notation due to the historical anchoring it has in academia as well as its usefulness when dividing research into different strategies (Bryman, 2004).

The Case Study Method, as is displayed in Figure 4, and as being described in Case Study Research: Design and Methods (Yin, 2003), was used in this thesis. This method includes three different steps: (i) define and design, (ii) prepare, collect, and analyze, and (iii) analyze and conclude. The first step includes development of theory, selecting cases and creation of a data collection protocol. The second step includes conduction case studies and writing individual case reports. Finally, the third step includes drawing cross-case conclusions and modification of theory.

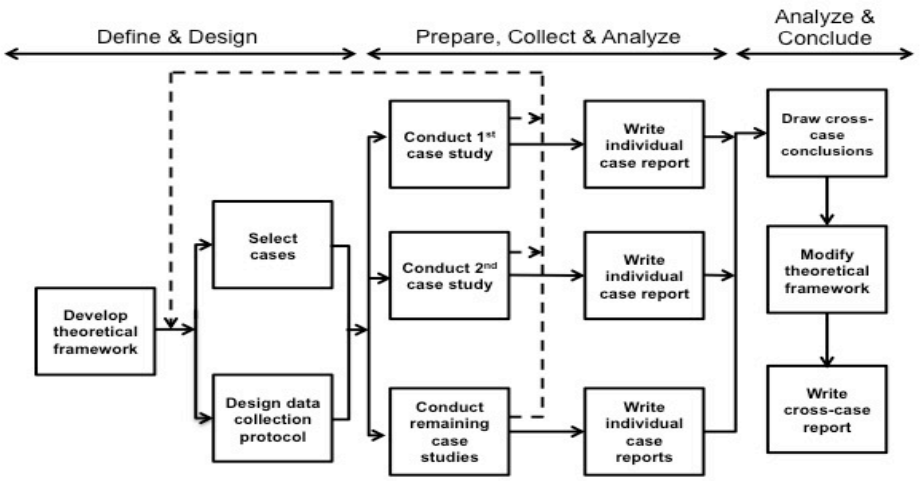

Figure 4. A model of the case study method adapted from Yin (2003, p.50)

3.2 Define and Design

The define and design step is the preparatory step. This step includes the tasks to develop a theoretical framework, to select suitable cases to study, and design a protocol for collection of data.

3.2.1 Development of Theoretical Framework

The research started by going through academic literature relevant for the specific research topic to find theories that could be used to explain and understand motivations for outsourcing. Based on literature findings a theoretical framework was proposed. The creation of a theoretical framework leads up to the research question that this thesis aims to answer. The proposed framework made up the foundation on which the empirical data was collected by acting as a guideline for formulating interview questions. The framework also served as an explanatory factor for why the studied firms act as they do. Some part of the framework might be more present than others.

3.2.2 Case Selection

A multiple case study follows replication logic rather than sample logic for the selection of cases (Yin, 2003). This means that cases should either be selected to, predict similar results (literal replications), or to contradict each other out of anticipatable reasons (theoretical replications). The theoretical framework anticipates that there may be contradicting cases depending on how firms value competitive advantage over transaction costs. An ideal case selection would then include several literal replications of each possible theoretical replication. However, to design such a case selection has been impossible for the authors because the authors cannot know on beforehand if a firm values competitive advantage over transaction costs, and which theoretical replications that exists in practice. What the authors can know on beforehand are, whether a firm outsource or develop their own credit product and what other factors a firm is associated with in terms of size, industry and sales channels. Therefore, the cases were selected to reflect both types of governance structure for the credit product, but with most cases investigating firms that outsource since it is by far the most common governance structure. The cases were also selected to cover firms of different sizes, firms in different industries, pure online retailers, and firms with both online and physical in-store business. An overview of all cases is presented in Table 1 and full interviews are found in Appendix I.

Case	Position of person interviewed	Size	Industry	Sales Channels	Types of credits	Outsource consumer credits?
A	Business Developer	Large	Fashion	Physical stores and digital channels	Invoice Installment Revolving credit	Yes
B	CEO	Small	Pet food & pet supplies	Digital channels	Invoice Installment Revolving credit	Yes
C	Business Controller	Large	Home and leisure products	Physical stores and digital channels	Invoice	Yes
D	Founder	Small	Gadgets	Digital channels	Invoice Installment Revolving credit	Yes
E	Business Developer	Large	Electronics	Digital channels	Invoice Installment Revolving credit	Yes
F	CFO	Medium	Office equipment	Digital channels	Invoice	No

Table 1. Overview of cases

As the nature of this study is exploratory, the goal was not to conduct enough cases to get a statistically significant result. Six cases were conducted covering different types of firms. Based on the results from these cases, we could either see that one theoretical replication were frequently recurring, that a multitude of different theoretical replications were present, or that our theoretical framework had no explanatory value.

To support these cases with different sources of information, firms providing consumer credit products as well as investment firms investing in online retailers, were used for complementary data collection. The rationale behind why multiple parties of the transaction were used is that they may have different views on what is affecting the decision to outsource. An overview of supportive interviews is presented in Table 2 and full interviews are found in Appendix II.

Firm	Position of person interviewed	Type of business
Supplier A	Business Developer	Offering a complete set of consumer credits
Investor A	Co-Founder	Investing in early stage start-ups
Investor B	Partner	Private equity investor with an interest in e-commerce

Table 2. Overview of cases

3.2.3 Data Collection Protocol

The data collected from all cases should be extensive enough to describe how a firm acts out of both a TCE and a RBV perspective. Therefore, we designed our data collection protocol to include entries for all parts of the two theories. The data collection protocol was thereafter served as a foundation for what to look for in the case studies. After each case study the data collection protocol was revisited and if necessary refined, based on new insights. Each case study followed the guidelines of the data collection protocol, which implies that all cases were studied in the same way.

3.3 Prepare, Collect and Analyze

The empirical data in this thesis is of primary type. Data were obtained mainly from interviews with Swedish retail companies, but also from companies specialized in providing credit products and investors in the ecommerce industry.

An alternative approach to using interviews would be to rely on questionnaires. Using questionnaires would allow us to collect a larger amount of data points, however at a lower accuracy in result. There is a clear trade-off between reliability and size of the data collection (Bryman and Bell, 2015). As this thesis has a broad purpose, which requires a deeper understanding of the business setting as well as other financial, organizational and knowledge related factors, we argue that interviews are superior to questionnaire because the risk of missing out on important information is lower in the former than the latter. The pro-interview argument is further strengthened by the practical fact that answering open-ended questions is easier in an interview setting than when using a questionnaire. In addition, as some

knowledge may be tacit by nature (Nonaka, 1994), it is easier to extract such knowledge during an interview setting when the interviewer can help the interviewee to extract such knowledge by giving the interviewee the right tools.

3.3.1 Case Studies

Six case studies of six different firms were conducted, where all firms have an online retail business and all have a consumer credit payment solution. The primary goal when conducting each case study has been to collect enough data to address our research question.

Interviews have been the main source of primary data. The interviews were chosen to be semi structured which is argued to be suitable for exploratory research questions (Bryman, 2004). What this means is that there are some on beforehand chosen questions that were asked and elaborated upon during the interview. The questions are open-ended, meaning that a static answer like “yes” or “no” is not sufficient as an answer. A more nuanced answer is required where the interviewee for example must describe a situation, method or approach. This allowed us to steer the interview in a suitable direction giving us the opportunity to extract as much relevant information from the specific firm as possible (Rubin and Rubin, 2011). This approach is especially useful when the interviewee possesses information that he or she is not aware of and of which he or she is not able to explicitly transmit. An example is questions regarding bounded rationality that, due its characteristics, need to be sufficiently broad so that the answer contains enough details to give the opportunity to understand the person or firm's behavior even though it is not explicitly stated. The open-ended questions, on which can be elaborate, is a useful tool to extract such information. We furthermore think this interview approach was suitable as we assume the firms differ by nature and have reasons to act which we on beforehand cannot properly address. Too static interview questions would hence not be enough to fulfill the purpose of the thesis.

Although the questions were open-ended, we still needed some structure to be able to compare the results among the interviews in a more convenient way. An interview structure was therefore created, based on the aspects of TCE and RBV mentioned in the theoretical framework.

All firms are anonymous due to secrecy reasons. Several firms consider the examined part of the business to be important to the firm, they consequently regard certain information as non-public. For example, the study required specific information about the contracts established between the retailer and the supplier of consumer credits that we would be unable to collect if the contract could be traced to a certain retailer-supplier relationship. In addition, by ensuring that the firms and the interviewees

would remain anonymous throughout the whole study, the interviewees expressed that they could include richer and more honest information about their situation in their answers.

The size of the firms influenced which person in the organization we interviewed. In smaller companies, a higher executive such as CEO or CFO were usually interviewed. In larger organizations, the focus was to find people, which were directly responsible for, or highly involved, in e-commerce from a strategic point of view. Regardless of the size of the organization the interviewee needed to hold sufficient understanding of the firm's strategy formulation and implementation.

Wherever possible, the format of the interviews was face-to-face, where the authors were both actively asking questions. All interviews were recorded and afterwards summarized. This allowed the authors to focus on the flow of the interview instead of taking notes. If it was not suitable to meet in person, the interviews were hold using web-based communication tools such as video calls. Traditional phone interviews were also considered and used if no other option was available. In addition, regardless of the format of the interview, a list of interview questions was in most cases sent before the interview to prepare the interviewee. By preparing the interviewee we ensured that more accurate and thought through answers were obtained, which would not have been the case were the questions not sent before the interview. However, sending questions before the interview should be done with caution as, depending on what is investigated, it may allow the interviewee to answer in an opportunistic way which do not necessary need be corresponding to reality. The problematic trade-off was considered before all interviews.

3.3.2 Framework for Interviews

For the interviews, the following framework was used. The framework was constructed to cover the essential parts in TCE and RBV that affect the governance structure of consumer credits. Each question was tied to a part of either TCE or RBV, but the questions were also designed to overlap each other in theoretical concepts and potentially answers.

General information concerning credits

- How important are credits for the sales? (**Complementary capabilities**)

Current situation

- What costs do you have when you outsource consumer credit? (**Production cost**)
- What costs would you have if you had your own consumer credit product? (**Production cost**)
- What is most profitable, handling credits in-house or outsourcing? (**Production cost**)

- What factors do you weigh in when choosing to outsource or not? (**Production cost**)
- How many suppliers of consumer credit products did you choose amongst when outsourcing? (**Small numbers**)
- How would you explain the relationship between you and your credit provider? (**Cooperative experience**)
- Do you measure success in the same way as your credit provider? (**Strategic relatedness**)
- How extensive is the contract that is established between you and your supplier? (**Bounded rationality**)
- How do you ensure that your credit product supplier completes the contract? (**Opportunism**)
- On what factors is it easy to compare the different credit providers and on what factors makes it difficult? (**Information impactedness**)

Alternative situation

- Does the outsourcing of consumer credits give you a competitive advantage? (**Competitive advantage**)
- What gives you the most competitive edge, running your own credit or outsourcing? (**Competitive advantage**)
- Can you increase the customer experience by doing it yourself? (**Competitive advantage**)
- What assets / resources are required to offer credit products themselves? Credit Product is quite like what it looks like now, if you had the opportunity to design your own credit product tailor-made to your needs, how would it look then? (**Asset specificity**)
- What future uncertainties do you see in consumer credits? (**Uncertainty**)

3.3.3 Case Reports

In chapter four, each case is explained in a narrative manner, from which each firm's rationale behind the chosen governance structure of consumer credits can be derived. All cases are also supported with data from investors and a supplier of consumer credits, and serves as a multiple source of evidence as well as contributing with supporting insights.

When the data had been collected, we categorized it by using coding. In this procedure, data were continuously broken down (coded) into different levels of concepts, categories, properties, hypothesis and theories (Bryman, 2004). In practice, the data obtained from the interviewed were categorized during the coding exercise into the theoretical concepts identified in the theoretical framework. This allowed us to compare how different cases compared on a specific theoretical concept. Hence, we used coding to make sense of the data collected from the interviews. Therefore, it was critical that we could

record the interviews in all cases, as the transcription procedure is an important first step to coding. The different levels of concepts and categories that were the outcome of the coding process made up the foundation on which we built the answer to the research question.

3.4 Analyze and Conclude

The general strategy for analyzing the cases relies on our proposed theoretical framework. Since the theoretical proposition reflected our research question and framed the data collection, this is a suitable strategy (Yin, 2003). We used an explanation building technique to show how the cases reflected the theoretical framework.

3.4.1 Cross-Case Conclusions

The cases were compared against each other to draw conclusions for why firms act alike or why they differ. Looking through the theories of both TCE and RBV did this. The firms were compared on all elements in the both theories, and in relation to their reasoning for chosen governance structure of consumer credits.

3.4.2 Theory Modification

The cross-case conclusions were put in relation to the theoretical framework, with the purpose of answering the research question. Based on the data collected, it was shown whether one of TCE and RBV has more explanatory power than the other, for how firms chose governance structure of consumer credits. In detailed analysis of how the cases relate to the theories, it was also explained why firms choose to outsource consumer credits.

3.5 Research Quality

In this section, we elaborate on how we ensured that the thesis would be meaningful and how we assured the importance of research quality. In recent decades, criticism about the use of traditional research quality methods when judging qualitative research has grown (Seale, 1999). A community of scholars has collectively criticized the applicability of using traditional quantitative concepts such as reliability and validity to judge qualitative research (Stenbacka, 2001; Lincoln and Guba, 1985). Individual scholars have proposed new methods of judging qualitative research but no uniform approach has been agreed on. For example, Bryman (2015) proposes an alternative way, in contrast to the traditional reliability-validity approach used in quantitative research, of how qualitative research

should be judged. Bryman refers to Lincoln and Guba (1985) who propose that qualitative research should be judged based on trustworthiness and authenticity rather than reliability and validity.

Although the old paradigm of reliability and validity in research quality has been contested, this thesis will still use the notation of reliability and validity. The reason is that, for example, Bryman (2015) states that the proposition of Lincoln and Guba (1985) regarding trustworthiness has clear parallels with the old paradigm of quantitative research, e.g. reliability, validity and objectivity. We therefore argue that the concepts are partly overlapping and that we would maintain a satisfying research quality, even though we use quantitative notations in this qualitative study. In addition, there are other contributions to how qualitative research could be judged (Stenbacka, 2001) which we will not mention here. The main reason we chose to stick to the notation of reliability and validity when evaluating this study's quality was that it still is the most common way of assessing research quality.

3.5.1 Reliability

LeCompte and Goetz (1982, p.35) define reliability as "the extent to which studies can be replicated". Several scholars point to the difference between internal and external reliability (Bryman, 2015; LeCompte and Goetz, 1982; Wallén, 1996), where internal reliability deals with to what extent several observers describe a phenomenon in a similar way and where external reliability deals with to what extent the study can be replicated with the same result. In quantitative research both internal and external reliability should be met.

3.5.2 Validity

The process of validation ensures that scientific explanations match the events of the real world (LeCompte and Goetz, 1982). Validation should be approached in two ways like how research reliability is approached. First, internal validation is a fundamental requirement in research as it tests if researchers measure what they aim to measure (Bryman, 2015). Second, external validation address whether the findings of research can be generalizable across groups (Lincoln and Guba, 1985). To ensure academic dignity internal validation is highly required. However, due to the nature of qualitative research in social science such studies are seldom generalizable as it is practically impossible to replicate a social system due to the infinite number of related variables. Therefore, research in social science does to a certain extent lack a high level of external validity. Research in social science is still useful as it generates insights about the observed phenomenon. Consequently, this thesis is bringing insights into the understanding of online retailers' approach towards outsourcing of consumer credit products. Note that the aim of this thesis is not to propose generalizable insights which can be used to

further generate insights about settings which differ in formal- and informal institutions, geography and time.

3.5.3 Triangulation

A common way of ensuring both reliability and validity of a study is the use of multiple methods also known as triangulation (Jick, 1979; Bryman, 2015). Denzin (1973, p.297) defines triangulation as "the combination of methodologies in the study of the same phenomenon". Triangulation should be used to ensure that the result of a study does not depend on how the phenomenon is investigated, as the weaknesses of using each method is compensated by a complementary method (Jick, 1979). The use of triangulating methods is resource intensive. Although it is preferable, this thesis does not have an extensive scope enough to motivate the use of several methods.

However, triangulation should be a general strategy that has not to be used only with regards to methods. Denzin (1973) proposes several other types of triangulation such as data, investigator and theory. This study used all those triangulation types to ensure the validity. Thurmond (2001) emphasizes the importance to articulate the reason to use triangulation to enhance a study. The reason to use the types of triangulation is therefore motivated here. First, data triangulation was used by looking at multiple cases, in which cross case similarities indicates a robustness of the collected data. In addition, data collected from interviews with investors and suppliers triangulates the data collected from each case. Triangulating data hence ensured internal validity. Second, investigator triangulation was used, as both authors were present at the interviews. This ensured that the information, both visible and verbal, collected during the interview was properly perceived, hence internal reliability was ensured. Third, theory triangulation was used when the proposed theoretical framework was established. The concept of strategic outsourcing was investigated and explained by transaction cost theory as well as the RBV. We used several theories which each, or in combination, were able to explain outsourcing, as we have not found a unified framework to use to study strategic outsourcing. The use of an extensive framework, which could be applied to other settings, ensured the research external reliability. To conclude, this thesis used the multiple triangulation strategy (excluding method triangulation) that Denzin (1973) and Lincoln and Guba (1985) suggest is preferable to ensure a sufficient research quality.

3.5.4 Ethics

Research ethics aim to guide the researcher to not conduct research on the cost of another party whether it is another researcher, a participant, a family member, the government or, the nature (Resnik, 2011). There is a growing conflict between academic objectivity and business interest

(Shamoo and Resnik, 2009) resulting from an increase of privately financed research. However, this thesis was requested by Stena Adactum but there is no interest in nothing but the truth. In addition, and more importantly, it lies in the interests of the researchers to meet a high level of credibility that only will be achieved by supplying objective research. Although the thesis has involved a private firm there is no reason to doubt that the thesis was conducted in accordance with ethical guidelines proposed by Bryman (2004) because the goal is to gain new insights rather than dictating what is true or not as, for example, is common in pharmaceuticals. In addition, this study did not harm participants, invade on privacy or rely on neither the lack of informed consents nor deception.

4 Empirical Findings

In this chapter the firms that have been studied are presented as cases. Each individual case is presented separately by taking both a TCE and a RBV perspective. The data in each case is based on interviews with people from each firm and who work with the firm's consumer credits. The data gathered from the interviews can also be found, without interpretation, in the appendix.

4.1 Case A

When applying a TCE perspective on Firm A we find both arguments in favor and against outsourcing of consumer credits. The risk of opportunistic behavior and the influence of bounded rationality that stems from the information asymmetry create governance costs associated with outsourcing. Although the supplier is, according to Firm A, transparent we argue that there is still an impending risk of opportunistic behavior as Firm A cannot be confirm that the supplier is not acting opportunistic, although the risk is limited. Increasing governance costs reflects a situation where the firm should consider carrying out activities in-house rather than outsourcing. However, as the assets required to produce consumer credits are relatively easy to acquire due to its non-specific characteristics and because the product is not customized to fit Firm A's customers, TCE states that such activities should be conducted on the market where sufficient scale could be reached. TCE thus gives an ambiguous answer to whether Firm A should outsource or produce in-house but we argue that it tilts towards outsourcing rather than to produce in-house.

Dimensions	Difficulties	Costs
Asset Specificity: Firm A can acquire the required assets in terms of IT and legal competencies meaning that there is limited asset specificity. The firm uses a larger supplier, which can reach economies of scale in IT and legal areas. **Uncertainty:** Banks and suppliers of consumer credits are more exposed to uncertainties compared to Firm A.	**Opportunism and Bounded Rationality:** There is a risk of opportunism as Firm A cannot be sure the supplier acts opportunistically when the supplier decides to which consumer it offers credits. **Information impactedness:** The supplier is sufficiently transparent regarding customer service reducing bounded rationality slightly.	**Governance Costs:** The appearance of opportunism and bounded rationality creates governance costs but which are limited due to the supplier's transparency. **Production Costs:** Production costs are moderate due to the need of external competencies that have limited specificity.

Table 3. Case A applying TCE.

When applying a RBV perspective a more homogenous view is found. Firm A's strategy has led the firm to acquire the capabilities needed to buy and sell physical goods. Those capabilities are not useful when providing consumer credits. Producing consumer credits is not seen as creating a competitive advantage why RBV therefore propose that those activities should be outsourced and the capabilities needed should not be acquired. The fact that consumer credits complement Firm A's current offering is also pointing towards outsourcing as a suitable means of acquiring the needed capabilities. Sharing of capabilities and information is crucial to make outsourcing productive. Information regarding the customer's experience is continuously shared between Firm A and its supplier mitigating the risk of outsourcing stemming from asymmetric information. However, as Firm a recently switched supplier of consumer credits it indicates that there is no historical attachment to a certain supplier that would make outsourcing more likely. To conclude, applying a RBV perspective on case A indicates that Firm A should outsource consumer credits.

Capabilities	Complementary Capabilities	Sharing Capabilities
Firm A's capabilities reflect the firm's aim and purpose to sell physical goods rather than financial products. Firm A does not have the required capabilities to provide consumer credits but would have to acquire those. The required capabilities are mainly in IT and law.	Consumer credits drive sales rather than profitability indicating that consumer credits are complementary to the sales of consumer goods. Offering consumer credits requires complementary capabilities indicating that Firm A should ally with a firm that possess the complementary capabilities.	Firm A has recently switched supplier indicating that it does not stick to a supplier due to historical events. Customer satisfaction is continuously followed-up through information sharing.

Table 4. Case A applying RBV.

4.2 Case B

It would be very hard for Firm B to reach the same scale efficiency as the market, and to facilitate their own consumer credit product would create costs in form of acquiring people and sufficient monetary funds. The transactional difficulties are moderate and do not seem create high governance costs. Although, the uncertainty regarding conversion rates creates a cost in evaluating suppliers and risk of not choosing the best one. Overall the asset specificity is low and therefore, with the moderate effect of the difficulties and high in-house production cost, TCE holds that using the market would lead to lower costs than in-house production.

Dimensions	Difficulties	Costs
Asset Specificity: Has no use of a more firm specific credit product, than e-commerce standard. **Uncertainty:** Cannot, on beforehand, know conversion rates for different credit products. Emerging payment methods that become customer's preferred choice.	**Opportunism:** Relationship described as open. Supplier could potentially deliver poor customer experience. **Bounded Rationality:** Keeps track of credit acceptance level and customer experience. **Information Impactedness:** As much information as possible and allowed, is shared between Firm B and their supplier.	**Governance Cost:** The credit product is evaluated on a yearly basis. No experience of contractual exploitation. **Production Cost:** Could build their own consumer credit products, but could not handle the tied-up capital from supplying consumer credits. Would need to acquire people and monetary funds to build their own credit product.

Table 5. Case B applying TCE.

Firm B lacks the capability to facilitate their own consumer credits, although offering credits to their consumers is a crucial part of their business. Firm B could either acquire the necessary capabilities in-house or by outsourcing, and they have done so though the latter alternative. According to RBV theory however, they should choose the alternative yielding the most competitive advantage. Seeing that their supplier also serves other firms, they do not get any direct competitive advantage from outsourcing. However, by outsourcing they do gain time and resources (compared to the in-house alternative) to focus on their core business in which their competitive advantages lie. Seeing that Firm B does not see the need for a credit product that is more customized to their business, they would arguably not get any competitive advantage by developing their own credit product.

Capabilities	Complementary Capabilities	Sharing Capabilities
Firm B's capabilities are aligned with their core business, selling a niched type of retail products online. They currently lack the capabilities to build their own credit product. They do not acquire these because it not within their core business.	Firm B regards a consumer credit product as a crucial complement to their business. Because it is a market leading payment method, preferred by many customers. If they didn't offer consumer credits, they would lose customers.	The relationship with the supplier is described as open, with multiple shared metrics and aligned incentives of making money through credit sales. Information about customers is shared.

Table 6. Case B applying RBV.

4.3 Case C

Firm C has little actual governance costs as the firm has little contact with its supplier of consumer credits and share little information. This creates a risk of opportunism. The risk of opportunism together with the fact that Firm C would be able to supply consumer credits in house and reach the same result as of outsourcing implies that the firm, from an overall TCE perspective, should supply consumer credits in-house.

Dimensions	Difficulties	Costs
Asset specificity: The consumer credit product is not customized to Firm C but is like what competitor and other suppliers offer. **Uncertainty:** Largest uncertainty is customer debt. Technology risk is limited although new technologies are expected to appear.	**Opportunism:** Credit acceptance is exposed to opportunism, as Firm C cannot assess the acceptance level of the supplier. **Bounded rationality:** The acceptance level is not controlled by the contract. Firm C has so far not been exposed to a situation, which is not controlled by the contract. **Information impactedness:** Both parties were satisfied with the contract. No information outside the order flow is exchanged and Firm C sees no point in acting if it is working.	**Governance costs:** No following up with the supplier and no monitoring regarding opportunism generate limited actual governance costs. **Production costs:** Time is a cost of producing consumer credits in-house. Firm C has however concluded that producing in-house would be as good as outsourcing. Cash flow is sufficient to cover credits although Firm C has better cash flows when outsourcing.

Table 7. Case C applying TCE.

The lacking capability due to time restrictions (but not necessary lack of resources) together with the fact that consumer credits are somewhat complementary indicates that Firm C should outsource consumer credits from a RBV perspective. It is further strengthened by the solid cooperative experience between Firm C and the supplier but is dampened by the lack of information sharing between Firm C and the supplier and the in-house capability of invoices to business customers. We argue that the lack of following up consumer credits with the supplier is harmful to the chosen governance structure of outsourcing. However, as Firm C is satisfied with the information exchange this factor gets limited implications.

Capabilities	Complementary Capabilities	Sharing Capabilities
Firm C sees time as the main obstacle from implementing its own consumer credits. No lacking capabilities are mentioned. Firm C emphasize that its strong brand makes it equally good as offering consumer credits compared to the supplier. Firm C supplier invoices to its business customers.	Consumer credits are products to increase customer satisfaction. Firm C has considered offering consumer credits in physical stores.	Firm C has had the supplier since it started to offer customers credits. The cooperative experience has been good; little information is exchanges if the operation runs smooth.

Table 8. Case C applying RBV.

4.4 Case D

Firm D's governance structure builds upon a lot of trust and a good relationship, accumulated over many years, with their supplier. This trust limits the known costs arising from transactional difficulties. However, this trust might also lead to bounded rationality, in limited contractual evaluation and considering other options. A risk for opportunism is therefore present, although so far the supplier has not acted opportunistically. Taking into consideration that the asset specificity of this transaction is low, and the production cost is quite high, TCE would argue for a market governance structure.

Dimensions	Difficulties	Costs
Asset specificity: Firm D sees no need for a more specific credit product. Their current credit product is not customized, but similar to what other e-commerce firms have. **Uncertainty:** Expresses no concerns regarding transaction uncertainties.	**Opportunism:** Firm D recognizes that there is a risk for opportunistic behavior, but such behavior would likely be spotted by their customer service. **Bounded rationality:** The contract established between the two parts is described as extensive, without any concerns for gaps that potentially could be exploited. If dissatisfaction occurs, supplier is contacted and the issue resolved. **Information impactedness:** Firm D is satisfied with the reporting from their supplier, and regards the information as transparent and rich.	**Governance cost:** Firm D have been using the same supplier for a long time, and due to a strong degree of trust, governance costs are limited. **Production cost:** Firm D could build their own credit product, but could not build it as sophisticated as their supplier can. The biggest constraints for them to build their own credit product would be money and time. If they were to build their own credit product if would be out of economic reasons.

Table 9. Case D applying TCE.

Firm D can put more focus to their core business by outsourcing consumer credits. The firm states that consumer credits boost sales and is complementary to goods sold. The lack of internal resources and scale to be innovative hinders Firm D from producing consumer credits in-house, where economic factors are the main obstacles. Outsourcing is thus the most suitable governance structure. The long-lasting relationship with the supplier makes Firm D even keener to stick to outsourcing as the long-lasting relationship has resulted in a contract with favorable terms. In addition, the relationship with the supplier builds of trust that facilitates information and capability sharing.

Capabilities	Complementary capabilities	Sharing capabilities
Consumer credits are not within the scope of Firm D's core business, and are not a core capability. Even if they could build their own credit product, they lack the capabilities to be as innovative and build as good product as their supplier.	Facilitating a credit product for their customer is an important capability that has increased Firm D's sales. However, their supplier does not give them a competitive advantage as other firms could access the same functions.	Firm D has been using the same supplier for a long time, and shares certain KPIs, amongst which credit acceptance level is the most important one. Firm D has been subject to its supplier's pilot project.

Table 10. Case D applying RBV.

4.5 Case E

Firm E receives a good enough kickback from its supplier of consumer credits making in-house production hard to motivate, as it would require the firm to acquire legal capabilities. Although there are governance costs, Firm E is still better off conducting outsourcing due to the in-house production costs that would arise.

Dimensions	Difficulties	Costs
Asset specificity: The consumer credits offered today are sufficient to meet the needs and no customization is needed. Consumer credits are facing intensive regulations that must be faced. **Uncertainty:** The purchasing behavior of the customers where many small transactions are made over a series of events rather than a larges transaction at a single point in time.	**Opportunism:** Firm E has a governance structure and KPIs that control the acceptance rate. Firm E does not perceive its supplier to act opportunistic. Although, based on Firm E's customer knowledge, they renegotiate credit rejections from time to time. **Bounded rationality:** The contract is annually revised and adjusted according to market developments. **Information impactedness:** Continuously following up sessions with the supplier where common KPIs are evaluated.	**Governance costs:** There are some governance costs stemming from Firm E's governance structure regarding opportunism and annual revision of contract. No governance costs from uncertainties are mentioned. **Production costs:** Firm E has a net income from kickbacks from it supplier of consumer credits. Legal regulations make outsourcing suitable, as it would create additional in-house costs.

Table 11. Case E applying TCE.

In addition to previously mention lack of legal competencies, the firm also lacks innovative power as consumer credits is not the firm's core business. Resources have therefore been put into other activities giving Firm E capabilities that cannot produce consumer credits. The rationale behind this action is that using a supplier is creating a competitive advantage compared to competitors that do not use external specialized suppliers. The continuous information sharing is further motivating outsourcing as the most suitable form of organizing.

Capabilities	Complementary Capabilities	Sharing Capabilities
Consumer credits are not Firm E's core business and the firm does consequently lack the innovation capability that the firm perceive as crucial. Innovation capabilities is financed by large volumes and a firm which offers its own consumer credits does not have the power to compete with firms that specialize in consumer credits.	Firm E states that a good consumer credit affects sales in a positive way. Firm E also sees consumer credits as a complementary way of purchasing good compared to the traditional direct payment option.	The governance structure consisting of meeting with the supplier on different levels of the firm improves sharing of capabilities and information. Common goals are also improving the attitude towards sharing capabilities.

Table 12. Case E applying RBV.

4.6 Case F

From the cost minimizing perspective of TCE, Firm F's hierarchical governance structure is favorable. As they can produce the credit product internally at a lower cost compared to what they would have if outsourcing. Although, the asset specificity is low, which would normally call for a market structure.

Dimensions	Difficulties	Costs
Asset specificity: Firm F's credit product is built upon their enterprise resource planning (ERP) system, but could be built upon any standard ERP system. They hold that credit product on the market aren't suitable for their customer stock, in assessing credit acceptance. **Uncertainty:** Technological progress in credit solutions could put pressure on Firm F to modernize accordingly. If such new solutions would be too complicated to build in-house, outsourcing could be an option.	**Small numbers:** Firm F has been in contact with, and knows of 5-10 suppliers of consumer credit products. **Opportunism:** Compared to suppliers, Firm F can sustain a higher credit acceptance rate.	**Governance costs:** Firm F has found that the firm has less defaulted credits than what is rejected by the supplier credit scoring. The most important factor for the customer is convenience rather than selection of credit products. **Production costs:** Firm F states that the firm has a stable cash flow which supports the running operations and which can support its own invoices. Their credit product is built upon their existing ERP, and can be managed by one person.

Table 13. Case F applying TCE.

Firm F's hierarchical production governance structure gives them a competitive advantage in the sense that they can have a higher credit acceptance level compared to competitors using a market governance structure. Since Firm F's current way of handling credits doesn't claim a substantial amount of resource, outsourcing would not generate that much competitive advantage in the sense that it would enable a refocusing of resources towards Firm F's core businesses. As Firm F puts it, the benefits of outsourcing could be to offer their customer more payment methods, and thereof broadening the current customer stock. Outsourcing would also lead to a better mobile solution for payments, although they do not currently see that many customers coming from mobile traffic.

Capabilities	Complementary Capabilities	Sharing capabilities
Firm F has the capabilities to facilitate their own consumer credit product, and has done so for a long time. Although they might lack capabilities to stay put with emerging payment methods. They argue that their customer stock values convenience more than multiple different payment methods.	Firm F lacks the capabilities to produce more complex consumer credits than the invoice offered today.	*Not applicable*

Table 14. Case F applying RBV.

4.7 Concluding Remarks

The above presented cases give insights into how Swedish firms relate to the decision to outsource, or to not outsource, consumer credits. Some general trends of consumer credits have been observed. Such

a trend is low asset specificity, limited opportunism, and increased costs of in-house production due to the need of capital and stable cash flows within the context of TCE. Within the context of RBV most firms believe that outsourcing consumer credits gives them access to complementary capabilities that they lack internally. All those trends will be elaborated upon in the next chapter.

5 Analysis

In this chapter, the analysis of the cases from previous chapter is presented. The cases are studied in a cross-case analysis to answer the research question of how TCE and RBV influence the decision to outsource. The cases are analyzed and compared within the context of TCE and RBV. We present how the aspects of TCE and RBV separately affect the governance structure. The chapter ends by combining the overall trend of both approaches to answering the research question.

5.1 Transaction Cost Economics

Transactional dimensions and difficulties affect production and governance costs. By analyzing the dimensions and difficulties spotted in the cases, insight regarding which governance structure provides the lowest costs is generated.

5.1.1 Dimensions

Asset Specificity

In all cases the asset specificity of the transaction has been low. The consumer credit products the studied firms use are not tied to any firm specific need, it is rather that all firms express the same desires, good customer experience and high conversion rates. Investor A (Appendix II) also states that credit products should be optimized after customers and buy flow, rather than an online retailer needs. However, online retailers can have different customers and buy flows, and a firm's customer stock, as explained by Supplier A (Appendix II), determines what credit acceptance level a firm can get. This indicates that firms could benefit from more customer stock specific transaction. In the case of Firm F, they have rejected offerings from suppliers, because after running the numbers Firm F identified that they facilitate a higher credit acceptance rate. In Firm D's case, they occasionally negotiate with their supplier to accept customer that has initially been rejected credits. Firms E and F act as they do because they hold superior knowledge regarding their customers than credit product suppliers, which indicates that some firms could benefit from a more transaction-specific investment, in terms of higher credit acceptance levels.

The degree of asset specificity affects both transaction difficulties and transaction costs. According to theory, low asset specificity makes opportunistic behavior less likely to occur. However, we argue that in the market transactions of credit products there is a risk for opportunistic behavior, regardless of the limited asset specificity. Overall the degree of asset specificity does not create higher governance

cost for market structure in relation to hierarchical structure, and the market hold advantages from economies of scale (Williamson, 1985), as the suppliers can sell roughly the same product to many different firms.

Uncertainty

In the cases studied, uncertainty creates incentives both for and against a market governance structure. Uncertainties regarding the technical and legal future of consumer credits, as expressed by most of the studied firms and some investors, can be avoided by applying a market governance structure. Instead of internally investing in the development of a credit product that has the risk of being outdated, firms chose to pick the best market alternative. However, firms face another uncertainty in the process of picking the best market alternative. This is the uncertainty, confirmed by Supplier A and Investor B, of what conversion rates different suppliers have. As firms cannot know these conversion rates on beforehand, the decision of what supplier to choose becomes more problematic. No firms have expressed that there are any transactional uncertainties in their current affairs with their consumer credit suppliers, which in turn would limit governance cost and the consequences of bounded rationality.

5.1.2 Difficulties

Bounded Rationality

Incomplete contracts, as a consequence of bounded rationality, increase the risk for opportunistic behavior. As can be seen from the cases and the interview with Supplier A, contracts are in general extensive but lack details on customer service and credit acceptance levels, which are the most important aspects from the retailers' perspective. These aspects are although being closely monitored by the retailers. In contractual terms, the consequences of bounded rationality do catalyst major governance cost, even though there are contractual gaps leaving room for opportunistic behavior (Williamson, 1975). Overall, bounded rationality could lead to irrational choices of governance structure, since firms face the greatest uncertainties when assessing suppliers and the future demand, if they were to build their own consumer credit product.

Opportunism

As has been stated above, contracts between retailers and suppliers are not covering credit acceptance level and customer service, which allow for opportunistic behavior. On a basic level, such opportunistic behavior stem from different preferences for credit acceptance level between supplier and retailer. Naturally retailers want the acceptance level to be very high, as they do not face the risks of fraudulent behavior from customers. However, as the suppliers are facing the risks of fraudulent

behavior it's in their interest to limit the credit acceptance level. The optimal credit acceptance level is therefore different for the supplier than it is for the retailer. Customer service, including the handling of customers' not fulfilling credit agreements, does also have the potential misaligned interests. From the retailer's perspective customer service should be excellent while for the supplier it's also a cost aspect to be optimized.

Even though suppliers could act opportunistically, none of the studied firms have expressed such behavior from their suppliers. The reason for this could be that bounded rationality limits the retailers from spotting opportunism, but that is unlikely. The retailers have tools for spotting poor conversion rates and customer experience. Supplier A also concludes that they do not act opportunistically, even if they could, since it would damage their reputation that would be harmful in the long run. Since the consumer credit market does not suffer the effect of small numbers, suppliers face a competitive landscape while retailers hold a bargaining power. Contracts are also revised on a yearly basis, giving retailers room for renegotiation. In conclusion suppliers has little room for opportunistic behavior and retailers can actively try to avoid it if long as they are well informed.

Information Impactedness

In the theoretical framework, we concluded that the presence of information impactedness in general and information asymmetry was increasing the risk of opportunistic behavior. The firms studied have proved that there exists an imbalance of information as the supplier of consumer credits in all cases keep some information about the transaction from the retailer. In addition, some cases indicated that the retailers did withhold some information from the suppliers as well. However, the consensus among the retailers studied is that they receive sufficient information about the transaction and that they understand and accept that the suppliers withhold some information about consumer risk assessment. Most retailers' and suppliers' mutual monitoring of operations and sharing of KPIs helps to equalize the information asymmetry. We therefore conclude that the risk of both adverse selection and moral hazard is present but limited by the sufficient information sharing between retailers and suppliers. Hence, information impactedness is a minor transactional difficulty.

5.1.3 Costs

Production Costs

The costs at which a firm can produce a product by themselves compared to at what cost the market can produce, will ultimately determine the governance structure. As has been argued, the asset specificity for credit products is quite low. The low asset specificity lets suppliers develop economies of scale, which gives them a cost advantage compared to retailers. Seen from the cases many firms argue

that they could develop their own credit product, but not be as innovative as their supplier. Another aspect affecting production cost is according to Supplier A, Investor A, and Investor B is the cost of cash flow and tied capital as well as the cost of acquiring required capabilities and running the consumer credit operation. The retailer holds a cost disadvantage in starting up and maintain their own credit product. Even if a firm may be able to produce its own credit product, to reach the same quality as their supplier, would likely be more expensive the purchasing a product on the market.

Governance Costs

Even if market can produce at a lower cost than individual firms, high costs of accessing and using the market could still make it more beneficial to, from a cost perspective, to produce internally. However, in the studied transactions, the dimensions are favorable for a market governance structure, mainly because of the low asset specificity (Williamson, 1985). Consequently, the transactional difficulties are also quite low, and firms do not face extensive opportunism. As has been seen in the cases firms do spend resources on monitoring their relationships and acquire information, but overall the relationship is described as trustworthy, which limits the need for constantly evaluating the supplier.

5.2 Resource-Based View

The essence of RBV is to consider a firm as a collection of resources and capabilities which, if govern properly, will generate and sustain a competitive advantage. The following sections will elaborate on the capabilities of the firms studied and how those capabilities are connected to the firms' competitive advantages.

5.2.1 Capabilities

All firms but one firm states that they lack the capabilities needed to produce consumer credits. The most common capabilities lacked by the firms are capabilities in IT, innovation and law. As capabilities are means of creating competitive advantage (Barney, 1991), lacking the essential capabilities in a certain area restricts the potential for competitive advantage in that area. A trend observed is that some firms have an option to acquire required capabilities but that their strategic aims prevents them from executing such an option. The strategic roadmap sets firms on a long-term path based on the current situation and future expectations. In such a roadmap, all parts of the business are considered and aggregated into a common vision. Thus, some decentralized organizational units may in isolation benefit from a decision that deviates from the strategic roadmap, but where the aggregated result of such a decision would be worse. Therefore, judging decisions taken from a strategic standpoint require a far more extensive analysis than would be able to conduct here.

However, one could argue that because the capabilities emphasized are subject to economies of scale, the size of the firm would be a determinant of whether the firm has an option or not. If the size of the firm matter, smaller firms would have less of an option simply because their sales volume would make IT and law investments relatively more expensive compared to larger firms. We have found no difference between small and large firms when it comes to if the firms could produce consumer credits in-house. Small and large firms declare that they can produce in-house but choose not to due to strategic constraints. It should be noted that the aspect of capabilities is present in both TCE and RBV but with the distinction that in TCE the resulting cost is emphasized while in RBV the capabilities are regarded from a strategic perspective. Thus, the above argument considering capabilities is also applicable in a TCE context where the capabilities mentioned will translate into production costs.

5.2.1.1 Complementary Capabilities

There is a consensus that consumer credits are complementary to the sales of products. All firms, suppliers and investors studied agree on that a credit product that fits the product sold will increase sales or in other terms affect the firm selling products in a positive way, for example increase conversion rate. Consequently, firms should be inclined to in some way acquire the needed capabilities to leverage the complementary relationship between products and consumer credits (Holcomb and Hitt, 2007; Conner and Prahalad, 1996). If a firm does not have the capabilities and is not in a position that it has the resources to acquire such capabilities, outsourcing is a valid option. There are, however, some credit products that are more complementary than other, i.e. some credit product is more beneficial to sales than others. Supplier A and Investor A state that offering "buy now pay later"-products clearly affects sales more than offering a common invoice. Therefore, firms, which have customers that are more eager to use a "buy now pay later" -product, should be more eager to acquire the capability to provide such products. Conversely, firms which customers are satisfied with a general invoice have fewer incentives to acquire the needed capabilities. Firm F, which produces own credits, states that its customers are satisfied with the current invoice. The firm is aware of that if the customer stock is changing the credit offering must change accordingly. The firm thus sticks to offering invoices produced in-house due to the limited potential to complementary benefits.

5.2.1.2 Sharing Capabilities

Supplier A states that the degree of capability and information sharing differ between its customers. The firms studied prove that information sharing differ among firms. They show that the degree of communication and commitment varies from a daily dialogue including shared KPIs to more rare

exchanges of information and no shared KPIs. Most firms do, however, have a continuous dialogue with its supplier indicating an awareness of sharing information and a relationship building on trust.

The aspects affecting firms' attitude of sharing capabilities and information seem to differ in influential power. Cooperative experience is prominent in some firms. For example, Firm D has had the same supplier since the start. Firm D is thus less eager to switch governance structure in general, and supplier as the relationship with the supplier is built on a historical operational efficiency and mutual trust. There are also firms which switch supplier more often than Supplier A. For example, Firm A has recently switched to a supplier which could offer a more customer oriented deal indicating that the previous cooperation had limited influential power. However, the different degrees of information sharing depending on firms' expectations indicate that neither suppliers nor firms perceive information sharing as problematic. This has already been addressed as we considered information asymmetry as less of a TCE difficulty. Once again we see that some concepts are present in both theoretical approaches but with different implications. Back to RBV, the fact that most firms share common KPIs and sales maximization goals with its suppliers further indicates a will to share capabilities and information. The joint benefits from acceptance rate, conversion rate and increased sales improve capability and information sharing, which in turn suggests outsourcing as a suitable governance structure.

5.2.2 Competitive Advantage

Several firms argue that one of the main reasons for why they chose to outsource is because an external supplier of consumer credits can produce better products than the firm would be able to produce. Outsource is hence a means of establishing a competitive advantage (McIvor, 2007; Quinn and Hilmer, 1994). Several firms and investors mention the lack of technical and innovative power as an obstacle from producing consumer credits in-house. Innovative power is also connected to the scale benefit, which cannot be achieved by a single firm's sales only but must be conducted by the market. In addition, firms will be offered more suitable consumer credits by sharing information with its supplier. Consumer credits are considered by Investor A and Supplier A as an opportunity for firms to establish a competitive advantage as it boosts sales. A firm with innovative consumer credits is *ceteris paribus* in a more favorable position compared to a firm that has not paid attention to consumer credits. We thus conclude that outsourcing is a valid option for a firm seeking competitive advantage because outsourcing as a governance structure has benefits to in-house production.

5.3 How TCE and RBV Influence the Decision to Outsource

We are now ready to answer the research question of how TCE and RBV influence the decision to outsource. None of the firms interviewed have explicitly stated that they apply any framework in the process of deciding whether to outsource or not. Some firms have conducted a business case where different scenarios have been compared, while other have not applied any formal method guiding the decision making. However, we find that some aspect that our theoretical framework predict will influence the outsourcing decision do have an impact on the decision although it is not practically formalized in terms of a framework.

TCE predicts that firms should utilize in-house resources to carry out activities if they generate lower costs compared to outsourcing. The low degree of asset specificity makes outsourcing more attractive as it lowers the production cost of the market. The trend of firms being aware of the impact on cash flow and capital requirements implies that production costs are considered. Governance cost for market transactions are limited, as we have shown that retailers are not exposed to the potentially severe consequences of opportunistic behavior and bounded rationality.

RBV predicts that firms should focus on activities where they can establish and sustain competitive advantage and where the resources of the firms leverage competitive capabilities. As previously observed, consumer credits in general are complementary to goods and services. The complementary relationship gives firms incentives to acquire capabilities needed to supply consumer credits, which consequently is expected to improve competitive advantage. However, most of the firms lack the capability of producing consumer credits in-house and due to strategic constraints cannot acquire in-house production capabilities. Outsourcing is therefore a valid option of governance structure. Firms thus consider RBV aspects, i.e. how to be competitive, when deciding governance structure for consumer credits.

To conclude, no firm is considering TCE and RBV as theoretical concepts in the outsourcing decision, but all firms are considering the theoretical approaches' underlying aspects. Both TCE and RBV generally suggest outsourcing and we thus argue that both approaches influence the decision of outsourcing.

5.3.1 Whether TCE or RBV Is More Influential Than the Other

Both TCE and RBV indicate that the firms studied should, in general, outsource. Some studies (Combs and Ketchen, 1999) show that firms tend to promote RBV arguments above TCE arguments, a statement which we cannot reject. Most firms are in a situation where both approaches indicate outsourcing, but two of the firms are facing contradicting suggestions. To generate more nuanced insights to understand why that is the case we will apply the theoretical matrix to assess which approach that is the most influential. The result is presented in Figure 5. The position of each case in the matrix is motivated in previous chapter where we have applied the two approaches to the empirical findings. However, as we have not been able to perfectly operationalize each concept, which would allow us to compare the concepts between the cases, the position should not be the only possible. The character of the determinants in each approach, for example opportunism in TCE and strategic relatedness in RBV, is requiring a qualitative assessment, which inevitably allow for some subjectivity. The aim of the plotting exercise is not to determine the exact position of each case but rather the most likely position compared to other similar case. The position should hence not be static but relative, where the most important observation of each case is in which quadrant it belongs.

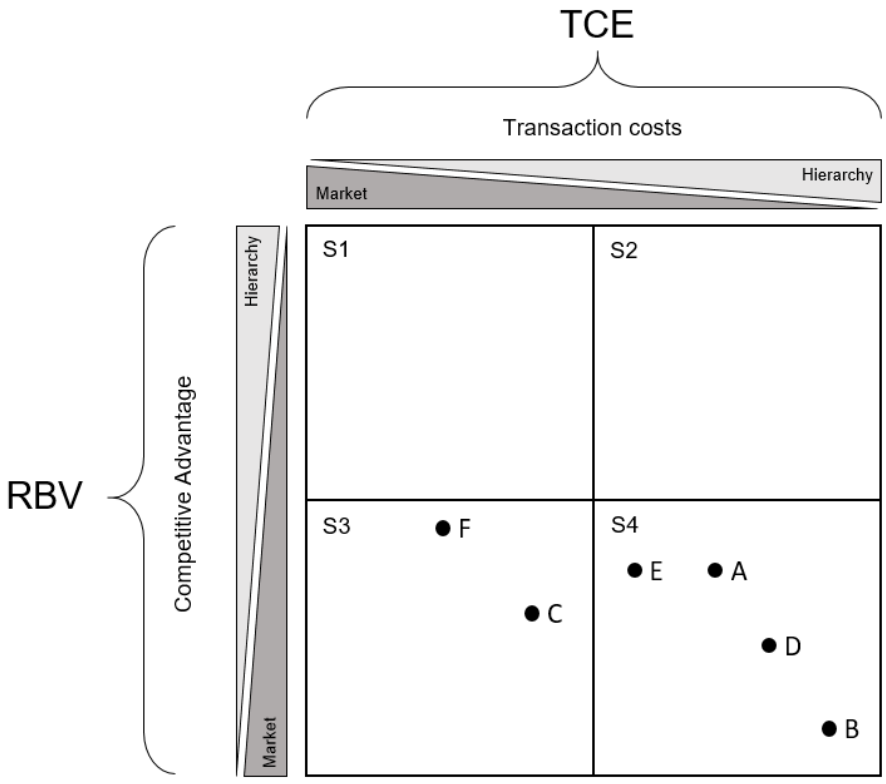

Figure 5. Cases plotted in the theoretical framework.

What is first observed is that all cases are plotted on the lower half of the matrix that means that all firms are predicted to achieve a greater competitive advantage if outsourcing would be the chosen

governance structure. It tells us that no firm would, from a RBV perspective, can create a competitive advantage by producing its own consumer credits. The second observation is that there are more firms on the right half of the matrix than on the left half, which tells us that from a TCE perspective, the cost of outsourcing is lower than the cost of in-house production for most firms. There is hence a larger spread of firms in the TCE dimension compared to the RBV dimension.

There are two firms positioned in quadrant three, Firm C and Firm F, which means that the RBV suggest hierarchical structure and TCE suggest market structure as governance structure of consumer credits. What separates these two firms from the others is that invoice is their only credit type payment, in contrast to the other firms whom also offers revolving and installment credits. We believe that this is the key reason why Firm C and Firm F can produce at lower cost hierarchically compared to the market. Revolving and installment credits are more complex than invoices legally, administratively, and system technically. Both firms have expressed interest towards adding more payment methods to their checkout, and if doing so they would likely use a market structure. The complexity of installments would no longer allow these firms to be cost effective compared to the scale advantages of the market.

Of interest in quadrant three is that the firms use different governance structures. Firm C follows RBV logic and Firm F follows TCE logic. This difference could stem from how strongly TCE suggest market structure in comparison to how strongly RBV suggest hierarchical structure. For Firm C, RBV points toward market structure more strongly than TCE points towards hierarchical structure, and the inverted relationship holds for Firm F.

All firms in quadrant four in Figure 5 should according to both TCE and RBV outsource, and they do also outsource. What set the firms apart are their different characteristics and internal capabilities, which would make in-house production of consumer credits more difficult to some than others. These differences do however not cause firms to act differently, indicating that firms' characteristics have little matter for the governance structure of consumer credits. The transactional dimensions are favorable for outsourcing. In all cases the firms use and are satisfied with a standardized credit solution, therefore the asset specificity in these transactions are quite low.

5.4 The Relationship Between TCE and RBV

In this last part of the analysis we would like to leave the focus on consumer credits and elaborate a bit upon how TCE and RBV come together theoretically. We will here present a discussion of how the model presented in the theoretical framework could be used.

In a symmetrical relationship between TCE and RBV, a line drawn from the bottom left corner to the upper right corner in of the theoretical model could distinguish when one theory is to be followed rather than the other, with in-house on the left side and outsourcing on the right. The resulting model is visualized in Figure 6. However, as argued we cannot conclude that a symmetrical relationship holds. Further research could focus on applying the extension of the theoretical model presented in Figure 6, which in more detail would distinguish the relationship between TCE and RBV. Further research may find that the relationship between RBV and TCE differ among industries and markets and that a symmetric relationship is only one possibility. The relationship may be perfectly symmetric or partly perfectly symmetric indicated by the solid and dotted lines respectively. The dotted lines in Figure 6 indicates cases when either one of TCE and RBV is more influential than the other. Which theory that is the most influential could differ from industry to industry and transaction to transaction. A way to assess a relationship is to plot multiple firms conducting the same transaction in the proposed model. The border between outsourcing firms and in-house producing firms constitutes a visualization of the relationship. The more firms plotted the more detailed will the border be, and consequently the better the understanding of the relationship. If only TCE or RBV would matter to firms, the line distinguishing the two approaches would be a straight line through the middle point of the area and where the line is either vertical or horizontal. However, this is unlikely to appear and is hence only a theoretical concern.

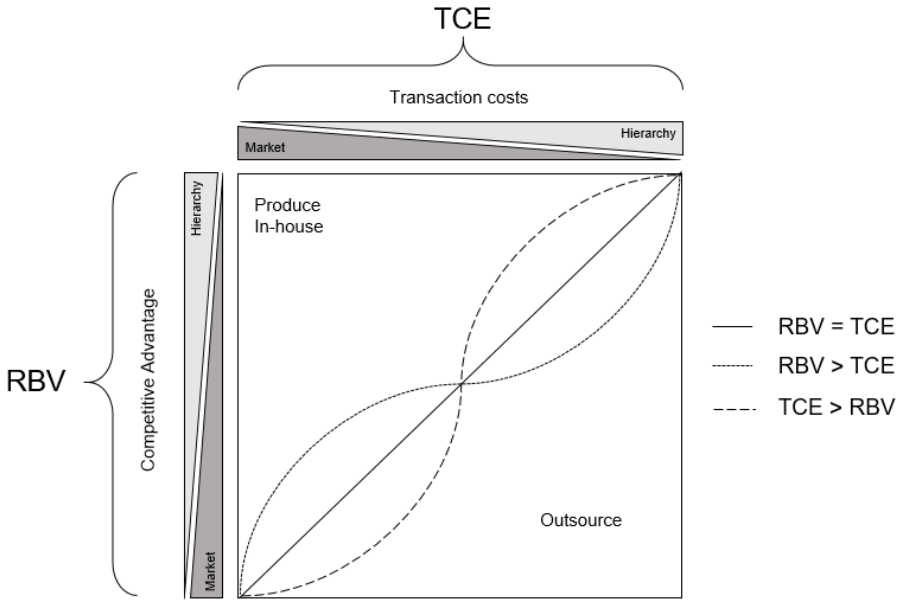

Figure 6. Potential adaption of the model for assessing differences in influential power of TCE and RBV in the decision of governance structure.

For firms' most strategically important transactions, we argue that the theories are often aligned. For firm pursuing a pure cost leadership strategy, RBV and TCE would in general give the same suggestion of governance structure. Such a firm pursuing a cost leadership strategy would gain the most competitive advantage by choosing the governance structure with the lowest cost. Therefore, RBV would often be aligned with TCE and most of a firm's transactions would either fall into the upper left corner or the bottom right (illustrated in Figure 7).

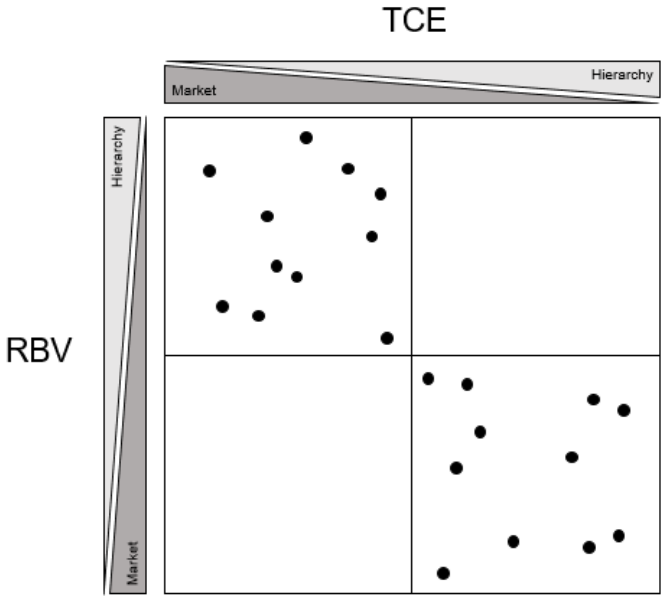

Figure 7. Representation of a cost leadership strategy, displaying how all transactions a firm takes on is based on minimizing cost.

According to RBV logic, firms gain sustainable competitive advantage by internally conducting activities that are valuable, rare, and hard to imitate (McIvor, 2009). Such activities must be specific and unique to a firm to be rare and hard to imitate, and to constitute a basis for differentiation. As the activities are firm specific and have uniqueness to them, they are also likely to have very high asset specificity. Therefore, TCE would likely suggest a hierarchical transaction for such activities, since asset specificity is the major driver of transactional costs and difficulties of a market governance structure (Williamson, 1985). A firm's differentiating activities creating sustainable advantages would therefore both according to TCE and RBV be carried out in house (illustrated in Figure 8).

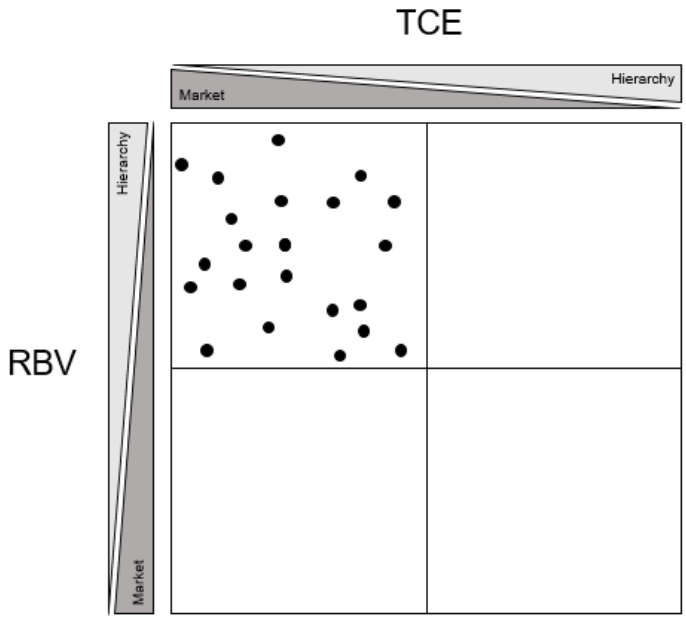

Figure 8. Representation of a differentiation strategy, displaying the transactions a firm takes on to differentiate are situated in the upper left corner and produced in-house both according to RBV and TCE logic.

6 Conclusions

The purpose of this thesis is to describe and analyze why Swedish e-commerce firms outsource consumer credits. By answering how firms' decision to outsource is influenced by TCE and RBV we highlight the main factors in each approach that are influencing the decision.

The empirical findings presented in chapter four satisfy the first part of the purpose. The analysis in chapter five satisfies the second part of the purpose and generates insights why outsourcing is a common choice of governance structure of consumer credits. Understanding the decision to outsource requires an understanding of the actual and alternative governance structures, why the governance structure of in-house production has been investigated in addition to outsourcing.

We find that both aspect in TCE and RBV affect the decision to outsource consumer credits. In the context of TCE, in-house production costs are high partly due to the need of capital and partly due to low asset specificity. The relatively low governance cost of outsourcing, due to limited opportunism, makes outsourcing the most suitable option. In the context of RBV, the main driver of outsourcing is the lack of internal capabilities. Even if firms can acquire the needed capabilities in areas such as IT and law, the firm will still face a disadvantage compared to the market due to the economies of scale in those areas. In addition, most firms believe that the market is more suitable to provide innovation in consumer credits compared to individual firms. Thus, no firm thinks that it will be able to produce a more competitive solution than can be found on the market.

We cannot state that one of TCE and RBV is more influential than the other, and as consumer credit products become more innovative and legally and technically demanding to build, the decision to outsource is proposed by both theories. For a firm, it is difficult to build as sophisticated consumer credits as can be found on the market, to a lower cost. Developing consumer credit in-house claims resources that instead could be put to develop a firm's core competencies, which generates competitive advantage. For now, most e-commerce firms therefore act as theory suggest by outsourcing consumer credits. But this current state could change, if payment methods and credits become more firm specific.

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Appendix I

Case A

Firm A is a large retail firm which sells fashion in both physical stores as well as through digital channels. The firm states that consumer credits are important as it gives their customers increased purchasing power that drives sales rather than profitability. Consumer credits are also increasing conversion rates, i.e. the number of customers which complete a purchase as part of all customer that proceeds to pay, as the product to many customers appear to be more convenient.

Firm A's Supplier

Firm A has recently switched provider of consumer credits and is of today providing credits only to customers which do purchases online. The reason for why Firm A switched provider of consumer credits was that the new supplier offered a set of products that was aligned with what was expected from Firm A's customers and that the new supplier had a better customer focus than the old supplier. The new supplier of consumer credits appears to Firm A to be a flexible and responsive partner which shares Firm A's values. In addition, the new partner aims at being at the forefront when it comes to both technology and finance in consumer credits. Firm A is not directly affected by a changing landscape when it comes to consumer credits as they see suppliers of consumer credits and banks in general as the agents which must respond first. What matters more is how well the partner is equipped to respond to legal and technological changes. Firm A sees a large supplier as a more robust partner as it allows the partner to have the required capabilities. Firm A also stress that it aims to provide its customers with the credit product that they request and hence do not value credit products that builds on new technology simply because they are new.

When Firm A considered to switch supplier, a set of supplier was considered and a business case was put together to inform the decision-making board of directors. The first consideration was whether Firm A should supply its own credit products or to outsource. The most important factor affecting the decision was whether supplying credit product was in line with the corporate vision and mission. In addition, Firm A would require a different skill-set compared to what they have today. However, Firm A is sure that the firm could acquire the required skills if it would like to provide consumer credits and stress that at any activity may become profitable to do in-house at a certain volume. Weighing those factors together guided Firm A to outsource consumer credits. The second consideration was how well

the cooperation with the current supplier of consumer credit was managed. After a rigorous analysis of the current and potential new contracts, Firm A decided to switch supplier of consumer credits.

Firm A continues to reach the customer after the purchase and has access to enough information to have the customer in focus. Firm A is following up customer satisfaction with its supplier of consumer credits and how the business is developing. Sometimes customers are declined to use the credit product when the supplier of the credit consider the customer to have a too large credit risk. Firm A is aware of and respects that the supplier must optimize its lending to manage a proper credit risk. Firm A may complain that the risk assessment is not always positive to the firm as it may hinder a customer from a purchase. However, Firm A emphasizes that it in the end is up to the supplier to decide to which customer credits are offered.

Case B

Firm B main business lies within the pet industry and the firm has outsourced its consumer credit. Firm B recognizes that consumer credit is a market leading payment method, and it's their customers' preferences that influence the choice of offering consumer credits. It is important to offer consumer credit as it makes out 50 % of all payments. Firm B also believes that the quality of the consumer credit products affect the sales for recurring purchases. The payment process is, even if small, a part of the total customer experience. Hence, consumer credits matters, especially since the handling of money can be a sensitive matter. Firm B has considered handling consumer credits in-house instead of outsourcing, in the form of using intermediary service to facilitate parts product. Considering their size, they would not be able to handle the large amount of tied up capital, which an in-house credit product would create. Also, even if they could acquire the necessary resources, in terms of monetary funds and people for building their own credit product, they currently lack these.

Firm B's Supplier

During the past years Firm B has been using the different suppliers for consumer credits. When they decided to outsource to their current supplier, six firms were considered in a first stage and one among two were picked in a final stage. Firm B does not believe that selling credit products is their main scope, and therefore outsourcing is a valid option that lets them focus on their core business. Firm B describes their relation with their suppliers very open with contact points through both customer service and financial function. The supplier is described to have a good attention for Firm B's needs. When it comes to shared success metrics, Firm B and its supplier do not share any KPIs, although both measures the credit acceptance level. Firm B also looks at amount of kickback they get from transactions. The two parts also have aligning incentives in that both profit from customer using

credits. However, there are also contradicting incitements since the supplier of credit profits from customers getting in trouble, while Firm B loose on such cases as it deteriorates the customer experience. A way for Firm B to ensure that their credit supplier does not act opportunistically is through monthly reports of the credit acceptance level. Also, Firm B's customer service keep track of customer dissatisfactions due the consumer credit product. Concerning consumer credit products, Firm B reasons that there will always be some dissatisfied customers. In their case the number of dissatisfied customers are few, and Firm B are therefore satisfied with their credit supplier. Firm B evaluates their consumer credit supplier on a yearly basis by looking at, how large the credit penetration is, what is the current cost of consumer credits, and what is the revenue from consumer credits.

Concerning the credit transaction, the credit granting decision and the actual purchase, Firm B and its supplier holds different information. Firm B knows where the customer is coming from, what it has been looking at on their site, and if it is a recurring customer. Their supplier, holds most information regarding the credit granting process and to assess the customer's risk profile. Firm B and its supplier shares as much information as possible and allowed regarding their customer.

Firm B does not see that a consumer credit product could be more specialized for their business. Although, they believe that there are improvements to be made, such as a smooth way, through retailers' CRM systems, to make customer customized offerings through invoices. The service for credit payments on subscriptions could as well be made a lot better.

Case C

Firm C is one of Sweden's largest retailer of home, leisure and electrical products with both physical stores and digital sales channels. The firm sells to both firms and consumers. As we are investigating consumer credits we will refer to consumers as customers. Payment options that Firm C's customers are offered are credit card, PayPal, direct bank payment and invoice via an external supplier, where credit card and invoice each represent roughly one third of sales through digital channels. What matters to Firm C is that the customers are satisfied with the payment options which means that the firm wants to offer the payment options that the customers request. The firm is sure that a well-designed credit is expected to increase sales. When the firm removed the invoice fee, making invoice relatively more attractive to other payment options *ceteris paribus*, a shift from other payment options to invoice was observed. However, the overall sales did not increase. Firm C keeps the invoice fee but must pay a certain percentage of the order value and a fixed administrative fee for each invoice to the

supplier. The net income of an invoice is positive making it more attractive than credit cards or direct bank payments, which only incurs a fee.

The main reason the firm did outsource was that it lacked the experience of handling invoices. Consequently, when the firm wanted to introduce invoices it found the required expertise outside the firm. Firm C has considered to produce its own invoices and but believe that it would be as good as the current situation. The firm emphasizes that the cash flow is better when outsourcing but that, if the cash flow would be the only factor, the firm would be able to keep it in-house. The firm has not been calculating the critical volume of sales where it would be beneficial to do it in-house. Currently, Firm C is implementing a completely new ERP system, which is regarded as the heart of the operations. All internal resources are tied to that project why there are no incentive to look at other projects which are not as operationally critical. Implementing the system and routines of offering invoices in-house would be a too large project both in terms of resources and time consumptions.

Firm C's Supplier

Firm C has kept the same supplier since it started to offer invoices about four years ago. The contract has never been completely renegotiated but small additions has been made as Firm C's operation has grown. The supplier was chosen among four alternative suppliers and the main reason it was picked was the supplier's view on customer service and the ease of integrating the systems. The relationship with the supplier is overall good, although the firm is seldom talking to the supplier except on a customer service level. The supplier receives all information regarding the transaction via the normal order flow and information is seldom shared outside the order flow. The firm does not perceive the relationship to be affected by conflicting interests but states that the firm and the supplier does not have common measurements which they evaluate together. The firm and the supplier are measuring their operations separately and as long both parties are satisfied there is no reason to change.
The contract between Firm C and the supplier is cover invoice handling in general but does not include to what degree the supplier must accept credit request. Firm C perceive that both parties were satisfied with the contract. So far, no situation has occurred which is not covered by the contract. However, Firm C admits that it cannot be sure that the supplier is not acting opportunistically, but states that it lies in both parts interest to sell more. In addition, Firm C has not compared the credit acceptance level of the supplier with the acceptance level that the firm would obtain if the firm would offer credit in-house.

Firm C does not see credit products as a means of obtaining a competitive advantage and argue that the invoice would have similar characteristics if it would be provided in-house and that both the firm

and the supplier are well known among the customers so that it would not matter who would provide the invoice. In the future, Firm C regard increase level of indebtedness among its customers as the largest risk but that this risk is not affecting the firm too much.

Case D

Firm D is a middle-sized firm that sells various gadgets through digital channels. Since many years back, the firm outsource their consumer credits to the same supplier. Consumer credits is an important part of Firm D's payment methods as it represents 60 % of all purchases. They believe that they would lose customers if they could not offer consumer credits and that a good consumer product can increase their sales. By outsourcing the credit product Firm D no longer must pay attention to the optimization of their checkout. Instead they leave the checkout optimization to their supplier, so they can put more focus on their core business.

Firm D has not considered developing their own consumer credit product, even though they recognize that it could be a very lucrative business. The reason for this is that they are occupied with many other activities that consumes money and time, and they do not want to start building a credit product on top of these other commitments. Although, Firm D states that they have the resources to develop their own credit solution if they wanted to, but not to build as sophisticated solutions as their current partner offers.

Firm D's Supplier

Firm D describes the relation they have with their credit supplier well established and well functioning, with exchange of knowledge. The information sharing is transparent, and Firm D does not think that there is any vital information that are withheld from them by their supplier. Firm D recognize that there is a risk for opportunistic behavior, but such behavior would likely be spotted by their customer service. The contract established between the two parts are described as extensive, without any concerns for gaps that potentially could be exploited. It can be said that Firm D trust their supplier to not exploit contract gaps, out of self-interests to keep customers.

By outsourcing their credit product, Firm D does not see that they get an advantage towards other firms, as they also could use the same supplier. They believe they could build a roughly equally good service in-house, and states that the main reason for building their own product would be economic. Their current product fit their needs, and they do not see any need for a more specific consumer credit product.

Case E

Firm E is a large firm that sells electronics through digital channels. The major part of Firm E's customers are other firms, but they do also serve the private market. They are currently outsourcing their credit product, both on the consumer and business side. Firm E believe that a good credit product can increase sales, and it became more and more important social structures move away from ownership towards leasing solutions. Firm E has facilitated their own credit products, but choose to sell this function to a firm that now is one of their suppliers. The costs for doing it themselves were mostly organizational, also the Swedish Financial Supervisory Agency (Finansinspektionen) has extensive regulations that takes time and effort to follow. Larger sales would not change their outsourcing decision, as they reason that it would lead to larger risks. Firm E reasons that supplying credits is not their core business and they can therefore not be as innovative as their suppliers. From Firm E's perspective outsourcing is the most profitable option. They currently make a net profit from credits via kickbacks.

Firm E's Suppliers

As Firm E utilizes two suppliers of credit products, they have set up clear delimitations of which suppliers who does what. They are in contact with both of their suppliers on an everyday basis, and have reoccurring meetings on management level. One supplier has personnel working in Firm E's physical office. Firm B describes the collaboration with their two suppliers as well functioning. They share metrics with their suppliers, such as credit acceptance rate and failed transactions rate. Firm E do not experience any trouble with their suppliers not letting certain customers through without valid reasons. Although, in certain cases Firm E issues a manual test for customers that has been rejected credits. Thereafter, it happens that their supplier's reevaluate their decision and gives credit to customers they first rejected.

Firm E revises the contracts they have with their suppliers on a yearly basis, but do not always change them. The reason for revising the contract must do with alterations in the credit market and the emergence of new financial products. Firm E makes sure that their suppliers do not act opportunistically through their governance structure and shared metrics. However, Firm E does see opportunistic behavior as a threat since they believe their suppliers must be competitive and are incentivized to give credits.

Firm E states that they get an advantage by outsourcing their credit product, compared to firms that do not. This because of the level of innovativeness that a specialized credit product firm, can achieve,

cannot be matched by a firm whose core business lies elsewhere. Firm E does not see a need for a more specialized credit product out of their needs, the most important aspect within the credit product for them is that the flow is automated.

Case F

Firm F is a medium sized firm that sells office equipment through digital channels. Firm F does sees consumer credit products as payment solutions rather than credit products. Historically, direct payment solutions such as PayPal and credit cards has been offered its customers and the only credit product has been invoice. The invoice has been provided by the firm itself. Firm F motivates this decision based on the historical invoice penetration, which the firm estimate to be 60 % - 70 % of all transactions, where the remaining 30 % consists of credit card, direct bank payment and other financial services such as PayPal. The CFO states that the most important factor for the customer is convenience rather than selection of credit products. Firm F does not have a collective view on to what degree consumer credit products increase sales. The CFO's personal view is that with the current customer stock, adding new options to finance the customer's purchase will not increase sales. The CFO, however, states that if the firm would target a different customer category new payment solutions would be needed.

Firm F's Consumer Credit Business

As Firm F is handling its own invoices the firm is occasionally contacted by suppliers of consumer credit products who offer the firm their services. Firm F is then applying the credit templates of the suppliers and compare the credit acceptance level with the *de facto* level of defaulted credits. What Firm F has found is that the firm has less defaulted credits than what is rejected by the supplier credit scoring. Put differently, the Firm F would benefit if the supplier had a more generous credit scoring process where more customers was accepted. Firm F does not conclude that they are better at assessing credit risk than the suppliers, but argues that the credit products are not appropriate to the firm's customer stock. Firm F has always promoted the convenience of the customer and a reduced level of credit acceptance is not in line with that vision. Therefore, Firm F are willing to keep the credit risk in-house. The CFO further states that, in the beginning, there was probably no strategic reason to handling its own invoices rather than to make it easy for the customer.

The CFO is continuously following up the development of defaulted credits and perceive it as rather stable with low fluctuations among different years. The follow-up of Firm F's invoices is conducted by the CFO alone who therefore argue that the costs of providing invoices in-house is low. The CFO further states that Firm F's ERP system, and for that matter, all ERP systems, supports invoice

handling and that the extra costs of outsourcing credit products would be higher than the internal costs. Firm F has made a couple of business cases which all confirm this cost comparison. In addition, a higher volume would not change the comparison, but a change in the firm's offering may.

The CFO think that the reason other retailer outsource credit products is twofold. First, the suppliers of credit products can provide the retailer with a large array of payment solutions that the customer can access in a convenient way and which is easy and trouble less for the retailer to operate. Second, and most important, is cash flow. The fact that the retailer is paid for the product directly affects the retailers' cash flow in a positive way. Hence, the retailer does not have to take a loan from the bank to maintain sufficient liquidity or to tie capital in stock of consumer credits, but can use the capital in a more productive way. Firm F states that the firm has a stable cash flow which supports the running operations and which can support its own invoices. In the future, Firm F admits that an external supplier, which can support the firm with convenient payment solutions based on new technology, must be involved but that the time is not now.

Appendix II

Investor A

Investor A is an investment firm focusing on early stage startups. Amongst their investment there are online retail firms. We have talked to the one of the co-founders of Investor A, who also has a background in consumer credits. Investor A holds that all credit products increase sales, but to what extent depends on the quality of the product. A good credit product is characterized by conversion rates and user friendliness, and risk assessment. In most cases a credit products should also be optimized after the consumers and the buy flow, rather than the online retailer. There is no positive effect, from a brand perspective, for an online retailer to offer credits under their own brand in comparison to a supplier's brand, if the supplier does not have a bad reputation. If the supplier has a good reputation, it would be the online retailer's advantage to use the supplier's brand (except for a few very large companies with very strong brands).

Online retailers choose their supplier for consumer credits based on cost, consumer offerings, and performance such as credit acceptance level. Amongst those factors cost and consumer offerings can be evaluated, while it's harder to evaluate suppliers based on credit acceptance level. Investor A has influence in all questions of all their portfolio firms, and when it comes to the choice to credit products, it depends on the industry and the targeted consumer group. Investor A sees no contractual gaps and room for exploitation between retailers and suppliers, and if such gaps arise it is because the retailer is not a good enough negotiator. No serious credit supplier would act opportunistically, the competition among suppliers gives their customers bargaining power. Conversion rates are analyzed in all step, and based on the retailer's customer base, they should put pressure on their supplier if conversion rates are too low. Although, concerning credit acceptance level, the retailers will always think it's too low and the suppliers will consider it too high. If the credit acceptance level is set to high it will lead to secondary problems arising from customer that should get credits get is, which in turn generates customers service errands and handling issues.

Investor A sees payment methods as of highly strategic importance for online retailers. It is part of their core business to possess payment methods, but not to develop and manage them, as it takes focus from what the retailers should do, sell goods. The reason for why e-commerce firms produce their own payment methods is to increase their margins, often it is those lacking margins on their sales that try to increase their margins this way. There is a few that claims to facilitate their own payment methods for

customer experience reasons, which is an argument that does not hold up any more, since the customer experience and penetration of external payment methods is very high nowadays.

Uncertainty is one of the reasons why online retailers outsource consumer credits, since there are a lot of regulatory changes going on, which is difficult and costly to monitor and adapt to. The technical development in payment solutions is about balancing accessibility and safety. Accessibility increases as e commerce becomes more mobile and this trend in relation to security is problematic. Investor A believes that it is too expensive for a retailer to start up and manage their own credit product and it requires too much focus and investments to keep such a product competitive over time. Credit products have many scaling and network effects, which a retailer developing its own credit product would not benefit from as they are only exposed to their own, already existing, customers. The gives retailer a very limited customer base to develop their products on, and consequently limited possible earnings from developing their own credit product. The limited scale effect also makes regulatory changes especially harmful to the profit.

Investor B

Investor B emphasizes invoices as important on the Swedish market as it increases conversion rates. Other forms of consumer credits are important for some firms as an additional source of income, but other forms of consumer credits are for most firms not as important. However, for some goods and customer segments, consumer credits may be more important than other. In addition, Investor B believes consumer credits offered in the name of the firm is regarded as more credible compared to consumer credits offered by an external supplier. The current offering of customized consumer credits is perceived as sufficient to meet the need of firms. That said, there is an opportunity for improvements and more creative credits.

Suppliers are generally not sharing information about credit acceptance rate. Some suppliers are also secretive about penetration of different consumer credits. The acceptance level may be tested if the firm is large enough to acquire information about if the supplier is accepting as many customer as it says it does. The best firms do this, but Investor B believe that a lot of firm do not. Suppliers usually aim to exclude to negotiate and explicitly state agreed acceptance level in the contract, but firm that is aware of this tactic wants to have it explicitly stated. In practice, it is hard to formalize this in a contract.

Investor B states that firms look for short-term contracts when considering suppliers. The reason is the growing competition on the Swedish market for consumer credits that put pressure on costs. Firms

thus seeks short-term contracts that are frequently renegotiated to obtain the best deal with the lowest cost. Other factors such as experience are important as well and are considered hygiene factors. Sometimes other forms of corporate financing solutions are considered as part of the deal. For example, there are cases where the supplier of consumer credits also offer a firm a loan. Some firms, which grow rapidly and has a negative cash flow would benefit from such a loan as those firms are declined bank loans. That said, price is usually the order winner and the trend is that suppliers pay more and more for firms' consumer credits. The current expected kickback is about 2 % and Investor B believe that the kickback could potentially double in the upcoming years. The transaction cost of about 1 % makes consumer credit a net income for firms. Ten years ago, consumer credits were a net loss and for smaller firms it is still. A future uncertainty is however rising interest rates.

The main reason firms do outsource consumer credits is that they do not want to tie capital in a credit stock and that there are other firms that have access to cheaper capital. In addition, consumer credits facing regulations making it an uncertainty many firms do not want to face due to the lack of knowledge and capabilities.

Supplier A

Supplier A is one of the largest suppliers of consumer credits on the Swedish market. Supplier A offers retailers a set of consumer credit solutions varying from standard invoices to a complete check-out which is easily implemented by the retailer.

Products

Some of Supplier A's products is known to drive sales while other products do not drive sales. For example, campaigns such as "Buy now pay after Easter" is known to drive sales. But the retailer cannot sell a bad product solely because of the offered credit. The most common credit products offered by Supplier A are installment credits with between 3 - 24 payments, revolving credits and invoices which can be repaid through several smaller transactions. In addition, Supplier A offers a checkout where the customer can choose among a set of different payment options including different credit solutions. Credit cards and invoice each constitutes 30 % - 40 % of all transactions, while direct bank payments constitute about 20 %. Other consumer credits are about 5 % of all transactions, making them rarer than the retailer thinks. Customers can choose to convert their invoice to an installment credit and the conversion rate range between 3% - 24 % depending on to which customer group the initial invoice is offered.

The retailer with a complete check-out from Supplier A pays a fixed transaction costs of a few percentage of the amount of the transaction to the supplier. Standard transaction cost is 2,5 %. As the retailer is aware of that consumer credit is a lucrative business and where the supplier can earn a decent amount of money, the retailer is usually requesting a kickback of a few percentage of the transaction amount. The amount which is repaid to the retailer though the kick-back is usually of similar size as the transaction cost, making consumer credits a net zero business for the retailer.

The Swedish Market

Sometimes the kickback exceeds the transaction cost and on the Swedish market of consumer credits it is common that the kickback is about 2 %. There are some suppliers that offer a larger spread between transaction cost and kickback to take market shares.

Many suppliers offer retailers a complete checkout that can easily be implemented. The suppliers offer the checkout as a package that cannot be modified. Supplier A works more customer oriented and tries to customize the consumer credit solution to the retailer, for example by offering the retailer payment solutions which the retailer request. As Supplier A is working closer to the retailer compared to other suppliers the Supplier A perceives its service to generate a competitive advantage to the retailer. However, what is most important to the retailer is the price. That is because e-commerce is generally more price sensitive compared to physical commerce. Consequently, suppliers must commit to the price the retailer states. In addition, Supplier A states that the main reason retailers outsource consumer credits is because of the increased cash flow. Retailers with own consumer credits must tie capital as it must pay its supplier immediately while it would receive the payment from the customer in up to five years.

The general trend of removing cash will affect the need for consumer credits. For example, mobile payments usually require an underlying revolving credit where an invoice with the total amount purchased each month is sent to the customer in the end of the month. It is a way of offering revolving credits in physical stores, a credit product which so far has very low penetration in physical sales channel.

The Relationships with Retailers

As stated above Supplier A has a close relationship with most retailers. Supplier A is actively contacting retailers to propose new campaigns, which would increase retailers' sales. The retailers are

also actively contacting Supplier A with request of certain campaigns. The frequency with which Supplier A has contact with the retailers varies from daily to almost never. No common KPIs are used.

The average time between retailers change supplier of consumer credits is estimated to two to three years. Larger retailers switch more rarely as the suppliers usually offers higher kickbacks which consequently requires longer contracts. The contract between Supplier A and the retailers is extensive as it must consider legal regulations. Although the contract is extensive, it does neither include details on neither customer service nor what credit acceptance level that is accepted. The retailer cannot affect Supplier A's credit acceptance level, but the retailer's opinion is considered. Supplier A is aware of that it can act opportunistic but argues that such behavior would damage the firm's reputation which would be harmful in the long run. Supplier A aims to help the retailer by generating more purchases.

Supplier A possess more information about the transaction than the retailer, for example how many customers who choose a specific payment solution. Information about how much Supplier A earns on consumer credits stemming from a certain retailer is not shared with the retailer. However, the retailer is not sharing information about its customers that forces Supplier A to acquire all customer information itself. The different credit acceptance level Supplier A can set depends on the customer stock a firm has, which in turn depends on the firms offering. Some firms' customer stocks are less associated with missing payments and can therefore have a higher credit acceptance level compared to firms with customers associated with more missing payments.