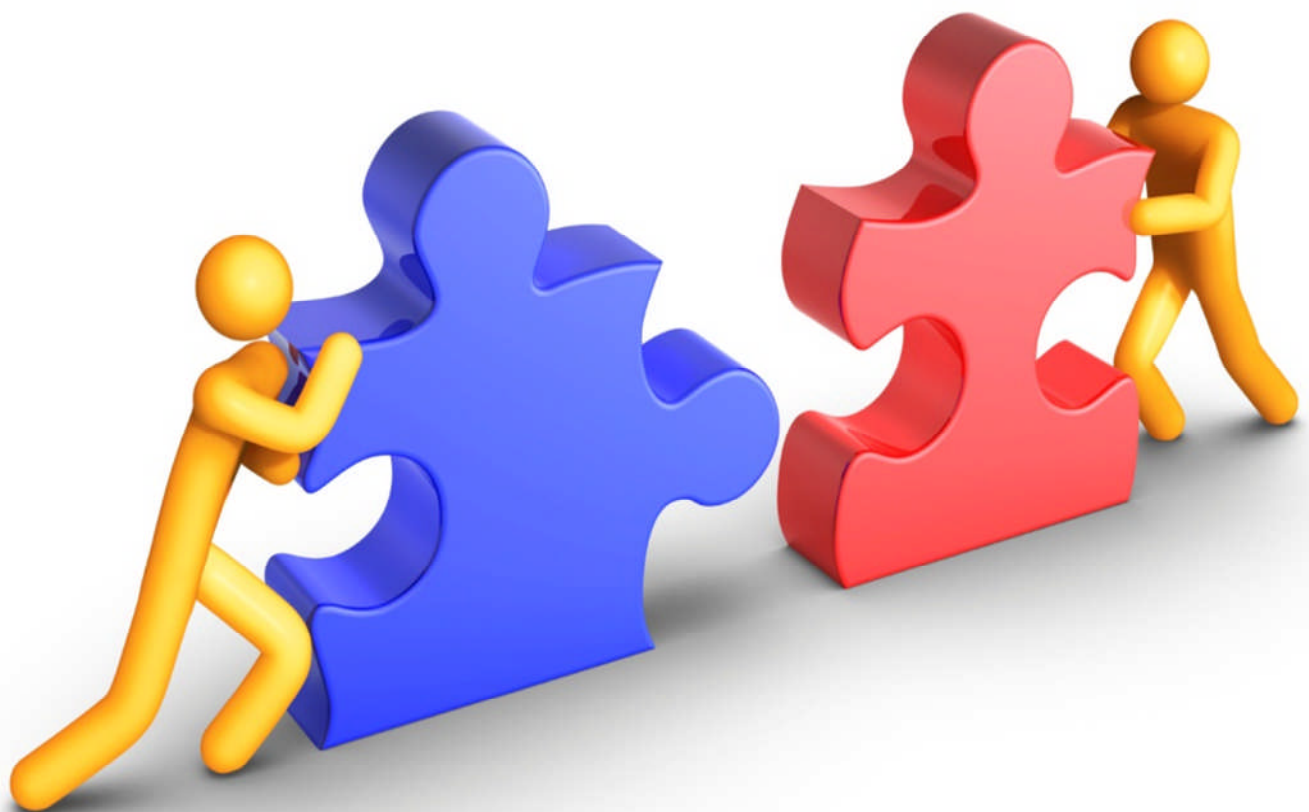


How to Implement Best Practice in Strategic Partnerships: An Outsource Supplier and Client Perspective

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1. Executive Summary

In 2009, Dibley and Clark carried out research to identify best practice in managing relationships with outsource partners. The objective of this new study is to take the most dominant/complex success factors identified in the previous research (Dibley & Clark, 2009), and provide guidance on how to implement them within outsourcing relationships. The most dominant/complex success factors were identified as the following:

Process Issues

Strong governance

Measuring value and success

People and Relationship Issues

Openness, transparency, honesty and responsiveness

Mutual trust and confidence

Outcomes

Delivering what you promise

Achieving mutual goals, bringing mutual benefits

Giving extra value and on-going innovation

For this latest study, a detailed literature review was carried out, followed by thirteen semi-structured, in-depth interviews with Senior Managers from outsource supplier and client organisations.

According to the literature, a large part of successful implementation is about careful communication, co-ordination and commitment; the supplier and client should work together as a unified team, sharing responsibility and involving all relevant stakeholders. For successful change implementation, persuasion followed by acceptance is required, taking into account employees' and other stakeholders' behaviours, capabilities, values and beliefs, and a number of other psychological factors. It is only by winning the 'hearts and minds' of the stakeholders that change can become embedded in both organisations.

Key insights on implementation of the success factors emerged from the in-depth interviews. They include recommendations on attitudes, behaviours, activities, tools and processes that respondents believe should be in place, to enable each of the dominant/complex success factors to become embedded in the outsourcing relationship. A number of the views expressed by respondents resonate with those expressed in the literature.

Value is co-created in an outsourcing relationship through the success of the interaction itself, and through the strength of collaboration in the partnership. Grönroos' (2010) concept of practice matching is relevant in the context of an outsourcing relationship: the alignment and matching of the seven dominant/complex success factors (across the supplier and client organisations) is fundamental to the co-creation of mutual value.

Our study highlights how the success of outsourcing partnerships is dependent on the extent of full, joint ownership and commitment that exists regarding the relationship, and the degree

to which mutual trust, respect, openness, transparency and honesty are present. Jointly agreed governance, joint strategic planning, and a future-focused approach to measurement are also crucial, while the client should demand, expect and encourage innovation and continuous improvement from the outsource supplier.

All of the dominant/complex success factors are inter-related. They all have an impact on each other, so they all need to be examined together as well as separately when assessing suitable measures to introduce, to aid implementation. We have highlighted in this study a range of potential processes, tools, behaviours and attitudes that organisations can put in place, to facilitate the effective implementation of the dominant/complex success factors. This research suggests that the outsource supplier and client organisation need to bring their practices together, aligning these processes, tools, behaviours and attitudes, to enhance the mutual value co-created. This approach should facilitate the effective implementation of the success factors and should, ultimately, enable client and supplier organisations to increase the mutual value they derive from strategic outsourcing relationships.

There is potential to carry out further research to quantify these findings, and also to replicate the research in the context of strategic partnerships other than outsourcing relationships, to identify and analyse any differences that emerge.

2. Introduction and Background

In November 2009, a research project was completed for the Henley Centre for Customer Management (Dibley & Clark, 2009), which identified the key elements of best practice in managing relationships with outsource partners. Through a detailed literature review and a series of in-depth interviews, a set of key factors, essential to the creation of a successful outsourcing relationship, was identified. These factors encompassed process issues, people and relationship issues, and required outcomes. Together, these critical success factors can be described as the building blocks of best practice in this area. If all of these blocks can be brought together and embedded in the outsourcing partnership, this should provide a firm foundation for a mutually successful and valuable relationship.

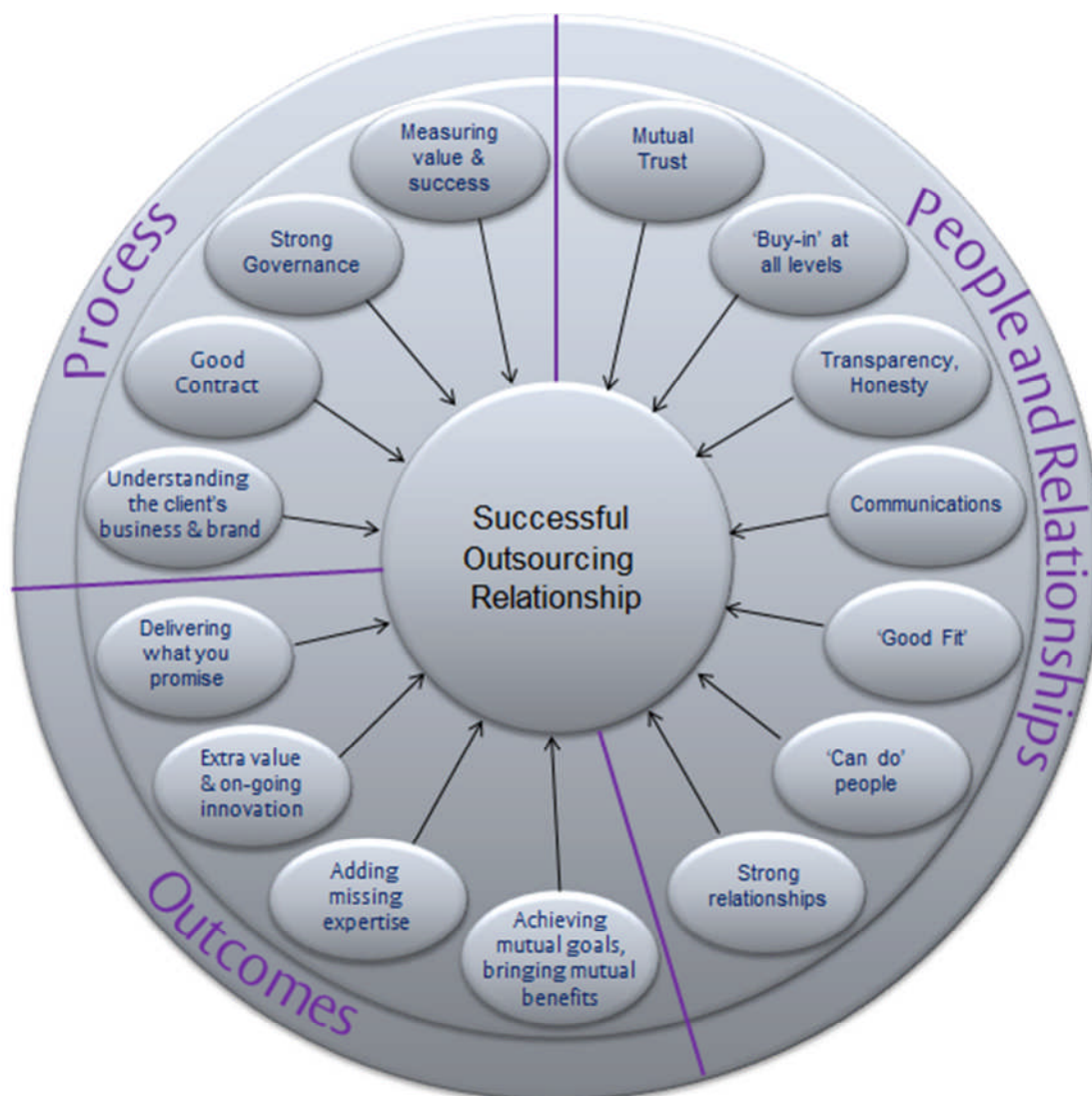


Figure 1:
Key Factors Leading to a Successful Outsourcing Relationship (based on case study interviews)

Source: Outsourcing Research Project Report, Figure 4, Dibley & Clark, 2009

In the 2009 research, we therefore identified **what** the critical success factors were. This new piece of research takes the 2009 findings a step further; it aims to take the recommendations for successful outsourcing relationships identified in the above diagram, and determine **how** these key success factors can be put in place and implemented within outsourcing relationships. This is an area of crucial importance as, according to Datamonitor forecasts, business process outsourcing is set to grow globally at a compound annual rate of 7.8% over the next six years (MarketWatch, 2009). In the short and medium term, business process outsourcing will be one of the most robust markets in the global economy, as the on-going, challenging business conditions require companies to seek ever-greater efficiencies (MarketWatch, 2009).

3. Project Objectives

Clearly, all fifteen of the success factors identified in the 2009 research, are important to the success of the outsourcing relationship. However, in order to focus our research more narrowly, only the most dominant or complex of these success factors were examined further. The objective of this research was, therefore, to take the most dominant/complex success factors, and provide guidance on how to implement them within outsourcing relationships. Although the relationships under scrutiny are outsource supplier and client relationships, it is our belief that the findings can be applied to many other types of strategic partnership; the relationship between an outsource supplier and client is, after all, simply one form of strategic partnership – albeit in some ways the most difficult, complex form.

All fifteen critical success factors were mentioned frequently during the course of the 2009 in-depth interviews; however, the most dominant success factors were identified as those which received the highest number of ‘top three’ mentions: that is, an assessment was made of the number of respondents who cited a factor in their, “*top three things that make an outsourcing relationship work really well.*” (Dibley & Clark, 2009). The factors which were included by four or more respondents in their, ‘top three things...,’ were categorised as the most dominant success factors, as shown below.

PROCESS ISSUES	NO. OF RESPONDENTS CITING FACTOR IN ‘TOP 3 THINGS...’
Understanding the client’s business and brand	2
A good contract	1
Strong governance	5
Measuring value and success	2

Strong governance emerges as a very dominant success factor, so particular focus was placed on analysing how to embed this in an outsourcing relationship.

PEOPLE AND RELATIONSHIP ISSUES	NO. OF RESPONDENTS CITING FACTOR IN ‘TOP 3 THINGS...’
Mutual trust and confidence	8
Support and ‘buy-in’ at all levels	2
Responsiveness, openness, transparency and honesty	6
Communication	2
‘Good fit’	3
‘Can do’ people	1
Strong, individual relationships at all levels	2

Mutual trust and confidence, along with responsiveness, openness, transparency and honesty, emerged as the most dominant of the 'people and relationship issues', so these factors were explored to identify how to achieve them in an outsourcing relationship.

OUTCOMES	NO. OF RESPONDENTS CITING FACTOR IN 'TOP 3 THINGS...'
Delivering what you promise to deliver	5
Giving extra value and on-going innovation	3
Achieving mutual goals, bringing mutual benefits	4
Providing missing expertise	1

Delivering what you promise to deliver, and achieving mutual goals, bringing mutual benefits, were the most dominant of the 'required outcomes', so these factors were analysed to determine how to make them a reality in outsourcing relationships.

In addition to these most dominant critical success factors, two additional factors were included in this research project:

- Measuring value and success
- Giving extra value and on-going innovation

The inclusion of these factors was considered worthwhile, given that in both the literature review and the depth interviews carried out in 2009, these factors emerged strongly as particularly complex to deliver. It was therefore considered that guidance on how to implement and embed these factors in an outsourcing relationship, would be particularly useful.

Dibley and Clark's 2009 research suggests that effective implementation of these dominant and complex success factors will lead to the creation of mutual value, for both the outsource supplier and the client. This research, then, seeks to provide recommendations and advice on how to achieve this effective implementation, in the context of outsourcing relationships.

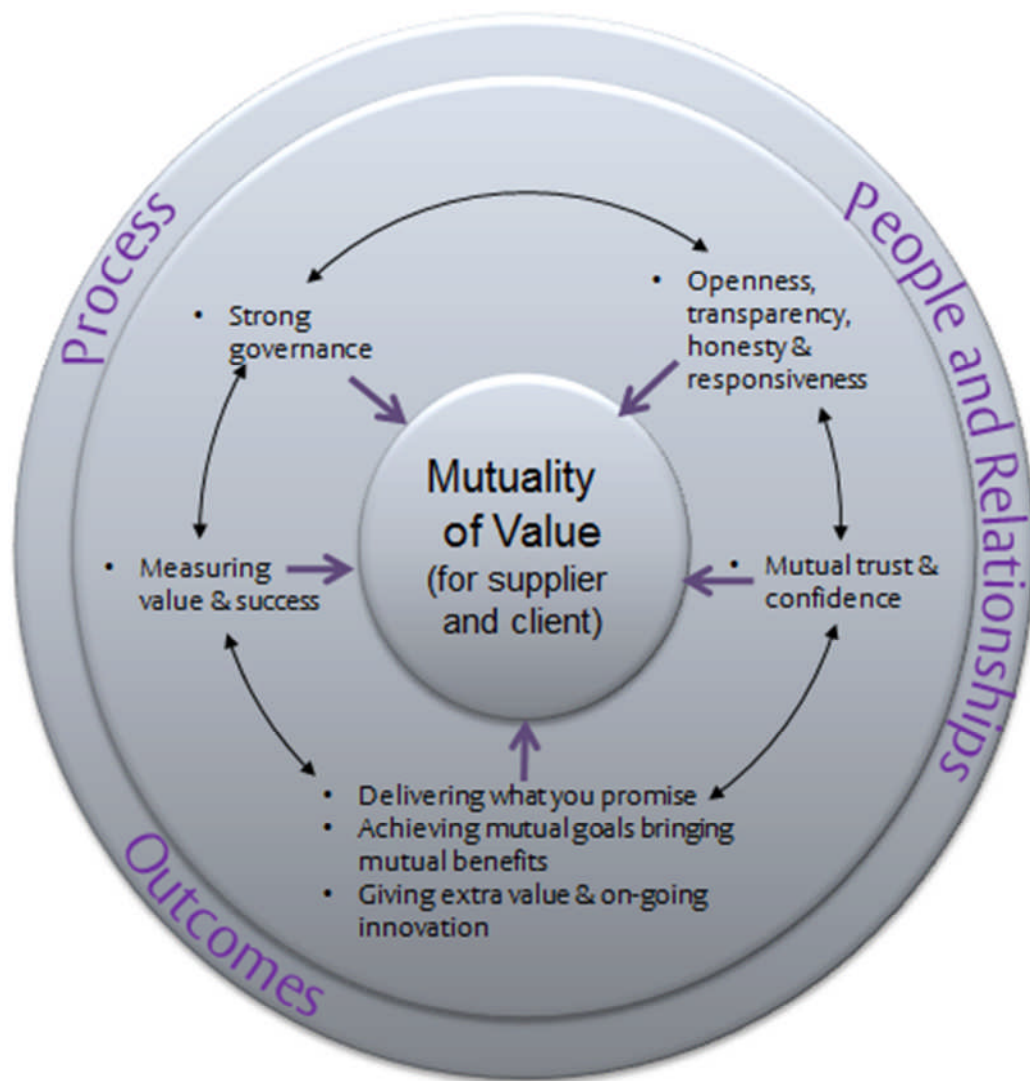


Figure 2:
Dominant Critical Success Factors and the Creation of Mutual Value

4. Methodology

A detailed literature review was carried out to uncover any existing academic and practitioner perspectives on how to implement the above mentioned dominant and complex critical success factors. A wide range of literature on the subject of outsourcing relationships and strategic partnerships was, therefore, analysed: from articles discussing the principles of good implementation, to change management literature, to papers examining the issues of trust, governance or measurement. Innovation literature was also explored, along with recent studies on the theme of return on relationships (Grönroos, 2010).

Following this literature review, a qualitative research method was used. Thirteen, one hour (minimum) semi-structured interviews were carried out with senior managers within outsource supplier and client organisations. Seven respondents were from client organisations, while six respondents were from outsource suppliers. Ten of the interviews were client-outsource supplier dyads, while the remaining three interviews were with outsourcing industry and client experts.

Four different client relationships were explored with a leading international supplier of workforce management services and HR transformation solutions (OS1). Three of these client organisations were leading healthcare companies (C1, C2 and C3), while the fourth was a leading car manufacturer (C4).

Two different client relationships were explored with the second outsource supplier – a leading supplier of business process and customer management outsourcing (OS2). One of the clients interviewed was a conservation charity (C5), and the other was a low-cost airline (C6).

The expert interviews were with respondents from a supplier of public sector services on behalf of Government (OS3), a supplier of IT and BPO services (OS4), and a leading healthcare organisation (C7). The table below summarises the interviews carried out:

OUTSOURCE SUPPLIER AND THEIR CLIENTS	KEY CONTACTS INTERVIEWED	CODE FOR RESPONDENTS
Outsource Supplier 1 Workforce management services and HR transformation solutions	Senior Vice President – Outsourcing and Consulting Group	OS1, R1
	Senior Vice President – Global Client Relationships	OS1, R2
	Director and Group Manager – Global Client Relations	OS1, R3
Client 1 Healthcare	Compensation and Benefits Director - Americas	C1, R1
Client 2 Healthcare	Category Manager – Consulting, Labour and Professional Services	C2, R1

Client 3 Healthcare	Category Director – Global Sourcing	C3, R1
Client 4 Car Manufacturer	Director of HR Services and Talent Management	C4, R1

OUTSOURCE SUPPLIER AND THEIR CLIENTS	KEY CONTACTS INTERVIEWED	CODE FOR RESPONDENTS
Outsource Supplier 2 Business process and customer management outsourcing	Client Manager	OS2, R1
Client 5 Conservation charity	Contract Performance Manager	C5, R1
Client 6 Low-cost airline	Head of Sales and Reservations	C6, R1

OUTSOURCING EXPERTS	KEY CONTACTS INTERVIEWED	CODE FOR RESPONDENTS
Outsource Supplier 3 Supplier of public sector services on behalf of Government	Executive Director	OS3, R1
Outsource Supplier 4 IT and business process outsourcing	Outsourcing Expert	OS4, R1
Client 7 Healthcare	Outsourcing Manager – Insight Group	C7, R1

The interviews contained probing, open-ended questions, and were recorded and transcribed, except in the case of one respondent who requested that recording should not take place. A discussion guide was sent to each respondent in advance to allow them to prepare for the interview (see Appendix 1: Discussion Guide for Interviews with Outsource Suppliers, and Appendix 2: Discussion Guide for Interviews with Client Organisations). All data were analysed using content analysis. Key issues emerged from this analysis and these were then developed into thematic groupings.

5. Insights from Literature Review

5.1. Best Practice in Managing Outsourcing Relationships: A Brief Update

A review was carried out in 2009, analysing literature that explored the area of best practice in managing outsourcing relationships. Having now updated this review, an examination of the most recent literature reveals that many of these new findings concur with those from previously examined academic and practitioner papers (see Dibley & Clark, 2009). Simon, Poston and Kettinger (2009) identify nine attributes of successful, mature client-vendor relationships, many of which resonate strongly with Dibley and Clark's findings (2009). For example, Simon et al suggest that, *"More mature governance involves vendors taking on more strategic levels of tasks that would not be possible without trust and transparency between the two parties."* (Simon et al, 2009).

In terms of communication methods, they assert that mature governance includes a wide variety of types of communication, including less formal methods (Simon et al, 2009). Trust-building methods are highlighted as important, where both parties work co-operatively to develop shared goals, review performance data together objectively, and develop a team atmosphere across both parties (Simon et al, 2009). They also discuss the need for continuous improvement, increased sharing of information, and greater innovation added by vendor staff. Simon et al (2009) recommend a governance structure where an environment is created in which both parties work together to achieve goals, share, innovate and create optimised business processes. All of these points concur with Dibley and Clark's findings from their 2009 literature review and depth interviews.

The importance of strategic collaboration in mature alliance relationships emerges strongly in Burdon, Chelliah and Bhalla's (2009) case study of Shell Australia and Transfield Services. To enable the strategic alliance to endure, *"managers need to progress from a fee-for-service model to trusted collaboration, and finally to an alliance with joint strategic objectives."* (Burdon et al, 2009). Burdon et al (2009) suggest that the client organisation should work towards aligning with the service provider and, *"select providers who share a passion for the depth and quality of service levels."* They also recommend that a joint operational task force should meet at regular intervals, with the objective of cross-pollinating ideas around needs and emerging trends. They assert that transformational innovation is required, and that Transfield must challenge Shell's processes and interfaces (Burdon et al, 2009). This clearly resonates with Dibley and Clark's 2009 research, where the importance of mutual trust, 'good fit', on-going innovation, and the importance of achieving mutual goals bringing mutual benefits is highlighted.

Let us now turn our attention to the literature examining the principles of good execution and implementation, as understanding how to implement success factors is central to our project objectives.

5.2. Principles of Good Execution and Implementation

Sull and Spinosa (2007) assert that many initiatives are not implemented effectively because of, *"broken or poorly crafted commitments."* (Sull & Spinosa, 2007). They believe that, *"every company is, at its heart, a dynamic network of promises made between employees and colleagues, customers, outsourcing partners, or other stakeholders."* (Sull & Spinosa, 2007). They recommend practising, *"promise-based management"* (ibid.) which involves co-

ordinating commitments in a systematic way. They assert that good promises share five qualities: They are, “1. *Public*, 2. *Active*, 3. *Voluntary*, 4. *Explicit*, and 5. *Mission-based*” (Sull & Spinosa, 2007). The authors state that by encouraging iterative conversation and making sure that commitments are fulfilled reliably, they can, “*enhance co-ordination and co-operation among colleagues, build the organisational agility required to seize new business opportunities, and tap employees’ entrepreneurial energies.*” (Sull & Spinosa, 2007).

A survey carried out by the Harvard Business Review (2010) revealed four major barriers to successful implementation: “1st [...] *making strategy meaningful to frontline workers. Second, a lot of people can’t even tell you what their firm’s strategy is. Third, strategy still comes mainly from the top. 4th, people involved in its development are the most likely to buy in.*” (HBR, 2010). This suggests that effective implementation is more likely to be achieved if strategy formulation is ‘bottom-up’, and is communicated more clearly throughout the ranks.

Ertel (2004) asserts that initiatives with suppliers can only be successfully implemented if negotiations are carried out with an implementation mind-set: “1. *Start with the end in mind. 2. Help your counterpart prepare. 3. Treat alignment as a shared responsibility. 4. Send one unified message. 5. Manage the negotiation like a business exercise [...]; the best deals don’t end at the negotiating table – they begin there.*” (Ertel, 2004).

A large part of successful implementation is, therefore, about careful communication, co-ordination and commitment. The supplier and client should work together as a unified team, sharing responsibility, and involving all relevant stakeholders. Effecting change of any kind in an organisation is, however, likely to be challenging. Let us briefly examine the change management literature for further advice on how to implement change, in the context of strategic partnerships or outsourcing relationships.

5.3. Implementing Change

Robert Dilts’ (2003) work in the field of neuro-linguistic programming presents an interesting view of the different levels of factors, in individuals and organisations, that need to be addressed, if change is to be implemented successfully. According to the neurological levels model (2003), the life of people in any system can be described and understood on a number of different levels: environment, behaviour, capabilities, values and beliefs, identity and spiritual:

Environmental factors determine the external opportunities or constraints which individuals and organizations must recognize and react to. They involve considering where and when success occurs.

Behavioral factors are the specific action steps taken in order to reach success. They involve what, specifically, must be done or accomplished in order to succeed.

Capabilities relate to the mental maps, plans or strategies that lead to success. They direct how actions are selected and monitored.

Beliefs and values provide the reinforcement that supports or inhibits particular capabilities and actions. They relate to why a particular path is taken and the deeper motivations which drive people to act or persevere.

Identity factors relate to people’s sense of their role or mission. These factors are a function of who a person or group perceives themselves to be.

‘Spiritual’ factors relate to people’s view of the larger system of which they are a part. These factors involve for whom or for what a particular action step or path has been taken (the purpose)” (Dilts, 2003).

In a change management situation, then, support must be given to help individuals develop, grow and evolve at all these levels of learning and change. Another layer of complexity is added in the context of an outsourcing relationship or strategic partnership, as each of these levels must be addressed, but also aligned, between the individuals in the two organisations.

Garvin and Roberto (2005) emphasise the need for persuasion when implementing change: *“To make change stick, leaders must conduct an effective persuasion campaign [and this is] largely one of differentiation from the past.”* (Garvin & Roberto, 2005). The authors propose a four part communications strategy to enhance the chances of success:

1. Prior to announcing the plan, leaders’ should set the stage for employees’ acceptance of it.
2. At the time of delivery, present a framework through which employees can interpret information and messages about the plan.
3. As time passes, manage the mood so that employees’ emotional states support implementation and follow-through.
4. At critical intervals, provide reinforcement to ensure that the desired changes take hold and that there’s no back-sliding (Garvin & Roberto, 2005).

Klimas and Ruzevicius (2010) have developed a model of process re-engineering and change management, to enable successful implementation of business process outsourcing projects (based on a survey of 122 organisations). They, too, highlight the importance of genuine acceptance by the organisation’s employees: *“It is solely after the majority of the organisation’s employees accept the decisions on changes as taken by top management and agree with the proposed actions and measures that it is possible to expect the changes to have effect.”* (Klimas & Ruzevicius, 2010).

They assert that employee satisfaction must be monitored on a regular basis. All employees must be aware, not only of their personal and their division’s goals and tasks in connection with the changes, but also of the needs of adjacent divisions, and of the goals and changes in relation to the entire organisation. Each new or re-engineered process must have a specific ‘owner’. This change process is doubly complex because employee acceptance and understanding has to be gained and created in two organisations (Klimas & Ruzevicius, 2010).

The authors go on to discuss the critical importance of the ‘invisible features’ of activities and corporate culture, when implementing change: opinions, beliefs, emotions, values, various conflicts, informal relationships, and information-channel hindrances – all issues that are often under-estimated in the formal management process (Klimas & Ruzevicius, 2010). The authors go on to cite a variety of psychological factors which, they assert, are often at the root of failure to implement change:

- Surprise: employees not psychologically prepared to accept changes, leading to irritation and confusion.
- Passivity: habitual compliance with established working procedures, with which most employees associate their professional security.
- Lack of skills of working under new conditions.

- Emotional side effects: decline in self-confidence or influence on others; increase in responsibility and tension.
- Lack of confidence in top management.
- Fear of possible failures.
- Personal conflicts with change initiators, or people in charge of the implementation (Klimas & Ruzevicius, 2010)

These points resonate with the views of John Kotter, an expert in business change, who believes that implementations succeed because of, *“changes in the hearts of employees”* (Kotter & Rathgeber, 2005). Kotter (2005) asserts that employees’ attitudes towards changes will affect the way they perceive, feel and modify processes, and change themselves. Kotter and Rathberger’s (2005) change model proposes the following steps to aid successful implementation:

1. *‘Spark’ motivation to engage.*
2. *Form leading change coalition with emotional commitment, varied competences, and levels.*
3. *Present stable, simple vision and strategy.*
4. *Communicate to promote a change ‘purchase’ and ensure ‘sale’ to the largest possible number of people.*
5. *Take action – remove obstacles, create feedback, secure continuous support of leaders.*
6. *Create short-term wins (to attain long-term goals).*
7. *Build on and stimulate determination and persistence of on-going change implementation.*
8. *Disseminate changes and anchor them in the organisation’s activities and culture.* (Kotter & Rathgeber, 2005).

We have seen, then, that on-going communication and commitment are vital to successful change implementation. Employees’ and other stakeholders’ behaviours, capabilities, values and beliefs, identity and ‘spiritual’ factors must be taken into account, as well as environmental factors. ‘Invisible’, psychological issues are often at the root of failure to implement change. Persuasion leading to acceptance is key. Any change process is difficult, but, in the context of an outsourcing relationship it is doubly so, as two sets of employees have to be aligned. Having the right expertise, tools and processes in place is, of course, critical to success, but it is only by winning the ‘hearts and minds’ of the stakeholders that change can become embedded in both organisations.

Let us turn our attention now to the subject of implementing the dominant and complex factors that we have identified as critical to the success of an outsourcing relationship. While the authors did not identify specific literature on every one of these factors in relation to implementation in an outsourcing relationship, the authors did discover recent literature in the areas of governance, measurement, innovation, trust, and mutual benefits.

5.4. Guidance on How to Implement Dominant and Complex Critical Success Factors

5.4.1. How to implement strong governance

The literature in this area suggests the need for a fine balance between a governance agreement that is detailed and formal, but that is also, on the other hand, flexible enough to accommodate changing conditions. The Multichannel Merchant journal sums up the paradox, as follows:

“Outsourcing agreements should be detailed enough so that both parties have an absolutely clear idea of their responsibilities and are working with the same expectations in terms of performance and results. At the same time [...] such arrangements should provide the flexibility needed to deal with unexpected changes, and new challenges and opportunities that are more than likely to arise over the life of the agreement. Written contracts can’t encompass every possible eventuality, so agreements need to include mechanisms for assessing change and making midcourse corrections. Governance processes should regularly monitor performance, acquire input from clients’ business managers, and establish regular interactions between the two companies’ managements, - with the goal of ensuring that the [...] operation continues to deliver what the client needs in a changing environment.” (Multichannel Merchant, 2006).

Mani, Barua and Whinston (2010) assert that firms involved in business process outsourcing must design the right structure to facilitate the right amount of information required to cope with task uncertainty, and achieve the desired performance. It is important to create mechanisms through which the user firm and the provider can co-ordinate their behaviours and actions to address the information requirement of the outsourcing relationship, and enhance performance. The governance of the relationship will, therefore, only be effective if it facilitates a mutual exchange of the required information between the two parties. The authors go on to say that, *“as outsourcing matures to being a collaborative network paradigm that is increasingly strategic in its impact, attention must be paid to issues of work design and co-ordination.”* (Mani et al, 2010).

In addition, for the governance of the outsourcing relationship to work effectively, the governance structure must clearly articulate the control structure within the relationship. Mani et al (2010) list the hierarchical elements that can be included in outsourcing governance, as follows: *“command structures and authority systems, incentive systems, control mechanisms, operating and change management procedures, private ordering mechanisms, and non-market pricing systems that enable accurate compensation for changes in task specifications.”* (Mani et al, 2010).

For strong governance to be implemented successfully, then, it requires a blend of formality and flexibility. It must make the control structure, roles and expectations clear, and it must be designed so that it facilitates the right amount of information exchange between the two parties.

5.4.2. How to implement effective measurement

Two clear points emerge from recent literature that touches upon the area of implementing effective measurement in outsourcing relationships. The first point is that any measurement relating to the outsourcing plan must be put firmly in the context of the firm's overall business strategy; the second point is that measurement that focuses solely on cost-cutting is misguided.

Boguslauskas & Kvedaravičienė (2008) believe that the outsourcing strategy should be aligned with the company's business strategy, and the outsourcing strategy execution should stay 'in sync.' with the near and long-term business growth goals. Boguslauskas & Kvedaravičienė (2008) assert that processes should be in place to compare actual performance against plans. Concrete measurements and data history help to indicate process weaknesses and opportunities for improvement; these measurements should feed directly into the outsourcing plan which, in turn, should feed into the overall business plan. In the authors' view, measurements should be carried out from the perspective of helping to grow the business, rather than focusing on cost-cutting.

Matt Havens, Director of Europe for Cognizant's Business Consulting Group, takes this point further, emphasising that measurement should focus on value rather than cost: *"Companies must work with an outsourcing partner who understands how to create and measure the most value from each project, and help you communicate that value internally."* (Havens, 2009). He proposes measuring the return on outsourcing (ROO), as follows:

"While achieving the predicted cost savings is a crucial part of outsourcing, the payback shouldn't stop there. By properly measuring the return on outsourcing (ROO) over the short and longer term, companies can reduce expenditures and apply cost savings to initiatives that drive on-going process improvement, business innovation and transformation." (Havens, 2009).

Havens believes that companies need a form of ROO methodology that captures benefits along three dimensions:

- Innovation (the basis of future benefits, valued financially).
- Process optimisation (quantified and valued with time).
- Total cost of ownership (reflected in IT budgets and IT accountability) (Havens, 2009).

Havens expands on the importance of measuring value in this way:

"Value along all three of these dimensions should be addressed as part of the planning process and tracked through the life of the initiative. This should enable both the client and the vendor to see the business value and cost advantages from the deal, understand the operational conditions and best practices that lead to long-term success, and ensure they are fully realizing the operational and financial benefits of outsourcing initiatives to most effectively compete against leading companies in their industry" (Havens, 2009).

The literature reveals, then, that it is essential to implement measurement that focuses on value rather than cost reduction, while also understanding how this value fits within the organisation's overall business strategy. We will return to the idea of measurement at the end of this literature review, when we will discuss Grönroos' (2010) concept of the 'return-on-relationships' (ROR) and measurement of mutual and reciprocal value creation between firms and customers (see section 5.4.5). We will now move on to examine the literature

regarding innovation, in terms of how innovation can be successfully embedded in an outsourcing relationship.

5.4.3. How to deliver innovation in an outsourcing relationship

Many CIOs are sceptical of the view that outsourcing initiatives can lead to increased innovation. In an on-line survey of 290 senior technology executives, only 24% believed that outsourcing contributes to IT innovation, compared to 76% who felt that 'insourcing' aids innovation (Overby, 2007). Significantly more executives were dissatisfied with the levels of innovation generated by long-distance, global outsourcing (offshoring), compared with domestic outsourcing (Overby, 2007). According to Windrum et al's (2009) research, firms need to identify the organisational architectures that most effectively integrate value-adding, innovative activities. They conclude that an integrated approach to outsourcing, where the supplier is a 'knowledge intensive business service provider' will lead to greater innovation: *"Knowledge intensive business service providers don't just provide higher quality inputs; they engage with their clients in the co-production of new knowledge and material artefacts (Preißl, 2000, cited in Windrum et al, 2009). " For the client and the [...] provider to interact in this way, there must be a semi-permeable boundary between the organisations. Developments in the skills and competences of one will effect a change in the skills and competences of the other (Gallouj & Weinstein, 1997, cited in Windrum et al, 2009).*

Procter & Gamble's 'connect and develop' strategy for open innovation provides a good example of collaborating with knowledge providers to co-create innovation and value (Huston & Sakkab, 2007). Over 50% of its 'pipeline' and products have an external technology or external 'connect and develop' linkage. P&G does not think of this as outsourcing R&D, but rather as, 'in-sourcing creativity.' P&G focuses on fostering co-invention-based interactions with outside resources, as opposed to the conventional transaction-based orientation. It leverages several external resources and networks, innovating by making 'new connections' (Huston & Sakkab, 2007).

P&G has had to change the culture of its R&D department to enable employees to accept this co-creation mode, and implement this innovation process. It had to move from a culture of 'not invented here' to one based on, 'proudly-found elsewhere.' P&G had to convince its employees that it truly wanted a strong R&D organisation with great scientists and facilities, but that they wanted to 'turbo-charge' the R&D operation: *"We wanted to change the culture to reward people who brought things in from elsewhere"* (Huston & Sakkab, 2007).

Suppliers, then, must be organisations that P&G can learn from: *"You want to be the partner that outside people come to; [to] be at the top of the pecking order because you've got a good reputation and people know you'll be fair. Too many companies are wedded to the invention model. We're inventing, of course, but we're adding to our capability here the ability to innovate based upon connections"* (Huston & Sakkab, 2007). In this scenario, a new level of innovation stems from P&G's recognition of the value of genuine collaboration and partnership with external suppliers.

This is in contrast to what Windrum et al (2009) refer to as a 'total outsourcing' approach, where one or more activities are completely hived off by the outsourcing firm for a set period of time. Control of the outsourced activities and their administration are passed over to the service provider, meaning there is little or no interaction between provider and client knowledge and competence bases, and, therefore, no co-production of value or innovation (Windrum et al, 2009). In a similar vein, Hempell and Zwick (2008) argue that outsourcing

allows firms to 'buy' innovations in the short run, but that this reduces innovative capacity in the long run.

Weeks' (2009) research uses the dynamic capabilities (DC) framework to analyse the linkages between outsourcing relationships and innovation in the automotive industry. The DC framework provides a look at several capabilities within the relationships that facilitate innovation processes; for example, robust bi-directional information flows, and learning processes centred on the relationships. Viewing these relationships as dynamic capabilities leads to the conclusion that investing in relational resources can contribute to innovation and competitive advantage for the firm" (Weeks, 2009). Weeks' (2009) findings also concur with Windrum et al's (2009) research, as the former expresses the view that, *"governance structures present in the industry's 'institutional matrix' [...] may have a bearing on innovation outcomes."* (Weeks, 2009). High levels of communication between the two organisations can also enhance innovation opportunities: *"Increased levels of communications in these pragmatic collaborations lead to more complex interactions that seek to advance the common good of the participants."* (Weeks, 2009); and, *"improved information sharing may allow firms to improve the value achieved with innovative programmes"* (Lamming et al, 2006, cited in Weeks, 2009).

Martínez-Sánchez et al's (2008) research concludes that innovation performance in inter-organisational initiatives, is positively associated to internal functional flexibility in the workplace (Martínez-Sánchez et al, 2008).

Overall, then, effective implementation of innovation processes stems from taking the following approach: building an integrated relationship using 'knowledge providers', not simply 'suppliers;' recognising the value of strategic co-invention and co-creation-based interactions with outside resources; having semi-permeable boundaries between the two organisations to allow new connections to be made; and encouraging behaviours characterised by flexibility, information-sharing and communication between parties. In some cases, the organisational and governance structures may need to be changed to enable innovation to happen.

5.4.4. How to embed mutual trust in the outsourcing relationship

Mutual trust emerged strongly as a critical success factor for outsourcing relationships in Dibley and Clark's 2009 research. Zaheer and Venkatraman (1995) summarise the meaning of trust in this context: *"Trust reflects one party's belief that its requirements will be fulfilled through future actions undertaken by the other party"* (Zaheer & Venkatraman, 1995). Goo et al (2009) argue that mutual dependence between the two parties positively influences trust, as it creates a higher need for trust: *"High interdependence makes it increasingly dangerous for the partners to engage in opportunistic behaviour or coercion, because both parties have much to lose. Convergent interests also decrease power asymmetry between the recipient and provider, and encourage each party to cultivate its partner's trust, because neither party can use its asymmetric power to obtain the partner's co-operation"* (Goo et al, 2009).

Goo et al (2009) go on to assert that to create a mutually beneficial relationship, with high psychological bonds of trust and commitment, *"the two parties need to develop mechanisms to create relational norms, engage in harmonious conflict resolution, and develop mutual dependence on one another in the outsourcing relationship"* (Goo et al, 2009); the authors

state that there is strong evidence that firms can use well-developed formal contracts and SLAs to develop these relational attributes. Their findings from empirical research in the area of IT outsourcing, suggest that trust, *“may depend largely upon the protective support and assurances provided by the terms and provisions in the formal contract that specify contingencies, adaptive processes, and controls, as these are likely to mitigate opportunistic behaviour, and support relational governance”* (Goo et al, 2009). Well-structured contracts and SLAs can be used, therefore, to provide the reassurance required to develop trusting, partnership style relationships.

Lievens and Corte (2008) discuss the link between trust and affective commitment in an HR outsourcing context: *“Trust is crucial to developing a sense of unity with the other party, because it reflects a willingness to make oneself vulnerable to another party, with the expectation that the other party will not act opportunistically”* (Gainey & Klass, 2003, cited in Lievens & Corte, 2008). In their interviews with HR managers, trustworthiness was seen to play a prevalent role in the development of affective and personal ties between the two organisations. Lievens and Corte (2008) distinguish between identification-based trust, in which perceived shared values play a role, and knowledge-based trust, which is described as the expectancy that a partner’s word may be relied upon, and the belief that the vendor is able to perform the job effectively and reliably. The authors’ research showed that perceived shared values were significantly related to the development of an affective bond with people from the partner firm.

Lievens and Corte (2008) propose that communication, reputation and approachability are all precursors of people’s knowledge-based trust: they reflect patterns of behaviour signalling that people from a firm are trustworthy. Effective communication between the two parties was found to increase confidence in the continuity of the relationship, and to dampen conflict. Interaction frequency is also described as a significant predictor of trust.

Oza et al’s (2006) research investigates the critical factors to achieving and maintaining trust in the context of high maturity software vendor companies based in India. Their findings show that the critical factors to achieve trust initially in an outsourcing relationship include: previous clients’ reference, and the experience of the vendor in outsourcing engagements. The critical factors for maintaining trust include: transparency, demonstrability, honesty, process followed, and commitment. The findings also suggest that trust is considered to be very fragile in outsourcing relationships (Oza et al, 2006).

Zhijian et al (2009), in their work examining common success drivers for outsourcing embryonic technologies, also found that trust can be built from an investment in communication and transparency. They give concrete examples of how this happened: *“this investment took the form of frequent meetings and visits with all partners, and an open atmosphere for discussion. One staff member said, ‘Do not collaborate with an organisation that you do not know very well and where there is no mutual interest in continuing to collaborate for a long time’”* (Zhijian et al, 2009). In order to maintain trust, keeping one’s word was found to be crucial: *“There were several situations in which Siemens promised to make additional investments to support next-generation equipment but then cancelled because of corporate pressure from outside the project [...]; such reneging on promises made continued trust unlikely and consequently reduced the partner’s commitment and willingness to take further steps.”* (Zhijian et al, 2009).

In summary, then, a degree of mutual dependence is required for trust to become embedded in an outsourcing relationship. Perceived shared values play a significant role in

identification-based trust, while communication, reputation and approachability are all precursors to knowledge-based trust. To create trust initially, vendors' references and experience are key, while to maintain trust, transparency, demonstrability, honesty, process followed, commitment and keeping promises are also crucial. It is argued that contracts and SLAs can be used to provide the reassurance required to preserve trust.

5.4.5. The concept of return on relationships (ROR)

As we saw in Dibley & Clark's 2009 research, an embedded strategic partnership between organisations, rather than a transactional relationship, brings the greatest mutual benefits and potential rewards (Dibley & Clark, 2009). The literature demonstrates that the nature of the relationship itself can generate value, not just the 'harder' more tangible factors. Rogers (2008) makes the point that firms know they must look for innovation, expert skills, shared risk, accelerated time to market, improved customer service and growth from outsourcing arrangements, but that 'soft' factors such as shared goals and willingness to partner, should also be taken into consideration (Rogers, 2008). Rogers refers to co-operation theory, which suggests that, *"the best outcomes are achieved through parties to an agreement perceiving their goals to be interdependent"* (Rogers, 2008); the literature shows this to be the case for firms wishing to create value with their outsourcing providers.

Grönroos (2010) presents a service-based relationship perspective on business, which highlights the themes of inter-dependent goals, and the co-creation of value and mutual benefits: *"Adopting a service-based relationship perspective on business means that the supplier and/or customer gear their practices towards each others' practices (Practice Matching), so that the supplier supports the customer's business process in a value-creating way, and thereby, in return, gains financial value for itself. [...] Hence, ROR as financial value is created mutually and reciprocally (through a Practice Matching and Resource Integration process) (Grönroos & Helle, 2011; forthcoming; based on Vargo, 2008; cited in ICRM, 2010).*

A Service-Based Relationship Perspective on Business

- ROR as financial value is created mutually and reciprocally, through a practice matching and resource integration process (Grönroos & Helle, 2011; forthcoming)

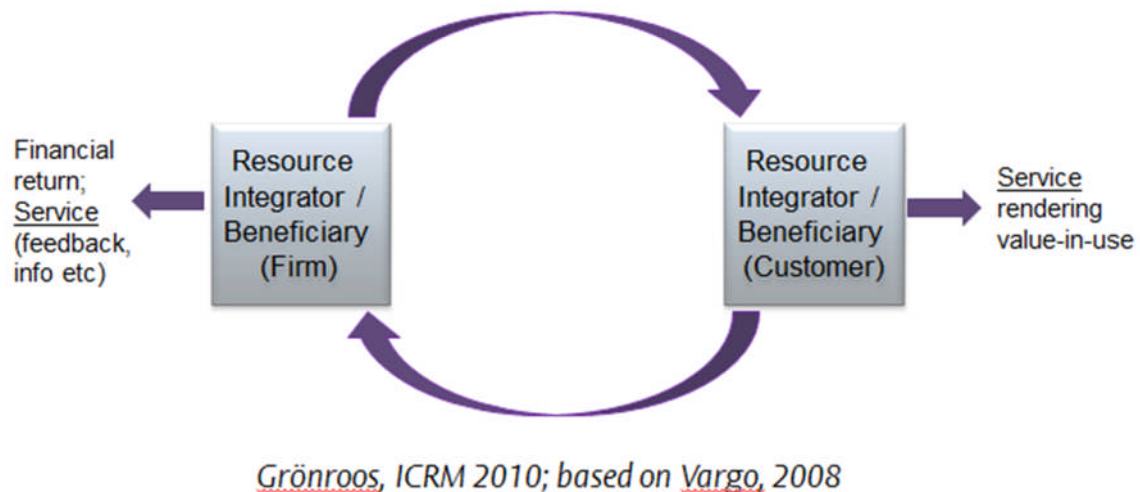


Figure 3:
A Service-Based Relationship Perspective on Business (Grönroos, 2010)

The requirements for measuring return-on-relationships as mutual and reciprocal value creation are the following:

- The firm and customer must align critical resource, competencies and processes (practice matching).
- Value is measured in monetary terms by both parties.
- Enough trust exists to open books and expose cost and revenue drivers to each other, and to share related accounting data (Grönroos, 2010).

This return-on-relationships approach can be applied to an outsourcing context, where alignment between the two organisations' resources, competencies and processes, along with trust and transparency, are crucial for mutual and reciprocal value co-creation.

6. Findings from Qualitative Research

As discussed in Section 4 (Methodology), all data from the in-depth interviews were analysed, coded, and grouped into themes. The key insights on implementation of the success factors are presented here. They include recommendations on attitudes, behaviours, activities, tools, devices and processes that respondents believe should be in place, to enable each of the dominant and complex success factors to become embedded in the outsourcing relationship.

6.1. How to Implement Strong Governance

Capture the requirement for mutuality of purpose: both parties must embrace the same vision and purpose, and this should be captured in the governance document:

“Governance is a two-way street. There must be something that captures the requirement for mutuality of purpose; something that both parties embrace.” (OS1, R2).

Get your own governance right first, then come together collectively: each organisation should have a clear governance structure, but both parties need to come together and define the governance mutually for the outsourcing relationship. The governance document should be a living, much referred to document, that both partners should revisit frequently together. Both parties should ask the question:

“Is this achieving what we wanted it to? How do we make [the relationship] grow, and be more meaningful?” (OS1, R2).

Define what success means on both sides: the outsource supplier needs visibility into the goals of the client, into the client’s objectives, strategies and concerns, and into what success means for the client (OS1, R3), (OS4, R1).

Governance must be focused on and aligned to the client’s business operations, goals, and business objectives: the outsource supplier must be able to listen to and have a very clear understanding of the client’s needs, and focus on supporting these needs:

“This is where the client sees value and benefit. We can bring our methodology into this, but we shouldn’t impose this rigidly” (OS1, R2).

Governance must be broad and deep, and both parties must keep working at the connection:

“[When you outsource a process] a lot of work goes away, but there is still work there [...]. You have to work at that connection” (C1, R1).

A Senior Vice President from a workforce management and HR solutions supplier, describes the need to establish connections at a number of levels, both operational and senior, all the way up to the CEO:

“Early on, establish a structure that includes stakeholders from as many parts of the organisation as possible [...]. Our CEO meets with his counterpart on the client side regularly” (OS1, R2).

The breadth and depth of connections required is brought out when he talks of the matrix structure of the relationship: *“We have regular meetings with key stakeholders in different*

geographic areas, but we are also beginning to run horizontally across regions as well” (OS1, R2).

Mirrored structures between the supplier and client are recommended: the outsourcing relationship team on the supplier side should have clear counterparts on the client side, at all levels. It should be made clear exactly who ‘faces off’ to whom (C2, R1):

“We’re explicit about individuals who face off to each other, by way of contract” (C5, R1).

A clear infrastructure for the relationship should be in place: Outsource Supplier 1 has a global infrastructure in place that provides clarity around the organisation of relationships:

“The global organisation, geographic businesses, different disciplines and operations, all operate in a matrix or mesh – a mesh with shared responsibility. We put an infrastructure in place that allows us to scale globally, in a consistent, repeatable manner. We have dashboards internally in place that allow us to manage each programme site, wherever it is, in a similar fashion, because that infrastructure and skeleton is there” (OS1, R1).

Define roles clearly; give people meaningful work: a client respondent from a healthcare company talks of the importance of good team cohesion, cross-training and challenging roles, all of which help to keep employees satisfied and attrition low:

“Just because they’re not your employees doesn’t mean they shouldn’t be satisfied employees and like what they do [...]. We want to make sure that those jobs are meaningful, and people have opportunities to grow and develop (C1, R1).

Clearly defining the roles of people on-site, as an outsource supplier, is an essential part of the governance framework. A Senior Vice President from an HR outsourcing firm, describes how these roles are the same everywhere in the world, thus aiding clarity:

“Their job is to facilitate the transfer of talent from outside the company to inside the company, on behalf of the hiring manager. We unburden them as much as possible, so they can spend the majority of their time doing that.” (OS1, R1).

The client manager from Outsource Supplier 2 sums up how clarity of roles and understanding of ownership in the governance framework, enables the relationship to run smoothly:

“It’s about understanding roles. It’s, within the meeting, everyone understanding why they’re there, and what value they’re bringing to it from the perspective of their expertise, but also an understanding of, ultimately, who has ownership [usually the client manager and his counterpart on the client side] to take away and resolve issues” (OS2, R1).

Give clear ownership and accountability for progressing and resolving issues: in the relationship between Client 2 (Healthcare company) and Outsource Supplier 1 (HR services), there is a clear system for following up all action points from project review meetings. The Programme Manager from OS1 acts as a single point of contact: *“She delegates the right tasks to the right people” (C2, R1).* Client 4 (car manufacturer) also says that their governance model with OS1 is strong, as accountability is explicit:

“We can understand where we stand, and what’s expected of each other [...]; that allows us to solve the issue” (C4, R1).

Client 5 (conservation charity) praises the fact that clear ownership of issues is part of their governance framework, along with the requirement for different meetings being included in the contract:

“There’s clear ownership; the governance is very detailed regarding what each person should do – tying this in with the governance contract works very well. Meetings are all contracted for; it might seem extreme, but it works very well” (C5, R1).

The customer management outsource supplier (OS2) who works with Client 5, agrees that the rigid set of governance meetings works for their relationship. The meetings are well managed; the structure and purpose are constantly reviewed so that the meetings don’t become stale, and there is very good role clarity - the client manager on each side is responsible for driving actions through. Specifying exactly who should attend each meeting ensures that actions can be progressed:

“You have to make sure you’ve got the right people in the room for each meeting: If you have someone too senior in the weekly meeting you dilute it [...]. You need to ensure you get the right, responsible people into the weekly, monthly and quarterly meetings, so you can drive the governance through from a day to day operational level, to a more strategic position.” (OS2, R1).

It is also important to have checks and balances in place to ensure the critical things are actually being done (OS1, R1). In addition, there should be a regular means of ‘checking in’, whether quarterly or bi-annually, to ensure that the governance is effective at delivering the results both parties expect (OS1, R2).

Have the right mix of formal and informal processes and tools for your firm, with a regular cadence to meetings: *“Don’t let the regular cadence of meetings lapse because of ‘fire-fighting’; you need to force both parties to meet regularly and look forwards, instead of fire-fighting” (OS1, R2).*

“Once every couple of weeks we’ll get together personally – it’s just as important when things are going well; we both remind each other to say, ‘Isn’t that great!’” (OS2, R1).

“You need the governance that’s appropriate to each particular organisation, to make sure that linkages across organisations are made in a way that benefits both organisations. Some corporate cultures lend themselves to very rigidly structured governance, and others to more informal, flexible, dynamic governance – for example, if there are new issues arising all the time, in a fast-changing unstable environment” (OS2, R1).

Client 6 (low-cost airline) operates in exactly this type of fast-changing, unstable environment, and C6, R1’s approach to governance emphasises flexibility, and a desire to encourage informal communications and feedback, to generate idea-sharing: *“We make good use of formal tools – for example, our Bible, which is regularly updated; quarterly review meetings; daily reports; but also frequent e-mails, calls at any time to share information or issues informally. Formal processes are important but the relationship isn’t strait-jacketed into them” (C6, R1).*

The right management information should be available to support the governance:

Having clear, comprehensible, relevant and timely information is crucial:

“It’s having a structure in place, having reporting that, 1. Everyone understands and, 2. Is relevant. As meetings evolve, the MI that’s required should be reviewed. Don’t use

meetings to review the pack of MI, but to review exceptions. The MI should be used to drive out the low and high points and think about the future” (OS2, R1).

Documentation around the logistics of meetings should be produced regularly and consistently, *“this makes sure that actions are carried through, and gives a nice escalation process” (C5, R1).*

The need for timely information is highlighted, as follows, with the suggestion that the governance should incorporate the possibility of instant, technology-driven solutions:

“Quarterly reviews are way too late; we need ‘real time’ information at the click of a button – automated processes are important wherever possible” (C3, R1).

‘Spice-up’ meetings if they start to feel routine and stale: for example, a third-party with a fresh perspective could be brought in (OS1, R2).

“Run a series of blue-sky, unfettered thinking workshops through the governance process. Criticise what we aren’t achieving; free up and create innovative environments; challenge one another about where to go next; think and work differently; keep the relationship fresh” (OS3, R1).

6.2. How to Measure Value and Success Effectively

Revisit all the quantifiable aspects of service regularly: the outsource supplier and client should, together, regularly examine the KPIs and SLAs in place, to determine whether they are still relevant. Economic and environmental circumstances may change: *“You might need to respond to the new business landscape with new, relevant KPIs.” (C4, R1).* It is important to make qualitative assessments of the value that quantitative measurements are adding; to ask, for example, *“Are we meeting your expectations? What can we do better?” (C1, R1).*

Firms should try to focus on ‘real-time’ measurements to make them more meaningful:

“We’ve talked to clients about having a ‘real-time’ dynamic scorecard, to be updated daily or weekly” (OS1, R2).

The outsource supplier must communicate the less tangible aspects of value they are creating; value they are delivering above and beyond contractual requirements, to key stakeholders. The client should recognise this extra value being delivered, and communicate it within their organisation:

“We have developed a report to make the added value of the programme clear and visible – there’s quite a bit of calculation methodology behind it. It’s important to make the benefits visible within the organisation, to the key business leaders using the programme. [...] We give lots of feedback to people within [C2] regarding benefits. This was not so visible earlier on. This is a new focus we’ve given to the programme; to communicate in a better way with the business stakeholders” (C2, R1).

“We always encourage [OS2] to advise us where they’re adding value, over and above the norm. For example, at the quarterly meetings, they can tell us about continuous improvement, and any employees who’ve won awards. [...] We try to recognise these achievements” (C5, R1).

It is also important to recognise how value is changing over time, and have simple mechanisms to capture the value that is being added:

“You need a quarterly process to recognise and define how value is changing. At a senior level, every meeting you have with the client, put on one sheet of A4 paper – ‘this is what we’ve done for the organisation; this is what we’ve achieved’ (OS4, R1). For example, identify the new ideas you have brought to the table, the ‘white papers’ produced, awards won, continuous improvement initiatives carried out. The respondent comments that when the client recognises the value the outsource supplier is bringing, the relationship can build to the next level. Failures should also be acknowledged openly and honestly, as this will build trust.

Client satisfaction is one of the most important measurements to capture:

“The programme will not be successful if it is not perceived as successful with [C2]. We, as procurement, can say, ‘this is a really successful programme, we have ‘x’ amount of savings’ etc, but in essence, the programme will not be successful, as long as it is not in the minds of our business stakeholders. They need to perceive it is valuable and successful [...]. Hence, we have this yearly customer satisfaction survey – to really measure within [C2] how satisfied our customers are” (C2, R1).

“We could be offering the best service in the world, but if the perception of the client is different, we’re never going to get our contract renewed” (OS2, R1). Perception management is, therefore, crucial.

Respondent 2 from Outsource Supplier 1 recommends a scorecard approach, commenting on the importance of investing time in measuring the relationship rubrics, not just measuring value operationally: *“Jointly define a set of questions or items you will look to as a means of measuring the relationship [...]. The net promoter score is a good conversation starter [...]. Customer feedback loops should run concurrently with whenever the formal governance meetings are, for example, quarterly or monthly – monthly is frequent enough [for formal feedback]” (OS1, R2).* Feedback should be captured from end-users and decision-makers.

Respondent 1 from Outsource Supplier 2 suggests that there are two very quick, simple ways to measure whether client satisfaction is high:

“1. Referenceability – Does the client say ‘yes’ when you want them to act as a reference for a new piece of business? 2. Case studies – Is the client prepared to put their name or brand on a paper or a video case study?” (OS2, R1). Thirdly, this respondent recommends a bi-annual client satisfaction monitor whereby, every six months, three people who play a key role in managing the relationship are asked for their views. To achieve a high level of customer satisfaction, it is crucial to understand what drives success for the client outside of the contract; the client should be asked to score and rate the outsource supplier based on the criteria they (the client) set as a business: *“The measurements should be based on something the organisation you are serving values” (OS2, R1).* The respondent goes on to say:

“1 and 2 are less tangible than 3 (which gives a score out of 10) but, for me, to get a video case study is the ‘holy grail.’ The MD of [C6] being prepared to have a video of him on your website, saying you’re all good to work with...In my opinion, it doesn’t get any better than that.” (OS2, R1).

Measure value looking forwards, not backwards: Respondent 1 from Outsource Supplier 1 talks of how, traditionally, KPIs are monitored in a quarterly business review every 90 days:

“Measurement focuses on analysing the efficiency of the process, and looking at how you did in the last 90 days. The entire analysis is looking backwards. It’s not forward-looking, not targeted to examine what you’re really interested in doing. We’ve now attempted to flip that upside-down: to focus our customers on value, and manage spend looking forwards; to focus attention on the 20% of customers’ spend that makes 80% of the difference; to put analytical capacity in place that allows you to manage spend as it’s happening, looking forwards” (OS1, R1).

The respondent makes it clear that this is a huge change, and that the technology and data analytics are crucial, for this approach to be successful. The respondent refers to this approach as ‘value acceleration.’ He goes on to say that there will always be the KPI, “*how much money did you save me?*” but that the value-acceleration approach allows the avoidance of future cost:

“You’re saving the customer money in the future, by being able to fill their needs faster and more efficiently than they would have done otherwise. [...] Now what you’re doing instead of managing a process and optimising a supply chain, which is a given, you’re thinking about the customer’s strategic plan, and the resources they’re going to need to execute that plan” (OS1, R1).

This is, clearly, an innovative approach, designed to maximise value creation, rather than focusing on simply removing costs.

Have a quarterly process to recognise and redefine how the concept of value is changing: taking cost out is not enough:

Respondent 1 from Outsource Supplier 4 describes how, in a relationship with a client, the concept of value can change, almost imperceptibly, over time. The respondent suggests using a quarterly meeting process, to ensure that the outsource supplier is aware of how the concept of value for the client is changing:

“When you start a project it might be cost reduction, then two years later, they’ve got cost reductions, and value might be ‘simplification’; then two years later, the client might say, ‘Yes, but you’re not really moving us forwards’ (OS4, R1). The supplier needs to be aware of the value the client truly wants it to deliver, and find innovative ways of enhancing the client’s success. The respondent comments on the difficulty involved in measuring value, as often there is a temptation to revert to a focus on cost:

“This is why value is so hard to measure; everyone seems to drop it and focus on cost [...]. you need to be explicit about the value you’re delivering, for example, you might be running twice the number of applications with half the people... [...] If you don’t do this, in two or three years time, your client is going to say, ‘you aren’t doing enough’” (OS4, R1).

The client should measure the ‘total cost of performance,’ not the cost of the supplier

The same respondent makes the point that, following this value-driven approach, the client should consider the level of enhanced performance the supplier is able to deliver to the client organisation, not simply the cost of the supplier:

“Some clients think they’re asking for cost reduction and value, but are really only focusing on costs [...]. They need to look at the ‘total cost of performance,’ not cost of the supplier: Client performance + Supplier A gives you performance X; but client performance + Supplier B might give you performance Y. [...] The client should have the bar raised for them and get to see the best in the industry, through the supplier’s people.” (OS4, R1).

The respondent makes the point that a really good outsource supplier is one from whom the client’s employees can learn: this adds huge value in terms of improving the client’s performance.

6.3. How to Embed Mutual Trust and Confidence in the Relationship

Mutual dependence: the client and outsource supplier must know that they are important to each other, and this should be made visible:

According to Respondent 1 from Client 2, trust comes from a feeling of mutual dependence between the supplier and client:

“The client must know it is important to the supplier [...]; the supplier must know it’s important too – say to them, ‘You’re really important to us and we value your ideas, and we really want to work with you’ (C2, R1).

Dependence can be demonstrated by the client by placing reliance on the supplier; the client shows it trusts the supplier, which, in turn, builds further trust: *“We let them get on with the job; that builds confidence” (C5, R1).*

Deliver on what you promise, be transparent and honest; set expectations clearly

It is important to start embedding trust in the relationship from the outset. This can be achieved by having the right processes in place during the acquisition phase:

“Through exposing the prospective customer to your existing customer base; by being inclusive with the client in terms of the personnel that you’re going to be putting in charge of their process. In these situations, it is intensely important that during the course of the pursuit, the people who are actually going to run and manage the programme you’re selling, are exposed to the customer before they make the buying decision” (OS1, R1).

Respondent 1 from Outsource Supplier 3 believes very clearly that, *“You don’t get trust and confidence without being responsive, open, transparent and honest” (OS3, R1).*

Respondent 2 from Outsource Supplier 1 reiterates the importance of honesty: *“Be honest, don’t sugar-coat issues; ask for help” (OS1, R2);* feeling able to ask for help is viewed as a sign of a relationship with strong trust. Another respondent echoes the importance of openness and honesty:

“I have to develop the right to be trusted, and sometimes that trust may come from mistakes happening. By being open and honest, I can earn trust” (OS2, R1).

Providing sensitive management information to each other also creates trust by demonstrating transparency and openness in the relationship (OS2, R1) (C5, R1).

Respondent 3 from Outsource Supplier 1 outlines the difference between honesty and transparency as he perceives it:

“Honesty is telling the truth when you’re asked a question; transparency is telling the truth, plus showing concerns, gaps, negatives, and being open when you can’t do something” (OS1, R3). Transparency, then, goes beyond honesty, and aids creation of trust.

Other respondents emphasise that performing well and delivering on promises is the key to building trust:

“Being a partner in the field, and when we have a request or a problem, being able to come up with a solution, and handle it and perform [...]. The more positive experiences you have – that brings you closer together” (C3, R1).

Setting out expectations clearly early on, giving lots of ‘face-to-face’ time is also key:

“It’s about knowing that there’s nothing that hasn’t been discussed” (C5, R1).

The Programme Manager/Client Manager and Relationship Directors should engage with people on all levels: respondents highlight the importance of ensuring on-site teams are happy in their roles, offering support and encouragement, and rewarding excellent work:

“Although I’m the Programme Manager I’m in-touch with on-site people; it’s important for me to understand the on-site people’s issues, and see if they’re happy in their roles” (C2, R1).

“We gave them [OS2 agents] lots of face-to-face time from the start – meeting the UK team, giving them educational, and also going over there [Delhi], and not just leaving them to it. [...] It was important we felt comfortable with the agents, and they felt comfortable with us. You know if agents are enjoying the job and if they’re looked after” (C6, R1).

This respondent stresses the importance of people at all levels of the relationship giving support and encouragement:

“Offering support is important. Letting them know we haven’t just moved the work over there and left them. We are grateful for the work they do, and offer them encouragement and reward them when they are doing well. [...] It’s important to be respectful; we send over Directors as well, not just the UK support team” (C6, R1).

This ‘high-touch’, supportive approach reaps rewards:

“[OS2’s] agents tend to stay a long time – there are lots of familiar faces when I go over there; lots of agents who’ve been there since the beginning and are still enjoying the job” (C6, R1).

The client must feel it can learn from the supplier: for the client to trust in the outsource supplier’s ability to deliver value, they must be persuaded that the supplier is at the leading edge of knowledge and practice:

“I trust their intentions and willingness, but I don’t know if they’ve got the capability to take us where we want to be tomorrow” (C1, R1).

Respondent 1 from Outsource Supplier 1 echoes the view that expert knowledge is essential: *“you have to be able to demonstrate deep knowledge of the environment and customer, and of the processes and services you’re providing” (OS1, R1).*

The relationship between the Client Manager on the outsource supplier side and the Relationship Manager on the client side is key:

Respondent 1 from Client 1 comments on the positive effect the commitment of his counterpart from OS1 has had:

“He’s a sincere guy, does what he says, asks good questions, cares about service levels, and is flexible. My level of trust in [OS1] has been increased because of X – because of one individual” (C1, R1).

Respondent 1 from OS3 emphasises the importance of the outsource supplier manager understanding what is important to the client contact, and being able to articulate the other person’s perspective:

“You need to understand not just what’s in the contract, but what’s important to your client contact, in terms of their career, company politics etc” (OS3, R1). It is important to ask: “What’s on your mind? What do you need us to do differently? [...] Make the client feel you are there to make him/her a hero in his/her own organisation” (OS3, R1). The respondent suggests taking the relationship out of the work context, for lunch or coffee as appropriate: “It’s all about getting behind the individual and understanding his motivations” (OS3, R1). The respondent believes that the two individuals’ personal values should match for genuine trust and confidence to exist. Both parties need to constantly test their assumptions about the other, to identify the extent to which they share the same values and, therefore, the depth of mutual trust they will be able to build.

Respondent 2 from OS1 sums up the need to be able to articulate the other person’s perspective:

“If you can articulate their goals and learn that perspective, this is the first step to dispelling the notion that there’s a hidden agenda. It creates the sense that, ‘they’re not here for their own purpose, they really understand what we’re doing’” (OS1, R2).

Respondent 1 from Client 4 pulls together the need for the outsource supplier to demonstrate knowledge and expertise, and the ability to empathise with the client, in such a way that they can add value:

“The outsource supplier must have the ability to connect and understand the business, and look at the overall value it can bring to the organisation. They need to understand the business pressures we’re facing, and how they can help us meet our goals. The outsource supplier must say, ‘I understand your needs and struggles, I understand your pressures, and I have a solution’” (C4, R1). The supplier needs to want to solve the client’s problems, rather than thinking first about its own success: this leads to mutual trust.

Be there in a crisis: if the client believes that the supplier is committed to them, ‘for better or for worse’ and that they are ‘in this together,’ a deeper level of trust can develop:

“there isn’t any company in the world I’d rather have at my side than OS1 in the event of a natural disaster. People will volunteer weekends and 24 hours a day to help our clients get through something like that [...]. we rise to the occasion; they trust us for that” (OS1, R2).

Trust must go both ways: a measure of mutual trust is the number of ‘unofficial conversations’ the relationship manager on the client side is prepared to have with his counterpart on the supplier side. For example, if the client tells the supplier about an organisational change before it has been officially announced, to help the supplier ‘look good’ within his own organisation:

“For example, if a client is prepared to call you and tell you about rumours of things happening in their organisation. They almost treat you as a colleague rather than as a partner. They’re telling you because they trust you that it won’t go any further, [...] giving you

a 'heads up' on something that may impact you, rather than leaving you on the back foot" (OS2, R1).

If a client does not reciprocate the trust shown to it by the supplier, supplier teams will not want to work with that particular client:

"You get the 'dregs' on that account. On the supplier side, people can manage themselves out of accounts [...]. The client doesn't necessarily realise it's getting the B, C and D teams!" (OS4, R1). This leads to high churn, and an unsuccessful relationship.

The long-term aspiration is to reach a state of mutual, 'institutionalised' trust: this is when trust goes beyond individual relationships. This can usually only occur in a long-standing relationship. Institutionalised trust is characterised by low attrition and extensive sharing of financial information. Outsource Supplier 1's relationship with C2 is described as one where institutionalised trust exists:

"You mention the name of the client, and everyone responds instantly. [...] Each institution holds dear the long-standing relationship and understanding that they have. [...] Most companies would point to one or two suppliers where you know that, come hell or high water, that supplier is going to be there for you" (OS1, R2).

The respondent describes the benefits of sharing financial information with their client, C2:

"[C2] have made it clear they don't want us to lose money [...]. They want us to be here in 2, 5, 10 years time. [...] We got over our fear of sharing with them how we make money. Since we've done that, the conversations happen very quickly. For instance, we say, 'we can't do that because this would happen from a financial standpoint,' and they say, 'OK, I get it, let's move on to an alternative'" (OS1, R2).

6.4. How to Embed Responsiveness, Openness, Transparency and Honesty in the relationship

Understanding the value the outsource supplier is bringing, and recognising this value, encourages openness and transparency on both sides: recognising and celebrating the success of the outsource supplier, *"just like your own employees"* makes everybody want to be more open (C1, R1).

A deep level of responsiveness will only be achieved if the supplier fully understands the client's need and pain:

"Not just getting the ball back over the net, but alleviating the root cause in the long term" (OS1, R2).

"We've done a good job at listening to what their pain is; when we presented a solution back, we always addressed the pain, not necessarily focusing on the bottom-line for [OS1]. Our solution helped them fix a problem; it earned us credibility" (OS1, R3).

Individuals 'facing off' to named individuals, information sharing, and a clear escalation process to resolve issues, all help facilitate openness:

"The more we invest through information-sharing, the more we get back" (C5, R1). Of course, it is also important to have the *right* people on both sides to do the job – sociable people, good communicators who interact proactively with their business partners (C2, R1).

Ensure there are no surprises on billing or expenses (C1, R1).

Openness has to go both ways: build this up from the lowest to the highest levels through, for example, team-building awaydays, Christmas parties, lunches (OS4, R1).

The client should demonstrate as much openness as they expect from the outsource supplier:

“Openness can be used against you, to treat you like a junior partner, but the customer needs to acknowledge that they could do better too” (OS4, R1).

“We explain reasons for any changes we want them to make [...]. We don’t just tell them to get on with it [...]. We need to be very transparent because they are dealing with the customers all the time, and they might be asked anything to do with our products” (C6, R1).

A degree of shared values and beliefs is important at an organisational level, and at an individual level, to facilitate responsiveness, openness, transparency and honesty:

If the two organisations’ values and beliefs do not match, it will be more difficult for the ‘right’ behaviour to occur. If a person’s values and beliefs do not match the behaviour that is expected of them, it is less likely that he or she will display the required behaviour (OS4, R1). This echoes Robert Dilts’ (2003) view (see literature review, section 5.3 Implementing Change).

6.5. How to Ensure the Supplier Delivers What it Promises

Agree an interpretation of what you have promised: Respondent 1 from Outsource Supplier 4 asserts that it is essential to agree ‘up front’ what need to be delivered, but to be aware that this will definitely change as time goes on. He suggests bringing in a third party facilitator to run a series of workshops, to help both sides agree on meaning. He gives an example of a situation when, during the transition phase of a project, a facilitator ran workshops over a month long period. These workshops began with executives at a senior level, and then rolled out to include other staff. The facilitator helped employees to re-interpret the contract, and answer the questions, *“What have we actually agreed here?” “What does it mean?” “What does it mean for you?”* The facilitator helped the employees visualise the reality of the outsourcing relationship: *“If this is what we do, this is what it will look like for you and your people”* (OS4, R1). The respondent believes that:

“Agreeing an interpretation of what you have promised gives you a vision of what you need to do; [...] it’s a great cornerstone for really understanding and agreeing what you are delivering” (OS4, R1).

Have checks and balances; know things early; proactively manage expectations:

“Manage expectations up the governance tree: be very dynamic on that, to keep the perception of the delivery positive, and to manage that upwards” (OS3, R1).

Be aware of the client’s priorities; make timescales you can meet, and meet them: on-going, open communication with the client is therefore vital.

The account manager on the outsource supplier side must display the right skills and behaviours in order to deliver on promises:

“Internally, ensure you’ve properly mapped and understood issues surrounding each of the customers within the [client] organisation – how those relationships work, and how people react. Don’t fall foul of the strongest opinion-formers within groups: understand who they are

– *they are not always the most obvious ones. It's important to map your account and understand the relationships within it; you should spend time on this up-front*" (OS3, R1).

Respondent 3 from Outsource Supplier 1 sums up the skills and behaviours required by the account manager as follows:

"The ability to be transparent, consultative, to hear the client and act on issues, admitting if we don't have a solution that fits. Being innovative, being able to ask the right questions to identify the client's pain. Being able to communicate with people at different levels, and shift your mode of thinking and speaking depending on the audience" (OS1, R3).

Be up-front and honest about the dependencies you have on your client to enable you to deliver services successfully: the client must also play its part in ensuring that the outsource supplier is set up for success (OS3, R1). Respondent 1 from Client 2 believes that it is the role of the relationship manager on the client side, to behave in the following way:

"I understand what their barriers and struggles are. I focus on understanding this. I go on the field to remove these barriers. I speak to business partners and clear roads to allow them to start work. I deal with political issues; sometimes I step in if they can't resolve political issues at a higher level" (C2, R1).

Have metrics to track and monitor every promise: It is important to have weekly sessions to track progress on different action items, and to communicate any issues before they become a problem; this requires active involvement on both sides:

"We get a weekly report. I know how many openings we have, I know how many people we have, I know what our spend is by location. We look for that report every week. [...] My team holds bi-weekly calls with the HR managers to make sure there's no issue going on with [OS1], and if there's anything anyone has to share [...]. We seek input and address issues while they're live, not after the event" (C3, R1).

"Ensure that what we contract for is what we really want [...]. Raise issues as they come up – don't wait for formal meetings; it's about two-way communication" (C5, R1).

"We have processes in place to ensure this [delivering on promises] happens: when we commit to a certain level of service, we monitor this, achieve it, report on it" (OS1, R3).

Respondent 1 from Client 1 also makes the point that qualitative assessments are just as important as operational metrics: *"To say, 'this is working well, but this person isn't doing so well' and to communicate this before it becomes a big problem"* (C1, R1). This respondent suggests using trend analysis to identify potential issues early on, and to survey one's internal customers (in this case, the HR community), reviewing these surveys on a monthly basis. Respondent 1 from Client 5 recommends that, where there has been a failure, the governance framework should be used as a tool to allow everyone concerned to understand, as objectively as possible, why this has happened.

Constantly invest in continuous quality improvement: the outsource supplier must constantly invest in continuous quality improvement, if the client's objectives are to be met, using metrics to monitor the levels of improvement achieved (OS1, R2).

It is essential to keep challenging each other as partners, demanding more and more:

"We must constantly look at the metrics, for example, efficiencies on the \$metric" (C4, R1). A constant striving to improve is essential if objectives are to be successfully met.

6.6. How to Achieve Mutual Goals and Mutual Benefits

The client has to believe that success for the supplier equals success for the client:

Respondent 1 from OS1 asserts the view that CEOs are most concerned about the ability of their organisation to collaborate successfully with partners, both internally and externally. Many respondents state that if the client genuinely supports and believes in the importance of the supplier's success, then this will enhance the chances of successful collaboration. Respondent 1 from Client 5 sums up how important it is to them that OS2 is a successful, growing business:

"The better they perform, the better they perform for us. [We need to] ensure they're motivated, progressive and doing best industry practice. We'll do whatever we can to support that" (C5, R1).

The respondent goes on to say:

"I'm supporting the growth of their business; this stimulates them to do things for me that they might not be contracted to do. It's a balanced 'give and take' relationship. I make sure information is shared; by withholding information, you're shooting yourself in the foot" (C5, R1).

Respondent 1 from OS3 comments:

"We both [supplier and client] have a business dynamic going on. In the best relationships we talk about both sides of the equation, even though we're the provider and they're the client" (OS3, R1).

This comment echoes the view expressed by Rogers (2008) that the best outcomes are achieved through parties to an agreement perceiving their goals to be interdependent (see literature review section 5.4.5. The concept of return on relationships).

Create a joint strategic plan for the relationship: many respondents assert that creating a joint strategic plan facilitates the achievement of mutual goals and mutual benefits. It should be a 'living' document that continually evolves, based on the value you can co-create as a partnership. Respondent 3 from OS1 gives an example of how the process can work with their clients:

"We invite the client to [OS1] headquarters for a day of discussion regarding their strategic objectives. We ask, 'what do we want to get from the relationship?' 'What does success look like next year? In 2 years? 3 years?' We agree, at a high level, on what we want to do as a partnership over the next 3 years. Then, after this, we move on to look at tactics to achieve goals [...]" (OS1, R3). The strategic plan is viewed as a living document that the supplier puts together in collaboration with the client. The respondent continues:

"We can make all the plans we want to alone, but if the client isn't going to buy into the plan, we have zero chance of making it happen" (OS1, R3).

Explore new, mutually beneficial opportunities at the highest level: Respondent 1 from Client 2 describes how they assess areas of growth and evolution for themselves and OS1, giving OS1 the opportunity to move into other areas of the business wherever possible. Client 1 describes how they have teams working together on a variety of longer term projects with OS1, while Respondent 1 from Client 5 talks of making joint applications for awards with OS2. Jointly investing in new opportunities in this way, enhances the potential to achieve mutual goals and mutual benefits.

Clients should not view suppliers as a destination for savings, but as an extension of their own enterprise, and an opportunity to create value: Respondent 1 from OS1 talks of how the ‘value-acceleration’ proposition (described in section 6.2 How to Measure Value and Success Effectively) pushes the relationship up the sophistication ladder, making it very much ‘peer to peer’ or ‘counsellor to counselee’; a relationship where, ultimately, the supplier will become a ‘trusted adviser’. He describes how OS1 are moving away from providing a commodity to co-creating strategic value:

“We’ve been selling supply-chain optimisation and rate-card management for 14 years [to C2], but it’s become a commodity; there’s no value proposition in that any more. What we should be doing is understanding what we’re doing, in essence, on behalf of the customer: managing the human capital supply chain. The value proposition is strategic plan insurance. [...] This is a much more value-rich interaction than talking to procurement about saving money” (OS1, R1). He highlights how the value is generated from the strength of the collaboration itself:

“[Value is] created in the interaction, and created in each party understanding what the other needs, and what they need to be successful and functioning on a partnership basis, not as a supplier-client” (OS1, R1).

Respondent 1 from Client 6 highlights the strong, collaborative partnership they have with OS2, saying:

“Even though they are a third party, we like to think they’re part of [C6]. [...] It’s 50-50, the relationship. We rely on them, we’re there to support them; they’re the ones who give us feedback. [...] We bring new initiatives to the table, then they have 50% input on how it all works. [...] If we ask them to do something and they can’t do it, we have to be real; they can’t do everything. We always work on solutions together” (C6, R1).

Given that a strong partnership approach is most advantageous to both parties, Respondent 1 from OS4 emphasises the need for the supplier to be at the leading edge of industry practice:

“The client’s people need to learn from the supplier. The supplier’s people should push and drive the performance of the client’s people. The client should have the bar raised for them, and get to see the best in the industry through the supplier’s people [...]. It’s got to be a two-way conversation of bringing value to the table” (OS4, R1).

Mutual respect is crucial, so that the relationship can survive problems: Respondent 1 from OS2 highlights the importance of mutual respect around professionalism:

“Something will go wrong at some stage, and the strength of the relationship is how you actually get over that. [...] If the relationship is strong enough, they will trust that 1. You’ve recognised the problem and, 2. You’ll do something about it” (OS2, R1).

Respondent 1 from OS3 makes it clear that the supplier must feel involved rather than dictated to:

“If you feel you’re just a lackey to the organisation, this creates a more negative response [...]. If I’m a strategic partner, this creates a more positive response and drives more positive behaviour. [...] If you don’t value your client they feel it. If you don’t feel valued in any relationship, you behave in a particular way” (OS3, R1).

The respondent goes on to suggest some methods of making your partner feel valued: listen actively, understand issues, but ‘know your place’: no matter how close you get, they are always the customer (OS3, R1).

It is clear from all the comments made by respondents in this section, that achieving mutual goals and mutual benefits involves a huge amount of **commitment from both supplier and client: personal investment and full ownership of the relationship from both sides is crucial.**

6.7. How to Deliver extra Value and On-Going Innovation

The culture of both organisations must be open to innovation and implementing new ideas: it is essential that the outsource supplier has someone to go to with new ideas, and that the right people and roles are in place to facilitate implementation. Respondent 1 from Client 2 admits that this can be an issue in their organisation:

“We are a very bureaucratic, complicated organisation; there are decisions made everywhere, so if a supplier comes with a new idea, how do you push it in?” (C2, R1).

Respondent 1 from Client 5 also acknowledges this point:

“We expect innovation to be embedded in the relationship [...]. They need to have someone to come to with ideas [...]. They come to me with suggestions; I have no qualms to do this [...]. You need the right people and roles in place to foster this discussion on a regular basis, as well as formal governance planning” (C5, R1).

Respondent 2 from Outsource Supplier 1 believes that if the client organisation is receptive to innovation, the outsource supplier can find ways of delivering extra value, even when an issue has not been highlighted. For example, the client should say:

“Bring me five ideas, four may be stupid, but one will be really good [...]. I need you there when there’s not a problem, so I have confidence that you’re on my wing, looking for ways to help me” (OS1, R2). This idea of the outsource supplier as the ‘wing man’ who is with you through ‘thick and thin’, incorporates the concepts of trust, transparency and shared values, which have all been discussed earlier.

The outsource supplier must have the ability to find connections between its knowledge/expertise and the client’s needs: Respondent 1 from Client 1 asserts that OS1 needs to:

“look at the market and us, and understand trends. Understand what HR operations will look like in 5 years time. They must work out how they need to develop their products to serve that industry. They should present us with leading-edge capabilities that have been developed; don’t use us to learn and build capabilities” (C1, R1).

Respondent 2 from OS1 talks of the importance of finding connections:

“Find connections between what you’re doing and what they [client] are trying to do. Find ways to help them achieve their objectives that they hadn’t thought of, because they are not experts in our business” (OS1, R2).

Respondent 1 from Client 4 echoed this point of view:

“Innovation is the life-blood for business [...]. Innovation happens at the intersection of ideas” (C4, R1): partners and suppliers need to be able to see things from a different perspective, to offer fresh, innovative solutions.

Respondent 1 from OS3 talks of the ability to ‘join the dots’ between one’s own experience and the client’s situation:

“Know your business and your products – things you’ve done with one customer may be applicable to others, but you’ve never joined the dots. [...] Understand your client’s key drivers, and have strong management information in your own organisation to support and influence the client’s decision-making. [...] Innovation stems from researching within your own business, understanding what your own organisation can achieve, and transferring knowledge to other places. The relationship has to be dynamic and collaborative, understanding objectives” (OS3, R1).

Respondent 1 from Client 3 is aware that the onus is often on the client organisation to open up more to its outsource supplier:

“We have to open up to [OS1] more, share more, share hiring plans, to allow [OS1] to behave strategically, to have a deeper understanding of our needs” (C3, R1).

Include, in the governance, a contractual obligation to have quarterly innovation forums: The client and supplier must identify ways of improving value every year, and proposals should be debated in senior management review meetings. Respondent 1 from Client 3 believes that contractual requirements help:

“We have quarterly reviews and we will be having [innovation] as an item on the agenda [...]. We’re looking for [productivity savings] at 5% per year, - the way we get that is through innovation [...]. Also, we’re going to be embedding this requirement for innovation – for cost-reduction and/or revenue generation in the contract – as a contractual requirement. We’re renegotiating that now” (C3, R1).

Similarly, Respondent 1 from OS4 suggests holding innovation forums, and agreeing a contractual obligation to hold these with the client every quarter. These could take the form of, for example, a three day structured workshop, *“working with the customer’s strategic positioning”* (OS4, R1). Similarly, Respondent 1 from OS3 recommends ‘blue sky’ workshops where unfettered thinking can occur, and supplier and client can criticise, and challenge one another about where to go next. The respondent believes that different, creative environments are important to enable people to think and work differently, and to keep the relationship fresh.

Respondent 1 from Client 5 confirms that building a continuous improvement requirement into the contract has encouraged OS2 to innovate:

“They put a ‘continuous improvement process’ paper in front of us at quarterly forward view meetings, saying, ‘these are the things we believe could improve, here are some proposals’ – it’s stuff we may not have thought about” (C5, R1).

Respondent 1 from Client 4 suggests, in addition, that there should be clear recognition and rewards for innovation within the organisation. Respondent 3 from OS1 makes the point that, if the client expects and demands innovation, it will happen:

“Innovation happens when the client encourages it, by sharing and transparency, for example, if the client says, ‘We’re going through a restructuring, and we’d love your thoughts

on how we're going to manage our workforce differently in this new model. Can you work with us on this to make us more nimble?' If there's a lack of innovation, either, 1. We're not aggressively trying to see what's a priority for them, personally and professionally, or, 2. The client just doesn't give that to us and we have to figure it out [...]. We need to have the whole story, and have visibility into the client's pain" (OS1, R3).

The client, then, needs to demand innovation, linking it to people's job specifications and rewards, but both parties also need to create the right environment to stimulate innovation.

The outsource supplier should use the client as a test-bed for new ideas: Respondent 1 from Client 1 asserts that OS1 should be entrepreneurial, and test new ideas with them for free:

"[OS1 should] come up with new ideas and products, even if some don't work [...]. [One of the ideas] might solve a problem that we're willing to pay for!" (C1, R1).

Respondent 1 from OS2 describes how it already uses C6 as a test-bed for new ideas:

"They love new ideas, but have no money [...]. We put things in place for minimal cost, then see if they 'take off'" (OS2, R1).

What is clear from all the respondents' comments is that innovation and delivering extra value is essential if the outsourcing relationship is to survive beyond the short-term. As Respondent 1 (OS4) succinctly states:

"If you just do cost-saving and don't deliver extra value, the client is likely to dump you, even if that's what they asked for [...]; there's always a cheaper deal to be had" (OS4, R1).

7. Discussion and Conclusions

Some interesting insights emerged from our literature review. Firstly, the literature reveals that effective implementation relies upon a dynamic network of promises being kept: those made between employees, customers, suppliers and other stakeholders (Sull & Spinoza, 2007). This involves careful communication, co-ordination and commitment. For any change programme to be successful, the organisation should address employees' behaviour, capabilities, beliefs and values, identity, 'spiritual' factors, and other psychological factors (Dilts, 2003; Klimas & Ruzevicius, 2010). In the context of an outsourcing relationship, these factors should be aligned as far as possible. Persuasion needs to take place, and this should be followed by acceptance on the part of employees in both organisations (Garvin & Roberto, 2005; Klimas & Ruzevicius, 2010). Kotter and Rathgeber (2005) summarise the situation succinctly when they assert that implementations succeed because of "*changes in the hearts of employees*" (Kotter & Rathgeber, 2005). It is useful to keep these points in mind, as these conditions need to be fulfilled before moving on to consider how to implement the specific dominant/complex success factors identified.

The key insights from the literature review regarding the implementation of dominant/complex success factors are largely echoed in the qualitative research findings. The following points from the literature are all points that also emerge strongly in the depth interviews:

How to Achieve Strong Governance

- Need for a blend of formality and informality, and a requirement to make the control structure, roles and expectations clear (Multichannel Merchant, 2006).
- Need for the relationship design to facilitate appropriate information exchange (Mani et al, 2010).

How to Implement Effective Measurement

- Measurement must be set within the context of the firm's overall business strategy (Boguslauskas & Kvedaravičienė, 2008).
- Measurement should focus on value and 'return on outsourcing', not cost (Havens, 2009).

How to Deliver Innovation

- The outsource supplier should be a knowledge intensive service provider (Windrum, 2009).
- Recognise the value of strategic co-invention and co-creation based interactions with outside resources (Huston & Sakkab, 2007).
- Communication, information-sharing and flexibility are essential (Weeks, 2009; Martínez-Sánchez et al, 2008).

How to Embed Mutual Trust

- Mutual dependence (Goo et al, 2009).
- Well-structured contracts and SLAs can provide the reassurance required to develop trust (Goo et al, 2009).
- Perceived shared values aid identification-based trust (Lievens & Corte, 2008).

- Communications, reputation and approachability all aid knowledge-based trust (Lievens & Corte, 2008).
- Factors for maintaining trust: transparency, demonstrability, honesty, process followed, commitment and communication (Oza et al, 2006; Zhijian et al, 2009).

Let us now consider, more specifically, the findings from the in-depth interviews, by summarising the processes, tools, behaviours and attitudes recommended for the successful implementation of the dominant/complex success factors, within an outsourcing relationship:

	How to Implement Strong Governance
Processes	<p>Capture requirement for mutuality of purpose.</p> <p>Get own governance right first.</p> <p>Define success on both sides.</p> <p>Align governance to business objectives</p> <p>Define roles</p> <p>Define clear ownership and accountability.</p> <p>Formal and informal communications channels.</p>
Tools/Devices	<p>Have a broad, deep structure of connections.</p> <p>Have mirrored structures, and a clear infrastructure.</p> <p>Regular governance meetings.</p> <p>Share appropriate management information.</p> <p>'Blue-sky' workshops.</p> <p>Creative environments (to 'spice up' meetings, if they are not achieving their purpose.)</p>
Behaviours/Attitudes	<p>Both parties must keep working at the connection.</p> <p>Both sides must challenge each other about 'where to go next.'</p> <p>Frequent formal and informal communication.</p>

	How to Measure Value and Success Effectively
Processes	<p>Revisit KPIs and SLAs regularly.</p> <p>Measure 'softer' aspects of value.</p> <p>Measure client satisfaction.</p> <p>Measure value looking forwards not backwards: 'value acceleration.'</p> <p>Measure 'total cost of performance,' not cost of supplier.</p>

Tools/Devices	<p>Relevant KPIs and SLAs.</p> <p>Quarterly meetings to define how value is changing.</p> <p>Annual/bi-annual customer satisfaction surveys.</p> <p>Scorecard measuring relationship rubrics.</p> <p>‘Referenceability’.</p> <p>Case studies.</p> <p>‘Real time’ measurements.</p> <p>Data analytics to support ‘value acceleration’.</p>
Behaviours/Attitudes	<p>Recognise and communicate ‘softer’ aspects of value.</p>

	How to Embed Mutual Trust and Confidence in the Relationship
Processes	<p>Set expectations clearly.</p> <p>Provide sensitive financial and other management information where appropriate.</p> <p>Articulate the client’s ‘pain’.</p> <p>Effective crisis management for the client.</p>
Tools/Devices	<p>Frequent, face-to-face meetings.</p> <p>Reward excellent work.</p> <p>Supplier must offer client leading edge knowledge and expertise.</p> <p>Hold events/activities outside of the work context, e.g. lunches, dinners etc.</p> <p>Have ‘unofficial’ conversations with partner (‘off the record’ comments).</p>
Behaviours/Attitudes	<p>Demonstrate mutual dependence – let the client/supplier know it is important to you.</p> <p>Let the supplier get on with the job.</p> <p>Be transparent and honest; deliver on what you promise.</p> <p>Relationship managers should engage with people on all levels.</p> <p>Be supportive, encouraging, respectful of your partner.</p> <p>Show commitment; care about the relationship.</p> <p>Ask questions to understand the client’s motivations and issues.</p> <p>The two parties should test assumptions about each other, to check extent of shared values.</p>

	How to Embed Responsiveness, Openness, Transparency, Honesty
Processes	Information sharing. Clear escalation process to resolve issues. No surprises on billing.
Tools/Devices	Have individuals 'facing-off' to named individuals. Team-building awaydays, Xmas parties, lunches.
Behaviours/Attitudes	The client must recognise the value the supplier is adding, and the supplier must understand the client's 'pain'. Openness must go both ways. The desired behaviour will occur more easily if values and beliefs are shared.

	How to Ensure the Supplier Delivers What it Promises
Processes	Both parties must agree an interpretation of what has been promised. Have regular 'checks and balances' in place; track and monitor every promise. Both parties must understand and agree on the client's priorities. Agree achievable timescales. Relationship Manager must 'map' his/her account. Communicate the dependencies on the client that exist, if service delivery is to be successful. Client must remove barriers to success where these exist. Both sides must invest in continuous quality improvement.
Tools/Devices	3 rd party facilitator to run a series of workshops, to help both sides agree meaning. Weekly sessions to track progress. Weekly progress reports. Regular calls, meetings. Trend analysis to spot potential issues early. Client to survey internal customers. Use governance framework to understand what has gone wrong when there is a failure.

Behaviours/Attitudes	<p>Be dynamic about proactively managing expectations.</p> <p>Account/Relationship Manager must be transparent, consultative, listen, innovate, be able to ask the right questions to identify the client's 'pain'; be able to communicate with people at different levels, and shift mode of thinking and speaking, depending on the audience.</p> <p>Keep challenging each other as partners, demanding more from the relationship.</p>
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	How to Achieve Mutual Goals and Mutual Benefits
Processes	<p>Carry out joint strategic planning</p> <p>Explore mutually beneficial opportunities at the highest level.</p> <p>Use a 'value-acceleration' process to co-create value.</p>
Tools/Devices	<p>Joint strategic planning days.</p> <p>Joint strategic plan: a 'living', evolving document.</p> <p>Joint applications for awards.</p> <p>Supplier must offer leading-edge knowledge and expertise.</p> <p>Data analytics to support value-acceleration.</p>
Behaviours/Attitudes	<p>Client must believe that success for the supplier = success for the client.</p> <p>Client should view supplier as a trusted adviser, an extension of their own enterprise, an opportunity to co-create value.</p> <p>Mutual respect.</p> <p>Commitment, personal investment, and full ownership from both sides.</p>

	How to Deliver Extra Value and On-Going Innovation
Processes	<p>Supplier must explore and identify connections between its knowledge/expertise and the client's needs.</p> <p>Continuous improvement process.</p>
Tools/Devices	<p>Have the right people and roles in place to facilitate effective channelling of new ideas.</p> <p>Contractual obligation to have quarterly innovation forums, 'blue-sky' workshops.</p> <p>Provide different, creative, fresh environments for meetings/forums.</p>

	Contractual obligation for continuous improvement. Use client as 'test-bed' for new ideas.
Behaviours/Attitudes	Culture of openness to innovation on both sides. Supplier should act as a 'wing man', looking out for the client. Client must expect and demand innovation. Client must be open and transparent about the issues it is facing.

We have learnt from our previous study (Dibley & Clark, 2009) and from this study, that value is co-created in an outsourcing relationship, through the success of the interaction itself, and through the strength of collaboration in the partnership. We have distilled the critical success factors identified in the 2009 research (Dibley & Clark, 2009) down to the most dominant and complex factors: factors that are at the heart of the creation of mutual value.

If we return to Grönroos' (2010) concept of practice matching, it is clear how relevant this concept is in the context of implementing best practice in outsourcing relationships: the alignment and matching of all the 'process' and 'people and relationship' factors identified, is fundamental to the creation of mutual value, as illustrated in Figure 3, below:

Practice matching to create mutual value an outsource supplier and client perspective

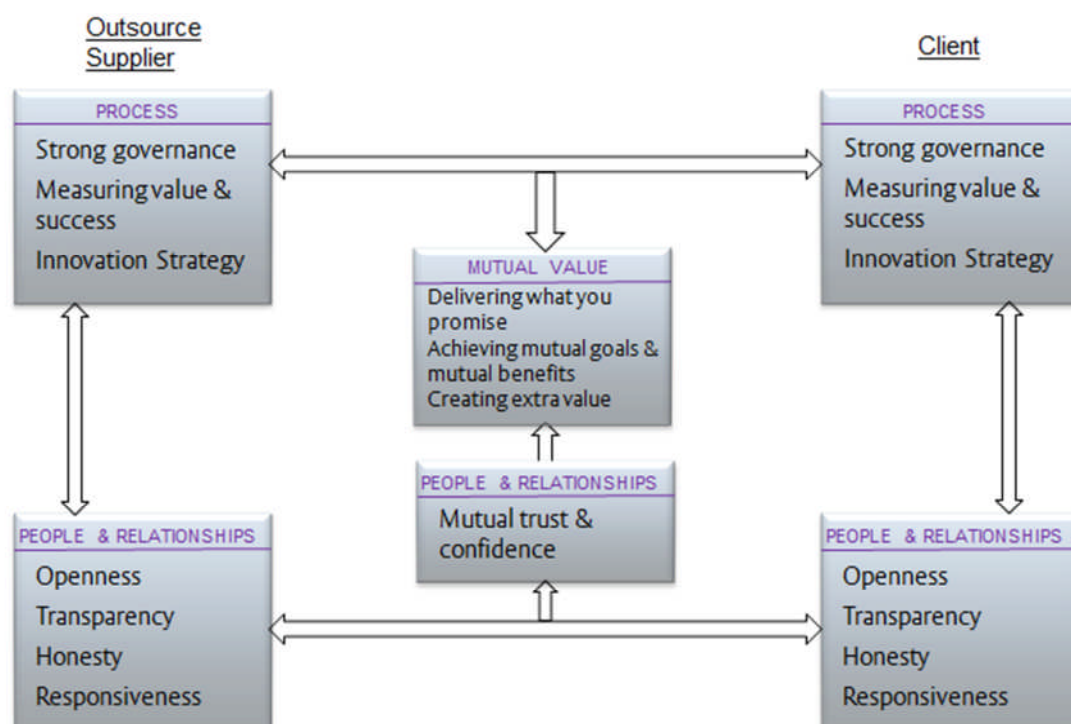


Figure 4:
Practice Matching to Create Mutual Value: An Outsource Supplier and Client Perspective

Our study highlights how the success of outsourcing partnerships is dependent on the extent of full, joint ownership and commitment that exists, regarding the relationship, and the degree to which mutual trust, respect, openness, transparency and honesty are present. Our research also highlights the importance of jointly agreed governance, joint strategic planning, and a future-focused approach where innovation and continuous improvement are key: the priority, it is asserted, must always be on the discovery of value, rather than the conventional concentration merely on costs. It is suggested that the outsource supplier and client should develop methods of measuring value looking forwards, rather than measuring costs looking backwards, and should endeavour to understand the total cost and value of performance, rather than simply focusing on the cost of the supplier.

It is also clear from the depth interviews, that all of the dominant/complex success factors are completely inter-linked and inter-related. They all have an impact on each other, so they all need to be examined together, as well as separately, to determine the most effective network or 'mesh' of processes, tools, behaviours and attitudes to put in place, to secure maximum value co-creation in the relationship.

8. Managerial Implications

We have highlighted in this study, a range of potential processes, tools, behaviours and attitudes that organisations can construct around each of the dominant/complex success factors, to facilitate the effective implementation of these success factors in an outsourcing relationship. This study suggests that the outsource supplier and client organisations need to bring their practices together, aligning the processes, tools, behaviours and attitudes (that have been selected to support the implementation of success factors), to enhance the mutual value created. The authors suggest that following this approach will facilitate the implementation of factors critical to the success of an outsourcing relationship and, in this way, will ultimately enable client and supplier organisations to increase the value they derive from this type of strategic partnership.

9. Potential for Future Research

As this is a qualitative study, it would be interesting to carry out further research to quantify the results outlined here. In addition, it would be worthwhile to replicate the research in the context of strategic partnerships other than outsourcing relationships, to identify and analyse any differences that emerge.

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Appendix 1: Discussion Guide for Interviews with Outsource Suppliers

How to Implement Best Practice in Strategic Partnerships: An Outsource Supplier and Client Perspective

Discussion Guide for Interviews with Outsource Suppliers

60 – 90 minutes (maximum)

1. Background and Objectives of Research

Show respondent wheel diagram: **5 minutes**

In November 2009, a research project was completed, which identified the key elements of best practice in managing relationships with outsource partners. Through a detailed literature review and a series of in-depth interviews a set of key factors, essential to the creation of a successful outsourcing relationship, was identified. These factors encompassed process issues, and people and relationship issues, as well as required outcomes. If all of these factors can be brought together and embedded in the outsourcing partnership, this should provide a firm foundation for a mutually successful and valuable relationship.

The fifteen critical success factors identified in the November 2009 research, are shown on the 'wheel diagram'. The most dominant success factors are:

- Strong governance
- Mutual trust and confidence
- Responsiveness, openness, transparency, honesty
- Delivering what you promise to deliver
- Achieving mutual goals, bringing mutual benefits
- Giving extra value and on-going innovation

These are factors that were not only mentioned frequently by respondents as critical to the success of managing outsourcing relationships, but were also mentioned by many respondents in their, *"top three things that make an outsourcing relationship work really well."*

We have therefore identified **what** the critical success factors are. This new piece of research aims to take the recommendations for successful outsourcing relationships, and determine **how** these key success factors can be put in place and implemented within strategic outsourcing relationships.

For each of the fifteen success factors, we aim to provide a 'tool-kit' of insights and recommendations on **how to** achieve or implement these factors successfully within a strategic partnership.

2. How to Embed the Dominant Critical Success Factors in a Strategic Partnership

Strong Governance: 5-10 minutes

- Do you feel there is strong governance in your relationship with your client partner?
- How do you achieve strong governance in this strategic outsourcing relationship? What processes, systems, techniques, approaches do you use to create and embed strong governance in the relationship? Can you give specific examples?
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Measuring Value and Success*: 5-10 minutes

*Although this factor was not among the **most** dominant CSFs, it is a complex area and therefore warrants discussion on how to implement it.

- Do you believe that the value and success of the strategic relationship are measured effectively?
- How do you achieve effective measurement of value and success? What processes, systems, techniques, approaches are in place to ensure that effective measurement is carried out? Give specific examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Mutual Trust and Confidence: 5-10 minutes

- Do you feel there is strong mutual trust and confidence in the strategic relationship with your client partner?
- How do you achieve strong mutual trust and confidence? Describe any processes, techniques or approaches you use, to generate mutual trust and confidence in the relationship with your client partner. Give examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Responsiveness, Openness, Transparency and Honesty: 5-10 minutes

- Do you feel there is responsiveness, openness, transparency and honesty in the strategic relationship with your client partner?
- How do you achieve responsiveness, openness, transparency and honesty? Describe any processes, techniques or approaches you use, to generate and embed these qualities in the relationship with your client partner. Give examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Delivering What you Promise to Deliver? 5-10 minutes

- How do you ensure that you deliver what you promise to deliver? What processes/approaches/checks are in place to guarantee that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Achieving Mutual Goals, Bringing Mutual Benefits: 5-10 minutes

- How do you ensure that you achieve mutual goals and bring mutual benefits? Describe any processes, techniques or approaches you use, to make sure that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

Giving Extra Value and On-going Innovation: 5-10 minutes

- Do you believe that there is a culture of on-going innovation in your relationship with your client partner?
- How do you ensure that a culture of on-going innovation and giving extra value is embedded in the relationship? Describe any processes, techniques or approaches you use, to make sure that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different client partners? Why is that?

3. Discussion of the Remaining Critical Success Factors: 15 minutes

- Which of the remaining critical success factors do you consider most complex to create/deliver in a strategic outsourcing relationship?
 - Understanding the client's business and brand
 - A good contract
 - 'Good fit' – both in terms of culture and capabilities.
 - Support and 'buy-in' at all levels.
 - Communication
 - Strong, individual relationships at all levels
 - 'Can do' people
 - Providing missing expertise

- How do you ensure that this critical success factor (mentioned by respondent) is achieved and embedded in the relationship? What processes/systems/techniques/approaches do you use to ensure that this happens? Give examples.
- Finally, can you tell me briefly how you achieve the remaining critical success factors, and embed them in the strategic relationship?

Thank you and close.

Appendix 2: Discussion Guide for Interviews with Client Organisations

How to Implement Best Practice in Strategic Partnerships: An Outsource Supplier and Client Perspective

Discussion Guide for Interviews with Client Organisations

60 – 90 minutes (maximum)

1. Background and Objectives of Research

Show respondent wheel diagram: **5 minutes**

In November 2009, a research project was completed, which identified the key elements of best practice in managing relationships with outsource partners. Through a detailed literature review and a series of in-depth interviews a set of key factors, essential to the creation of a successful outsourcing relationship, was identified. These factors encompassed process issues, and people and relationship issues, as well as required outcomes. If all of these factors can be brought together and embedded in the outsourcing partnership, this should provide a firm foundation for a mutually successful and valuable relationship.

The fifteen critical success factors identified in the November 2009 research, are shown on the 'wheel diagram'. The most dominant success factors are:

- Strong governance
- Mutual trust and confidence
- Responsiveness, openness, transparency, honesty
- Delivering what you promise to deliver
- Achieving mutual goals, bringing mutual benefits
- Giving extra value and on-going innovation

These are factors that were not only mentioned frequently by respondents as critical to the success of managing outsourcing relationships, but were also mentioned by many respondents in their, *"top three things that make an outsourcing relationship work really well."*

We have therefore identified **what** the critical success factors are. This new piece of research aims to take the recommendations for successful outsourcing relationships, and determine **how** these key success factors can be put in place and implemented within strategic outsourcing relationships.

For each of the fifteen success factors, we aim to provide a 'tool-kit' of insights and recommendations on **how to** achieve or implement these factors successfully within a strategic partnership.

2. How to Embed the Dominant Critical Success Factors in a Strategic Partnership

Strong Governance: 5-10 minutes

- Do you feel there is strong governance in your relationship with your outsource supplier?
- How do you achieve strong governance in this strategic outsourcing relationship? What processes, systems, techniques, approaches do you use to create and embed strong governance in the relationship? Can you give specific examples?
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Measuring Value and Success*: 5-10 minutes

*Although this factor was not among the **most** dominant CSFs, it is a complex area and therefore warrants discussion on how to implement it.

- Do you believe that the value and success of the strategic relationship are measured effectively?
- How do you achieve effective measurement of value and success? What processes, systems, techniques, approaches are in place to ensure that effective measurement is carried out? Give specific examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Mutual Trust and Confidence: 5-10 minutes

- Do you feel there is strong mutual trust and confidence in the strategic relationship with your outsource supplier?
- How do you achieve strong mutual trust and confidence? Describe any processes, techniques or approaches you use, to generate mutual trust and confidence in the relationship with your outsource supplier. Give examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Responsiveness, Openness, Transparency and Honesty: 5-10 minutes

- Do you feel there is responsiveness, openness, transparency and honesty in the strategic relationship with your outsource supplier?
- How do you achieve responsiveness, openness, transparency and honesty? Describe any processes, techniques or approaches you use, to generate and embed these qualities in the relationship with your outsource supplier. Give examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Delivering What you Promise to Deliver? 5-10 minutes

- How do you ensure that the outsource supplier delivers what it promises to deliver? What processes/approaches/checks are in place to guarantee that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Achieving Mutual Goals, Bringing Mutual Benefits: 5-10 minutes

- How do you ensure that you achieve mutual goals and bring mutual benefits? Describe any processes, techniques or approaches you use, to make sure that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

Giving Extra Value and On-going Innovation: 5-10 minutes

- Do you believe that there is a culture of on-going innovation in your relationship with your outsource supplier?
- How do you ensure that a culture of on-going innovation and giving extra value is embedded in the relationship? Describe any processes, techniques or approaches you use, to make sure that this happens. Give examples.
- Are the processes, techniques, approaches used, different for different outsource suppliers? Why is that?

3. Discussion of the Remaining Critical Success Factors: 15 minutes

- Which of the remaining critical success factors do you consider most complex to create/deliver in a strategic outsourcing relationship?
 - Understanding the client's business and brand
 - A good contract
 - 'Good fit' – both in terms of culture and capabilities.
 - Support and 'buy-in' at all levels.
 - Communication
 - Strong, individual relationships at all levels
 - 'Can do' people
 - Providing missing expertise

- How do you ensure that this critical success factor (mentioned by respondent) is achieved and embedded in the relationship? What processes/systems/techniques/approaches do you use to ensure that this happens? Give examples.
- Finally, can you tell me briefly how you achieve the remaining critical success factors, and embed them in the strategic relationship?

Thank you and close.

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