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Best Practice in Managing Relationships with Outsource Partners: An Outsource Supplier and Client Perspective

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1. Executive Summary

This report seeks to provide insights into best practice in managing outsourcing relationships. The author examines existing academic research and conducts case-based interviews to build a picture of the factors that are critical to the success of managing outsourcing relationships. The extensive literature review explores outsourcing issues in a variety of industry sectors, and with reference to a range of different types of outsourcing. Case studies were developed by interviewing senior managers involved in managing outsourcing relationships on both the outsource supplier and the client side. Sixteen semi-structured, one hour interviews were carried out with senior managers from four leading outsource suppliers and their counterparts in six client organisations.

The literature concurs that a business should not outsource its core competences, but may consider outsourcing core functions which could be run more effectively by a specialist outsource partner. In spite of continued growth in outsourcing, dissatisfaction with outsourcing relationships remains fairly high. The literature identifies a number of key challenges to address when managing an outsourcing relationship: getting the contract right, identifying risks and costs, ensuring the right controls and processes are in place, addressing a lack of understanding, and enabling effective knowledge transfer.

The critical success factors for outsourcing relationships emerging from the literature review can be grouped into two areas: 1. Process and strategy issues, and 2. People and relationship issues:

Process and Strategy Issues

- Getting the contract right
- Identifying risks and costs
- Ensuring the right controls and processes are in place
- Addressing knowledge gaps and enabling effective knowledge transfer
- Maintaining a holistic view of the business
- Understanding needs and setting clear goals
- Commitment from the top
- Careful strategic planning, challenging existing thinking
- Measuring and monitoring performance and continuous improvement
- Clear roles and ownership of processes
- Strong IT capabilities
- Strong governance

People and Relationship Issues

- Compatible culture and values
- Openness, transparency and trust
- Regular formal and informal, face-to-face communications
- Commitment to a 'win-win' relationship

- Investment in the relationship

- Effective HR and change management strategies

- Flexible structure

There is significant evidence in the literature of effective metrics to determine 'hard' tangible aspects of value in the outsourcing relationship. However, there is a shortage of advice on how to measure the 'softer' aspects of value that can be derived from an outsourcing relationship, such as trust and satisfaction. The literature concludes that, more and more, rather than being merely transactional arrangements, outsourcing agreements will develop into strong, collaborative relationships, offering strategic opportunities to help organisations maximise their full potential.

A key theme emerging from the case study research is the role of trust and involvement in outsourcing relationships. As trust grows, so too does involvement, and with it, the possibility of carrying out innovative, ground-breaking initiatives together. The degree of trust and involvement present in an outsourcing relationship will vary from one situation to the next. Both outsource supplier and client must decide on the degree of involvement they are seeking from the relationship, and whether there is a match with their prospective partner in terms of needs and objectives. At the highest level of trust and involvement, an embedded strategic partnership is created. There is a mutual striving for excellence, a total commitment to continuous improvement and innovation, and success for the client and outsource partner are inextricably linked: mutual goals bring mutual benefits and values.

An analysis of the case study interviews reveals that outsourcing relationships would benefit from the perceptions of 'how the relationship feels' being captured more frequently, and in a more systematic and effective way. Frequent, two-way 360° assessments at a variety of levels across both organisations should be put in place, so each party, in operational as well as senior roles, has the opportunity to give feedback on the 'temperature' of the relationship. This mechanism could, for example, take the form of an e-mail or 'pop up' that appears on the employee's computer as it shuts down at the end of the week. Regular 'relationship check' forums or focus groups with the participation of both organisations, could also be utilised.

The case study research reveals that the following fifteen factors are viewed as the most critical to the success of an outsourcing relationship:

Process Issues

- Understanding the client's business and brand

- A good contract

- Strong governance

- Measuring value and success

People and Relationship Issues

- Mutual trust and confidence

- Support and 'buy-in' at all levels

- Responsiveness, openness, transparency and honesty
- Communication
- 'Good fit'
- 'Can do' people
- Strong, individual relationships at all levels

Outcomes

- Delivering what you promise to deliver
- Giving extra value and on-going innovation
- Achieving mutual goals, bringing mutual benefits
- Providing missing expertise

The identification of these key factors provides valuable insight to outsource suppliers and client organisations on how to manage outsourcing relationships successfully. Each of the factors highlighted is a building block of best practice, and if all of these blocks can be brought together and embedded in the outsourcing partnership, the author believes that this should provide a firm foundation for a mutually successful and valuable relationship.

2. Introduction

This report seeks to provide insights into best practice in managing outsourcing relationships. The outsourcing of business processes shows strong growth, but academic research reveals that there is significant scope to improve the satisfaction levels of client organisations with the outsourcing relationships they manage. The author examines existing academic research and conducts case-based interviews to build a picture of the factors that are critical to the success of managing outsourcing relationships. The perspective of both the outsource supplier and the client organisation is explored in this study.

3. Understanding outsourcing

3.1. Terms of Reference

Let us, first, define what we mean by the term 'outsourcing'. Outsourcing occurs where an organisation has decided to contract out business activities or processes to a third party. The key difference between 'outsourcing' and 'supplier' arrangements is that 'outsourcing' implies that the activity is one that has been, or could be, conducted within the structure of the organisation, but the decision has been taken to have this activity delivered through a third party. The third party's employees may work on the organisation's premises, or act as if they are employees of the organisation; or, the organisation's employees may be transferred to the third party (Mouncey & Clark, 2005). Rob Handfield of North Carolina State University has defined outsourcing as, *"the strategic use of outside resources to perform activities traditionally handled by internal staff and resources"* (Cain, 2009). In effect, an organisation can outsource any process or activity, if it is felt that this will benefit the company.

3.2. Types of Outsourcing

The **outsourcing of business processes (BPO)** is an evolution from major IT outsourcing contracts that started to blossom in the 1990s. BPO occurs more frequently than **business transformation outsourcing (BTO)**, where the outsource supplier is asked to fundamentally rethink the way a selected part of the organisation's business is run. **BTO** is, however, a growth area (Mouncey & Clark, 2005).

Business process outsourcing (BPO) may include, for example:

- Financial accounting
- HR processes, e.g. payroll deals, recruitment process
- Customer relationship management (CRM) processes

IT outsourcing: a huge area accounting for many mega-deals from the early 1990s onwards (Harrington, 2002; Marshall & Heffes, 2007).

CRM outsourcing: this may include call/contact centres, customer database management and other specialist IT products or services designed to improve customer management. An organisation may outsource contact management with defined customer segments: for example, to deliver higher value to 'top-end' customers, or to minimise cost-to-serve for low value customers (Mouncey & Clark, 2005). Paul Davies warns that outsourcing all customer support can be paradoxical, given that being close to customers is often a source of value creation for an organisation: *"the closer things are to value creation, the more you should keep them in house."* (Davies, 2009).

4. Project Objectives and Questions

The key objective of this research is to identify best practice in managing relationships with outsource partners. We will seek to address this issue by exploring how best to manage the outsource relationship, from the perspective of both the outsource supplier and the client.

To arrive at insights on best practice, this research project aims to answer a number of questions:

- What makes an outsourcing relationship excellent?

- What are the factors that lead to a successful outsourcing relationship?

- How do you define and measure value in an outsourcing relationship? Are less tangible, non-financial aspects of value considered? Do organisations and outsource suppliers track the benefits of outsourcing arrangements?

- How do you define and measure success in an outsourcing relationship? What criteria are used for measuring the success or failure of the outsourcing arrangement? How does an organisation align and share its measures of success with those of its outsource supplier/partner? What evidence is there of a strategic measurement framework or governance framework being used to support outsourcing arrangements?

- How well do the client organisation and the outsource supplier understand the total cost of the outsourcing arrangement (including hidden costs)?

- How do you provide the ability to flex the contract to both sides' advantage?

- How does the outsource supplier provide the flexibility to meet changing requirements?

- How does the management of the relationship with the outsource supplier/partner impact on the end customers/users, and on the client organisation's ability to manage its brand?

5. Scope of Project

The extensive literature review explores outsourcing issues in a variety of industry sectors, and with reference to a range of different types of outsourcing. The topic is explored from the perspective of both the outsource supplier and the client organisation. Gaining insights into best practice in the way the relationship between the two can be managed, is the key area of focus.

Primary research was conducted with four leading, international outsource suppliers. These organisations have a wide range of expertise, including the following:

Outsource Supplier 1   Workforce management services and HR transformation solutions, including recruitment process outsourcing and contingent workforce outsourcing.

Outsource Supplier 2   Business process and business transformation outsourcing, customer management outsourcing, IT outsourcing, consulting, and debt management.

Outsource Supplier 3   IT outsourcing, business process and business transformation outsourcing, and consulting services.

Outsource Supplier 4   Business process and business transformation outsourcing, including significant expertise in Insurance and Life and Pensions services.

Each of these outsourcing organisations selected one or two client partner organisations for interview, in order that the success and value of the supplier-client relationship could be analysed. Data from the interviews was then used to build up a case study of each outsource supplier - client relationship. The clients selected cover a range of industries, while the type of outsourcing service provided to these clients is also varied (for example, IT outsourcing, BPO, including customer management processes and recruitment processes). Details of outsource suppliers, types of client interviewed and processes outsourced are as follows:

Outsource Supplier	Types of Client Organisation Interviewed	Which Processes Outsourced to Supplier?
Outsource Supplier 1	**Client 1**: Leading international consumer health care and pharmaceuticals company	HR solutions, recruitment processes (contractors), supply chain management.
Outsource Supplier 1	**Client 2**: Leading international electrical engineering and electronics products organisation	Recruitment processes (contractors), supply chain management
Outsource Supplier 2	**Client 3**: Leading international retailer – products include clothing, furniture and homeware, food and wine	Selected customer management processes
Outsource Supplier 2	**Client 4**: Leading dedicated home delivery and collection service	Selected customer management processes
Outsource Supplier 3	**Client 5**: Leading international health care and pharmaceuticals company	Project delivery: IT and business processes
Outsource Supplier 4	**Client 6**: Leading pensions, investments and insurance company	IT, administration and customer management processes

In short, the scope of the project, in terms of the variety of clients and outsourcing agreements examined, is fairly broad. However, the core output of the project will remain focused on the factors that drive the success and value of the **relationship** between the outsource supplier and the client organisation.

6. Methodology

6.1. Literature Review

A thorough analysis of relevant academic journal articles, and industry and practitioner reports was carried out. Insights from interviews with outsourcing experts were also incorporated in the literature review.

6.2. Case Studies

Case studies were built up by interviewing the relevant managers within both the outsource suppliers and their nominated clients. Approximately one hour in-depth interviews were carried out with senior managers responsible for managing and maintaining the outsourcing relationship on an on-going basis.

Outsource Supplier and Clients	Key Contacts Interviewed	Code for Respondents
Outsource Supplier 1	Account Management Strategist	Respondent 1
	VP for Client 1 account	Respondent 2
	Global Client Relationships Director	Respondent 3
Client 1	Regional IT Organisation Director	Respondent 1
	Project Manager	Respondent 2
	Indirect Procurement Manager – Europe, Middle East and Africa (EMEA)	Respondent 3
	Indirect Procurement Manager	Respondent 4
	Category Director – Indirect Procurement, Europe	Respondent 5
Client 2	Corporate Supply Chain and Procurement Director	Respondent 6
Outsource Supplier 2	Client Director - Retail	Respondent 4
Client 3	Head of Customer Service	Respondent 7
Client 4	Director of Customer Services	Respondent 8

Outsource Supplier 3	Client Partner	Respondent 5

Client 5	Vice President	Respondent 9
Outsource Supplier 4	Relationship Director	Respondent 6
Client 6	Service Management Director	Respondent 10

Sixteen one hour (approximately) interviews were therefore carried out: six with senior managers from the four outsource suppliers, and ten with senior managers from the six client organisations participating in the research. These interviews were semi-structured, with probing, open-ended questions, and were recorded, except where the respondent specifically requested that this should not happen. A discussion guide was sent to each respondent in advance to allow them to prepare for the interview (see Appendix 1: Discussion Guide – Outsource Suppliers, and Appendix 2: Discussion Guide – Client Organisations).

The following interviews were also carried out with experts in the field of outsourcing, to add extra depth to the findings:

David Prosser: Outsourcing expert, independent consultant.

Paul Davies: Managing Director, Onshore Offshore Ltd.

The views of these experts have been incorporated into the literature review.

7. Best Practice in Managing Relationships with Outsource Partners: Insights from Literature Review

7.1. What Should an Organisation Outsource, and Why?

The decision to outsource an activity should be based on an organisation's understanding of its core competencies. A business should not outsource its core competencies, but may consider outsourcing core functions which, though essential to the running of the business, could be run more effectively by a specialist outsource partner (Mouncey & Clark, 2005). Cain (2009) recommends using the following criteria to decide whether outsourcing is right for your company:

"1.   Is the task highly complex?

2.   Is there a risk to the business while performing the task in-house?

3.   Does the task require more than the available resources?

4.   Does the task require highly specialized training or tools?

5.   Is the task outside of your core competencies?

6.   Could outsourcing cut costs and improve service levels?"

(Cain, 2009)

Paul Davies, managing director of Onshore Offshore Limited, describes the need to make a 'core' versus 'chore' distinction. He recommends retaining in-house the activities that represent core value creation for customers, while outsourcing the 'chore' elements (Davies, 2009). Mangrum (2006) recommends outsourcing activities that represent cost, but do not add value.

In Krell's (2007) survey with 228 global Chief Financial Officers, 73% of respondents said they were interested in outsourcing some or every process, *"that's not core"* (Krell, 2007). Marshall and Heffes (2007) comment that virtually every standard business process –HR, procurement, finance and accounting, project management, legal, research and development, customer care and acquisition – has been outsourced to some extent, *"as Global 1000 enterprises search for new ways to reduce costs, improve processes and remain competitive"* (Marshall & Heffes, 2007). They believe that the decision to outsource business processes is now, *"less of a cost play – using cheaper overseas labour to do the same work – than an effort to let a third party undertake best practice functions (often re-engineered) that are not core to the corporation's profit-making abilities"* (Marshall & Heffes, 2007).

In terms of HR outsourcing, Miller's (2008) research argues that there are some areas that it is always better to keep in-house. He asserts that, *"More than 40% of large companies rely on significant outsourcing for some combination of employee HR documentation services and operations, but none completely outsource all functions. But even though a majority of large companies outsource employment verification, companies that have internal processes for this HR function far outperformed those with outsourced processes."* (Miller, 2008). He believes, then, that it is important to 'pick and choose' carefully what to outsource. Khanna

and New (2005) share this view, arguing that HR planning is an area that should not be outsourced during the outsourcing process, as this can lead to a loss of critical skills and control over the supplier.

Organisations often outsource areas where they do not have strong expertise, but they must have an understanding of what they are outsourcing. An article in Marketing Business Weekly (2008) on the subject of banks' outsourcing activities, advises the following: *"It is often assumed that banks should outsource areas where they do not have expertise. In fact, the reverse is true. It is crucial that banks only outsource what they know, giving banks increased control over the process through effective internal management."* (Marketing Business Weekly, 2008).

A final note of caution regarding what to outsource is sounded by London (2004) in a Financial Times article, as he makes the point that a company's core competencies may change over time. He comments on JP Morgan Chase's decision to cancel a $5 billion, seven year IT outsourcing contract with IBM, because Jamie Dixon, the bank's CEO in-waiting, believed IT to be a core competency in financial services: *"today's non-core business process could be tomorrow's core competence"* (London, 2004).

So what are the benefits that outsourcing brings to organisations? Often, the decision to outsource is based on the opportunity to save costs, but many other important advantages can also be gained. Mouncey and Clark (2005) identify the following potential benefits offered by outsourcing:

- Companies can increase their focus on their core business by eliminating non-core activities, or activities not seen as areas of core competence.
- Organisations can take advantage of superior skills/resources or expertise offered by a specialist third party.
- Access to innovations.
- Companies can harness economies of scale offered by a specialist third party.
- Operational flexibility, as companies can raise or lower resources to match demand cycles.
- The provision of 24/7 service.
- Holistic, integrated solution.
- Access to higher quality resources and superior skills.
- De-risking investment in technology.
- Enabling scarce internal resource to be more effectively deployed.
- Benefit from experience gained by the outsource supplier working with a range of other organisations.
- Transforming a business activity through the expertise of the specialist provider.

(Mouncey & Clark, 2005)

Similarly, in a report entitled, *'The Risk Intelligent Approach to Outsourcing and Offshoring'*, Deloitte's describes the key drivers behind outsourcing as: reducing costs; tapping vendors' best practices and innovations; gaining access to human capital; and increasing the flexibility and scalability of operations (Ketter, 2008). Research carried out by Deloitte's concludes

that 83% of global IT outsourcing deals achieve 25% cost savings (Esperne, 2009). Cost savings can be realised as companies turn high fixed costs into more controllable variable ones through outsourcing (ABA Banking Journal, 2007). In Dewangan's (2008) work on managing proposal development in the IT services industry, he also cites cost savings, the ability to focus on core competencies, and access to specialised expertise, as benefits of outsourcing and, in addition, cites increased profits and the ability to tackle competitive pressures as potential benefits. An article in Business and Finance Week (2008) supports the view that profitability can be enhanced, saying, *"firms can streamline their operations and positively impact their bottom line by utilizing outsourcing solutions."* (Business and Finance Week, 2008).

Much of the academic and practitioner research on this subject echoes the advantages cited above (Fjermestad & Saitta, 2005; Hodges & Block, 2005; Dhar & Balakrishnan, 2006; Krell, 2006; Marshall & Heffes, 2007; Cooper, 2007; Carter et al, 2007; Kitchens & Myers, 2007) while the potential risk of losing expertise and knowledge through outsourcing is also highlighted (Cooper, 2007; Carter et al, 2007). Let us look now at trends in outsourcing identified in recent academic literature.

7.2.   Recent Trends in Outsourcing

The literature concurs that outsourcing is very much a growth area. Ketter (2008) comments that the IT and business process outsourcing (BPO) market has become a $500 billion business globally, *"and it shows no signs of slowing down"* (Ketter, 2008). Marshall & Heffes (2007) believe that BPO will grow steadily for at least five years, and may dwarf the IT outsourcing market in years to come, with medium-sized and smaller companies choosing to outsource activities. Within the BPO market, HR is still the biggest area, with finance and accounting, and procurement (though growing) still trying to find more traction, struggling with issues such as product offerings and pricing. With over 50% growth predicted in offshoring, the authors believe that HR, procurement and finance and accounting will be most impacted by job losses to offshoring in the years to come. However, although strong growth in offshoring is likely to continue, BPO is moving towards a more complex 'nearshoring' model, that might make use of a multiplicity of locations, some domestic (Marshall & Heffes, 2007).

Finance and accounting outsourcing (FAO) has increased by more than 45% since 2005, and an Interactive Data Corporation (IDC) study forecast that the global FAO market would exceed $47.6 billion dollars in 2008. While the US is the most significant market, Europe, The Middle East and Africa also show growth (Krell, 2007). Financial services outsourcing saw an increase of 12% over the last quarter of 2007 (Business & Finance Week, 2008). Even the recession does not seem to be dampening the enthusiasm for outsourcing. A survey conducted by the Management Consultancy Association (MCA), and British Bankers' Association (BBA), found that 41% of financial services managers expect to increase outsourcing due to the credit crunch (Marketing Business Weekly, 2008). Similarly, a recent GFT UK survey with 32 large, international firms, shows that most expect their outsourcing needs to rise – in strategy (87%) and process (80%) consulting sectors, and IT strategy consulting (59%). Nearly half of firms expect expansion in the use of managed service models – infrastructure operations (47%) and business process outsourcing (42%) (FDI, 2009).

Although growth is expected to continue, outsourcing suppliers should not be complacent. In a survey of large organisations by Bain, almost half said that outsourcing failed to meet expectations, even judged by the narrow measure of cost improvement. Only 6% of respondents said they were *"extremely satisfied"* with their outsourcing arrangements (Skapinker, 2005). Similarly, in Krell's (2007) study of finance and accounting outsourcing, he concludes that dissatisfaction remains surprisingly high among buyers. In a survey of 228 global Chief Financial Officers, 54% of respondents said that, *"outsourcing does not deliver the benefits promised by outsourcing vendors"* (Krell, 2007). It is hoped that identifying areas of best practice in managing outsourcing relationships will lead, ultimately, to improved and more satisfying partnerships for both outsource suppliers and their clients.

7.3. What are the Factors that Lead to a Successful Outsourcing Relationship?

7.3.1. What are the Most Challenging Aspects of Managing an Outsourcing Project?

Academic literature on the subject of outsourcing agreements provides a wealth of examples of where these relationships can run into difficulties. Whether referring to IT, HR, finance and accounting or other business process outsourcing, the fundamental issues and challenges ring true across a whole range of outsourcing situations.

The contract drawn up is frequently cited as a source of conflict. Whitfield (2008) suggests that a genuine commitment to forging a partnership with the service provider should be evident during the drafting and contract management stages, to avoid problems later on. A thorough, detailed understanding of needs and expectations should be captured in the contract. A DTI study in 2004 concluded that 30% of call centre outsourcing contracts fail because of a lack of alignment between the client organisation and the provider, in terms of service expectations. This was said to be due to a failure to capture the key requirements in the contract (Mouncey & Clark, 2005).

A detailed contract is clearly necessary to define roles, responsibilities, requirements, and ongoing performance measurements, but Fjermestad and Saitta (2005) point out that, *"in a true strategic partnership, contracts will never be 'complete'"* (Fjermestad & Saitta, 2005). Contracts cannot predict all the changes and future needs that lie ahead, so flexibility is essential to build and maintain relationships (Himmelsbach, 2006). Skapinker (2005) advises that, *"both sides have to be ready to renegotiate a contract if the conditions change"*, and goes on to say that he would expect a contract to be renegotiated twice over a ten year period, because of changing circumstances (Skapinker, 2005). This need for flexibility to be built into the agreement is echoed by Prosser (2009), who also comments on the enormous environmental and internal changes that can occur over the lifetime of the outsourcing relationship.

It is also essential for client organisations to identify all risks associated with outsourcing at an early stage. According to Ketter (2008), *"most failures to manage outsourcing and off-shoring risks stem from inadequate risk identification early in the lifecycle"*, (Ketter, 2008). In the automotive industry, for example, many organisations have outsourced non-core parts of purchasing functions, in an attempt to produce better, faster and cheaper cars. The accompanying operational and financial challenges and risks, however, cannot be overstated (Harbour-Felax, 2008). As competitive pressures mount, so, too, do potential

risks and returns. As few industry decision-makers have faced these challenges before, Harbour-Felax suggests there should be collaboration in the industry to develop best practices to help face and overcome risks and challenges (Harbour-Felax, 2008). Some organisations have concluded that setting up smaller outsourcing deals is the best way to reduce risks, and also has the benefit of enabling the company to experiment with new approaches a little more (Skapinker, 2005).

Another risk that some organisations fail to consider, is the misjudgement of the true cost of outsourcing. 'Hidden' costs may include the unexpected need to convert existing software for use in a new BPO environment, if, for example, customer data cannot be used on new systems (Marshall & Heffes, 2007). Also, if changes in the industry or environment require changes to be made to the outsourcing agreement, this can be more costly than expected for the client (Prosser, 2009).

Another major challenge identified in the literature, is ensuring that the correct processes and controls are in place at all stages of the outsourcing relationship. For example, in manufacturing outsourcing research carried out by Atkinson (2007), a survey, *"confirms widespread use of inadequate processes and controls"* (Atkinson, 2007). Krell also highlights inadequate processes in finance and accounting outsourcing, stating that there are three areas in greatest need of improvement: monitoring benefits, selecting a provider, involving the right people and aligning the buyer and provider. Krell points out that this guidance is also true for IT and HR outsourcing (Krell, 2007).

Perhaps the greatest challenge identified in the literature is an apparent lack of understanding on the part of client organisations. In a survey of organisations with finance and accounting outsourcing deals, Krell (2007) reveals that, *"a surprising number of senior executives do not fully understand the outsourcing agreements their organisations maintain, which makes it very difficult to fully leverage these valuable business relationships"* (Krell, 2007). This means that mismanagement of the relationship can occur from the initial decision to outsource, all the way through to the end of the relationship. Asked to identify the most challenging aspects of finance and accounting outsourcing, the third most frequent response by senior executives was, *"not sure/don't know"* (Krell, 2007). This led Krell to conclude that, *"A company can't manage what it doesn't understand, much like it can't manage what it can't measure."* (Krell, 2007).

This lack of understanding is echoed in studies carried out by INSEAD Professor of Strategy, Gabriel Szulanski, with Sidney Winter (University of Pennsylvania) and Robert Jensen (Brigham Young University) (2009). Their research reveals, however, that this lack of awareness of how processes work, is evident even before the processes are outsourced. They conclude that companies, *"don't know why what they do really works, and they realise that when they try to transfer their practices"* (Szulanski et al, 2009). Organisations tend to ask outsource suppliers to copy the things that the former believe and assume to be important, only to discover later on that they have left out critical processes, and asked suppliers to copy things that are totally unnecessary. This is because, *"there may be a certain amount of ambiguity about factors that are actually driving the success of a particular practice"* (Szulanski et al, 2009). The authors suggest that organisations should use a template to transfer knowledge more effectively; that is, a working example of the practice they want to replicate. They advise that, *"you're better off copying exactly what you have in the original, and then seeing what makes sense and what doesn't, and make adaptations accordingly"* (Szulanski et al, 2009).

Mary Lacity, an expert in IT outsourcing, and Joseph Rottman, an information systems expert, also highlight the effective transferring of knowledge as a critical challenge in successful outsourcing. Their study focuses, however, on how to transfer knowledge while protecting intellectual property (Overby, 2007). Their advice relates specifically to offshore outsourcing, but could also be applied in other outsourcing situations. They recommend breaking up projects into three or five day tasks, *"that could be wrapped up and sent to an offshore development team. Then you separate those tasks among various vendors with the idea that one vendor wouldn't have enough pieces of the intellectual property puzzle to put it all back together."* (Overby, 2007). This advice also relates to the challenge of how to reduce risk, identified above.

Dr. Richard Gibbs, in his work exploring the management challenges of strategic partnerships, summarises the factors that can lead to a relationship becoming adversarial and unsuccessful. These are: an excessive focus on contracts and service level agreements; misunderstandings and a lack of common goals; over-ambitious or unrealistic expectations. This can lead to one of the partners feeling confined and under pressure which, in turn, leads this partner to concentrate on protecting its own interests, and minimising the investment in the relationship. The partnership then becomes characterised by low commitment, poor communications, mis-information, and the holding back of knowledge (Gibbs, 2009). As discussed above, a lack of successful knowledge transfer will inevitably lead to a failing partnership.

Similarly, Prosser (2009) comments that the transition of services can be traumatic for employees, and a mismatch of expectations can cause tension between the supplier and the client. Davies (2009) concurs with the view that it is often the client organisation's own staff who are the last to be briefed on what the transition of services means for them, and this will inevitably lead to dissatisfaction, and a poor relationship between the outsource supplier and client at an operational level.

The literature identifies, then, a number of key challenges that must be addressed when managing an outsourcing relationship: getting the contract right, while being flexible and open to change; identifying risks and costs successfully; ensuring the correct controls and processes are in place at all stages of the relationship, while addressing a lack of understanding of outsourcing agreements and how processes may work; and how to enable effective knowledge transfer. Having highlighted a number of particular problem areas, let us now look in more detail at other factors that the literature reveals to be critical to the success of outsourcing agreements.

7.3.2. General Factors that Make Outsourcing Agreements Successful

An Accenture research initiative has identified a group of procurement executives who are described as 'procurement masters'. Procurement mastery is defined as, *"the collection of purchasing traits exhibited by the roughly 10% of companies that consistently outperform their peers"* (Spray, 2009).   The reason that this research is of relevance to our study, is because these 'procurement masters' all display the ability to leverage the capabilities of outsourcing providers. The Accenture research asserts that the 'procurement masters'' outsourcing agreements, *"reduce risk and increase control of inefficient or incompatible processes and technologies, while enabling a company to focus on mastering overall business integration and strategic value creation"* (Spray, 2009). Outsourcing agreements will be more successful, then, if organisations develop and maintain a holistic, broad,

enterprise-wide view of the business: *"The procurement masters know well that they cannot be experts in everything associated with today's complex global supply chains, and they realise that outsourcing strategies can be key enablers of the necessary holistic and comprehensive view of the business."* (Spray, 2009).

It is clear from the literature that a thorough analysis and understanding of the needs of the project will always be at the heart of a successful outsourcing agreement (FDI, 2007). In addition, before implementing an outsourcing programme, it is essential to define success clearly from the beginning, and share your goals with the service provider (McLoughlin, 2007). In a set of guidelines for the accounting profession (which could equally be applied to other functional areas), McLoughlin suggests that anyone considering outsourcing should, *"understand your options; gain organisational support; set goals; and evaluate results"* (McLoughlin, 2007). Himmelsbach's (2006) study also highlights the importance of clarifying goals at the outset: *"Outsourcing exposes hidden costs and service level issues in an organisation. [...] Buyers doing this for the first time should think through the process so they get what they want in the long-run."* (Himmelsbach, 2006).

Davies (2009) suggests an interesting way of ensuring that both supplier and client organisations clarify their goals: define an exit clause by asking the question, *"What would cause you to terminate this contract?"* (Davies, 2009). This forces both parties to focus on what they really need from the outsourcing agreement. Davies (2009) also makes the point that the client organisation should not assume that the outsource supplier will understand exactly what the priorities are, within a set of goals, unless these are communicated clearly.

Similarly, Hodges and Block (2005) emphasise the need for clear goals and objectives, in their advice on how to manage business process outsourcing contracts. The need for commitment and detailed planning is also clear. They recommend: *"commitment from executive leadership with a strategic imperative to act [...]. Clearly understood business objectives, aligned with internal interests [...]. Firm timeline and deadline [...]. Identified resources – empowered and budgeted, including internal resources [...]. Expert external advisor, including legal resources [...]. Re-engineered process – to match conceptual 'future state' [...]. Excellent change management, as well as internal and external communications capabilities [...]. Focus more on what is performed versus 'how' and 'where'."* (Hodges & Block, 2005).

An article in the publication Foreign Direct Investment (January, 2008) also asserts the view that excellent strategic planning systems are a common factor for companies who have achieved positive results from outsourcing, regardless of the industry. The article recommends a focus on operational efficiency: simplifying the business model, using process optimisation, and having a productivity mindset. Broken systems should not, of course, be outsourced; they should be fixed in-house first. The author believes that a wide range of activities can be successfully outsourced, so long as a system is in place to manage and keep track of each process. The article claims that, *"If it can be digitised, it can be outsourced."* Passion from the top is also a vital ingredient. (FDI, 2008). The article does concede, however, that some areas such as talent acquisition, creativity and innovation, are often better kept in-house (FDI, 2008).

Carter, Markham and Monczka (2007) have used the results of a major survey they carried out on procurement outsourcing, to propose some critical success factors for outsourcing arrangements. Strategy and planning are, again, viewed as crucial to success: *"Clearly state and communicate the business case for procurement outsourcing. The business case*

must be based on fact-driven logic and internal alignment across functions and business units. Ensure that senior leadership at both the buyer and supplier companies provides ongoing support to the initiative. Establish and clearly communicate the scope of work, performance expectations, governance model, and project plan. Choose excellent suppliers and monitor their performance with appropriate measures." (Carter et al, 2007). Suppliers should have proven and durable performance capabilities. Effective change management policies and procedures should also be in place.

The authors go on to make the point that, while strategic planning is an essential building block to successful procurement outsourcing, *"the real measure of success is how well the initiative is implemented."* (Carter et al, 2007). Successful execution involves gaining support and input from appropriate senior leaders, and tackling employees' concerns about the outsourcing arrangements.

The authors believe that the most successful outsourcing agreements will be those where organisations have challenged existing models, and where the approach is truly strategic rather than tactical and 'follow-the-leader': *"Strategic procurement outsourcing can create new ways to compete, and possibly even rewrite the rules for whole industries."* (Carter et al, 2007). The authors propose a check-list of best practices, so that organisations can evaluate their position on the strategic spectrum. Recommendations include the following:

"Does your company:

Ensure that the executive committee [...] regularly reviews strategic outsourcing options and decisions?

Force itself to challenge and potentially significantly reduce its "core competency" space?

Create business model [...] scenarios that differ radically from the current model?

Scan for new technologies that could be a disruptive force on the current business model?

Look for procurement outsourcing alternatives to create competitive tension with internal functions [...]?

Require regular competitive benchmarking of key operational, tactical, and business process activities?

Focus on overall external value-adding capabilities of potential outsource partners (vs. just cost reduction)?"

(Carter et al, 2007)

According to the authors, challenging existing business models is crucial in today's fast-changing environment.

The importance of careful strategic management of outsourcing arrangements is a recurring theme in the literature. Fjermestad and Saitta (2005) have developed a strategic framework for managing IT outsourcing. The components of this best practice (which could also be applied to other types of outsourcing) are as follows:

Alignment to business strategy: are outsourcing decisions in support of organisational business goals?

Management support: supporting decisions, continual innovation, and clear communication between all parties.

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Culture: cultural readiness by both the organisation and the proposed supplier.

Infrastructure: ensuring the right technical environment is in place.

Contracts: A formal document of the goals, requirements and commitments for the relationship.

Strategic partnership: forming and maintaining partnerships both internal and external to the organisation (see the following section for more detail on this area).

Governance: tactical and strategic governance, with ongoing monitoring of expectations.

Economics: the balance of cost savings and access to competencies that the organisation must achieve.

Adopting the elements of best practice outlined in this framework will, the authors believe, lead to more successful (IT) outsourcing arrangements (Fjermestad & Saitta, 2005).

In Dean and Moore's (2006) research into outsourcing success, they emphasise that roles and ownership of processes need to be clear and specific. They suggest that teams need to align around the work to be done: everyone needs to understand what the key decisions are, and who should be involved, as well as understanding how processes relate to each other and what initiates them. They recommend standardising and simplifying processes, and segmenting work into 'buckets'; one for the service itself (delivered to the end-user or internal customer), one for the outsourced process (managed by the provider), one for the retained organisation (the work kept by the company), and one for the often newly-formed governance organisation (ensuring contract compliance, performance management etc.) (Dean & Moore, 2006). It is worth mentioning, in addition, that there is no room for complacency. A process may appear to have been optimised, but there must always be an investment in continuous improvement (Cain, 2009).

Planning and processes are also seen to be at the heart of outsourcing success in Dhar and Balakrishnan's (2006) case study research. Their findings reveal that to ensure success in global outsourcing arrangements, organisations should, *"establish standards, governance and guidelines for working with offshore outsource vendors. Manage projects locally, but distribute the work globally. Measure the performance and optimise the process."* (Dhar & Balakrishnan, 2006). Focusing specifically for a moment on offshoring agreements, Kripalani (2006) has identified five practices that he believes are critical to the success of this type of outsourcing arrangement: *"1. Go offshore for the right reasons. 2. Choose your model carefully. 3. Get your people on board. 4. Be prepared to invest time and effort. 5. Treat your partners as equals"* (Kripalani et al, 2006).

An article in Foreign Direct Investment (August/September, 2007) echoes this advice to go offshore for the right reasons. The author recommends that the needs of the project should be put first, followed by a calculated assessment of the type of people the project will need over its lifespan. Once these issues and all the costs have been considered, a decision can be made about where to send the work. With careful consideration of project, people, price, and then place, "*businesses can ensure that outsourcing is not merely a question of expensive Europe or cheap India, but a smart combination of all the options that will create a successful outsourcing strategy."* (FDI, 2007).

A final area that, according to the literature, is critical to the success of outsourcing arrangements, is IT. Marshall and Heffes (2007), who carried out research into strategies

used in business process outsourcing, assert that the IT capabilities of external providers are vital to effective BPO programmes. In the authors' survey, IT capabilities of external suppliers scored 4.2 on a scale of 0 - 5, as being key to BPO success. They conclude, therefore, that, *"embedding IT requirements, needs, capabilities and key representatives from the IT group into the BPO teams from the start will improve the likelihood of success."* (Marshall & Heffes, 2007).

Clearly, then, in addition to the areas that often tend to be problematic identified in the previous section, the literature has revealed a variety of factors that are critical to the success of outsourcing arrangements:

- maintaining a holistic, enterprise-wide view of the business;
- a thorough understanding of the needs of the project with clear goal-setting from the outset;
- commitment from executive leadership;
- careful strategic planning that challenges existing models and thinking;
- measuring and monitoring performance, with investment in continuous improvement;
- clear roles and ownership of optimised processes;
- strong IT capabilities.

Organisations can, therefore, attempt to 'tick all the boxes' regarding the above success factors. There is, however, another critical dimension that needs to be considered: an outsourcing agreement is a relationship between **people** managing processes, and the effectiveness of this relationship can make or break the outsourcing deal. Let us turn our attention, then, to the factors specifically relating to the success of the outsourcing relationship. How can we ensure that the people in charge of managing the relationship, work together as productively as possible?

7.3.3. Factors Specifically Concerning Relationship Issues

Cain (2009) asserts that, along with having carefully drafted and signed contracts (as discussed earlier), *"creating strong personal relationships on an operational level"* is the most important element in a successful outsourcing plan (Cain, 2009). Finding an outsource supplier with a compatible organisational culture to your own is crucial. Cain (2009) advises that, once the decision to outsource has been made, a company must find a provider that, *"reflects its culture and values"* (Cain, 2009). Similarly, in Carter's study of procurement outsourcing, he recommends that a company should, *"select suppliers whose culture and philosophy are closely aligned with yours."* Davies (2009) makes the point that employees in client organisations may be more empowered than is typically the case in some outsourcing companies, which tend to be more highly structured and hierarchical. Organisations need to be aware of the potential differences in corporate culture to ensure that problems do not result from them.

The need to consider and attempt to bridge cultural differences is even more acute in an offshoring context. Margulius' (2005) research provides guidelines on how to achieve this. He describes the potential cultural clash between US teams, who are used to conflict, and Indian companies who will tend to avoid it at all costs: *"They'll try very hard to comply and listen, but sometimes must say 'no' to get the thing to work"* (Margulius, 2005). The author recommends establishing a precedent of open, honest communications at the start, and

asserts that building personal relationships can bolster institutional relationships (Margulius, 2005). In a similar vein, Davies (2009) cautions that people working in other cultural environments may have a different understanding of the same terms. In other words, you may think you have understood each other because your offshore colleague is repeating the correct words back to you, but his/her interpretation of those words may be different to your own. It is essential, then, to make no assumptions, and to take the time to ensure real understanding by both parties (Davies, 2009). This is also true, of course, for organisations within the same cultural context, though, perhaps, to a lesser extent.

Transparency and a partnership approach are vital to the success of the outsourcing relationship. Cain's research leads him to conclude that the relationship, *"will only be as good as each side makes it, and it should be treated like an equal partnership"* (Cain, 2009). A good example of transparency leading to success is seen in the Medicines Control Agency's private sector partnership with PA Consulting (Pandya, 2004). The public sector agency was suffering from information overload, and recognised the need to find a new way of working, based on electronic sharing of information. Such a complex, sensitive area is not generally characterised by transparency. However, in the agency's relationship with PA Consulting, a high degree of openness and risk-sharing was achieved. The Medicines Agency agreed a ten year contract with PA Consulting, and estimates that its operating costs will improve by 20% through the lifetime of the contract (Pandya, 2004).

 A recurring theme in the literature is that outsourcing relationships represent a partnership that hinges on the commitment of both parties (McLoughlin, 2007). For an outsourcing strategy to succeed, these partnerships need to be 'win-win'; the outsource partner must earn a return on its investment too (Mangrum, 2006; Skapinker, 2005). Dr. Richard Gibbs (2009) describes a 'success spiral' generated by creating a 'win-win' relationship with partners. If both parties focus on, *"What can we **all** gain?"* this can encourage the creation of efficient, reliable processes to achieve goals, as well as leading to creativity, flexibility, and the confidence to innovate. Instead of focusing rigidly on service level agreements, both partners are committed to finding new benefits for customers. A culture of innovation develops, underpinned by both formal and informal communication, and so the spiral of success continues (Gibbs, 2009).

This way of working creates a relationship that is a true strategic partnership. Fjermestad and Saitta (2005) define a strategic partnership as the collaborative efforts of both a vendor and client in the attainment of a mutually beneficial goal. It encompasses, *"the ability to form and maintain partnerships both internal and external to the organisation. Includes fostering the critical key relationships [...]. Includes the ability to form collaborative teams. Requires flexibility, communications timeliness and mutually beneficial relationships"* (Fjermestad & Saitta, 2005). The authors describe this attainment of a superior client/supplier relationship as 'embeddedness', which allows suppliers and clients to share business objectives, develop closer bonds, and foster better integration (Fjermestad & Saitta, 2005). Chen and Soliman (2002) see the outsourcing relationship as progressing from one of *"support and reliance"* to *"alignment and alliance"* (Chen & Soliman, 2002). For this type of partnership to work, it is crucial that there is a personally involved and passionate executive sponsor, and that the emphasis is on long term commitment rather than transactions (Hodges, 2005).

There is a clear need to invest in managing the relationship – otherwise 'partnership' remains an empty word. Hodges and Block (2005) attempt to quantify the investment required in the relationship. They recommend the creation of a business process

outsourcing centre of excellence, whose role it would be to articulate the value of the BPO relationship. This centre of excellence would, they suggest, require a resource of 4-6% of total outsourcing spend. They recommend two to four full-time individuals with significant expertise in the relevant functional domains, with, perhaps, between seven and fifteen part-time individuals managing different processes within the centre; for example, monitoring and reporting, breach notification, problem escalation and resolution. The executive in charge of the outsourcing centre of excellence should provide overall governance, and should focus on driving current and future value of the relationship, through high-touch interpersonal and negotiating skills (Hodges & Block, 2005).

Communication and trust are frequent themes in the literature, and are seen as vital to the success of any outsourcing relationship. Carter, Markham and Monczka (2007) suggest they should be, *"a core component of all aspects of the relationship"* (Carter et al, 2007). A number of researchers recommend that organisations should maintain lines of communication with outsource partners through regular meetings. Cain (2009) recommends a quarterly meeting rhythm, *"not just when there are problems"* (Cain, 2009). Communication should be continuous and open; it should address fears and not hide the truth (FDI, 2005). An article in Foreign Direct Investment warns against too much reliance on technology. The author claims that, *"shortcomings in the interpersonal area can be intensified by new technological tools. Use them with diligence. Good business relations can be **maintained** through virtual means, but **building** good relationships through the use of technology is virtually impossible"* (FDI, 2005).

Similarly, Skapinker (2005) recommends that companies that outsource should remain involved in the human side of the relationship. He is critical of organisations who, *"fire and forget"*, with rigid SLAs, and a culture of not speaking to the service provider unless things go wrong (Skapinker, 2005). Lacity and Rottman describe the investment in managing the outsourcing relationship as the build up of 'social capital', given that, *"work gets done by people. It doesn't get done by processes"* (Overby, 2007). They comment on the fact that the need for a huge amount of hands-on involvement is even more intensive in an offshoring environment. They suggest that, initially, in an offshore outsourcing relationship, the management costs are over 50% of the total contract value, compared to 5-10% for a typical domestic outsourcing relationship (Overby, 2007). Dean (2006) comments on the need for *"care and tending"* in a client/outsource supplier relationship. He asserts that, *"It takes resources – time, training, change management, and organisational restructuring – to learn how to govern and manage a service provider relationship"* (Dean, 2006). Hodges and Block (2005) also comment on the need for ample resources, *"in people, technology and processes. Managing multi-million dollar outsourcing relationships demands no less."* (Hodges & Block, 2005). In Dhar and Balakrishnan's (2006) case study research, they identify best practices in managing outsourcing relationships: *"Stakeholders' buy-in; frequent informal meetings; empowerment; formation of steering committees and joint review boards"* (Dhar & Balakrishnan, 2006).

Another critical area in making the relationship a success, is to work out what you will concede to the provider, and what you want to keep control over, and communicate this clearly (Himmelsbach, 2006). Browne and Wheeler (2006) discuss the importance of retaining expertise in-house, and describe this 'stay back' team as having the, *"principal role of developing a strong partnership with the outsourced service provider."* (Browne & Wheeler, 2006). Davies (2009) also believes that this issue is important, making the point

that, over time, the supplier understands the outsourced processes more and more, while the client organisation may understand them less and less. He challenges both parties to ask themselves, *"how would you hand/take those processes back? Who owns the intellectual property?"* He suggests retaining one or two people within the client organisation who monitor (rather than manage) the outsource supplier, measuring the outcomes (rather than outputs) (Davies, 2009).

When an organisation commits to an outsourcing relationship, this inevitably implies a good deal of change for many people within the organisation. If the outsourcing relationship is to be successful, organisations must ensure that adequate HR strategies are in place to deal with the fears and concerns of employees. The outsourcing project team should also be adequately empowered (Mouncey & Clark, 2005). An article in Foreign Direct Investment (2005) asserts that, *"When outsourcing relationships, the first inclination is to look at the contract and focus on tools, processes, technology and SLAs, before turning to more emotional topics. But emotional factors are ones that could jeopardise the intended outcome of a relationship: it is human nature to dislike change. Outsourcing affects individuals, and individuals have concerns and emotions"* (FDI, 2005). The author recommends taking a change management approach, to minimise disruptions to business, and build a culture that embraces innovation and change (FDI, 2005).

Another crucial point is that the outsourcing relationship must be structured in such a way that it ensures a productive level of communication and collaboration, where ideas can be rewarded. According to Browne and Wheeler (2006), the best practice structure is, *"flexible, stimulates co-operation, and creates an environment of strategic partnership"* (Browne, 2006).

In summary, the literature has revealed a number of factors that lead to the successful working of the supplier – client outsourcing relationship itself:

- compatible culture and values;
- openness, transparency and trust;
- regular, formal and informal, face-to-face communications;
- commitment to a 'win-win' relationship leading to true strategic partnership;
- Significant investment (time and resources) in the relationship;
- Effective HR and change management strategies;
- Flexible structure.

We will now explore the literature relating to the different phases of the outsourcing relationship in more detail. In this way, we should be able to identify the particular success factors that are most salient at each stage.

7.3.4. Success Factors Relating to Different Phases

Pre-transition

Before entering into an outsourcing agreement, a thorough assessment of knowledge gaps is crucial, along with a rigorous process of evaluation of all potential external providers (Shekhar, 2008). Dewangan (2008) advises outsource service providers to make sure they understand the customer's real objectives. While this sounds obvious, Dewangan cautions that customers often do not articulate the whole business problem they are trying to address.

The outsource supplier therefore needs to have an understanding of the 'bigger picture' of organisational issues, as well as cultural issues. The potential supplier also needs to fully grasp their own organisation's capabilities and constraints. Once this understanding has been gained, the potential provider can generate innovative ideas, along with a well-defined risk management plan. The proposal presented should contain, *"a robust solution, specific to the request for proposal"* as well as, *"a unique value proposition that addresses the bigger picture"* (Dewangan, 2008).

Dewangan refers specifically to the world of IT services, but his recommendations are also relevant in other outsourcing situations. Krell's (2007) advice to organisations requiring finance and accounting outsourcing contains many of the same elements, though he assesses the situation from the perspective of the organisation requiring outsourcing, rather than from the viewpoint of the potential provider. When making the decision to outsource, the company needs to, *"identify strategic drivers; evaluate the full range of options; assess internal capabilities; determine scope and logic,"* while, to help them select the right provider, the organisation should, *"create the project team; link the buyer's needs to the provider market-place; consider outside help; develop the request for proposal (RFP); establish an RFP evaluation process; conduct due diligence."* (Krell, 2007).

Margulius (2005) also offers advice to organisations seeking outsourcing solutions, this time in an off-shoring context; again, the advice is also relevant in non-offshore situations (with the exception of point nine):

"1. Never outsource your core value – have very clear areas you want to outsource, and have a long-term strategy. 2. Get boardroom ownership. 3. Forge internal competencies and a strong internal project management team; put governance structures and people in place. 4. Fix your process before off-shoring it – don't outsource a broken process. 5. Demand domain expertise – pick specialisations. Look at financial strength, and legal and regulatory compliance capability. 6. Require evidence of best practices – find the vendor best equipped to propel your business forward. 7. Write talent into the contract. Ensure you get the 'A' team. Develop incentives and penalties so that they put a high quality team on, and keep it on. 8. Investigate pricing models. 9. Acclimatise to cultural differences. 10. Get your feet wet. Companies should stick their toes in the water before plunging in head-first, for example, with small projects you can micro-manage." (Margulius, 2005).

Following these recommendations provides a sound basis for setting up a successful outsourcing arrangement. How do the success factors differ, though, if we examine the transition phase? The literature also reveals some useful advice in this area, which we will examine in the next section.

Transition

Key to a successful transition is careful planning and good communication. Carter, Markham and Monczka (2007) recommend that organisations should: *"Formulate a transition strategy and detailed plan for moving the activities to the outside provider, ensuring that all necessary information is made available to the provider. Appropriate people from both buyer and supplier organisations need to drive continuous improvement with high levels of communication."* (Carter et al, 2007). Krell's (2007) research leads him to suggest the following actions, once the contract has been negotiated and service level

agreements reached: *"Transfer process and knowledge; monitor and manage performance"* (Krell, 2007), so that ultimately the client can renew, renegotiate or terminate the contract.

Leonardi and Bailey (2008) discuss the importance of transferring knowledge effectively, and recommend ways of making implicit knowledge explicit in task-based off-shoring. They studied a firm that sent engineering tasks from home sites in Mexico and the USA, to an off-shore site in India. To resolve and prevent the problems that subsequently arose, individuals from the home sites developed five new work practices to transfer occupational knowledge to the offshore site. The five practices were, *"1. Defining requirements. 2. Monitoring progress. 3. Fixing returns. 4. Routing tasks strategically. 5. Filtering quality"* (Leonardi & Bailey, 2008). By focusing attention on each part of the knowledge transfer process, the firm was able to improve the effectiveness of this vital area.

There is much evidence, in the literature, of the need for a significant amount of people and management time to be dedicated to the transition. Rottman and Lacity (2006) comment that, *"A huge amount of hands-on management time is required to build trust, mitigate higher risks, and co-ordinate more remote and culturally diverse delivery teams"* (Rottman & Lacity, 2006). In an off-shore, IT outsourcing situation, they recommend having an overlapping on-shore presence to facilitate the supplier-to-supplier knowledge transfer. They believe that the overlaps help ease the transition, and enable the transfer of 'softer' knowledge, and 'inside jokes', as well as technical lessons (Rottman & Lacity, 2006).

Khanna and New (2005) paint a very vivid picture of the vital importance of the transition team. In their work on building an HR planning model for outsourcing, they assert that the transition of business processes is like heart surgery, *"the organ needs to be replaced without stopping blood flow to the body. The transition team is like the medical surgery team in this case. Naturally, the company undergoing this 'operation' should pick this team carefully. The team should include members from the operations of both the company and the vendor, as well as subject matter experts from the internal operations being outsourced.[...] For each role in the transition team, there should be a peer member from both the company and the vendor"* (Khanna & New, 2005).

Khanna and New (2005) provide a useful recommendation of the team resource required to facilitate a smooth transition, and to enable the project to be implemented successfully. They advise creating the following key roles:

"1. Executive Sponsor – responsible for the outsourcing decision and its success. The champion, who sets the direction.

2. Engagement/Transition Manager – overall team lead, with strong project, change management and leadership skills.

3. Delivery Manager – sets up the operations infrastructure and steady-state team at the vendor site. [...] Needs project start-up skills and strong knowledge of the processes being transitioned.

4. Subject Matter Experts/Technical Advisors – need detailed knowledge of the process/technology or infrastructure being outsourced.

5. Team members – sub-teams to work on various parts of the process. Chosen from 'outgoing' operations managers from the company, and 'incoming' managers from the vendor."

(Khanna & New, 2005)

Hodges and Block (2005) also recommend the appointment of a full-time transition manager. They advise that this should be for the first three to twelve months of the engagement, depending on the complexity of the outsourcing arrangement. They suggest that this manager should work closely with corporate risk management and compliance, as well as developing a risk mitigation plan for the outsourcing contract itself (Hodges & Block, 2005). Browne and Wheeler (2006) also highlight the different numbers of people required to help the outsourcing arrangement run smoothly, depending on the stage of the outsourcing engagement. They advise that, *"During the first twelve months of the outsourced contract, additional [...] staff are often needed in the field to ensure a proper transition, provide insight into the client's culture, work through unique process issues and generally teach the outsourced providers the 'ways of the client'* (Browne & Wheeler, 2006).

Their research demonstrates that, from 12 to 24 months, there is often some friction between the outsourced staff in the field and the client organisation staff. Typically, the outsourced team has become comfortable with the 'ways of the client' and tries to change service processes for the better, while the client's staff resist changing current processes. It is often during the third year of the contract that client staff may be reassigned to other roles. Although it is important to retain expertise in-house, once trust and experience have been gained, the client's staff can begin to rely on metrics to manage the outsourced staff. To maximise the efficiency of the outsourcing process, the client should let go of the tactical issues and concentrate on strategy (Browne & Wheeler, 2006).

In an article in Foreign Direct Investment magazine (August/September, 2005), the author asserts that managing an outsourcing relationship is like starting a new business. He claims that the foundation for many years of an outsourcing collaboration is established during the first few months. It is, therefore, worth building a strong foundation, as 'short cuts' at the beginning of the collaboration, may haunt the success of the relationship in the long run (FDI, 2005). A detailed transition plan should focus on people and processes, timelines and milestones. The author recommends planning for twice as much time as is usual, *"time to establish the relationship, adjust to different business cultures, address emotions, concerns and fears."* (FDI, 2005). He also advises planning for turnover, as part of the initial team may leave. He urges companies to act early, learn from mistakes, and also celebrate success: *"resistance to change is natural, but so is the satisfaction of being part of a winning team"* (FDI, 2005).

The literature demonstrates, then, that during this transition phase, careful planning is once again vital. It is essential to have a skilled transition team in place, as it is only by dedicating people and time to the collaboration that effective communications and successful knowledge transfer can take place.

Post-transition

As the outsourcing arrangement becomes established in the client organisation, the focus shifts to maintaining a 'steady-state' operation, but the literature suggests that striving for continuous improvement is critical to long term success. In Rottman & Lacity's (2006) research into proven practices for outsourcing IT work, they identify the following phases and changes that occur over time:

"Phase 1: Hype and fear.

Phase 2: Early adopters enter market. Best and worst practices emerge. Focus on costs.

Phase 3: Market matures. Richer practices emerge. Focus on quality.

Phase 4: Insitutionalised practices. Focus on value-added transformation."

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(Rottman & Lacity, 2006)

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This need to continue to improve is also highlighted by Khanna and New (2005), in their HR planning model for outsourcing. They have developed an outsourcing model which also comprises four phases, but their emphasis is on HR planning requirements:

"1. Analysis/Evaluation: retain appropriate HR talent; consider alternatives to outsourcing.

2. Contract Negotiation: evaluate vendor organisation; design internal organisation to manage the vendor.

3. Transition: employ a phased approach for transition; build a transition team.

4. Build in continuous improvement and flexibility".

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(Khanna & New, 2005)

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The authors recommend carrying out a regular review of the size of the vendor workforce and its skills and competences. There is, then, no room for complacency, as organisations must constantly be looking for new ways to add more value and improve.

7.3.5. The Importance of Strong Governance

There is much evidence in the literature that having a strong governance model in place can improve the success of an outsourcing relationship. We can define 'governance model' as a clear specification of how the outsourcing arrangement should be run, including clear roles and responsibilities for every aspect of the service delivery. A good governance framework should answer the questions: how is the alliance organised? Who can you turn to if you need help? How are problems mediated or escalated? How do you define common terminology, tools and processes? What are the means of sharing information, as well as learning from feedback and mistakes? (FDI, 2005). Davies (2009) asserts that a good governance framework should be meaningful to all those affected by the outsourcing arrangement, clearly answering the questions: *"Who needs to talk to whom? How often? What are the results supposed to be?"* (Davies, 2009).

Governance committees are a mechanism to support business alignment, ensure decisions support organisational strategies, and are approved by key decision-makers in the organisation (Fjermestad & Saitta, 2005).   A study by Weill (2004), examined over 250 enterprises in 23 countries, and positively linked governance to the re-enforcement of performance goals and other 'enterprise assets and desired behaviours'. In Dean and Moore's (2006) research into laying foundations for outsourcing success, they discuss the critical need for effective, ongoing governance. The authors stress that a good governance team should ensure day-to-day and week-to-week tracking of the outsource supplier's monitoring and reporting. It should also keep track of service delivery issues, as well as problem escalation and resolution practices across the company. Good governance also

helps ensure that the contract and internal controls are working properly. Dean and Moore (2006) define seven principles at the heart of an effective governance team:

"1. Balancing stakeholder needs.

2. Stakeholder involvement.

3. Cultural synergy.

4. Open minds.

5. Experience matters.

6. Alignment between the company's and the service provider's goals.

7. SLAs are not enough."

(Dean & Moore, 2006)

The governance team should ensure that, over time, the ways each stakeholder's needs have been met are, generally, in balance. Frequent, informal information exchanges should take place to understand the different stakeholders' views. An assessment of cultural synergy should allow the client organisation and service provider to build on shared strengths, and develop shared processes. With open minds, the team should be able to reach across organisational boundaries to understand the motivations of all stakeholders. This, in turn, should lead to more creative and mutually beneficial solutions. If experience is lacking, outside specialists and advisers can be a valuable addition to a governance team, just as they were during the evaluation and negotiation process. Dean and Moore (2006) also comment that alignment between the company's and the service provider's goals may remain elusive: companies want to cut costs and increase service quality, and service providers want to increase revenue and decrease service delivery costs. The authors suggest that, *"to keep these objectives from clashing, good governance calls for finding areas where both sets of objectives can be met"* (Dean & Moore, 2006).

The authors also stress that, although service level agreements (SLAs) are important, and should be continuously refined and improved over the life of the outsourcing arrangement, they must be supported by service level objectives. Their view is that, ultimately, satisfaction depends on broader, deeper issues than those covered by SLAs, *"satisfaction depends on the relationship between the governance group and the service provider."* (Dean & Moore, 2006).

Himmelsbach's (2006) research into governance and outsourcing deals, leads him to similar conclusions: *"Having a governance model in place can go a long way to making [the] relationship work and resolving conflicts when they arise. And with government regulations, audit requirements and professional best practices, this is now an essential part of any contract"* (Himmelsbach, 2006).

Himmelsbach (2006) believes that an effective governance framework provides you with the means you require to make the outsourcing relationship work. Incorporated within the governance model should be a way of measuring the success of that model, and a process to deal with change management. He asserts that, *"A performance management framework, dashboard or balanced scorecard approach should underpin whatever outsourcing arrangement companies opt for."* (Himmelsbach, 2006). O'Dell, VP of Running Room Canada Inc., who have outsourced their IT processes, comments that, *"If we don't*

measure the effectiveness of this relationship – if we don't consistently do that all the time – we're dead" (cited in Himmelsbach, 2006). A good governance model should allow companies to do just this. Hugh MacDonald, VP of CIBC Toronto, states that, *"the no.1 thing you have to do in any kind of outsourcing relationship is manage the relationship [...]. That doesn't happen because a couple of people like each other and go play golf"* (cited in Himmelsbach, 2006). A governance model, along with structured meetings, allows people to communicate on a regular basis, and to gauge the level of satisfaction with the relationship.

Just as significant human resource is required to ensure a smooth transition (see section 5.2.4 (b)), the same is required to ensure the smooth running of the ongoing relationship. MacDonald (VP of CIBC Toronto), who has an outsourcing arrangement with EDS, states that a common problem is that, *"the buyer doesn't have enough people charged with making the relationship work. And it won't work if you leave it alone or deal with it on a part-time basis [...]. These things don't work if you have some executive whose job is to provide some passive oversight [...]. I have a full-time team of twelve people who do nothing but work with EDS on making the governance structure work"* (cited in Himmelsbach, 2006). According to Himmelsbach (2006), although 80% of the effort comes up front in putting the contract together, 80% of the value comes in the execution. Mechanisms therefore need to be in place to ensure the organisation receives the desired value. Effective governance can provide this, but it is essential not to underestimate the resources and effort that will be required to achieve it.

In Khanna and New's (2005) HR planning model for outsourcing, they recommend a governance model consisting of the following four committees (with outsource supplier and client members) to help the transition and ongoing interaction run smoothly:

"Executive Steering Committee – guides overall process, and ensures both parties adhere to the principles of the relationship.

Operating Committee – responsible for the day to day success of the service delivery and the economics of the contract.

Technical Committee – to ensure that technical delivery standards are met.

Project and Incidents Committee – to focus on projects that require attention away from day-to-day operations and management issues."

(Khanna & New, 2005)

Other literature suggests that the role of 'coach to project managers' should be created (FDI, 2005). This person could act as a 'sounding board' to the project leader, keeping them on track, suggesting alternative ideas and resources, and helping to escalate issues if necessary. The issue of problem escalation is also picked up by Zarin Patel, Group Finance Director of the BBC, which outsources a huge number of activities. Ms. Patel comments that you must act quickly when disagreement occurs , without forgetting that both sides have to benefit from any outcome: *"There are occasionally tough negotiations about what has gone wrong and how to put it right [...]. You actually have to be a grown-up client"* (Skapinker, 2005). Having a strong governance framework plays a key role here, keeping both sides on track, and enabling disputes to be resolved with the needs of both parties in mind.

The literature has demonstrated, therefore, that a strong governance framework, clearly supported by both the outsource supplier and the client, can improve the collaborative bond between both parties and, in this way, improve the success of the outsourcing relationship.

7.4.   Using Metrics to Identify Value in an Outsourcing Relationship

7.4.1. What Aspects of Value are Measured and How?

It is clearly essential to attempt to measure the value derived from an outsourcing relationship, in order to justify its existence. In Harrington's study of outsourcing methodologies in 2002, he comments on the lack, or perceived lack of measurement of the delivered service, apart from the SLAs agreed at contract signing: *"None of the methodologies examined by 4Fold detail how overall performance measures are to be developed and agreed between supplier and client, so that the success and value of the total lifecycle relationship can be measured and managed"* (Harrington, 2002). Harrington (2002) goes on to stress the need for clients and suppliers to develop and use methodologies that address the whole value lifecycle. Five years later, the literature shows that clients and suppliers are still wrestling with how to measure the value proposition. In Marshall and Heffes (2007) study of evolving strategies in business process outsourcing, they make the point that: *"With IT outsourcing, things were much simpler. When you start talking about more amorphous things, the measurements are harder to get to. But metrics will develop"* (Marshall & Heffes, 2007). With ever more sophisticated IT systems, it should be relatively easy to measure and track whether outsourcing providers are delivering the improvements they promised in the contract (Pitcher, 2007). Establishing exactly what to measure, however, can be more problematic.

Prosser (2009) makes the point that, although key performance indicators may be clearly set when the contract is negotiated, it is often the case that, once the outsourcing arrangement is underway, it soon becomes clear to the people running the project that the performance indicators are not appropriate. This leads to a situation where, *"the KPIs are all green, but the client is red!"* (Prosser, 2009). The supplier, therefore, needs to modify its behaviour and provide better service management, so that the performance reporting reflects how the client perceives the service (Prosser, 2009). Davies (2009) also gives an example that illustrates this point: an organisation may have a performance indicator that stipulates that an operator must respond to a fault within six hours; the operator may conform to this requirement every time, and be satisfied that he/she is doing a good job. The end-user and client organisation may, however, be furious as no-one has actually repaired the fault. It is clearly essential to review performance indicators and service level agreements regularly to ensure that they are delivering the required service.

Many authors give advice on the best metrics to use, in order to measure value in an outsourcing relationship. Mouncey and Clark (2005), for example, suggest that performance measurement in outsourced customer relationship management (CRM) projects should focus on a small number of key metrics (the top six) that are highly visible and include ones identified as critical by the outsource supplier, that they can influence through the project. For instance, IBM views customer satisfaction as a core KPI within the service level agreement.

Himmelsbach (2006) recommends that companies should measure the results they expect, not the activity the supplier will go through to get those results, in other words, *"manage to*

outputs, not to activities" (Himmelsbach, 2006). Similarly, Skapinker (2005) expresses the positive view that, in many outsourcing relationships, SLAs have changed, and are now less prescriptive and more focused on outcomes (Skapinker, 2005). In Himmelsbach's (2006) study, he goes on to stress the need for specific service levels that are clear to both parties. He suggests having a penalty in place that is meaningful to the supplier, so they will meet or exceed service levels (Himmelsbach, 2006).

In a similar vein, Carter, Markham and Monczka (2007) emphasise the importance of joint accountability for any metrics put in place. They suggest that organisations should, *"establish effective measures that closely track performance of both the outsourcing team and outsource partner in a way that makes both accountable for results."* (Carter et al, 2007). In Rottman and Lacity's (2006) study of proven practices for offshoring IT work they recommend creating balanced score-card metrics. They go on to specify that metrics must consider costs, quality, timeliness and risk (Rottman & Lacity, 2006).

Mouncey and Clark (2005) also comment on the importance of identifying costs. They suggest gaining a thorough understanding of the current financial situation through audits, benchmarking, interviews and other analysis tools. Both parties should work together to develop the cost base and service models, and agree a fully transparent overall approach. The client and outsource supplier should jointly agree a picture of total feasible opportunities for improvements, as well as jointly agreeing metrics, which should be kept to a minimum (Mouncey & Clark, 2005).

Most of the literature in this area focuses on how to develop effective metrics to determine 'hard', tangible aspects of value. There is a clear shortage of advice on how to measure the 'softer' aspects of value that can be derived from an outsourcing relationship, such as trust and satisfaction. As Mouncey and Clark (2005) suggest, *"cost and productivity issues are easier to measure than 'soft' customer experience"* (Mouncey & Clark, 2005). They give the example of outsourced call centres, recommending that traditional measures of % of calls handled and average time to answer, though key metrics, need to be balanced with other metrics which help to measure, as objectively as possible, the quality and success of the customer experience. For example, they discuss 'Performance Insight' (developed by CM Insight), which uses standards and techniques developed in the behavioural sciences, to evaluate the performance within a call centre, as part of the core incentive measurement structure. This metric applies the components of 'good conversation' to the call centre operational environment, for example, *"speaking appropriately; listening; interpretive understanding; adaptive competence; task competence; communicative assurance; emotional competence; role-relationship competence; making the caller feel valued; and cultural competence"* (Mouncey & Clark, 2005).

In addition, remuneration and incentive policies for agents should reflect the requirement for service to be delivered to a specified quality. They go on to assert that call-centre staff should be viewed as, *"core front-line assets who are extremely well-trained, respected for their expertise and knowledge of the customer, and are listened to by management"* (Mouncey & Clark, 2005).

Dr. Richard Gibbs (2009) also emphasises the need to take account of the 'softer' aspects of value that can be gained from a supplier-client relationship – this time at a partner-partner level. He believes that it is critical that an organisation should not attempt to manage the relationship by **imposing** metrics on the supplier, commenting that, *"you don't fatten a pig by weighing it"* (Gibbs, 2009). Instead you need to invest in and attempt to measure the things

that will make the relationship work, and, for Gibbs, these are: *"collaborative innovation; relationship quality; and value creation"* (Gibbs, 2009). He believes that partners should collaborate in a way that frees them up to think innovatively, and that the relationship should be characterised by commitment and trust, so that value can be created and captured.

Metrics clearly play a key role in determining the value gained from an outsourcing relationship, particularly where it is easier to apply hard numbers to parts of the service delivery (for example, cost, quality, timeliness and risk). While some metrics are developing to ascertain the 'softer' aspects of value derived from an outsourcing relationship, this type of measurement is still at a fairly early stage of evolution. The gap in the literature on this subject reveals an area that would benefit from further research.

7.5.   The Characteristics and Benefits of Strategic, Collaborative Outsourcing Partnerships

There is a strong view from the academic literature that, increasingly, outsourcing will become a strategic opportunity to help organisations maximise their full potential, rather than simply running a non-core process or activity (Mouncey & Clark, 2005). Foreign Direct Investment journal (2009) echoes this point saying, *"Outsourcing has moved beyond the basic near/offshore dynamic, and into a period of reciprocal, collaborative relationships."* (FDI, 2009). But what are the characteristics of a genuinely collaborative, strategic partnership? According to FDI (2009), a strong partnership is characterised by successful knowledge transfer. For knowledge to be transferred effectively, the relationship needs to be a 'two-way street', with a high degree of flexibility and commitment. Both partners must encourage openness and be prepared to share throughout the outsourcing service. It is crucial to identify the people who hold the knowledge, as well as those who need to retain new information, and to commit to knowledge transfer as a daily means of sharing information (FDI, 2009).

In Browne and Wheeler's (2006) study of successful outsourcing models among corporate real estate organisations, they conclude that a collaborative and strategic partnership is critical if the client is to receive innovative and cost effective solutions to its service requirements. For Browne and Wheeler (2006), 'strategic partnership' means having, *"open book and transparent models of interaction with their clients"* in an environment that is flexible, stimulates co-operation, and which ensures, *"a productive level of communication and collaboration where ideas can be rewarded. Systems and processes ensure that each partner to this effort is constantly striving to develop better and more effective ways to deliver the required services to the end-user."* (Browne & Wheeler, 2006).

As mentioned in section 5.3.1., Gibbs (2009) believes that partnering excellence is characterised by collaborative innovation, and a relationship of commitment and trust where value is created and captured. He believes that this type of partnership produces enormous benefits, including the development of competences, skills, know-how, capability and customer intimacy, which can lead to long-term profitability and competitive advantage (Gibbs, 2009).

Having examined the academic literature in detail, let us now move on to explore what fresh insights can be gained from the data elicited in interviews with outsource suppliers and their client organisations. This data has been used to build the case studies which follow.

8. Best Practice in Managing Relationships with Outsource Partners: Case Study Research

8.1. Case Study 1

Outsource Supplier 1: Provides workforce management services and HR solutions

Client 1: International consumer health care and pharmaceuticals company

Key

(OS1, R1) = Outsource Supplier 1, Respondent 1

(OS1, R2) = Outsource Supplier 1, Respondent 2

(C1, R1) = Client 1, Respondent 1

(C1, R2) = Client 1, Respondent 2

(C1, R3) = Client 1, Respondent 3

(C1, R4) = Client 1, Respondent 4

(C1, R5) = Client 1, Respondent 5

8.1.1. The Outsource Supplier and Client Organisation: Strengths, Challenges, and Outsourced Processes

The outsource supplier is a people company, *"staffing the world"* (OS1, R1). It provides workforce solutions allowing clients to meet their needs at a local or global level. It provides many service offerings for Client 1, their largest account, across the globe: for example, HR services and consulting, staffing services, and supply chain management. The VP for the account describes the relationship as, *"a great partnership for both companies, a truly strategic partnership"* (OS1, R2).

An account management strategist at outsource supplier 1 believes that their strengths lie in delivery, *"We do what we say we'll do"* (OS1, R1) – this means delivering customer focus, building trust, gaining commitment, providing both the functional benefits of the solution, and financial benefits. In terms of challenges, Respondent 1 believes they need to crystallise the overall value they bring, and articulate this both internally and to their clients. In other words:

"Having mechanisms to bring to life the true value of what we bring. We're not very good at telling the whole story of what we do."

(OS1, R1)

Client 1 is a huge, decentralised organisation with hundreds of different affiliates and operating companies. Among its strengths are its excellent consumer insights and marketing, its strong products and its relationships with retailers, supported by effective back-office functions. It prides itself on being a very ethical company, with a strong sense of responsibility to all its stakeholders. A key challenge is to maintain a good return for shareholders in a difficult economic climate, with increasing price pressure. Costs and inventory are constantly scrutinised, so the visibility of all information concerning costs is

critical. Another challenge is to move from what is a very disparate, decentralised business towards a more regional one, pulling the organisation together (C1, R1).

The researcher's client interviews were with respondents from different parts of the organisation who, in their roles as IT, project or indirect procurement managers/directors, are involved with and affected by the relationship with Outsource Supplier 1 - a provider of professional labour for the client. Outsource Supplier 1 acts as a single point of contact (for example, for hiring managers) managing all suppliers of professional labour on behalf of Client 1: *"They help us find headcount to work on projects"* (C1, R1). This brings, among other things, the benefits of reductions in costs and legal risks, and the ability to manage spend in this area more effectively. The implementation of this service, which has and is being rolled out across numerous markets, is widely judged to have been very successful: *"[OS1] has done a really good job!"* (C1, R2).

8.1.2. What are the Factors that Lead to a Successful Outsourcing Relationship?

Outsource Supplier 1's (OS1's) Perspective

The interviews revealed many insights into the factors and conditions that will lead to an excellent outsourcing relationship. From Outsource Supplier 1's perspective, understanding your client's problem and customising the right solution for that organisation is a critical success factor. According to Respondent 2:

"We must see what they are trying to achieve....What are their milestones? [...]   Then we need to be successful in achieving those milestones and goals."

(OS1, R2)

Respondent 1 highlights the importance of working with a client who is willing to commit and collaborate, and really invest time in the relationship. She believes that clients who adopt a less collaborative approach do not get the best out of them:

"It's like a marriage. Both partners start off with the best intentions, [...] there will always be bumps on the road, but is the commitment there to overcome the bumps, and share responsibility?"

(OS1, R1)

The respondent feels that a truly collaborative approach is characterised by openness, and a willingness to listen and ask the right questions. It is important to understand the external factors that might be putting the client under pressure and ask, *"how can you help, how can you ease their problems?"* (OS1, R1). There is a danger that suppliers can stop really listening to their clients, settling into a comfortable way of working, focusing on service delivery, but forgetting, *"the creative side that keeps the relationship and engagement alive"* (OS1, R1). It is important to evolve with the client in terms of the service you are providing.

Respondent 1 believes that equality of power in the relationship is also crucial to success; a dominant client and servile supplier are unlikely to generate a very fruitful relationship. A collaborative approach where each partner is equally valued has a greater chance of success – a relationship where the outsource supplier can demonstrate and articulate the true lifetime value that it brings.

Respondent 2 highlights good governance as a critical factor that can enhance the success of the outsourcing relationship – establishing charters, protocols and frameworks that will guide both parties in the future relationship. These protocols must be understood by all key stakeholders. Both partners should develop the governance framework together, to ensure 'buy-in' from all parties. Joint planning sessions are also critical for a successful relationship. At the start of the annual planning process, the respondent sits down with Client 1 to establish what the stakeholders are trying to achieve, and what their business objectives and challenges are.

In summary then, from Outsource Supplier 1's perspective, the following factors lead to a successful, excellent outsourcing relationship:

- Listening to, understanding, and resolving the client's issues and meeting their objectives.

- Both parties must be willing to invest time, commit and collaborate.

- Evolving with the client.

- Keeping a creative desire for improvement alive.

- Equality of power.

- Ability to demonstrate and articulate the lifetime value the supplier brings.

- Jointly developing governance frameworks and joint planning.

Client 1's Perspective

For Client 1, a successful outsourcing relationship is also one where the outsource provider delivers against their objectives, and does what it says it will do. In this case, OS1 provides concentrated management of multiple agencies, ensuring the availability of supply of contractors of the right quality at the right price, and also ensures that Client 1 has the right legal protection. All five client respondents say confidently that OS1 does what it says it will do. In addition, for Respondents 1,2, 4 and 5, a successful relationship is one where the outsource supplier takes away the administrative burden, and reduces the hassle and headache factor for the client. Client 1 has one point of contact, OS1 negotiates with lots of agencies, so Client 1 can focus on getting the project delivered, rather than having to focus on hiring people to do the work. Respondent 5 comments that a successful relationship is one where the client organisation still has influence, but does not have to put time and worry into the situation. When asked what makes an outsourcing relationship excellent, Respondent 1 replied:

"We don't have to think about managing this area [...]. We can just place the requirement there, and it will be fulfilled. The service just operates as it should."

(C1, R1)

The appeal of minimum hassle is echoed by Respondent 2:

"You outsource something for a reason. [...] You don't want the outsourcer knocking on your door every two minutes."

(C1, R2)

Part of the value OS1 delivers, then, is to free up Client 1's employees' time to focus on their core responsibilities. Client 1 has the benefit of confidence and peace of mind, knowing that,

"you can leave it to them, and we know that we're going to get a good value service" (C1, R1). Stakeholders (for example, hiring managers) who are happy with the service they are getting, is a clear sign of a successful relationship, and this does seem to be the case in this situation. Respondent 3 also comments that the success of the relationship should be judged on cost savings, as well as the satisfaction of hiring managers.

Respondent 4 talks of a successful relationship as one where you can attach identifiable value to the service provided:

"The value proposition must be much greater than we could have achieved internally"

(C1, R4)

Commitment and investment are also key to success. As well as the project being well resourced from the client side, Respondent 2 comments that OS1 showed a high level of commitment, putting a full-time project management resource in place who, *"took the heartache out of it"* (C1, R2). For Respondent 3, indirect procurement manager for Europe, Middle East and Africa region, OS1's investment was insufficient initially, as their key contact was also working on another client. This situation has, however, now been resolved. Respondent 4 summarises the clear need for joint commitment:

"It's like a marriage – it can't be all one way. You can't abdicate your responsibility to the outsource service provider. You have to work with them to achieve mutual goals."

(C1, R4)

For Respondent 5, one of the most important tasks the outsource supplier must perform is to communicate and connect with all stakeholders, *"ensuring that the right perception is there around the service you are delivering, or, if it's not there, to improve the service."* (C1, R5).

A good cultural fit between the two parties is also important for a successful relationship: *"We need to talk the same language"* (C1, R3). Respondent 2 stresses that C1 is a highly ethical company and any partners have to share their values. She feels that, overall, the two organisational cultures are well aligned, though OS1 is, *"slightly more assertive in some situations"* (C1, R2). Respondent 2 has the responsibility of managing any difficult interactions, ensuring that people are not, *"rubbed up the wrong way"* (C1, R2).

From Client 1's point of view, a similar set of factors (to those expressed by OS1) are perceived to create an excellent outsourcing relationship, though with the emphasis clearly on their own needs:

- The outsource supplier must do what it says it will do.
- The outsource supplier must reduce hassle for the client, freeing him/her up to focus on core responsibilities.
- Client stakeholders must be happy with the service provided.
- Identifiable value must be attached to the service.
- Joint commitment and investment.
- Communication and connection with client stakeholders.
- Good cultural fit.

8.1.3. Success Factors with Regard to Different Phases of the Outsourcing Service

The following section summarises the views of all respondents regarding the success factors that are most critical at the different stages of the outsourcing agreement.

Outsource Supplier 1's (OS1's) Perspective

Pre-transition

- Need to have a macro view of the client's challenges and organisational objectives, and connect a solution back to the client's needs (OS1, R1).

- Need to understand the individual stakeholders' underlying personal agenda and concerns. These may be needs such as, *"Can you help me get on in my career?"*, *"Can you make my job more secure?"* (OS1, R1).

- Need to understand the client's definition of partnership. If the needs are totally focused on costs, you are investing in the wrong client, or the wrong individual within the client (OS1, R1).

Transition/Implementation

- Craft a tailored solution for the client, based on your organisation's capabilities (OS1, R1).
- Go through due diligence (OS1, R1).
- Build credibility and trust (OS1, R1).
- Change management: understand the client's role in ensuring success – can they get 'buy-in'? Can the client help, nurture and support the supplier? Help people come to terms with changes (OS1, R1).

  "We implemented a very large programme last year which incorporated 55 different operating companies in [Client 1], and was implemented in six months. We have a team just doing change management [...], handling communications not just to key sponsors, but to all stakeholders – HR managers, procurement managers, suppliers, sub-vendors... [...] We needed to set expectations and then meet those expectations with all the participants"

  (OS1, R2)

Post-transition

- *"Basically, managing the relationship. This is why we have the account management function at [OS1] – pure relationship management"* (OS1, R2). Management teams set strategies and manage relationships, operations teams manage the execution (OS1, R2). Respondent 1 also believes that the integrated account management structure works well, especially when the client's and supplier's structures mirror each other:

  "You need practitioners involved, relating to the right touch points in the organisation – HR, procurement and operations, [...] facing off at the right hierarchical and functional levels."

(OS1, R1)

Accountability is crucial, and a focus on the lifetime value of the relationship:

"You need someone responsible overall at the supplier – so 'the buck stops here'. You need the right profile and reward mechanism in place, [...] as how people are measured drives their behaviour. The client needs to invest in resource – not tag it on to someone's job. You need someone who will focus on lifetime value, because that is what they are measured on."

(OS1, R1)

In this relationship, C1 has resourced the relationship well, which is clearly one of the drivers of success to date.

- Show and articulate the value you bring, document it, then use this to go further and create even more value. Use analytics, track and document them to sustain the good things and strive for continuous improvement (OS1, R2).

Client 1's Perspective

Pre-transition

- Data gathering (C1, R2). Identify a clear need and potential benefits, and define the scope of the project: *"We put lots of effort in so we could understand our existing position, and therefore understand how things would be different in the future"* (C1, R4).
- Gain support at Board level and across relevant sites (C1, R4; C1, R5).
- Ensure understanding of requirements (C1, R3); define expected outcomes (C1, R4). Use learning from previous implementations, but ensure a tailored solution is devised, with standardisation only where it makes sense to do this (C1, R3).
- Appropriate resource dedicated to the project on both sides (C1, R3; C1, R4).
- Change management: communication to all stakeholder groups (existing suppliers, procurement, finance and other relevant internal and external groups) regarding changes occurring to get everyone 'on-board' (C1, R1; C1, R2). Clear, unambiguous communication from project sponsors and project manager regarding rationale for implementation, and clear definition of timescales (C1, R4)
- Joint decision-making, preparation and planning, for example, in defining vendors as tier 1, tier 2 etc (C1, R1).
- Skill set required for each phase of project is defined (C1, R5). Training for all concerned (C1, R1).

Transition/Implementation

- On-going, day to day specification of requirements by Client 1, with OS1 fulfilling those requirements (C1, R1). Client 1 needs to have confidence that everything will run smoothly (C1, R2).
- Have an action plan in place to resolve issues quickly (C1, R2; C1, R3).

- Investment in human resource: availability of OS1 team is critical. Full-time resource from OS1 on-site at Client 1, and OS1 and Client 1 project teams in place (C1, R1; C1, R4).

- Communication: hold weekly meetings to communicate all key milestones, validate progress against plan, and see where extra efforts and resource might be required. Have the flexibility to make changes where they are needed (C1, R4).

- Ensure all individuals understand exactly what their roles are (C1, R4).

Post-transition

- The right account management team needs to be in place. Continuity of staff dedicated to the project is important. However, different skills are required at different stages of the outsourcing relationship. For example, a dedicated project manager with strong skills in this area is required to manage the implementation but, *"once we're in 'steady state' [the project manager] will 'roll off' the project and I will have ownership of the on-going business processes"* (C1, R4, indirect procurement manager).

- Regular communication, good understanding of roles, and alignment regarding objectives: these elements helped OS1 and C1 to meet their plan and 'hit' their 'go-live' date successfully (C1, R4).

- Proactive relationship generating value: the relationship with OS1 gave C1 unexpected insights into contractors. These insights allow C1 to move forwards in a positive way that would not have been possible without OS1's involvement: *"For me, it's a proactive relationship. [OS1] comes to us with opportunities, bringing value. They are energised and focused on doing this and delivering value."* (C1, R4).

8.1.4. What are the Most Challenging Aspects of the Outsourcing Relationship?

Outsource Supplier 1's (OS1's) Perspective

Managing Change

As a general point (not specifically relating to the relationship with C1), Respondent 1 comments that managing any change within the relationship can be problematic – for example, if the stakeholders change and personal agendas change, it can be difficult to maintain a good relationship:

"So you need mechanisms and good governance in place to show what you've done and keep the relationship on track. You go right back to the beginning, restating credibility and building trust."

(OS1, R1)

Managing in a Difficult Economic Environment

Coping with a difficult business environment is also challenging, requiring great flexibility from the outsource supplier:

"We need to be very close to the customers and work with them as partners. As the customer's objectives change, we need to change as well."

(OS1, R2)

Difficult economic circumstances also mean that the client is more focused on their core business operations. This can make it hard to get the client's attention:

"I don't blame them. The challenging thing is to get their attention, so we can improve and learn."

(OS1, R2)

The economic downturn also means that it is even more important for OS1 to be efficient and effective:

"We need to be as lean as possible. It's all about cost. As a partner, we need to see how we can be more effective, how to do more with less, to produce savings for our customers and produce more efficiencies."

(OS1, R2)

Overall, then, the key challenges identified are to be responsive to change, and to demonstrate great flexibility, effectiveness and efficiency, in the face of today's difficult economic circumstances.

Client 1's Perspective

Managing Change

Similarly, Client 1 believes that the greatest challenge in the relationship with OS1 has been managing change. Initially, there is a fear of losing control:

"You're giving away a lot, and need to build a very close relationship with [OS1] to make it work"

(C1, R5)

Respondent 5 feels that the relationship with OS1 has changed positively with regard to this issue over the last three years, and he now feels they have a good discussion around these concerns. People always worry about change:

"Getting people to turn up to meetings is hard."

(C1, R2)

The HR community was initially concerned about letting go of previous relationships, as the new relationship with OS1 broke the direct link between Client 1 and the HR suppliers/ agencies – a link that some managers were loath to relinquish. However, once the benefits of the new system had been demonstrated to these managers (e.g. cost, time, transparency, legal), resistance faded (C1, R4).

There were, perhaps inevitably, some 'glitches' along the way, as some of the suppliers/ agencies found the new system problematic. There were delays in payment to some agencies, and some agencies found the new relationship with OS1 more distant than the previous relationship with Client 1 (C1, R1).

Change management can only really be deemed to have been a success when all parties trust the outsource supplier. Respondent 1 feels that this is something that has come gradually:

"Judging market rates, negotiating prices, we now rely on [OS1] totally for that, and we used to do it directly. [...] Sometimes we go back to [OS1] and say, 'You've got to negotiate harder with that agency.'"

(C1, R1)

However, OS1 have certainly delivered significant cost savings, *"though not quite the extent of savings initially predicted"* (C1, R1), and the decreased administrative burden is a great benefit (C1, R1).

Fear of Loss of Knowledge and Risk to Reputation

Respondent 3 expresses the fear that if a key individual in OS1 leaves, then the knowledge and expertise they possess potentially leaves with them. This respondent feels that, in some areas, Client 1 is too dependent on OS1, and should be more involved in the outsourced processes:

"You outsource the process, but not the responsibility. [Client 1] needs to get it right in terms of the level of involvement in the process, even if it is outsourced."

(C1, R3)

An awareness that the responsibility can never be outsourced is an important one, as any mismanagement or poor communication can risk damaging the client's reputation.

Ability to Leverage Learning and Gain a Broad Picture of Outsourced Service across the Organisation

Respondent 5, who has responsibility for indirect procurement at a corporate level for Europe, Middle East and Africa, comments that one of the greatest challenges is to leverage learning from other sites, and to find effective ways of standardising programmes and services:

"As we are outsourcing site by site, it's difficult to keep the programme or service standardised throughout all the countries. We end up with lots of different programmes, which might be sub-optimal for a site, and not beneficial for [Client 1]."

(C1, R5)

It can be particularly challenging to keep an overview of how the service is perceived and what level of service is being delivered, when one is dealing with a number of disparate sites. This is an area that OS1 could help the client with. Respondent 5 comments that a governance framework (outlining roles and responsibilities, defining what's in scope and how the programme works) that covers all sites and all countries would be useful, as it could provide a much needed overview of the service. He believes that this should be a common goal for OS1 and Client 1, as having a 'big picture' view of service throughout the organisation would clearly benefit both parties.

8.1.5. Measuring the Success and Value of an Outsourcing Relationship

Outsource Supplier 1's (OS1's) Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

A combination of 'hard' and 'soft' measures of success are essential in an outsourcing relationship:

- **'Hard' Measures**
  - Profitability: financial reward must be evident for both organisations – measure return on investment (OS1, R1)

  - Costs (all respondents)

  - Longevity of relationship: how has the relationship evolved and how are you improving the client's ability to operate? (OS1, R1) – measure customer satisfaction

- **'Softer' Measures**
  - Level of satisfaction with relationship – measure customer satisfaction and net promoter scores (OS1, R1)

Understanding Value

Drilling down further, to gain an understanding of how **value** is defined in the outsourcing relationship, Respondent 1 provides us with the following summary:

"Truly solving a client's talent issue, ensuring that they get access to the best talent and knowledge available in the market-place [...]. It is the difference we make to the organisation"

(OS1, R1)

Clearly, OS1 must deliver against the agreed objectives, so that the relationship is sustainable and evolves in a positive, rewarding way. Respondent 2 makes the point that they should never be complacent regarding the value they deliver to Client 1:

"We need to improve every day; [Client 1] is a demanding and rewarding customer, and they hold us accountable for improvement every day"

(OS1, R2)

Respondent 2 goes on to discuss an area where OS1 could, indeed, improve the value they add: although OS1 does standardise many processes across sites, there is scope for further standardisation of processes and programmes across geographic markets (Europe, Middle east, Africa, Asia), (though always allowing for customisation where required). This would lead to a more seamless service, higher cost savings and a greater financial impact.

From OS1's perspective, there are some important, 'softer' aspects of value that help determine whether the relationship is worthwhile or not:

"What do we get back? How does it feel to do business with that client? Do we feel rewarded rather than abused?"

(OS1, R1)

These intangible feelings are not formally measured but are, nonetheless, critical elements of value.

Service Level Agreements (SLAs) and Key Performance Indicators (KPIs)

SLAs and KPIs have been developed based on Client 1's needs – for example, to achieve x% cost saving. Specific data and critical financials are presented to Client 1 regularly (OS1, R2). OS1 also analyses the business processes it uses for Client 1 (for example, supplier management), and asks, *"how can we do more with less?"* (OS1, R2).

OS1 uses a variety of tools and criteria to measure customer satisfaction. They analyse critical response rates, customer satisfaction index, and net promoter scores. OS1 carries out a number of surveys, monthly at the beginning of the engagement, then approximately once a quarter, or every six months. These surveys are sent to a selection of different stakeholder groups, for example procurement managers and hiring managers, to gauge how positively the relationship is perceived. These formal mechanisms are supplemented by informal measures: at the beginning of the relationship, *"you need to check the client temperature every day"* (OS1, R2) by asking questions informally, but as the programme matures, daily verbal feedback becomes the norm.

Measuring the number of innovations they bring to clients is another of OS1's KPIs: *"We have just won an award for innovation. When we bring innovation to clients, we see whether they have implemented these innovations"* (OS1, R2). Although this could be considered a non-financial measure, most innovations result in process improvements which lead to cost savings. It is, therefore, still possible to assign some financial measurement to this. Many of OS1's customer-facing employees have innovation included in their personal performance plan, so that innovative behaviour is recognised and rewarded.

How to Improve the Measurement of the Success and Value of the Outsourcing Relationship

Respondent 2 asserts that better forecasting and planning is a first step in improving the measurement of success and value. OS1 has a robust planning mechanism with some of Client 1's affiliates and operating companies, but not with others. A valuable development, as their relationship evolves even further, would be for OS1 to sit round the table with Client 1 when they carry out their forecasting and planning. An evolution towards joint planning sessions, with OS1 firmly embedded in discussions would take their strategic relationship to an even stronger level. Respondent 2 would love OS1 to have the privilege of being involved in acquisition planning, to enhance further the value it can add in supply chain management.

Respondent 1 outlined the new 'client engagement model' that OS1 will be implementing; a set of practices and tools to improve the ability to measure value: for example, a survey requiring 360° assessment of the client's behaviour, while the client can make a similar assessment of OS1's behaviour. This will give a clear indication of how the relationship 'feels' for each party.

Respondent 1 feels there is significant value in intangible factors such as loyalty, trust and integrity in client – outsource supplier relationships, and it is therefore worth focusing effort on finding better ways to measure these things. There is much value, for example, in being able to answer questions such as: does the client care about our success? How willing is

the client to co-operate, collaborate and be flexible? Is the client reasonable when it comes to overcoming problems? Is the client willing to help us manage and communicate our success? (OS1, R1).

Constructing a jointly agreed governance framework that both sides commit to equally would be an effective way of managing behaviour. Respondent 1 comments that governance frameworks tend to be driven by the client who dictates the terms of the engagement, saying, *"this is the way we'll do it"*. Suppliers tend to be less well practised in this area, meaning the balance of power can be disproportionately on the client's side. If OS1 feels, then, that the client is obstructing success through its behaviour, it can be difficult for the supplier to escalate and overcome the problem without causing animosity. A jointly agreed governance framework could alleviate this problem:

"At the outset, you need to say, there's a charter, this is what we expect – the client mustn't deviate from this in the same way that the supplier mustn't."

(OS1, R1)

Respondent 1 suggests that this governance framework should have a number of indicators that help supplier and client assess the success of the relationship, and how to create value in the relationship over the long term. She also suggests creating a more disciplined approach to managing innovation within the governance framework, to encourage development of innovative practices even further (OS1, R1).

It is essential for OS1 to align measures of success and definitions of value with the client. Although OS1 is good at tracking what it does and sharing this with the client, Respondent 1 comments that, *"I'm not sure what story it tells"*. All existing indicators should be challenged, asking the question, *"do they genuinely address and show the things that the client wanted to change and influence?"* (OS1, R1). With the right indicators and metrics in place, OS1 should be able to communicate clearly to all stakeholders, and 'tell the story' of the real long term value that is being generated by the relationship.

Client 1's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

- **'Hard' Measures**
    - o Client 1's Strategic Sourcing Group and OS1 jointly agree the measures of success and value to put in place at the start of the engagement, and as the programme evolves, continue to debate whether they are measuring the right things (C1, R1; C1, R2).
    The measures in place are largely identifying costs (C1, R1).

- **'Softer' Measures**
    - o A stakeholder satisfaction survey is carried out every 1-2 years in Respondent 5's area (Europe, Middle East and Africa) (C1, R5).

    - o Respondent 1 has a review session twice a year with OS1 where the recruiting managers can feedback any issues regarding the service they are receiving: *"they all*

say it's a fantastic help to have one person to go to who does all the administration for them" (C1, R1).

o   In addition to formal reviews, the informal grapevine is a regular source of feedback*: "I hear very quickly if the process has not worked the way we expected. [...] With [x from OS1] just down the corridor, we're very close to that on a day-to-day basis."* (C1, R1). All respondents agree that they gauge satisfaction informally on a regular basis.

o   Client 1 reviews the quality of candidates being offered, and they may make changes if the right candidates are not coming through.

Understanding Value

The value OS1 brings is in their expertise and market knowledge, time and cost savings (C1, R1; C1, R3; C1, R4). *"They could bring more value in terms of rate negotiations"* (C1, R1). Respondent 2 describes the value they bring as, *"getting the best person for the contractor job, at the right price."* For Respondent 4, the value is clear if you ask the following questions: *"Are we in a better position doing this than we would have been if we'd done it ourselves? – Yes. Could we have recruited someone to do this? – No."* (C1, R4).

Value is also seen as the fact that hiring managers can now focus on the important things in their role. The increased transparency and visibility of all costs encourages hiring managers to take a much more proactive, commercially focused approach, striving for the best commercial arrangements possible (C1, R4).

Respondent 4 highlights another area of value that should not be underestimated: the personal value delivered by the outsourcing relationship. This respondent is measured on delivering a certain % level of cost savings on indirect spend, but prior to the engagement with OS1, he had never been able to address this problem to his satisfaction:

"To me this was like a breath of fresh air – that I was able to go into those spend areas, which I was being managed on [...]. That's why I'm very supportive of the programme. "

(C1, R4)

Clearly, the relationship with OS1 means that this respondent can do his job better, perform better, and 'look good' within his organisation, and this is, surely, an important aspect of value.

On a slightly less positive note, Respondent 1 does not feel that they are yet at a stage in their relationship where OS1 offers extra value, over and above what is in their direct remit. He believes that that would move the relationship on to the next stage: *"Whether that's a function of the people we're dealing with at OS1 or whether that's how they define and contain their role, I don't know."* (C1, R1). The respondent goes on to say that they have tended to use OS1 more tactically than strategically, *"but perhaps there is more of this happening at strategic sourcing level. [...] I'm not sure that we've given them enough opportunity to do strategic stuff"* (C1, R1). Respondent 1 also perceives OS1 as quite reactive. It is worth noting that the desire for innovation and continuous improvement articulated so strongly by senior managers at OS1 is not necessarily perceived at the client operational level. Communication and demonstration of innovation value need to improve, to cascade this desire through both the internal and client organisation.

Service Level Agreements (SLAs) and Key Performance Indicators (KPIs)

OS1 has brought them an array of established metrics which they jointly agree on. The measures used are therefore very well aligned, and represent a significant improvement on the past (C1, R4). Goals and objectives are also very well aligned around the KPIs, as OS1 managers and Client 1 managers are measured on the achievement of these KPIs (C1, R5).

"We track what we pay for individuals versus the market and rate card rate – we see where we make cost savings [...]. We track cost avoidance and savings negotiated for us" (C1, R1). This is done through monthly cost saving spreadsheets (C1, R3). There may be times when Client 1 is paying more than the rate card rate, and a debate will then ensue with OS1 regarding the acceptability of this situation. Client 1 may accept this if the pool of candidates is of a high standard, especially given that a significant part of each of Client 1's managers' time is being saved (C1, R1).

Performance of the different agencies is measured (C1, R3).

Spend (current) versus historical spend, and spend versus budget; engagement time (trying to reduce this from 5-6 weeks to 2-3 weeks); off-boarding contractors in a timely manner. Client 1 is now using these and other metrics to ascertain the full cost of engagement (C1, R4). Respondent 4 comments that the use of metrics has improved considerably since their relationship with OS1 began. There is now much greater visibility of costs, which makes forecasting of future spend much easier. Client 1 also has a greater understanding of supplier margins now.

How to Improve the Measurement of the Success and Value of the Outsourcing Relationship

Respondent 1 believes they should take more time to understand **why** things go wrong – for example, in order to have fewer hiring mistakes and to improve the vetting process. They should also measure which agencies are 'getting it right', and which are not: *"We do get bogged down in detailed measures of cost savings"* (C1, R1).

More joint planning between OS1 and Client 1, allowing OS1 to play a more proactive role, would also improve measurement of value (C1, R1; C1, R5).

OS1 could help Client 1 quantify the reduction in 'hidden' costs, for example through time savings and the reduction in legal risk (C1, R3).

A higher number of formal satisfaction surveys should be carried out (C1, R3).

OS1 could also ask more questions of Client 1, to assist the drive towards continuous improvement and innovation, for example, regarding the acceptability of engagement times (C1, R4).

8.1.6. Evidence of Understanding and Partnership Between OS1 and Client 1

Outsource Supplier 1's (OS1's) Perspective

There is generally a good understanding of exactly what the client is buying from OS1, as the buying team has gone through such a complex, detailed process to select the supplier. There may, however, be other people within the client organisation who the relationship touches, but who do not really understand what the supplier is there to do. These people

may have unrealistic expectations of the benefits that will be forthcoming. It is OS1's task, then, to communicate the value they are adding to all stakeholders (OS1, R1).

Respondent 2 comments that, *"in a big engagement [as with Client 1] where you have over 200 locations and over 150 operating companies, I wouldn't say there's never a mismatch of expectations, but there are only a few cases. [There might be] some expectations that we didn't hear, or didn't understand well enough"* (OS1, R2). They are able, however, to fix misaligned expectations or misunderstandings quite easily, through the variety of tools they have at their disposal: *"regular communications and the planning process, SLA reviews, KPI reviews,"* (OS1, R2).

Evidence of partnership is when:

- a client is prepared to take on people from OS1 within their own organisation, and perhaps risk their reputation (OS1, R1);

- a client demonstrates a strong sense of 'fair play' – perhaps 'going out on a limb' for OS1 and being willing to accept fault if the fault is theirs; when a client is willing to take a holistic view of the relationship, balancing personal, organisational and supplier objectives, and do what is necessary to allow all parties to flourish (OS1, R1);

- OS1 does not betray the trust the Client places in them, but demonstrates to the client, through the help they give, that they deserve that trust (OS1, R2);

- a client treats their suppliers as they expect to be treated (OS1, R2);

- client 1 invests its time in training OS1's people, and does it eagerly: *"We spent many hours identifying what kind of skills they needed to see in our people, and how we could upgrade our personnel. We have about 55 full-time employees engaged just with [Client 1]"* (OS1, R2).

- Client 1 ran training sessions for OS1 to communicate their vision, their expectations, their culture, their success factors, their service level agreements and measurement: they showed a very high level of commitment (OS1, R2).

- Client 1 genuinely wants OS1 to be strategic, innovate, and partner with them. Many clients say they want this, but not many articulate what they mean by being strategic – Client 1 does. It runs workshops where Client 1 managers engage their supplier community, talk about innovation, and give examples of how suppliers can help them to be more competitive in their environment: *"We help Client 1 to be more competitive when they compete in their marketplace. This leads to higher satisfaction, and greater partnership"* (OS1, R2).

- Involvement with Client 1 is wide-ranging, and OS1 has an embedded, committed relationship with them: *"[Client 1] brings us with them when they are doing their strategic planning for the year [...]. They use us as consultants for strategic planning when it relates to their personnel[...]. The scope changes and ranges widely from day to day."* (OS1, R2). Regular communications with Client 1 on a strategic level*, "open platforms for us to deliver innovation for them"* (OS1, R2).

Client 1's Perspective

In the relationship with OS1, expectations are understood and, in most cases, well met (C1, R1; C1, R3)

Evidence of partnership:

- OS1s on-site resource at Client 1, *"is regarded as part of our team."* (C1, R1), and trust is high at an operational level. Respondents 2 and 4 also feel that placing a full-time OS1 resource on-site at Client 1 is evidence of real commitment.

- OS1 is very responsive to Client 1's needs. OS1 was immediately willing to replace (an) individual(s) that Client 1 was unhappy with (C1, R3; C1, R5). In addition, OS1 made a significant effort to retain a member of staff who had a key role in the relationship with Client 1, for the client's benefit (C1, R3). OS1 shows that it is willing to 'put itself out' for its partner, demonstrating that the client's issues are its own issues.

- OS1 and Client 1 show evidence of looking out for each other's interests and seeking mutual benefits. For example, Respondent 4 is very aware of the benefits that the outsourcing relationship has brought him (allowing him to control costs much more effectively and thereby improve his performance), so he is keen to help OS1 find opportunities to build relationships with other parts of Client 1's organisation.

8.1.7. Degree of Flexibility in the Outsourcing Relationship

Outsource Supplier 1's (OS1's) Perspective

Respondent 1 comments that, in general, clients are usually willing to be flexible, for example, reviewing the components of a solution in terms of how it is delivered and the processes that support it. Any changes that may impact on commercial elements are harder to secure. In procurement, for instance, *"their job is to nail everything down, but nothing is static [...]. They're so keen to baton everything down and protect the organisation that they may miss an opportunity for flexibility"* (OS1, R1). Respondent 1 suggests building in to the governance framework the ability to be flexible.

OS1 demonstrates a high degree of flexibility: *"We deliver and excel at what we say we'll do. It is strongly a part of our DNA at [OS1]. We're extremely flexible."* (OS1, R1). Respondent 1 feels that, on occasion, this ultra-responsiveness, eagerness to please and flexibility can be detrimental to OS1's commercial framework, and may affect its profitability. Clearly, if the degree of flexibility on each side of the relationship is significantly unbalanced, benefits for both parties will not be maximised.

Respondent 2 focuses on the critical importance of flexibility in an outsourcing relationship*: "Flexibility is necessary [...]. The economic environment is changing so rapidly, we need to stay tuned, be fluid in the relationship."* (OS1, R2). For example, if Client 1's business objectives change, *"we'll focus on that right away, and bring more resources to satisfy their needs [...]. We have flexibility in our outsourcing model"* (OS1, R2). As well as OS1's core personnel, it has 'flex people' who can be formed into virtual teams, as required.

Client 1's Perspective

Respondent 2 feels that there is a willingness on both sides to be flexible, though she comments that, *"I've always felt like we are the customer"* as OS1 goes out of its way to be flexible. Respondent 1 makes the point that, *"there isn't anything we've looked for that [OS1] hasn't been able to deliver."* (C1, R2)

Respondent 3 comments that Client 1 is not always very flexible, although it expects flexibility from OS1. The power in the relationship would, therefore, appear to be tipped in Client 1's favour at an operational level.

Respondent 5 believes that there is a good deal of flexibility on both sides, but makes the point that, sometimes, allowing too much flexibility can hinder the implementation process: *"Sometimes you just need to get the job done, that the client requires"* (C1, R5). Getting the balance right is clearly important – being flexible up to a point, and then getting on with the implementation.

8.1.8. Impact of the Outsourcing Relationship on End-Users and the Brand

Outsource Supplier 1's (OS1's) Perspective

It is believed that having the right processes in place for a client will lead to a positive impact on the client's end-users and brand:

"The processes need to ensure that customer experience is robust, and that the processes run smoothly, so where people form perceptions, we ensure there is a positive impact on the brand"

(C1, R1)

If OS1 can improve the client organisation's effectiveness in managing core processes, this will have a positive impact on how the client is perceived by its stakeholder groups. Respondent 2 agrees that the impact of the relationship is positive:

"We help [Client 1] to focus on their core operations; this helps their brand and their success."

(C1, R2)

Client 1's Perspective

From Client 1's perspective, fears surrounding the risk of the outsourcing relationship producing a negative impact are evident. If OS1 gets things wrong – for example, if suppliers do not get paid on time – this can be damaging to Client 1's reputation (C1, R1; C1, R3).

The potentially positive impact on end-users and the brand is, however, also appreciated. As OS1 gives Client 1 better access to a greater talent pool, and allows them to manage their processes more effectively, stakeholders will ultimately see the benefits of this (C1, R4).

8.1.9. Top Three Factors that Make an Outsourcing Relationship Work Successfully

Each respondent was asked the following question: *"In your opinion, what are the three things that make an outsourcing relationship work really well?"*

The table below summarises the responses to this question:

Factors that make an outsourcing relationship work successfully	OS1 No. of respondents who selected this factor	Client 1 No. of respondents who selected this factor
Delivering what you promise to deliver	1	
Delivering value/ business benefits on a number of fronts – e.g. organisational value and personal value to stakeholders		1
Measuring value and success (reporting and monitoring cost savings etc.)	1	1
Effectively communicating value and success to the client	2	1
Successful governance	1	
Ability of outsource supplier to understand client's business objectives, grow, learn and be flexible, and the willingness of the client to share its business objectives, be open and constantly communicate with the supplier	1	
Outsource supplier must bring significant expertise that the client does not have		1
The combination of the capability of the service provider and the capability of the client (tools, individuals etc.) gelling together effectively		1
Mutual trust and confidence. Outsource supplier needs to inspire confidence		4
Having the right service – cost balance on both sides		1
Good cultural fit		2
Regular communication		1
Board and senior management support and stakeholder acceptance/ 'buy-in'		1
Well-functioning teams with clear contact points – client organisational structure should be mirrored by outsource supplier		1

8.1.10.   Conclusions

Let us pull together, then, our insights into best practice in managing relationships with outsource partners, based on this case study. The outsource supplier clearly needs to be able to understand the client's goals and objectives, then to deliver against these objectives. It is not enough, however, simply to be aware of and meet organisational objectives - the supplier must also be able to understand and seek to address the personal goals of the individual stakeholders.

Metrics should be challenged regularly, asking the question, 'do they still address the areas that the client wanted to change and influence?' Intangible aspects that are difficult to measure should also be given due consideration. For example, both parties need to 'check the temperature' of the relationship regularly using 360° assessments of each other's behaviour, and of each party's level of satisfaction with the relationship. An open culture of regular, informal feedback should also be encouraged.

A range of formal and informal measures should reveal the full value that the outsourcing relationship is creating. The outsource supplier must deliver demonstrable value, then articulate this value, communicating and connecting with stakeholders.

There is a clear need for openness on both sides, a willingness to listen, invest time, commit resources, collaborate and evolve together. Governance frameworks should be jointly developed and owned, with the outsource supplier having an embedded role in the client's planning and forecasting processes.

The relationship should be characterised by mutual trust, confidence, and a commitment to achieve mutual goals and seek mutual benefits. Both parties must care about each other's success, and have a mutual desire for strategic innovation and continuous improvement. These values should then be cascaded through both the supplier and client organisations.

In the course of the author's interviews, a few of the respondents likened the outsource supplier – client relationship to a marriage, where both parties have to show the commitment to overcome problems and hurdles. The author wonders, however, whether an even more apposite comparison may be to liken the outsourcing relationship to that between an Olympic athlete and his/her coach or mentor: you have to work incredibly hard together; the coach cares passionately about the athlete's success who, in turn, has a strong respect for, and unshakeable trust and confidence in the coach; you have a mutual striving for excellence, and the potential rewards for success are enormous. The same could be said to be true of the best outsourcing relationships.

8.2. Case Study 2

Outsource Supplier 1: Provides workforce management services and HR solutions

Client 2: Leading international electrical engineering and electronics products organisation

Key

(OS1, R3) = Outsource Supplier 1, Respondent 3

(C2, R6) = Client 2, Respondent 6

8.2.1. The Outsource Supplier and Client Organisation: Strengths, Challenges, and Outsourced Processes

Respondent 3 is a global client relationships director for OS1, and is responsible for all the client accounts for the Europe, Middle East and Africa region. He manages the account managers who, in turn, manage the clients. He believes that OS1's strengths lie in its actual delivery, given that the organisation is very focused on the service it delivers to clients. This is a strong differentiator in the market-place for OS1. OS1 also has a range of products/services available to cover the market-place's entire staffing spectrum, which is a clear strong point.

An area where there is room for OS1 to improve is in the fact that the different parts of OS1's business are rather isolated from each other – staffing services and outsourcing services operate in two separate business silos, so they miss the opportunity to share knowledge and expertise. (See section 7.1.1 for more details of OS1's strengths and challenges.)

OS1 sources contractors for Client 2, a major international electrical engineering and electronics products organisation. Respondent 6 is a corporate supply chain and procurement director, who works with OS1 and a number of other outsource suppliers. He is responsible for all indirect purchasing activities, and manages a large team of buyers, all of whom have requirements for a whole range of indirect purchases (e.g. staffing, IT supplies, fleet and travel management). With outsourcing relationships in place, Client 2 buyers do not need to get involved in operational issues, but instead can focus on the strategy and governance of purchasing. Respondent 6 explains that the decision to outsource processes is based on the following two factors:

1. This is not our core business. We do not have the necessary skills or the desire to develop those skills internally.

2. Economic reasons: there are outside companies who can manage these processes well, and who can do it cheaper than we can.

Other areas that Client 2 outsources are travel management processes, parts of the supply chain work flow, and parts of IT systems.

8.2.2. What are the Factors that Lead to a Successful Outsourcing Relationship?

Outsource Supplier 1's (OS1's) Perspective

Success will mean different things for different clients, and needs to be measured against the objectives that the client set out to achieve. For example, success may mean optimising costs, but it may also mean allowing a client to become an innovator or an employer of choice, through the expertise that OS1 brings. Having state-of-the-art recruitment processes can, for instance, change perceptions of an organisation.

Managing expectations carefully is an essential part of developing an excellent outsourcing relationship: the scope of the engagement needs to be very well defined at the outset (OS1, R3). Equally important is the need to get 'buy-in' from the leadership at the top of the organisation. Given that outsourcing leads to a significant degree of change within an organisation, it needs to be driven through the company from the top down.

Another critical success factor for managing outsourcing relationships is for both parties to work within a strong strategic governance framework. Respondent 3 believes that this should be used as a 'living, working document' that guides actions and behaviour: *"It's fundamental that everyone knows what the responsibilities are and who's managing them. For example, who posts job positions on the web-site, us or the client?"* (OS1, R3). Once implementation is underway, the document is likely to require changes as, *"processes are different when you implement them"* (OS1, R3), so volume 2 should be created. After another year or so, it may be necessary to add volume 3, as best practices can be included.

Client 2's Perspective

The quality of the service delivered is crucial for the success of the outsourcing relationship:

"Even if we have a high level of integration with the outsource partner, we still need to consider them as a service provider."

(C2, R6)

Service quality should be monitored regularly, for example through annual surveys, checking the perception of the service by Client 2's employees. Measurement is a crucial element of the success of an outsourcing relationship. The client and outsource supplier should define an acceptable quality level and then, *"if we're always above the quality level we've defined, that's our first measure of success"* (C2, R6).

Another factor that leads to a successful outsourcing relationship is the supplier's ability to demonstrate self-sufficiency and competence; that is, if it can get on with the job without the need for too much intervention from Client 2:

"Can they integrate all our specifications and requirements into their processes? [...] Can they deal with our strict compliance programme without [Client 2] having to control them every time they do something? The less control we have to exert on their activities, the better it is."

(C2, R6)

A strong governance framework is also crucial to the success of an outsourcing relationship:

"We can't outsource anything if we don't 100% respect the governance principles and guidelines [...]. This is one of the most important things to look at in terms of outsourcing activity."

(C2, R6)

8.2.3. Success Factors with Regard to Different Phases of the Outsourcing Service

Outsource Supplier 1's (OS1's) Perspective

Pre-transition

- Defining the scope of work and analysing how to implement it
- Putting together a clear communication plan for all relevant departments and end-users
- Set expectations regarding the service that will be delivered
- Take actions to avoid potential problems, and get set for success

Transition/Implementation

- Carry out everything that was agreed in the pre-transition phase
- Roll out the technology
- Run workshops with all relevant managers
- Client and outsource supplier should define all SLAs and KPIs

Post-transition

- Measure SLAs and KPIs and improve on these year on year
- Identify best practices and strive for further improvement
- Identify the best team set-up to keep the engagement on track. Clients can select from a variety of options, each with its own advantages. For example, 'high touch' where OS1 has people on-site at the client's premises, versus 'low touch' where OS1 employees are located at hubs. The latter solution is more cost-efficient as resources can be shared for different countries, and back-office work can take place at low-cost locations. Alternatively, a client could request a hybrid solution, with some OS1 employees on-site and some working from a hub.

Client 2's Perspective

Pre-transition

- Define resource requirement: *"How many people do I put in my team to manage the outsourced services?"* Bear in mind that this will have a significant impact on ROI.
- Define the characteristics of different team members, and how to manage the interface between the client and outsource supplier teams.
-

Transition/Implementation

- The outsource supplier should think about how to integrate all the client's specifications into a set of customised processes, to serve the client as if it was part of the client organisation. The outsource supplier should respond exactly to the client's needs, in order to become indispensable.

Post-transition

- Continuous productivity improvements are key:

  "The outsource supplier should come to us with productivity proposals without us having to ask. They should bring more pragmatic, innovative processes, perhaps based on IT systems."

  (C2, R6)

  Respondent 6 believes that the outsource supplier should give the client consulting time regarding how they can make changes to processes to become more efficient and increase productivity:

  "[OS1] should remain active all the time – this is why we outsource to specialists – they are the ones who should know what to propose!"

  (C2, R6)

8.2.4. What are the Most Challenging Aspects of the Outsourcing Relationship?

Outsource Supplier 1's (OS1's) Perspective

- Managing expectations is difficult; for example, hiring managers – the end-users of the service – may have unrealistic expectations.
- Getting 'buy-in' from staff at a local level, for example in HR and procurement. Respondent 3 believes that, while at the highest level relationships may be very strong, there can be significant pressures and tensions at an operational level:

  "There's always a gap to bridge; a lot of pressures come from the local level – escalations come from here [...]. At a low level there's lots of flame-throwing between the two sides – like firemen trying to blow out all the fires"

  (OS1, R3)

  Respondent 3 believes that this can be improved if OS1 spends time at the client site to create stronger relationships, and improves the communication channels; for example, setting up weekly calls, regular updates, monthly meetings. OS1 needs to show that it understands the client's 'pain areas', and needs to highlight clearly the value added by the outsourcing relationship. Achieving 'buy-in' from people who were previously detractors of the service can be very rewarding, as they can become the strongest sponsors of the engagement, and both parties can earn mutual respect.

Client 2's Perspective

- Managing change: it is essential to communicate clearly with all those affected by the outsourcing relationship, to manage people's perceptions of the outsource supplier's team. Focus on pragmatic benefits (for example, the expertise of the outsource supplier), and explain that:

  "they'll help you, they'll bring you more value in what you do every day. You won't have to waste time on 'this and that' – you can do more interesting stuff."

  (C2, R6)

8.2.5. Measuring the Success and Value of an Outsourcing Relationship

Outsource Supplier 1's (OS1's) Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

It is critical to understand how the client defines value. OS1 must ask, *"What value add do you want? Then we'll measure whether it's delivered"* (OS1, R3). If a client complains that the outsource supplier hasn't added any value, there has clearly been a mis-communication regarding the type of value the client wanted. Each client will be looking for something slightly different; the client needs to understand this, and then measure whether it is being delivered.

OS1 and Client 2 agreed on points of success and, from this, SLAs and KPIs are jointly decided. Both parties measure the success of the relationship based on the achievement of these SLAs and KPIs:

- **'Hard' Measures**

These include indicators such as:

  o Response time for hiring managers

  o Service availability

  o Cost per hire

  o Average time taken per hire

  o Quality of candidates

  o Hiring manager satisfaction

  o Successful applicant satisfaction

  o Candidates' conversion rate from interview to offer

  o Candidates' conversion rate from written offer to acceptance

Performance should be reported to the client regularly – monthly or quarterly, as agreed.

- **'Softer' Measures**

The level of trust is difficult to measure as it is based on personal relationships rather than systems, but it is, nonetheless, important to understand. Managers can make a qualitative assessment of the degree of trust in the relationship. For instance, an assessment can be made of where the relationship began and what it has evolved into, including 'hard' indicators such as the number of services OS1 has sold into other parts of the client's business. Respondent 3 believes that if OS1 builds a structure internally that matches and mirrors the client structure, this helps to increase confidence and trust. For example, appoint account directors and operational/HR managers on both sides.

Another interesting factor to gauge is whether the outsourcing relationship helps to make the client a more appealing employer: *"am I making this company more attractive to work for?"* (OS1, R3). Although this question is rather intangible, a number of measures could be assessed to try and answer it (for example, analysing increases in application rates to the company, and reasons for increases).

Client 2's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

A key area of value that OS1 brings is the high level of expertise it has developed from working with a variety of clients. This translates into innovative ideas which, in turn, translate into time saved by the client, or productivity gains:

"The continuous benchmarking they can offer you is really interesting. [The outsource supplier might say to us] 'you do it this way, another customer does it that way, why don't you try that to gain productivity?'"

(C2, R6)

Client 2 can then track the improvements made by putting OS1's new ideas in place.

- **'Hard' Measures**

A set of concrete, pragmatic, operational KPIs are defined jointly by OS1 and Client 2. Again, the outsource supplier's expertise is acknowledged, and its ideas regarding KPIs are very much taken on-board:

"Your supplier may have better proposals than you – you need to listen to them and see what they have to propose."

(C2, R6)

- **'Softer' Measures**

Respondent 6 believes it is important to capture subjective perceptions regarding the quality of the service delivered, but Client 2 tries to make the feedback as objective as possible:

"You need to ask closed questions to get 'yes' or 'no' answers. You can't analyse subjective answers."

<div style="text-align: right">(C2, R6)</div>

8.2.6. Evidence of Understanding and Partnership Between OS1 and Client 2

Outsource Supplier 1's (OS1's) Perspective

Respondent 3 believes that the fact that the client trusts OS1 to manage its recruitment model, and also uses OS1 at a more strategic level, is evidence of partnership. He comments that OS1 always tries to ask, *"What else can we do for the client?"* (OS1, R3). As the level of trust grows in the relationship, so too does the level of involvement, as the two parties try new things together and bring new ideas together to give the client a competitive edge:

"You can do ground-breaking things together, because there's the right level of trust there to do them."

<div style="text-align: right">(OS1, R3)</div>

Costs can be an area of misunderstanding and conflict in an outsourcing relationship. Respondent 3 feels that this can especially be the case at the beginning of the relationship (for example, who pays for the IT system?). Poor forecasting can exacerbate the issue:

"Client forecasts are never accurate [...]. They might do 1500 hires instead of 1000, but the client may not have taken the extra costs into account."

<div style="text-align: right">(OS1, R3)</div>

The need for a degree of flexibility on costs, from the client, is therefore essential, while OS1 must ensure that all costings are totally transparent.

Client 2's Perspective

Respondent 6 believes that full transparency on costs and revenues is the first sign of a strong partnership. He comments that Client 2 develops a P&L summary which the management team examines each time it has a business review:

"This shows us what we bring [OS1] in terms of revenue, what they earn.[...] If their costs are increasing, we can definitely see it – there can be a warning from both sides."

<div style="text-align: right">(C2, R6)</div>

This level of integration and transparency is vital for a strong partnership, along with a commitment to reduce costs for the client by bringing to the table innovative ideas to increase productivity.

8.2.7. Degree of Flexibility in the Outsourcing Relationship

Outsource Supplier 1's (OS1's) Perspective

Respondent 3 feels that flexibility in an outsourcing relationship is important, but this must be set within the context of a strong governance framework. For example, it is important that there is clarity around the scope of the work, and the price OS1 will be paid:

"If the client is paying for X, but then wants X + Y in the evolution of the contract, OS1 can be flexible and add things (people, volumes), but then the client has to pay for the Y. This

will always be a grey area: if it's X + a small Y, we'll usually do it for free, but if it's X + a big Y, this can create tensions."

<div align="right">(OS1, R3)</div>

In these cases, the two parties have to sit round the table to reach an agreement, and in significant engagements (such as the outsourcing relationship between OS1 and Client 2) this can usually be worked out to both sides' satisfaction.

Client 2's Perspective

Respondent 6 agrees that flexibility is extremely important. He makes the point that the client should be responsive to suggestions from the outsource supplier regarding how the former could adapt its processes to suit, for example, a change in business activity. The client should be flexible enough to learn from and take advantage of the outsource supplier's expertise, as this will benefit both parties, in the long term.

8.2.8. Impact of the Outsourcing Relationship on End-Users and the Brand

Outsource Supplier 1's (OS1's) Perspective

Respondent 3 comments that the innovation and value added by the outsourcing relationship can have a positive impact on the corporate brand, helping make Client 2 an employer of choice.

Client 2's Perspective

Respondent 6, on the contrary, focuses on the fear of negative impact on end-users, or potential damage to the brand, if the outsourcing relationship goes wrong:

"They represent your own company, it has an impact on your company if they do something wrong."

<div align="right">(C2, R6)</div>

Because of this risk to reputation, it is important to make the best supplier selection you can, based on the information you have. Respondent 6 makes the point that, when you select a partner, it is difficult to foresee exactly how the relationship will work in practice, so it is essential to minimise the risk by monitoring and managing the situation on an on-going basis.

8.2.9. Top Three Factors that Make an Outsourcing Relationship Work Successfully

Each respondent was asked the following question: *"In your opinion, what are the three things that make an outsourcing relationship work really well?"*

The table below summarises the responses to this question:

Factors that make an outsourcing relationship work successfully	OS1 No. of respondents who selected this factor	Client 2 No. of respondents who selected this factor
Board and senior management support and stakeholder acceptance/ 'buy-in'	1	
Build strong relationships at an operational level, not just at senior executive level	1	
Work towards a common goal in a way that brings mutual benefits	1	
Mutual trust and confidence. Outsource supplier needs to inspire confidence		1
Transparency		1
Ability of the outsource partner to offer innovation on an on-going basis		1

8.2.10.   Conclusions

This case study reveals interesting insights into best practice in managing outsourcing relationships. For the outsource supplier, a fundamental point is to understand the client's definition of success and value, and ensure that this is what you deliver. The value and quality the supplier is providing must then be measured on an on-going basis, always striving for continuous improvement. A strong governance framework is essential so that everyone understands their roles and responsibilities.

Both parties must manage the change process carefully, ensuring that expectations are aligned through a clear communications programme. It is particularly important to communicate the value added by the outsourcing relationship, for individuals as well as for the organisation, to get 'buy-in' at all levels. The outsourcing team structure should mirror that of the client organisation, to build relationships, confidence and trust. As trust grows, so too does involvement, and the possibility of carrying out innovative, ground-breaking initiatives together. The outsourcing relationship should be characterised by integration and transparency, with both parties working towards a common goal, in a way that brings strong, mutual benefits.

8.3.   Case Study 3

Outsource Supplier 2: Business process and business transformation outsourcing, customer management outsourcing, IT outsourcing, consulting, and debt management.

Client 3: Leading international retailer – products include clothing, furniture and homeware, food and wine.

Client 4: Leading dedicated home delivery and collection service.

Key

(OS2, R4) = Outsource Supplier 2, Respondent 4

(C3, R7) = Client 3, Respondent 7

(C4, R8) = Client 4, Respondent 8

8.3.1. The Outsource Supplier and Client Organisations: Strengths, Challenges, and Outsourced Processes

OS2 specialises in business process and transformation outsourcing, customer management outsourcing, IT outsourcing, consulting, and debt management. Its core competences are running large contact centre operations, understanding clients' businesses and shaping the right services to deliver value to them. Respondent 4 is the client director for retail relationships. He believes that an important challenge for OS2 is to ensure consistency in all areas, and to be sufficiently proactive with clients. He also comments on the need to improve at managing the client's perception of OS2, and the client's awareness of everything that OS2 is delivering – occasionally, clients underestimate the effort required to achieve objectives, and may have unrealistic expectations regarding the level of proactivity and innovation that can be delivered.

Client 3 is a leading international retailer, with an extremely strong, well-trusted brand. Its products include clothing, furniture and homeware, food and wine. One of its core strengths, from a service perspective, is face-to-face interaction with customers. Approximately six years ago, selected customer management processes were outsourced to OS2 – for example, furniture customer services. Processes with a high degree of transactional contact were selected for outsourcing, for example, order placement and processing, and managing payments. Originally, the decision to outsource was based on cost, and Client 3 has since added to its outsourced processes, usually where a strong transactional element is present. Respondent 7, the head of customer service for Client 3, believes that there have been times when processes have been outsourced that should not have been. Processes where errors could have a significant impact on the brand should not be outsourced, such as brand recovery. This is an area that has recently been brought back in-house, so that customers can be dealt with by Client 3's own employees.

Equally, Respondent 7 feels that there are some processes – for example, in Client 3's in-house contact centre – that are not currently outsourced, but could be. Respondent 7 feels that, in the past, decisions to outsource processes have not been thought through giving enough careful consideration to what is best for the organisation. Processes to be outsourced are now identified on a stronger cost-benefit basis.

One of the key benefits of outsourcing is the flexibility to scale up and down quickly, and to spread work across contact centres, something that is very difficult to achieve for a client organisation with permanent employees.

Client 4 is a third party logistics company, delivering parcels to consumers on behalf of business clients – for instance, when consumers have placed orders on-line. Clients include a range of High Street retailer brands, covering products such as sports goods, fashion, general merchandise, wine and flowers. Challenges facing Client 4 are a plateauing of growth and over-capacity in the market. Client 4's core strength is successfully delivering large volumes of parcels. Client 4 realised, however, that success was based on delivering service, not just the parcel. Unlike Client 3, Client 4 did not have an expertise in customer service. It recognised this, and knew that it needed to address its capability in that area, which it did by partnering with an expert in customer management processes: OS2. Client 4 has benefitted from the technology that goes with OS2's capability, and so has made a significant step forward in the marketplace. Client 4 very much takes a strategic view of its outsourcing relationship with OS2. It has made a significant financial investment in the relationship in order to increase customer value and reduce failure costs. Respondent 8 feels that Client 4 is now much better placed to provide what the customer wants:

"If we can get the customer service bit right at the front-end, we'll be better placed to provide what the customer wants first time."

(C4, R8)

Client 4 is able to deliver a multi-channel contact strategy, with OS2 providing the location and technology, and recruiting and managing staff. Client 4 has replaced its customer management IT systems in partnership with OS2, in a jointly-funded agreement. Together, they offer a joint retail partnership, with true end-to-end capability: Client 4 provides logistics fulfilment, while OS2 provides order-taking and back-end customer service capabilities. This means that Client 4 can demonstrate a high level of expertise, not common in their business. For Respondent 8, it is a real 'win-win' partnership, where both organisations can pursue joint commercial opportunities. It is in OS2's interests to make Client 4 more efficient, as this generates more profit for OS2; commercial and financial interests are, therefore, very well-aligned in this partnership.

8.3.2. What are the Factors that Lead to a Successful Outsourcing Relationship?

Outsource Supplier 2's (OS2's) Perspective

For Respondent 4, two key factors are critical:

- *"Both parties need to be making money out of the relationship"*

(OS2, R4)

- Flexibility needs to be built into the relationship to meet the changing needs of the client's business. This will enable opportunities to be maximised.

Client 3's Perspective

Respondent 7 highlights the following factors, with the first one echoing that of Respondent 4:

- The relationship must provide commercial success for both parties.

- The two parties must understand each other's objectives, and ensure that there is a good 'fit' between the two organisations.

- Investing time in each other is critical.

- The ability for the two parties to have an honest, open dialogue.

- *"Make sure you outsource the right things; don't outsource processes that should be kept in-house"*

(C3, R7)

- Be clear about roles and responsibilities: *"work through the grey areas"* (C3, R7).

- *"Manage [OS2] to the contract, but stand back and let them do their job"* (C3, R7). This clearly requires a high level of confidence and trust.

Client 4's Perspective

Respondent 8 highlights the following two factors, with trust and confidence again emerging as critical to the success of the relationship:

- Success is built on trust and confidence in each other.

- Strategic alignment of capabilities is essential. Client 4 can clearly leverage OS2 's technical and customer service expertise, so it makes sense for them to develop a partnership.

8.3.3. Success Factors with Regard to Different Phases of the Outsourcing Service

The following section summarises the views of all respondents regarding the success factors that are most critical at the different stages of the outsourcing agreement.

Outsource Supplier 2's (OS2's) Perspective

Pre-transition

- It is important to involve people who will be managing the relationship on an on-going basis, at this early stage.

- Clear accountabilities must be determined.

- A significant amount of time should be invested in getting the contract right, involving those people whose responsibility it will be to ensure that the contract is followed.

  "If you put the effort in up-front, you won't have to use the contract very often. If you rush into signing a contract, you'll both end up using it a lot."

(OS2, R4)

Transition/Implementation

- *"You always go through 'forming, storming, norming and performing.' The honeymoon period is great, and then there's a learning curve of at least six months to get something new bedded in."*

It is vital for OS2 to manage the client's expectations, and make it clear that there will be challenges ahead:

"Stuff goes wrong! You start with a great vision, everyone is happy and then...'set up' is hell. There are lots of moving parts, and there'll be lots of changes."

(OS2, R4)

At this stage, senior executives need to stand back from the day-to-day operations, ensure there are jointly agreed priorities, demonstrate the right behaviours to the respective teams, and keep things in perspective. Respondent 4 believes that a failure to do this could lead to a deterioration in the relationship: *"the first six months are crucial"* (OS2, R4).

Post-transition

- Both parties need to continually work at the relationship:

  "Everyone likes new stuff, but a good relationship needs to be developed over time."

  (OS2, R4)

- The contract should provide both parties with a structured engagement model. The sustainability of the relationship should be enshrined within the contract. The contract will need adjusting over time, and the way the contract changes will be shaped by the personalities working on the project within both organisations:

  "Until you've started, you don't really know how things will be. You can't strait-jacket things into a certain way of working – you might lose the benefits the relationship can bring. You won't know [what things will be like] until you've learnt about each other".

  (OS2, R4)

- Executive level support from both organisations is crucial. Quarterly joint board meetings should be held where both partners should discuss innovations:

  "It's easy, after the initial adrenalin rush, to take your foot off the gas – you shouldn't do this."

  (OS2, R4)

- Good governance is critical at all levels, giving discipline and structure and defining, for example, the key meetings that must take place with client partners. For OS2, these are:
  o Weekly operational meetings

  o Weekly change meetings (separate)

  o Monthly service reviews

  o Quarterly executive board meetings where innovations and more strategic thinking are discussed.

- It is important to continue to manage expectations on both sides:

> *"Things will change, but you need to keep really tight. If one partner wants to change in a different way, this can cause disharmony."*

(OS2, R4)

- Both parties must accept that things will go wrong sometimes, *"but it's how you deal with [problems] that's important. [...] We send text updates [to clients] throughout the day, and e-mails briefing everyone on things outside the norm."* (OS2, R4). OS2 always tries to be open and honest, and is good at getting situations back under control quickly.

Client 3's Perspective

Pre-transition

- The client must match the needs of the business with the right outsource supplier, *"but don't put all your eggs in one basket"* (C3, R7). It is essential to understand your own and the outsource supplier's key competences, as well as understanding why you are embarking on an outsourcing relationship. Ensure the outsource supplier you select has the right brand and service credentials.

Transition/Implementation

- The client must invest a significant amount of time in helping the outsource supplier understand what its business is, who the customer groups are and what these customers are looking for in relation to the contact centre world. The client must also ensure the outsource supplier understands what the client's brand stands for:

> *"Don't underestimate how much effort is needed. For example, a 22 year old in a contact centre won't necessarily understand why a customer is very upset about a scratch on their new sofa."*

(C3, R7)

The client must be extremely clear about what it wants from the outsource provider.

Set the contract up very carefully (e.g. so that it allows you to move part of your business from one provider to another if this is deemed necessary), and target the right SLAs.

Post-transition

- Ensure there is total clarity around roles and responsibilities and, *"everyone must know who should be talking to who. [...] There have been quite a few personnel changes around who [OS2] are talking to in [Client 3]"* (C3, R7).
- Regular meetings should act as check-in points where any issues that have arisen can be discussed. For example:
  - Monthly service reviews, which Client 3's head of customer contact centres attends, and where KPIs and any other issues are discussed.
  - Quarterly executive review, which Respondent 7, as head of customer service, attends.
- Ensure the team set-up works effectively, so that Client 3 can make certain that OS2 fulfils its terms of contract. The customer service centres have a team of six people from

Client 3 who manage the day-to-day and week-to-week operational relationship with their opposite numbers at OS2.

- Focus Client 3's time and effort on a root-cause analysis of any issues or problems. For example, *"If the customer isn't ringing to place an order, why are they ringing? [...] It's because [Client 3] has probably failed somewhere"* (C3, R7). It is essential to identify the root cause of the failure, and feed this up through the business to prevent it happening in future: *"break the cycle and make changes"* (C3, R7). These issues also need to be communicated to OS2. Respondent 7 comments that when OS2 has reported back to Client 3 on process failure, OS2 has come up with ideas on how to improve the situation.

Client 4's Perspective

Pre-transition

- The client must find a partner that it can have confidence in: *"someone who can work **with** [Client 4], to develop bespoke solutions for [Client 4], and who has the capability to deliver"* (C4, R8).

Transition/Implementation

- OS2 needed to take a consultative approach, working with Client 4 to come up with a bespoke solution: *"[OS2] had a good understanding of what we wanted, and worked with us to achieve that. [...] It wasn't something out of a box, or something that another organisation thought was perfect for us. [...] We employed industry experts to help us define what we needed"* (C4, R8).

- At an operational level, there were some gaps in OS2's understanding of Client 4's business: *"perhaps they didn't understand as much as they needed to [...]; this took time"* (C4, R8). It is essential to invest sufficient time to allow everyone to 'climb the learning curve.'

- There is so much change occurring that things will not always run smoothly; the key requirement is to resolve issues swiftly and effectively: *"there is significant change... more than should happen at any one time. [Sometimes] you need to go back and re-do things"* (C4, R8).

Post-transition

At the time of writing, Client 4 and OS2 are in the first quarter of their relationship after full transition.

The team structures of the two parties should mirror each other, and communication between the relevant people should be easy and frequent. For example, C4 and OS2 have a main board relationship; the head of customer experience at Client 4 has a direct relationship with the OS2 client director's management team, the call centre manager and quality and forecasting staff. In addition, the change programme manager at Client 4 (who manages customer-facing change) has a direct relationship with the OS2 project manager.

The financial relationship is also strong: a finance expert from OS2 brought in many functional experts to be part of the contract from day 1.

A strict governance schedule should be in place where regular strategic reviews of service, operational delivery and quality are enshrined. These should be carried out monthly, at an operational level, and quarterly at a senior level. In the relationship between OS2 and Client 4, these processes are still changing, as they are at a formative stage.

8.3.4. What are the Most Challenging Aspects of the Outsourcing Relationship?

Outsource Supplier 2's (OS2's) Perspective

- Managing expectations
- Managing the client's perception of the outsource supplier and everything that the latter is delivering
- Managing the huge amount of change occurring in the first six months of the relationship
- Continually working at the outsourcing relationship
- Setting up strong governance at all levels

Client 3's Perspective

- A key challenge is to ensure consistent delivery of service to the customer, whatever their contact with the brand – whether this is with Client 3's own staff, OS2's staff or, *"the delivery man with your furniture. [...] The customer perceives it all as [Client 3]."* (C3, R7). Respondent 7 feels that much progress has been made in stores, with their own employees, on achieving clarity regarding what service delivery should look like. Both OS2 and Client 3 had to invest significant time over a 3-6 month period, so that the OS2 team could receive brand and service training:

  "[OS2] needed to understand where [Client 3] wants to get to. [...] Whatever your contact with customers under the [Client 3] banner, you have to understand what you need to do to represent the brand"

  (C3, R7)

  Client 3 runs a 'Partner Programme' to deliver brand and service training to all its partners.

- Developing a single view of the customer across all the different contact points is another challenge: Client 3 does not currently have a CRM solution that allows it to identify a customer's history and background, when that customer contacts the organisation – for example, has the customer ever been let down by Client 3 before?

- Respondent 7 feels that an important challenge is for OS2 to come up with innovative ideas (for example on process improvements) that are within the scope of its responsibilities, but not to spend time suggesting ideas that are not within its remit: *"[OS2] must operate consistently at an excellent level on KPIs first. [...] They have to earn the right to make suggestions in other areas"* (C3, R7). Innovation should link back directly to OS2's role and responsibilities, for example, training and performance managing their staff.

"[OS2] is driving the commercial side of its business too, [but] we don't want 'wizzy' new tools [or] innovation days. [...] They have to invest time in making what we've got work really well and slickly. In a year's time, maybe, come back with five big things [Client 3] can improve, but not now. They have to earn the right to get there."

(C3, R7)

The real challenge here is clearly identifying, defining and communicating to the outsource supplier, the value that is required from it. The scope of this value may well change as the relationship progresses and deepens, and this, too, should be communicated. Slow, careful steps in the development of the relationship are required, and then, step by step, confidence and trust will grow. As trust increases, the relationship may move on to a new level of openness, where a different level of value may be required, meaning that broader innovation may be encouraged by the client.

- Perhaps the greatest challenge is to have a clear appreciation and understanding of each other's cultures, and find a way of blending the two businesses effectively at the critical point of customer service delivery. The only way to achieve this is for the outsource supplier to invest time in understanding Client 3's organisation. For example, Respondent 7 has arranged for a regional head from Client 3 to 'buddy' with a new starter at OS2, allowing this new starter to spend two days at one of Client 3's stores. Equally, Client 3 needs to understand more about OS2, regarding how they are setting up for success, for example, *"what people skills are they focusing on?"* (C3, R7). It is only by learning about OS2 that Client 3 can judge whether their approach fits with Client 3's culture.

  Respondent 7 feels that Client 3 and OS2 need to continue to work at openness and honesty in all their dialogue, and admits that Client 3, *"kept them at arm's length initially [...]; the relationship felt gluey and difficult"*. When things go wrong it is important to be able to sit down together and ask:

  "What's getting in the way of things working well? [...] I don't want to target individuals [or] be seen as a 'stick'. [...] If it were me I'd do this, but I can't because they're not my people"

  (C3, R7)

  It is crucial for both partners, then, to understand each other's culture, and be open and honest with each other, so that ways of working that are acceptable to both sides can be identified:

  "We need to understand each other's DNA, and see if there is a 'fit' between them. [...] We haven't done a good enough job so far."

  (C3, R7)

  Respondent 7 was very critical of the relationship between OS2 and Client 3 when she took over the account a year ago. Now, however, with clearer roles, responsibilities and objectives, more appropriate measurement in place, better understanding of Client 3's culture, and a more open dialogue, the relationship has made significant progress; progress that needs to continue.

- The contract should state very clearly and specifically what OS2's roles and responsibilities are, with clear measurement and regular reviews in place. Initially, OS2

focused too heavily on quantity rather than quality of customer relationships, as the right performance indicators were not in place. Respondent 7 comments that the contract with OS2 has recently been re-signed and amended, with quality of service delivery being measured much more than before:

> *"We've set up what should have been there already but wasn't. No wonder [OS2] weren't performing well – they weren't being measured on the right things."*

(C3, R7)

Client 4's Perspective

- A significant challenge for Client 4 (echoing Client 3) has been to understand the cultural differences between the two organisations, and learn to overcome and even harness these differences, to work productively together:

> *"OS2 is quite proceduralised, and good at managing the status quo, [Client 4] has expertise in managing everything but the status quo! [...] The relationship will be stronger once more stability comes."*

(C4, R8)

On a positive note, Respondent 8 realises that both partners have strengths to share, so that each party's approach can be enhanced by becoming a little more like its partner:

> *"We're moving towards being a bit more structured, we need to be a bit more like [OS2], [...] but we still need to be agile, to deal with flux. [...] [OS2] needs to be a bit less regimented, and be a part of that flux, we want to move [OS2] into that space."*

(C4, R8)

- Respondent 8 highlights the challenge of ensuring strong governance is in place as the relationship with OS2 progresses. He feels that more rigour and discipline is required around meeting schedules:

> *"The relationship potentially became too close, [...] too much informality"*

(C4, R8)

There is a need for strong monitoring on both sides, and a degree of formality in meetings; both sides need to make sure they are getting what they want from the relationship. Respondent 8 comments that they have gone past the honeymoon period:

> *"The relationship is strong, but some things haven't happened. [...] We need strong governance to drive this forward professionally."*

(C4, R8)

8.3.5. Measuring the Success and Value of an Outsourcing Relationship

Outsource Supplier 2's (OS2's) Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

OS2 identifies the following areas of value that it provides for its clients:

- Innovation

- Insight: for example, OS2 can tell Client 3 which products have availability or quality issues, or which carriers are not delivering. This is clearly very valuable information to Client 3, as they can use it to *"hit their cost base hard"* (OS2, R4).

- Flexibility: for example, OS2 can double in size at Christmas.

- Greater purchasing power: OS2 benefits from excellent IT infrastructure, software, and recruitment agreements.

- Skills and capabilities: OS2 has expertise that their clients do not have in-house, so it can, *"do the job better"*, and as it is OS2's core business, it, *"can do it cheaper"* (OS2, R4).

Respondent 4 comments that metrics used at) OS2 used to be numerically and commodity focused, with a small number of service levels agreed around quantitative targets (quantitative targets would be, for example, the number of calls answered in a contact centre). Now, however, OS2 is increasingly measured against qualitative assessments, such as effectiveness and revenue generation:

"You need the opportunity to be penalised and rewarded. [...] A win-win situation [for both parties] is essential. [...] You need an incentive to proactively drive improvements [...]. It's very important because this changes the nature of the relationship."

(OS2, R4)

OS2 has the following types of '**hard**' metrics in place:

o Quality levels

o Number of complaints per contact

'**Softer**' areas measured include:

o Customer perception

o Client satisfaction: a survey is carried out on a quarterly basis. It is highlighted in the contract with both Client 3 and Client 4 that this is one of the performance metrics where OS2 can suffer losing service credits if it does not perform well.

Client 3's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

- Respondent 7 defines the value she expects from OS2 as:
- Consistently delivering the skills they have; that is, *"do what it says on the tin"* (C3, R7), so that the client does not need to worry about it.
- Innovation, but in the right areas: *"We want them to come up with new ideas, but their thinking must be within the sphere of what we want them to do – whether with people or processes. [OS2] should stand in their (i.e. Client 3's) customers' shoes"* (C3, R7).

Measures are agreed and aligned between Client 3 and OS2:

'Hard' Measures

- Specific KPIs and service levels are enshrined within the contract, and OS2 are measured against those. Performance is reviewed at the monthly service review

meeting. OS2 is given 'service credits' and must pay money back for service quality failures:

> *"[The emphasis is on] quality not quantity. There must be pain for not delivering. [OS2] were measured only on quantity before, but quantity is just the 'bread and butter.'" (C3, R7).*

The KPIs used now are appropriate and useful, unlike previously when Client 3 were measuring against something that it didn't actually want: *"we didn't tell them (OS2) what we needed"* (C3, R7).

- Tracking: Client 3 regularly tracks its costs, but also tries to track whether it is moving in the right direction: *"Where does [Client 3] want to go? Is outsourcing the right way? We need to keep the customer voice in there."* (C3, R7).

'Softer' Measures

- Client satisfaction surveys: OS2 runs these twice a year with Client 3, to see how the latter feels about OS2.

- Informal feedback, where Client 3 might say, *"this doesn't feel good, what can we do about it?"* (C3, R7). This more personal dialogue can, however, be difficult. Respondent 7 perceives that OS2's culture is such that it is less comfortable with this type of personal dialogue. She believes, however, that it is important to encourage a culture of more open dialogue and constructive face-to-face conversations, to allow the relationship to progress further.

How to Improve Measurement

Respondent 7 believes that measurement could be improved if OS2 had to fill in a satisfaction survey on Client 3, as well as vice versa: *"360° feedback where you rate the outsourcer, and the outsourcer rates you" (C3, R7).* This would give permission for OS2 (as well as Client 3, as is currently the case) to say what would make things easier for them. Similarly, a person from OS2 could attend Client 3's conference every year, and talk about how they would like things to be done differently. Respondent 7 also suggests that Client 3 should brief OS2 on output from its quarterly strategic review meetings, so that OS2 is aware, for example of, *"where [Client 3] wants to be in 2020"* (C3, R7). Encouraging two way feedback would enhance the open, constructive dialogue described above, and lead to a stronger partnership.

Client 4's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

Value is derived from achieving the outsourcing relationship's financial objectives, as well as achieving and continuing to improve the required service standards.

'Hard' Measures

- Productivity measures: these should drive benefits for both organisations
- A suite of quality measures: these should demonstrate a step change in improvement.

- The KPIs and SLAs in place in the contract with OS2 give a high degree of transparency. Some of the SLAs are punitive contractual measurements, whereby the contract could be terminated if they are not met.

- Client 4 and OS2 have now completed the transition phase of the relationship, and as stability increases, all KPIs and SLAs can be reviewed. It is clearly essential to ensure that the most appropriate measures to derive maximum value from the relationship – for both parties - are in place.

'Softer' Measures

- Customer satisfaction survey: this will be carried out quarterly to establish how OS2 is perceived by Client 4: *"Do we think [OS2] understand our organisation? Do we believe they do what they say they will do? Are they adding value?"* (C4, R8). Three respondents at different levels of Client 4's organisation will fill in the questionnaire, a tool which should be useful in measuring the strength of the relationship between OS2 and Client 4. An open discussion between the two partners will be required after the surveys have been completed, to understand the scores. Respondent 8 feels it will provide an important opportunity to establish what is working well, and what the issues are in the relationship. He feels it is crucial to start 'measuring' the relationship now, to maximise its potential, as Client 4 is at the early stages of a three year contract with OS2

8.3.6. Evidence of Understanding and Partnership Between OS2 and Clients 3 and 4

Outsource Supplier 2's (OS2's) Perspective

Respondent 4 uses the example of the relationship between OS2 and Client 4 to illustrate evidence of strong partnership. He comments that OS2 and Client 4 issue joint press releases, speak at each other's events, and support each other's sales and marketing effort. Their relationship goes beyond day to day operational involvement, as they use each other's contacts to communicate a positive message that benefits both of them.

Client 3's Perspective

Client 3 and OS2 have a good understanding of the costs of the outsourcing relationship. Respondent 7 comments that a lot of work has been done on improving the clarity and visibility of costs. Client 3 is now aware of OS2's profit margin, and the strategic quarterly review meetings highlight how the cost situation is changing over time.

To increase understanding and partnership between Client 3 and OS2, a lot of effort is going into identifying issues across all departments, and putting things right. It is critical for Client 3 and OS2 to:

"get our heads into where our customers are: What does it look and feel like from the customer perspective?"

(C3, R7)

For example, if there is a problem with a piece of furniture, the staff in OS2's contact centres need to understand the emotional attachment a customer may have to that high cost item, and treat them accordingly. If both parties focus on delivering excellent customer experience, this will increase the sense of partnership between them.

Trust between OS2 and Client 3 is definitely growing. Respondent 7 admits that, in the past, Client 3 has not trusted OS2 to do its job. She compares Client 3 to a critical parent, leading to OS2 adopting a defensive mode. More open, honest dialogue takes place now, with OS2 being measured on the right things:

"If I spoke to my team, they'd say significant progress has been made on trust in the last 12 months."

(C3, R7)

Client 4's Perspective

Respondent 8 feels that Client 4 has a very good understanding of the true costs of the outsourcing relationship. Their contract negotiation team included an ex-commercial manager from OS2, and they strengthened their commercial team ahead of the contractual discussions. Respondent 8 does, however, voice frustration at being charged for small extras.

Overall, Respondent 8 feels that expectations have been managed fairly well by OS2, and speaks favourably of the fact that OS2's client director (Respondent 4) has been involved from the outset. There are still some gaps in terms of what was defined in the contract, but Respondent 8 feels comfortable about discussing these issues informally with Respondent 4, as well as at the quarterly review meetings:

"It's a good, strong relationship, but there are some frustrations on both parts, [...] with the pressure of all the change that's going on [...]. We're at the stage now to sit down and review all that."

(C4, R8)

The relationship is, therefore, strong, though Respondent 8 comments that Client 4 is a demanding partner, which can cause some strain.

8.3.7. Degree of Flexibility in the Outsourcing Relationship

Outsource Supplier 2's (OS2's) Perspective

Respondent 4 comments that there is a high degree of flexibility in the relationship with Clients 3 and 4:

"When you've got aligned objectives, it's in both your interests to flex the contract. [...] If you have a rigid, procurement driven contract, you can't. [With aligned objectives] the contract is a point of reference, not something you use to beat each other up"

(OS2, R4)

Client 3's Perspective

Respondent 7 comments that flexibility is built into the contract. A robust change process has been put in place on both sides which allows for flexibility, but also means that neither party can suddenly impose changes at a moment's notice.

Client 4's Perspective

Respondent 8 comments positively that there is flexibility in the contract to cope with change, but there is a need to clarify and justify occasions when extra payments are required.

8.3.8. Impact of the Outsourcing Relationship on End-Users and the Brand

Outsource Supplier 2's (OS2's) Perspective

An outsourcing relationship can have a positive or negative effect on the end customer and brand, depending on how well the outsource supplier and client understand changing customer requirements and respond to those changes:

"If you have to stick to a contract agreed two years ago, and requirements have changed, the customer will suffer. If you are flexible, and can change as the world changes, and [as] requirements change, the customer will not suffer."

(OS2, R4)

Client 3's Perspective

Respondent 7 is acutely aware that outsourcing relationships can have a significant impact on customers, and also have an impact on Client 3's ability to manage its brand name. For example, if someone in a contact centre is rude, or a customer is passed around from one person to another, this can have a detrimental impact on brand reputation. Equally:

"[Client 3] must put their hands up when they get it wrong – internally, and to [OS2]"

(C3, R7)

It is essential to be able to admit failings, and find ways of making improvements.

Client 4's Perspective

Client 4 is also very aware of the potential impact of the outsourcing relationship on the end customer and brand. Respondent 8 comments that Client 4 is marketing itself as a strong customer services organisation, highlighting the customer experience it offers as a competitive edge:

"This puts strain on the relationship [...]. It's very early days for the relationship [...]; there are a few moving parts that need to be nailed down to the floor."

(C4, R8)

8.3.9. Top Three Factors that Make an Outsourcing Relationship Work Successfully

Each respondent was asked the following question: *"In your opinion, what are the three things that make an outsourcing relationship work really well?"*

NB: Client 4 selected four factors.

The table below summarises the responses to this question:

Factors that make an outsourcing relationship work successfully	OS2 No. of respondents who selected this factor	Client 3 No. of respondents who selected this factor	Client 4 No. of respondents who selected this factor
Strong relationships between the individuals involved at all levels	1		
Aligned goals and objectives, with shared risk and reward for achieving those goals	1		
Structured, disciplined engagement (e.g. regular meetings)	1		1
Understand the brand: both parties must understand the client brand and the outsource supplier brand		1	
Openness and honesty		1	1
Understand roles and responsibilities, and deliver excellence within the scope of these roles and responsibilities		1	
Do what you say you will do			1
Have a thorough understanding of your client's business			1

8.3.10.   Conclusions

A key theme of both Client 3's and Client 4's outsourcing relationship with OS2 is the challenge of successfully blending two culturally distinct organisations at the critical point of customer service delivery. Both partners must invest a significant amount of time in really understanding each other's organisation and brand. Both parties should be prepared to adapt behaviour where required, and learn to understand, appreciate and use the strengths in each organisational culture, to maximise the mutual value that can be gained from the relationship.

The second theme centres around trust and involvement: how close is the client going to let the outsource supplier get to its brand and its customers? For Client 4, there is a very clear-cut capability gap in the area of customer service processes that OS2's expertise neatly addresses. The value to be delivered is very clear - so with total commitment, strong engagement, and open, constructive dialogue - trust and involvement should continue to flourish. The exciting honeymoon period is now over for OS2 and Client 4. It is crucial to

continually work at the relationship, giving regular mutual feedback through formal and informal channels, and striving to keep the relationship fresh and proactive.

Client 3 is in a different position as it has a very high customer service reputation that must be allied with OS2's capability in customer management processes. In some ways, then, the relationship between them is slightly more complex, as each partner needs to work out what it can learn from the other in the area of customer service. Client 3 protectively guards its relationship with its customers, as it generates significant value creation from this relationship. It must be very careful about which processes it outsources, ensuring that additional value can be derived from the decision to outsource. The key requirement here is for Client 3 to be completely clear about the exact type of value creation it expects from OS2. It must communicate and agree this, and then stand back and let OS2 get on with its job: providing excellence and innovation in the areas on which the client wishes it to focus.

Challenges had to be overcome in the early stages of the relationship between Client 3 and OS2, due largely to unclear roles and responsibilities, inappropriate measures, and a misalignment of the two organisational cultures. However, with a revised contract in place, and a commitment to continue to increase openness and honesty in all dialogue – perhaps inviting OS2 to give 360° assessments of Client 3, as well as vice versa – mutual understanding will deepen. As trust and confidence in the relationship grow, so too could further involvement, and the potential for broader innovation and value creation by OS2.

8.4. Case Study 4

Outsource Supplier 3: IT and business process outsourcing, business transformation outsourcing and consulting services.

Client 5: Leading international healthcare and pharmaceuticals company.

Key

(OS3, R5) = Outsource Supplier 3, Respondent 5

(C5, R9) = Client 5, Respondent 9

8.4.1. The Outsource Supplier and Client Organisation: Strengths, Challenges, and Outsourced Processes

OS3 delivers advanced technology solutions, business process outsourcing and business consulting to clients. It is a vertical organisation where expertise is focused on and specialised in a wide range of different industries, and provides both on-shore and off-shore solutions. Respondent 5 is a client partner in the life science vertical of OS3. He believes the organisation offers an impressive combination of expert process knowledge and strong consultative skills. An on-going challenge, in Respondent 5's view, is always to go beyond a cost reduction proposition with clients, listening to and engaging with them, creating and driving a deeper relationship based on trust. OS3 has experienced rapid, strong growth. A further challenge is to keep up with this growth, hiring aggressively, while ensuring that everyone has 'signed up' to OS3's culture of delivering an excellent customer experience.

Client 5 is a leading international healthcare and pharmaceuticals company, characterised by excellence in research, and a strong sense of responsibility to the people and places it affects. It outsources IT and business processes around project delivery to OS3. Client 5 and OS3 are currently at a fairly early stage in their outsourcing relationship. Respondent 9 is accountable for ensuring that all large IT projects are successfully delivered. He highlights the challenge of making the organisation ever more nimble, and managing costs effectively.

8.4.2. What are the Factors that Lead to a Successful Outsourcing Relationship?

Outsource Supplier 3's (OS3's) Perspective

Success is about delivering what you promise, and then finding innovative ways of going beyond this to drive continuous improvement. Respondent 5 believes that the key success factor in an outsourcing relationship is trust: you need to be a trusted adviser to the client. It is important to be able to have a genuine two-way conversation with the client, who should seek your advice and value your opinion. Trust is about developing a successful partnership, in contrast to a transactional relationship. In Respondent 5's view, transactional relationships are often fraught, can destabilise the service delivery and lead to dissatisfaction among employees. This leads to the risk of employees from the client company leaving, and taking their knowledge with them.

Client 5's Perspective

For Respondent 9, the outsourcing relationship is successful if you can answer the following questions in a positive or satisfactory way:

"Do they do what they said they would do? [...] Can you measure them in terms of milestones, budget, quality, requirement delivery? How painful was it? Did you have to bring more internal resource to the project? Did they bring more innovation to the table than you could have [...] because you don't do so many projects?"

<div align="right">(C5, R9)</div>

An excellent outsourcing relationship is one where you have identified your business strategy, and the outsource supplier delivers against that business strategy. An excellent relationship is totally integrated:

"You don't want to be in a seven foot bed, you want to be in a single bed; [...] you've got to be really well integrated."

<div align="right">(C5, R9)</div>

8.4.3. Success Factors with Regard to Different Phases of the Outsourcing Service

The following section summarises the views of both respondents regarding the success factors that are most critical at the different stages of the outsourcing agreement.

Outsource Supplier 3's (OS3's) Perspective

Pre-transition

- When the outsource supplier wins the business:

  "There's a sense of euphoria [...], you need to keep your feet on the ground and spend time to clarify and agree the basic stuff."

<div align="right">(OS3, R5)</div>

- It is essential to get the right contract in place, using realism, not wishful thinking.
- Effective communications between the outsource supplier and the client are fundamental to success.
- Agree up front what success means for both the client and the outsource supplier. There needs to be full alignment and understanding on this point, to avoid the risk of one or both parties, *"pulling in the wrong direction"* (OS3, R5).
- Get the right engagement team in place. Always keep longer term objectives in mind, and ensure you select the right candidates to fit the client's culture. The team should also be selected bearing in mind the characteristics of the different phases of the project.

Transition/Implementation

- Make sure you get the basics right: do what you say you are going to do.
- Measure and track results, and communicate these back to the client regularly. Some things need to be communicated weekly, others monthly. It is important to have

‘dashboards’ that show the indicators that Client 5 and OS3 like to see regularly. Make sure,

"the client always knows what you've done this month."

<div align="right">(OS3, R5)</div>

- Respondent 5 believes you should set up the service as if you were setting up a business, and give consideration to the same questions you would ask in a new business scenario: for example, *"How are we going to drive the strategy forwards?"*

- In OS3's work with Client 5, a vast range of skills are required to deliver IT projects successfully to factories. A lot of consulting and many 'soft' skills are involved in working effectively with Client 5: for example, in creating the right concept and developing high level requirements, and then moving on to the detailed architecture and project plan required for delivery. Client 5 wants vendor-led programme delivery, so that fewer people need to be involved from the client side. This means, then, that Client 5 needs to place an extremely high degree of trust in OS3.

- The way OS3 interfaces with Client 5 is critical to success, and Respondent 5 discusses OS3's '2-in-a-box' model which, he believes, really makes the difference for them. For example, the client partner (Respondent 5) has a direct interface with the offshore delivery partner (who controls 1500 people), as well as communicating regularly with Client 5's VP (Respondent 9). The client partner and delivery partner have the same accountabilities:

"If the Client Partner feels pain, the Delivery Partner feels pain [...]. The Delivery Partner sorts things out with her people [...]. Decisions are made in country, not offshore [...]. We can fix and resolve things."

<div align="right">(OS3, R5)</div>

As you go further down the hierarchy, OS3 on-site teams and offshore teams mirror and interface with each other, while OS3 on-site teams also interface with the relevant people on the client side. For example:

Customer	On-site	Offshore
VP	Client Partner	Delivery Partner
Project Director	Account Manager	Delivery Manager
Programme Leads	Delivery Manager Project Managers	Delivery Manager Team Leads

This model gives the benefits of the intimacy of onshore outsourcing, with the efficiencies of offshore. Client focus (OS3 and Client 5) is 'in-a-box' with delivery excellence.

Post-transition

- Move to a point where you are offering an opinion and directing the client as to what the next level of outsourcing needs to be.

- 'Nirvana': a situation where the outsource supplier is regularly bringing ideas and innovation to the client. The challenge is to build the right team to enable this to happen. Some outsource suppliers have distinct teams for pre-transition, transition and steady-state phases, but Respondent 5 prefers to build longevity and continuity into a team, while always ensuring you have the correct balance of skills:

  "I prefer to have the same core team throughout [as far as possible]. You have trust, you've been through a journey together."

  (OS3, R5)

Client 5's Perspective

Pre-transition and Post-Transition

Respondent 9 did not comment on these areas as he was not involved with the pre-transition phase of the outsourcing relationship, and OS3 and Client 5 have not yet reached a post-transition/steady state phase.

Transition/Implementation

- In project delivery, it is essential to ensure that OS3 really understands what Client 5 needs, and have measurement in place to track progress.
- *"It is never a straight road"* (C5, R9), but the success of delivery can be gauged by asking the following questions:
  - *"How much extra is it costing? How much do you deviate from the original plan? How many changes are there to the original request for work?"*

  (C5, R9)

- Getting feedback from operators is also key in judging success:
  - *"How painful was the change to the organisation? How quickly did they come to terms with what the third party was delivering? How easy was the knowledge transfer?"*

  (C5, R9)

- Respondent 9 discusses Client 5's new, 'light-touch' involvement in IT project delivery. There are no more than five people internally managing the project with OS3. Cost issues are at the heart of this decision:

  "[If you don't go for 'light-touch'] where are the cost savings? You struggle to justify the rationale [for outsourcing] if you have a whole bunch of internal people working on the project too."

  (C5, R9)

- A high degree of trust in the outsource supplier is clearly required for this approach to be successful.

8.4.4. What are the Most Challenging Aspects of the Outsourcing Relationship?

Outsource Supplier 3's (OS3's) Perspective

- Managing expectations and perceptions is always challenging. It is important to:

    "keep addressing issues, and go and see people if they are unhappy"

    (OS3, R5)

    Respondent 5 comments that he spends a good deal of his time training his team to manage perceptions:

    "you can be getting on with your job, but don't realise perception has turned against you"

    (OS3, R5)

    Developing these 'softer' skills is crucial at OS3.

- Another challenge is to ensure that you do not present the client with any 'bad surprises.' Problems should always be flagged up early on:

    "[You need to] be on the front foot. If there's going to be a change order, you need to warn them well in advance that if they don't do certain things, they'll need to pay for it. Don't surprise them with a gap."

    (OS3, R5)

- Sharing knowledge and communications really drive the project. Certain measurements need to be reported on for both parties, so regular meetings need to be scheduled: *"If you don't get the communications right, it's disastrous."* (OS3, R5).

- It is also important to ensure the client is aware of everything OS3 is achieving:

    "Our biggest sin is forgetting to report our own stuff, and not just doing the client stuff."

    (OS3, R5)

- It is also important for the client to be confident they have mitigated the risks involved in the project:

    "The client is always accountable for risk – you can't outsource it; we're joined at the hip on this."

    (OS3, R5)

    The client must, therefore, always be close to the outsourcing relationship.

Client 5's Perspective

- One of the most challenging issues is for the internal organisation to accept that an outsourcing relationship is the best way forwards: *"Internally, people will question why you are taking this approach"* (C5, R9).

- Change management and people issues are always challenging: *"There are relationships into the factory that are being broken, [and also] inertia to overcome."*

    (OS3, R5)

- With Client 5 taking such a 'light-touch' approach, it is more challenging for OS3 to understand Client 5's organisation properly, and carry out their roles effectively. Any issues arising from this need to be overcome.

8.4.5. Measuring the Success and Value of an Outsourcing Relationship

Outsource Supplier 3's (OS3's) Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

In their outsourcing relationships, Respondent 5 comments that OS3 takes concepts, turns them into propositions, and takes full ownership of programme delivery – which encompasses, for example, stakeholder management and reporting. OS3 has a very strong methodology, and quality compliance is rigorously audited. Making efficiency gains is crucial in the relationship with Client 5. OS3 focuses on having the right team in place, and developing the right cultural engagement with the client. The success of the relationship is determined by how well OS3 delivers against its responsibilities.

For Respondent 5, however, the value of the outsourcing relationship goes far beyond meeting SLAs and KPIs. Of course, OS3 must always, *"do what you say you're going to do – don't get too clever"* (OS3, R5), but OS3's team must really care about adding extra value for the client:

"the client needs to see that you are hungry for the business."

(OS3, R5)

For Respondent 5, the lowest form of value OS3 delivers to the client is to do things at a cheaper price, and meet the SLAs:

"Value is not really that. That's a given; that's just the starting point, not the end point. [Value lies in] other 'softer' stuff: what else are you bringing to the table?"

(OS3, R5)

In Respondent 5's view, it is all about engagement. It is difficult to measure because it is subjective, and is concerned with perception. As the supplier, OS3 should align to the client's value belief system – not vice versa, and should focus on giving the client good advice. OS3 needs to demonstrate leadership to the client, not just management. According to Respondent 5, giving good advice and bringing ideas that the client can take back to the business, are what the client really appreciates. The latter should never have to say to OS3:

"Why didn't you see that was going to happen? Why didn't you tell me that? Why didn't you tell me what was happening across the industry? [But the client should ask] What's your opinion about this?"

(OS3, R5)

OS3 can also deliver value by responding to the personal needs of people on the client's team: for example, to make them successful in their careers. Meeting this objective and providing this type of value is just as significant as providing other, more quantifiable measures of value:

"The supplier needs to want to take the client to the top. If the supplier doesn't have the temperament to do that, the client won't want to do business with them."

(OS3, R5)

With the right engagement and communication, trust will deepen and the relationship can move from a 'master-servant' relationship, to a true 'peer-to-peer' partnership.

In terms of measurement used to assess the value delivered by the relationship, the following metrics are in place:

Internally

Customer satisfaction surveys: these are carried out once a year, and are taken very seriously. They are the main measure of the quality of the relationship, and can highlight issues that need to be addressed. They ask: *"Would you recommend us to a friend?"*, giving a net recommender score. In addition, *"they are what we get bonused on"* (OS3, R5).

Business effectiveness score: this assesses, for example, employee satisfaction.

Revenue

Profits

Client Measures

Cost savings

Access to skills

Speed of responses

Stability

Value: this measure has been included in the last couple of years and attempts to assess the more qualitative aspects of value: *"what value are you bringing to the table?"*

Balanced scorecard: OS3 is formulating this with Client 5. It will include operational, quality and end-user metrics, as well as satisfaction/perception.

Continuous Improvement

When a team member has finished working on a project, he or she must produce a 1-page summary with ideas on how to improve further. This is a very effective tool for driving a deeper relationship with the client. It is then important to measure how many of these ideas are implemented.

Strong Governance Framework

OS3 and Client 5 have a strong meetings framework, and are about to implement a full metrics framework. SLAs are all captured in the contract: *"you've got to have SLAs [...]. If you get caught up in a legal argument, they will define why you should or shouldn't have the business"* (OS3, R5).

Client 5 accepts the concept of demand management. Client 5 captures their forecast demand in annual operating plans, and fortnightly governance meetings take place to

assess the nature of the projects and their needs. OS3 uses the information to plan accordingly.

If the account managers were to track the regularity of meetings with their clients, this could potentially improve the measurement of the success of the relationship. In Respondent 5's view, if meetings are taking place regularly, this is a sign of a healthy relationship. A relationship characterised by professionalism and a blend of formality and informality is likely to be a healthy one:

"If you can go to lunch or dinner with the client, and have both a business and friends relationship [...], this is very healthy."

(OS3, R5)

Client 5's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

In Respondent 9's view, value in an outsourcing relationship lies in the following:

"The quality of projects that [OS3] delivers must be at least as good as we could do."

(C5, R9)

"The innovation that [OS3] brings to the table should be different to what [Client 5] can do [...]. We make drugs, that's where we focus our innovation. These guys deliver IT projects for a living – they should bring that innovation to us [....]. On some projects, we've come up with a very traditional solution; [OS3] have suggested doing things differently, based on what they've seen other clients do, or based on other things they've done."

(C5, R9)

The expertise of the outsource supplier, therefore, represents significant value.

'Hard' Metrics

In order to measure the value of the relationship, Client 5 has some 'hard' metrics in place around quality, schedule and budget. Client 5 aligns its success measures closely with OS3, for example, using a balanced scorecard approach. Client 5 also measures its own performance and vendors' performance: *"We need to encourage vendors to be open [...]. We have a vendor review."* (C5, R9).

Respondent 9 comments that the KPIs currently in place are fairly rudimentary, but the relationship is still at quite an early stage:

"As the relationship matures, you can get past the basics, and look at new measures going beyond this. [For example,] how many iterations are required before the solution is delivered? [...] Once you know the basics will happen, you can move to the next level and put other metrics in place as the relationship matures – we're not there yet with [OS3]".

(C5, R9)

'Softer' Measures

Respondent 9 comments that it is harder to measure the 'softer' side of the relationship, but the following questions can help to gauge how successful it is:

- *"How does the relationship feel?" (C5, R9).*

- *"How do people respond when you ask for additional support? When things go wrong do they offer additional help?"* (C5, R9).

- *"Do they [OS3] feel emotionally tied to the same objectives as you do?"* (C5, R9).

In Respondent 9's view it is very hard to put metrics around these 'softer' areas: *"It's just got to feel right"* (C5, R9). Equally, Respondent 9 feels that it is difficult to measure the level of innovation that the outsourcing relationship brings, saying, *"how do you know that you wouldn't have come to that conclusion anyway?"* He feels that the most appropriate measure is simply to gauge whether the perception of value and innovation is positive.

Client 5 has a good governance framework – *"nothing radical, pretty standard stuff"* (C5, R9) – but it is effective and clearly important. Each programme has a project board and a programme board comprising people from Client 5 and OS3. Performance is assessed through the boards, and, in addition, Client 5 carries out a vendor review every month.

8.4.6. Evidence of Understanding and Partnership Between OS3 and Client 5

Outsource Supplier 3's (OS3's) Perspective

In terms of understanding the true costs associated with an outsourcing relationship, Respondent 5 comments that some clients are quite naive, but Client 5 has a good understanding of costs. He makes the point that issuing a change order (which implies extra cost for the client) is a failure, as it means you have missed something along the way:

"The onus is on the supplier to ask the right questions, and make sure you don't miss things [...] to get the costs right. On the client side, it causes a lot of pain to go over budget, [...] their careers come into question [...]. The supplier needs to be aware of this."

(OS3, R5)

Similarly, OS3 needs to work actively to ensure that any mismatch of expectations with users is quickly addressed. It is important to have an iterative process in place, so that wrong expectations, or misinterpretation of the client's requirements, can be picked up early. For example, Respondent 5 comments that OS3 should not get to the stage of user acceptance testing, when the product is done, to find that the client says, *"that's not what I meant"* (OS3, R5).

For Respondent 5, evidence of partnership is having free access to the client, is when the client wants to see you, is when there are opportunities coming from the client, and is when the client is willing to reference you (though the last point can be difficult for many companies because of brand issues where offshore organisations are involved.)

Client 5's Perspective

Respondent 9 feels that there is good visibility and clarity on costs for distinct projects, though for 'steady state' projects, costs could be monitored better. As the relationship with OS3 is still in its early stages, both parties are currently working hard to get expectations aligned.

Client 5 has gone into the relationship with OS3 with trust assumed:

"The trust is there to be destroyed. [...] We haven't gone into it saying they have to earn our trust. When things haven't been going right, there's been lots of transparency from the supplier. [...] To date, there's no reason to give up on that trust."

<div align="right">(C5, R9)</div>

Respondent 9 gives the example of OS3 trying to reformat the budget to make sure things go right, if there is a problem on costs. OS3 clearly cares about making the partnership work.

8.4.7. Degree of Flexibility in the Outsourcing Relationship

Outsource Supplier 3's (OS3's) Perspective

Respondent 5 believes that outsource suppliers need to be flexible, commenting that clients want ultimate flexibility, but don't usually want to pay for it:

"You just have to deal with changes at the time. [...] You won't survive long if you don't do this. To make a change, [...] it doesn't bankrupt you."

<div align="right">(OS3, R5)</div>

Respondent 5 makes the point that with lower price, entrepreneurial offshore vendors as resources, it is easier to be flexible than for traditional Western players.

Client 5's Perspective

Respondent 9 comments that OS3 is more flexible than Client 5:

"It is emotionally in their interests to be flexible. We've defined our framework; we look to [OS3] to flex around that."

<div align="right">(C5, R9)</div>

The relationship with OS3 is driven more by Client 5 at the moment: the latter had already decided what its end-state organisation would look like, and OS3 has had to mould around that:

"It is more a client-supplier [than a partner-partner] relationship at the moment. Once we get into the 'nuts and bolts' of what the right delivery will look like, that will probably change, and a more balanced relationship should evolve."

<div align="right">(C5, R9)</div>

8.4.8. Impact of the Outsourcing Relationship on End-Users and the Brand

Outsource Supplier 3's (OS3's) Perspective

The outsourcing relationship can, clearly, have an impact on end-users. OS3 has access to end-user views through satisfaction surveys. If there is a problem with a particular area – for example, response times – OS3 can improve this, but the price may go up as a result.

Client 5's Perspective

Respondent 9 does not feel the outsourcing relationship will have any impact on Client 5's brand. The end-users (Client 5's staff) have a change curve to go through and, as with any change management, there will be people issues to resolve. OS3 will be managing this change:

"We ask OS3 to drive [Client 5] staff; that has caused some issues, but it's a change curve we need to go through."

(C5, R9)

8.4.9. Top Three Factors that Make an Outsourcing Relationship Work Successfully

Each respondent was asked the following question: *"In your opinion, what are the three things that make an outsourcing relationship work really well?"*

The table below summarises the responses to this question:

Factors that make an outsourcing relationship work successfully	OS3 No. of respondents who selected this factor	Client 5 No. of respondents who selected this factor
The outsource supplier must deliver against commitments: Do what you say you are going to do	1	
Effective communications and trust	1	1 (trust)
Deliver extra value to achieve client satisfaction: Impress, surprise, delight, be enthusiastic, go the extra mile, think out of the box, innovate.	1	
Agreed and aligned objectives		1
Transparency – across both organisations		1

8.4.10.   Conclusions

Although the outsourcing relationship between OS3 and Client 5 is at an early stage, Client 5's 'light touch' approach to the outsourced project means that a high degree of trust is being placed in OS3. Client 5 recognises that OS3 provides valuable expertise which the former does not possess in-house. Both partners recognise that total trust, commitment and transparency will be required to make the relationship a success. It is also essential to

ensure that agreed and aligned objectives and the right engagement team are in place. Both respondents highlight the importance of regularly checking 'how the relationship feels' throughout the engagement. Constant use of formal and informal communications channels is vital, with any problem areas or issues being addressed through face-to-face contact. Managing perceptions is a fundamental part of OS3's role, and this includes making sure Client 5 is aware of everything OS3 is doing and achieving.

For OS3, delivering what you promise is the 'bread and butter' of the relationship. Achieving the SLAs is just the starting point, after which OS3 must go on to deliver continuous innovation and improvement: it must show leadership, give strategic advice, and always 'go the extra mile' with inventive thinking to surprise and delight the client. OS3 should care passionately about the client's success, and should really want to take the client organisation, and the individuals within it, to the top. This, ultimately, will enable OS3 and Client 5 to achieve a truly integrated, 'peer-to-peer' partnership.

8.5. Case Study 5

Outsource Supplier 4: Business process and business transformation outsourcing, including significant expertise in insurance and life and pensions services.

Client 6: Leading pensions, investments and insurance company.

Key

(OS4, R6) = Outsource Supplier 4, Respondent 6

(C6, R10) = Client 6, Respondent 10

8.5.1. The Outsource Supplier and Client Organisation: Strengths, Challenges, and Outsourced Processes

OS4 provides business process and business transformation outsourcing to clients, and has particular expertise in insurance and life and pensions services. It has seen significant growth in its life and pensions services over the last five years. Respondent 6 is the relationship director for Client 6's account. OS4's core competence lies in taking on challenging service operations, and transitioning them into strong, dependable services across the board, in a relatively short period of time (usually 3-6 months). This includes delivering and sustaining all service obligations and metrics consistently.

Respondent 6 believes that OS4 is particularly good at delivering change in a structured way, providing value for money for the client. He comments that it can be hard to understand the true cost of change for the client, because many of these costs are hidden. OS4, however, is good at bringing granularity to the hidden costs of change delivery. It focuses on delivering service operations on time and on budget.

OS4 also has a strong capability in offshoring cost effectively, having inherited good practice and a good foundation for growth from Client 6. OS4 has bought into Client 6's success at offshoring as part of the outsourcing partnership.

OS4 is also very effective at managing risk and compliance operations, as it operates in its own right as a regulated business, and has its own responsibilities in the area of, for example, 'treating customers fairly.'

As with any business, OS4 has a number of challenges to deal with. It is currently at an early stage in large transformation programmes for a number of clients, and has to put significant effort into leadership development and encouraging clients to operate in OS4's way. OS4 needs to manage carefully its strong growth, in the context of a difficult business environment. It is actively taking on new business, as well as working with six of the UK's biggest life insurance companies – companies who are looking for cost reduction driven by offshoring, and wider business improvements. Each client's business requirements change in line with business opportunities, investments, and changing regulations. OS4 therefore needs to be extremely flexible: clients are not investing significantly in new products in these difficult times, so OS4 must, 'cut its cloth accordingly.'

The growth of the business also brings challenges relating to how OS4 should be organised and structured. It has grown from a company with one client and 400 staff in 2002, to a company which currently has 6-8 clients and over 10,000 people. Organising themselves on a more functional basis, for example, may or may not provide greater synergies.

Client 6 is a leading pensions, investments and insurance company, and Respondent 10 is service management director. Client 6 outsources IT, administration and customer management processes to OS4; for example, administration of life and pensions policies, servicing, claims, back office and call centre operations. The £722 million deal, finalised in April 2008, resulted in approximately 3,000 staff being transferred from Client 6 to OS4. The key driver of the outsourcing decision was the need to hit extremely tough cost targets. Client 6 was also keen, however, to partner with an organisation who would be able to improve customer experience into the future. As OS4 has clients in both the public and private sector, Client 6 knew it could benefit from the best practice it offers in many different areas.

Respondent 10 believes Client 6's strengths lie in its strategy and product development, its skill in managing distribution partners, and its flexibility in managing strategic growth products in fast-changing environments. Although Client 6 outsources many areas, it manages the outsourcing relationship tightly, and retains key experts in-house.

A challenge for Client 6 is that many competitors benefit from a larger sales force, and deeper distribution than it possesses, but Client 6 has managed to perform well, focusing on a 'value' rather than 'volume' proposition. Client 6 has a strong, trusted brand and, in a fragile market-place, customers often turn to trusted brands.

Another positive factor for Client 6 is that demographics are on the company's side: the population is ageing, so there is a definite and on-going demand for products that provide provision for old age. A threat perceived by Client 6 is heavy regulation, in what is already a heavily regulated industry. Client 6 works with the Government to ensure that the right approach is adopted.

8.5.2. What are the Factors that Lead to a Successful Outsourcing Relationship?

Outsource Supplier 4's (OS4's) Perspective

Respondent 6 believes that the outsource supplier must meet the client's objectives and expectations around service, cost, risk and flexibility – it must fulfil all the 'reasons why' the business was outsourced.

From OS4's perspective, the business plan must be met, and satisfactory financial return achieved. It is also important to establish an operation that acts as a reference point for other clients. OS4's relationship with Client 6 demonstrates credibility in managing a regulated business. If an existing client is prepared to act as a reference for OS4's potential clients, this is definitely a strong sign of a successful relationship.

Another sign of success is if the client moves progressively towards the outsourcer, rather than bringing processes back in-house (though a change in strategy on the client side may sometimes require this to happen). Success means being Client 6's outsourcer of choice, *"to sprinkle our pixie dust [on the business]"* (OS4, R6).

Respondent 6 believes that a key factor in making an outsourcing relationship excellent is, *"no surprises".* He elaborates, saying:

"You've got a body of folk who know how the operation and relationship should work, who relate to each other effectively, so no-one says, 'I wasn't expecting that.' You have a problem if the client says, 'I've just heard X, I wasn't expecting that.'"

(OS4, R6)

This implies that there has been a misunderstanding or breakdown in communications.

"There will always be issues, disagreements, fall-outs, but they should be well understood and telegraphed."

(OS4, R6)

A good cultural fit between the two organisations is also key to a successful outsourcing relationship. Respondent 6 feels that OS4 and Client 6 mesh together fairly well:

"We're very different businesses but we're both subject to the same regulations, [and have similar] processes, methodologies and reporting."

(OS4, R6)

OS4 is tightly regulated but, at the same time, entrepreneurial, and Respondent 6 feels that Client 6 is like-minded in terms of its organisational values.

Respondent 6 comments that it is the sum of the parts – the successful approaches and behaviours in each phase of the outsourcing engagement - that makes the relationship excellent.

Client 6's Perspective

Taking cost out and maintaining and improving customer service are crucial to success: getting value for money, as set out in the contract. The contract itself must provide for flexibility:

"You should do everything in the contract unless you agree not to do it"

(C6, R10)

Feedback from the business is critical. The outsourcing relationship should have attention from the CEO down, so everyone is aware of its importance. If there are arguments, both sides need to take a sensible approach, talking to and listening to each other. A dedicated operations people should be allowed to focus on service delivery, while a separate team focuses on the contract and numbers.

8.5.3. Success Factors with Regard to Different Phases of the Outsourcing Service

The following section summarises the views of all respondents regarding the success factors that are most critical at the different stages of the outsourcing agreement.

Outsource Supplier 4's (OS4's) Perspective

Pre-transition

- Both parties are interested in protecting their own interests, but the more openness in the relationship the better. If the client is completely open about its agenda, OS4 will have a better understanding of what it is taking on. This will increase the likelihood of OS4 coming up with a credible, achievable, cost effective solution. If the client tries to hide issues in the hope that OS4 will simply deal with them when they become apparent, this implies a worrying lack of trust and transparency.

- It is essential to have good access to senior management, and a fast escalation route to key decision-makers, to overcome any issues.

- OS4 needs to put an experienced team together with a wide range of skills across all disciplines:

  "The better the people we can put onto the task, the better the solution will be."

  (OS4, R6)

Transition/Implementation

- The three points mentioned in 'pre-transition' also apply in this phase of the relationship.

- Excellent planning with clarity around roles and responsibilities on both sides is essential.

- There should be an effective transition team with counterparts on the client side: OS4 has an overall transition director, then 8-10 work streams are usually set up covering, for example, operations, HR, IT, premises, compliance, risk, audit etc. Each of these areas requires 'man-to-man marking.' For the management team, it is crucial to have the right combination of staff transferring from the client, and staff with OS4 'DNA.' This ensures a wealth of knowledge of the business and experience (the transferring staff) alongside those who can put OS4's 'stamp' on the programme.

- OS4 must make it very clear what it needs from the client, and must understand all the critical dependencies around decision-making.

- Strong programme management is essential on both sides to keep the project moving forward.

- OS4 must be mature enough to recognise that, while making the transition happen is the single most important thing on its agenda, Client 6 is managing a life and pensions business and has other issues challenging its time and decision-making.

- The optimum time for a transition to last is, generally, 4-5 months. If it is shorter than this, it is difficult to 'flush out' all the issues.

- It is important to have continuity in terms of the people working on each phase of the relationship. For example, some people who worked on the bid should be involved in the transition and beyond, as it is essential that the teams understand the underlying meaning of the contract. All commitments should be codified and worded carefully so that, a few years further on, a newcomer to the team can still understand the full meaning of these commitments.

Post-transition

- It is critical to have an open relationship with a 'win-win' mentality:

"Neither party should be trying to 'put one over' on the other. You have to bear in mind each other's requirements [...]. [Client 6] is good at that, [...] they have a very professional approach. [...] You need a pragmatic approach to dealing with issues, as and when they come up, [...] [OS4] and [Client 6] are good at finding solutions to meet both sides' requirements."

(OS4, R6)

- Avoid referring to the contract: this generally means that you have failed to reach a sensible agreement. Fifteen months into the relationship, OS4 finds some aspects of the contract restrictive:

"[Client 6] has a very grown up attitude to this, [and will say] 'you tell us what you want this to look like, [and how does that affect aspects of the contract?]' [...] Don't be restricted in your thinking by what was agreed in a lawyer's office two years ago. Talk about the issue, not what's in the contract. [...] Wanting to delve into the contract implies people are already at loggerheads."

(OS4, R6)

- The way OS4's and Client 6's teams interface continues to be critical to success. OS4 has a Relationship Team while Client 6 has a Service Management Team. These two teams interface regularly on all issues and opportunities, escalating problems where required, acting as a filter, and bringing structure and consistency to the relationship. Both sides try to be balanced in terms of the way issues and problems are addressed:

"We come at issues from a different perspective, but take a 'win-win' approach [...] and find a common view."

(OS4, R6)

Respondent 6 and Respondent 10 ensure the smooth running of the governance forums. If details in the contract need to be modified, they will try to bring a common perspective, and find a pragmatic solution that works for both parties.

The Service Delivery Committee provides a monthly formal review of what has gone well and what has not gone so well. Key issues and regulatory matters are reviewed, and decisions are carefully recorded for posterity. Where necessary, issues are escalated to the next level: the Joint Management Committee. This committee sits monthly, and is attended by Respondent 6's and Respondent 10's bosses.

Client 6's Steering Group meets quarterly to discuss formally major opportunities or major concerns on the client side.

Respondent 6 and Respondent 10 discuss all important issues whenever this is required. The strong communication between the two parties is exemplified by the fact that Client 6 is sharing its business plans for 2010 with OS4.

Client 6's Perspective

Pre-transition

Respondent 10 led a very credible internal bid for the outsourcing business. There were many areas of commonality between Client 6's bid and OS4's bid, but OS4's bid was considered most favourable as it allowed Client 6 to gain some certainty on unit costs, transferring the cost risk to OS4. Respondent 10 therefore has a real awareness of the intricacies of OS4's bid, which has proved invaluable to the relationship.

Transition/Implementation

- Effective change management is essential: Client 6 spent a significant amount of time and effort preparing its people for the change:

  "They didn't physically move, they had the same terms and conditions, so the transition was as easy as it could be."

  (C6, R10)

  Respondent 10 comments that OS4 is very efficient and effective at carrying out project transitions, so there were very few issues. Although there was an awareness, over time, that OS4's corporate culture was different to Client 6's, generally, people adapted well. In fact, for many people, the transferral to OS4 created better opportunities than they would have had if they had stayed with Client 6, for example, opportunities to take on bigger roles or get involved in other projects.

- The team and communication set up is crucial to success: there is a strong governance model in place, with huge involvement by senior managers. Teams on both sides, from different levels within the organisation, meet on a regular basis. Both parties are, therefore, quickly made aware of what is going well, and not so well in the relationship.

Post-transition

- It is essential to have the right people in place:

  "Many people have been with the project all the way through, and have a good awareness of the contract. [...] They are very experienced and have a 'can-do' attitude. We went into this as a partnership, not a 'supplier-vendor' relationship."

  (C6, R10)

- On-going commitment and involvement from senior managers is key to success.

8.5.4. What are the Most Challenging Aspects of the Outsourcing Relationship?

Outsource Supplier 4's (OS4's) Perspective

- Introducing a new way – OS4's way – of managing change was challenging initially, with some friction between the two parties. This lasted for 6-9 months, and some issues were escalated up to the Joint Steering Committee. Fifteen months into the contract, the

relationship is working very well. Respondent 6 comments that OS4 is 'work-shopping' how change processes might be improved, so that the time required before the relationship starts to work well can be reduced.

Client 6's Perspective

- Outsourcing agreements can go sour if not enough thought is put into getting the contract right, and then into how to execute plans; for example, getting the right, 'can-do' people with a positive attitude to manage the relationship is crucial.

- If strong governance is not in place, with the right connections across and throughout the two organisations, it is possible that 'mole-hills' become 'mountains'.

- "*You can't outsource your responsibility – accountability always remains with the client [...], so you need to work closely with the outsource supplier [...], give help and encouragement [to them] to allow them to achieve their objectives*"

(C6, R10)

8.5.5. Measuring the Success and Value of an Outsourcing Relationship

Outsource Supplier 4's (OS4's) Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

Respondent 6 sums up 'value' as follows:

"Are we delivering what we said we would, at the price we said [...]. Also, are things working for both parties?"

(OS4, R6)

It is also important for OS4 to add value through the new ideas that it brings:

"We have a vast wealth of experience [...]; if I were [Client 6] I'd be desperate for our ideas [...]. We attend meetings to 'shoot the breeze', [...] we don't send a bill for that."

(OS4, R6)

OS4 uses its experience to come up with ideas that will help Client 6 grow:

"Because if [Client 6] grows, we grow" (OS4, R6). The positive, committed nature of the relationship is underlined by the two parties having a vested interest in mutual success.

OS4 measures the success of the relationship through its service criteria. A whole raft of **'hard' measures** has been agreed around project delivery, with a commitment to specific service levels. An assessment of delivery against commitments is made through the Joint Management Committee, and the 'state of play' in all functional areas is considered. OS4 also measures the financial performance of the account, and examines all the regulatory responsibilities it is subject to, for example, any internal or external audits or FSA visits that are required. High visibility is ensured around all risk and compliance functions.

'Softer' measures: originally, OS4 and Client 6 had a relationship survey:

"we probably need something like that going forward [...]. We haven't decided how to do it yet [...]. We [Respondent 6 and Respondent 10] want to measure the temperature of the

relationship [...]. It's in the 'too hard' basket at the moment [...]. It tends to be done through the Joint Management Committee who form a view – 'does it seem to be going well?'"

(OS4, R6)

Respondent 6 feels that feedback on this issue should not need to be anonymous:

"People should be happy to share their views [...], we don't want moaning."

(OS4, R6)

Carrying out some kind of 'temperature check' at different levels of the organisation is important because, although the relationship may be perceived as very positive overall, it is perhaps inevitable that there will be some pockets of discontent, given the vast size of the project. Respondent 6 comments that OS4 has 2-3,000 people working on this account, and it is impossible to know everyone; he does not know approximately 80% of Client 6's stakeholders and decision-makers:

"There could be a few people on each side who aren't getting on at all. We [Respondent 6 and Respondent 10] need to be aware of this. There's a scale challenge here that doesn't exist in other accounts. We need to be careful that in some areas there aren't small problems that could then become perceived as wider problems, after a few coffee machine conversations."

(OS4, R6)

Client 6's Perspective

How do you Measure the Success and Value of the Outsourcing Relationship?

Respondent 10 defines 'value' in the following way:

- *"Are we getting value for money?"* (C6, R10)
- Is the cost of making changes being controlled adequately? *"Are we guarding against 'cost creep'?"* (C6, R10)
- *"How is [OS4] adding value to our business?"* (C6, R10). For example, by coming up with innovative ideas to improve customer experience that Client 6 can implement.

Client 6 measures the success and value of the relationship with a variety of **'hard measures'** contained within its 'service level dashboard'. Service level agreements are completely aligned between OS4 and Client 6: they were jointly agreed in the contract, and are assessed on an annual basis to see whether any changes are required. For example, measures include turnaround times for processing different financial transactions. All indicators are assessed on a monthly basis ('green' – meets the target; 'amber' – minimum acceptable level; 'red' – below the minimum level). Any reasons for failure are identified, and processes are put in place to get indicators back to 'green'. Costs are also measured, for example, unit costs, which increase or decrease as volume goes up or down. The costs of project services are monitored against estimates.

Customer experience is also measured as, *"you might have green SLAs but unhappy customers"* (C6, R10). Client 6 assesses complaints and surveys of advisers and policy holders, to see whether customer experience is improving. The following tools also help in the measurement of customer experience:

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Call lines: the caller has the option of leaving real time feedback, which will then be investigated.

Feedback from sales people: this also provides a good picture of customer experience, and how to constantly improve it.

These **'softer' measures** are obviously subjective but are, nonetheless, important as, *"perceptions are reality"* (C6, R10). It is essential to have a feel for what has gone well, and what has not gone so well. In terms of the outsourcing relationship:

"We listen to gripes and concerns on both sides. A [Client 6] person might say, '[OS4] needs to be more responsive, but an [OS4] person might say, 'we need more information from [Client 6] [to allow us to be responsive]."

(C6, R10)

The 'relationship dashboard' is monitored monthly at the Joint Management Committee meetings.

Client 6 must also conform to the material outsourcing relationship requirements laid down by the FSA: *"you have to demonstrate you're managing the relationship appropriately."*

(C6, R10)

Good governance is critical to ensure that the right processes and appropriate measurement are in place:

"otherwise things slip through the cracks. You can't manage a contract appropriately [without good governance]. Everyone needs to know when they're not doing the right things. It's like a super-tanker – you need to keep it on the right course. [...] It's very difficult for it to change direction once it's gone off course, [...] it's hard to get it back on the right track."

(C6, R10)

Respondent 10 comments that there is a continual need to assess whether the right things are being measured. SLAs, for example, have already been changed as the old ones, *"didn't give quite the right picture"* (C6, R10). A root cause analysis of complaints also needs to be carried out at a deeper level, to give Client 6 a better understanding of where there may be issues to resolve. Organisations always need to ensure they have the right information, and are using it in the right way:

"Business changes constantly, it never stops. Some management information is not useful, some needs to be managed better and used more effectively."

(C6, R10)

8.5.6. Evidence of Understanding and Partnership Between OS2 and Client 2

Outsource Supplier 4's (OS4's) Perspective

Respondent 6 believes that there is a very good level of understanding and partnership between OS4 and Client 6. A lot of work has been carried out refining service agreements to ensure that they reflect exactly what the client wants. Communication between the two parties is very strong, with regular formal and informal reviews.

There is a strong 'win-win' attitude and a mentality of mutual support. Both parties are comfortable with sitting down and dealing with issues sensibly as they arise. A specific example of partnership is that Respondent 10 is happy to act as a reference for OS4's potential new clients. Respondent 6 feels that every opportunity is taken to build the relationship, rather than undermine it; OS4 wants to feel that it is Client 6's partner of choice:

"If [Client 6] wants to outsource other elements of their business, we want to be in pole position [to take that business on]."

<div align="right">(OS4, R6)</div>

Client 6's Perspective

Respondent 10 feels there is a strong level of understanding and partnership between Client 6 and OS4. The relationship has met expectations on an operational level, and Client 6 has worked hard with OS4 to keep things on track:

"We have dedicated people doing this. There are always little issues, gripes and hassles" (C6, R10) but with sensible, pragmatic discussion and listening to both sides, these can be resolved.

Respondent 10 echoes Respondent 6 when he says that OS4 gives support willingly when Client 6 is bidding for business, demonstrating a real culture of mutual cooperation. Respondent 10 talks of a 'partnership spirit', and the following quote illustrates this clearly:

"[You need to] be firm when you have to be, [but sometimes] [OS4] goes beyond expectations [people might work very long hours without claiming overtime], so it's 'give and take' [...], if [OS4] needs a break, we give them it."

<div align="right">(C6, R10)</div>

They have a sensible relationship where both parties act in the spirit of the contract, looking out for each other's interests to create a 'win-win' mentality.

There is clearly trust between Respondent 10 and Respondent 6, and a good level of trust overall in the relationship. Respondent 10 comments that there are some pockets within the organisations where trust could be improved:

"It can cause conflict if certain parts of the organisation feel they are subsidising the agreement [...]. It's a commercial relationship, so it's never fully transparent."

<div align="right">(C6, R10)</div>

In the day to day running of the service, Client 6 trusts OS4 to get on with their job:

"We trust them to have the right capacity to manage the peaks and troughs in demand [...]. We manage by outcomes, [and don't] meddle in the day to day activities [...]. We have controls in place but we can't and shouldn't check everything [...] – otherwise, why outsource it?"

<div align="right">(C6, R10)</div>

8.5.7. Degree of Flexibility in the Outsourcing Relationship

Outsource Supplier 4's (OS4's) Perspective

Flexibility is built into the whole way OS4's operation works. For example, OS4 understands the importance of revising and updating service agreements as circumstances change, rather than rigidly sticking to what was agreed at the commencement of the service.

Client 6's Perspective

There is flexibility built into the contract. For example, if the schedules are not working effectively, it is possible to go through the formal change controls and change them. Flexibility is not an issue in the outsourcing relationship.

8.5.8. Impact of the Outsourcing Relationship on End-Users and the Brand

Client 6's corporate clients were initially a little concerned about the impact the outsourcing relationship might have on customer service, but feedback from them now is very positive. According to Respondent 10, the customer should not notice any difference, whether the service is outsourced or kept in-house. In fact, customer surveys carried out this year show a great improvement in customer service and customer experience.

8.5.9. Top Three Factors that Make an Outsourcing Relationship Work Successfully

Each respondent was asked the following question: *"In your opinion, what are the three things that make an outsourcing relationship work really well?"*

The table below summarises the responses to this question:

Factors that make an outsourcing relationship work successfully	OS4 No. of respondents who selected this factor	Client 6 No. of respondents who selected this factor
Trust	1	
Openness and transparency	1	
Being committed to securing mutual benefit	1	
A good contract – clearly specifying what needs to be done		1

Having the right people in place in both organisations to manage the relationship – experienced, pragmatic service/operations managers with a 'can do' attitude		1
Strong governance – to ensure the right connections are made, across and throughout both organisations		1

8.5.10.   Conclusions

Both Respondent 10 and Respondent 6 come up with a clear statement of what a successful outsourcing relationship means for their organisations. For the client, it is that cost is taken out and customer service is maintained and improved; for the outsource supplier it is that they meet the client's objectives and expectations with 'no surprises', while bringing innovative ideas for improvement (and achieving an acceptable financial return). The relationship is driven strongly from the top of both organisations, and while Client 6 and OS4 are clearly two distinct organisations, each with its own identity, there is a good cultural fit between them as they appear to have meshed successfully together. A lot of emphasis is placed on having the right blend of OS4 and Client 6 staff with an on-going commitment to the relationship, and a positive, 'can-do' attitude among all those in service or operations roles.

A good contract and strong governance clearly play a large part in the success of the outsourcing relationship. Requirements, roles and responsibilities are clear, with teams interfacing at different levels across both organisations, meeting on a regular basis. OS4 is allowed to 'get on with its job', but there is still a huge commitment and involvement from senior managers on the client side, as Client 6 is well aware that it has not outsourced its responsibility for the services provided.

The relationship is characterised by a good deal of openness and transparency (as much as is considered appropriate in a commercial arrangement) while communication is sensible and pragmatic, with the emphasis on talking and listening to resolve issues. As a result, trust is high, with both parties acting in the spirit of the contract: each party 'puts its best foot forward' but both sides trust each other to find solutions that favour both organisations. There is a strong 'win-win' attitude, with a mentality of mutual support and a commitment to seek mutual benefit.

Both partners 'gauge the temperature' of the relationship through the monthly Joint Management Committee meetings. However, given the huge scale of the account, both sides need to be aware of potential pockets of disharmony. It would be helpful to have other 'relationship checks' in place at a variety of levels in both organisations, to 'flush out' and address any perceived problems with the relationship. The relationship may be extremely positive at senior levels, but there may be some discontent at specific operational interfaces. Additional 'relationship checks' could be useful in continuing to cascade the strong, positive spirit of the relationship across and throughout both organisations, to enhance it even further.

9. Discussion and Conclusions

9.1. Critical Success Factors Emerging from the Literature Review

If we examine the critical success factors for outsourcing relationships identified from an analysis of the academic literature, these can be grouped into two main areas:

1. Process and strategy issues
2. People and relationship issues

Process and Strategy Issues

- Getting the contract right

- Identifying risks and costs

- Ensuring the right controls and processes are in place

- Addressing knowledge gaps and enabling effective knowledge transfer

- Maintaining a holistic view of the business

- Understanding needs and setting clear goals

- Commitment from the top

- Careful strategic planning, challenging existing thinking

- Measuring and monitoring performance and continuous improvement

- Clear roles and ownership of processes

- Strong IT capabilities

- Strong governance

People and Relationship Issues

- Compatible culture and values

- Openness, transparency and trust

- Regular formal and informal, face-to-face communications

- Commitment to a 'win-win' relationship

- Investment in the relationship

- Effective HR and change management strategies

- Flexible structure

If the outsource supplier and client can focus on addressing all of these issues, then this will lead them towards a strong, collaborative strategic partnership.
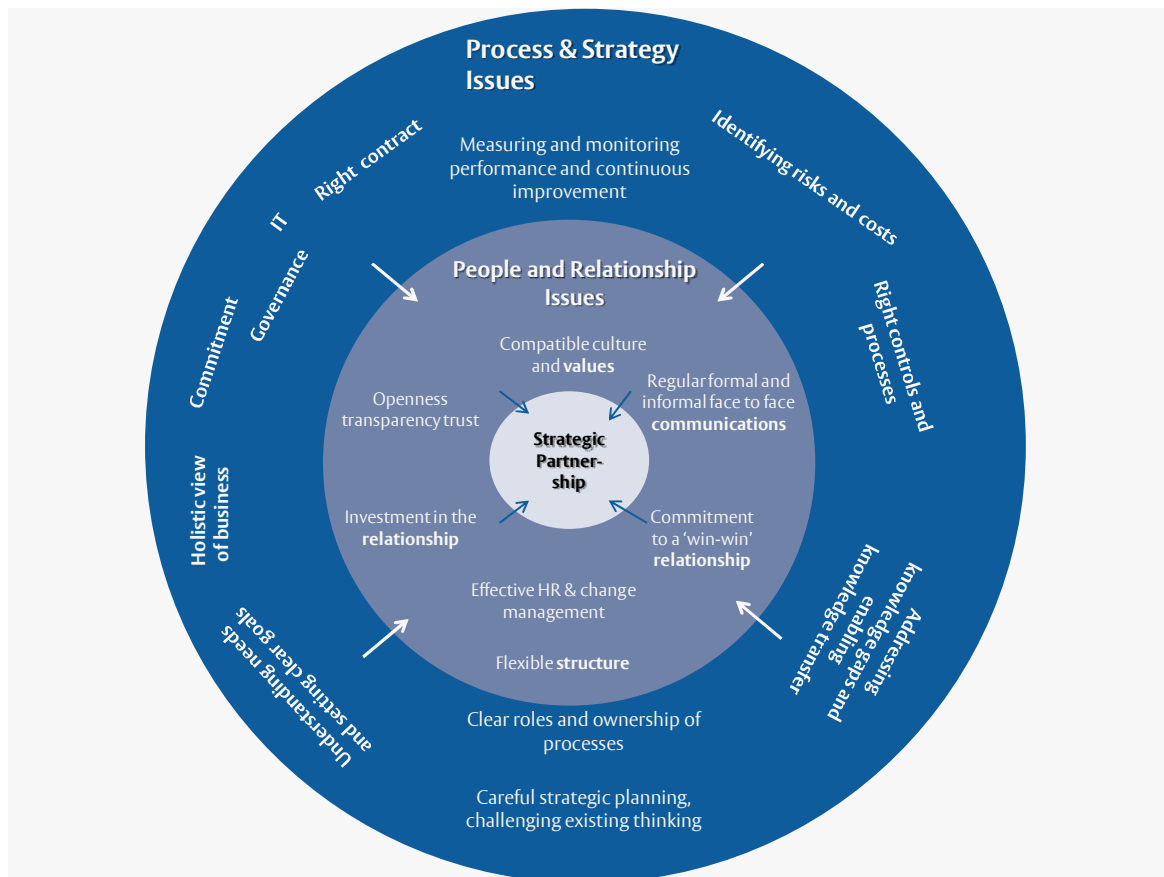
Figure 1:
Factors leading to strategic partnership in an outsourcing relationship (based on literature review)

9.2. The Role of Trust and Involvement in Outsourcing Relationships

A key theme that emerges in each case study is the degree of trust and involvement present in the outsourcing relationship. This varies from one case to the next, but what is clear is that, as trust grows, so too does involvement, and with it, the possibility of carrying out innovative, ground-breaking initiatives together. In some circumstances, it may be appropriate for the client or even the outsource supplier to seek a fairly low level of involvement in the relationship. For example, a client may just need a job to be done, and may choose a transactional rather than partnership arrangement with a supplier. It is worth remembering, however, that academic research indicates that the greatest benefits to both parties are usually derived from strong strategic partnerships between organisations.

In any outsourcing relationship, it is useful to pose the question: *"How close is the client going to let the outsource supplier get to the heart of its business – to its brand and to its customers? How close does the outsource supplier want to get to these areas?"* The answer to this question will be indicative of the type of relationship the client really wants, and the level of trust and involvement that is likely to be present. Equally, the outsource supplier must decide what type of relationship **it** wants, and whether there is a match with the client in terms of needs and objectives.
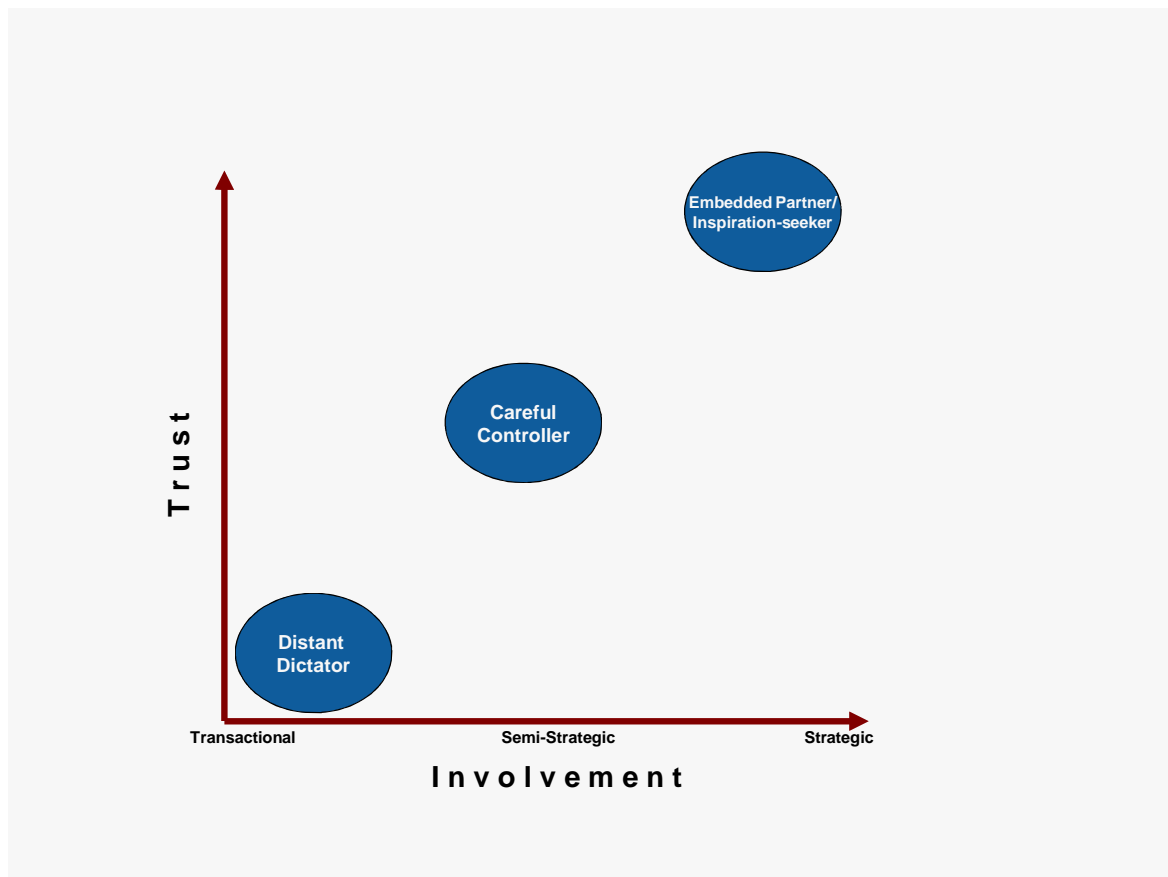
Figure 2:
Degree of Trust and Involvement in Outsourcing Relationships : Client Typologies

The outsource supplier needs to be aware of the client's characteristics, decide whether the relationship is the right one to pursue, and, if so, ensure it adapts its approach to suit the client's needs. The overall attitude of each client typology is summed up as follows:

Distant Dictator

"Just do what I tell you, and do it cheaper."

Careful Controller

"Come up with new ideas for improvements, but only in the areas I tell you to think about. Stay within the remit of your requirements, and do what we want you to do." Creativity is encouraged but it is bounded creativity.

Embedded Partner/Inspiration Seeker

"Join us in our strategic planning and forecasting meetings. Work with us to transform our processes, add value in any way you can. Think 'outside of the box', be innovative. We embrace ground-breaking new ideas and want fresh approaches to anything and everything. Boundless creativity is encouraged."

At the highest level of trust and involvement, an embedded strategic partnership is created.
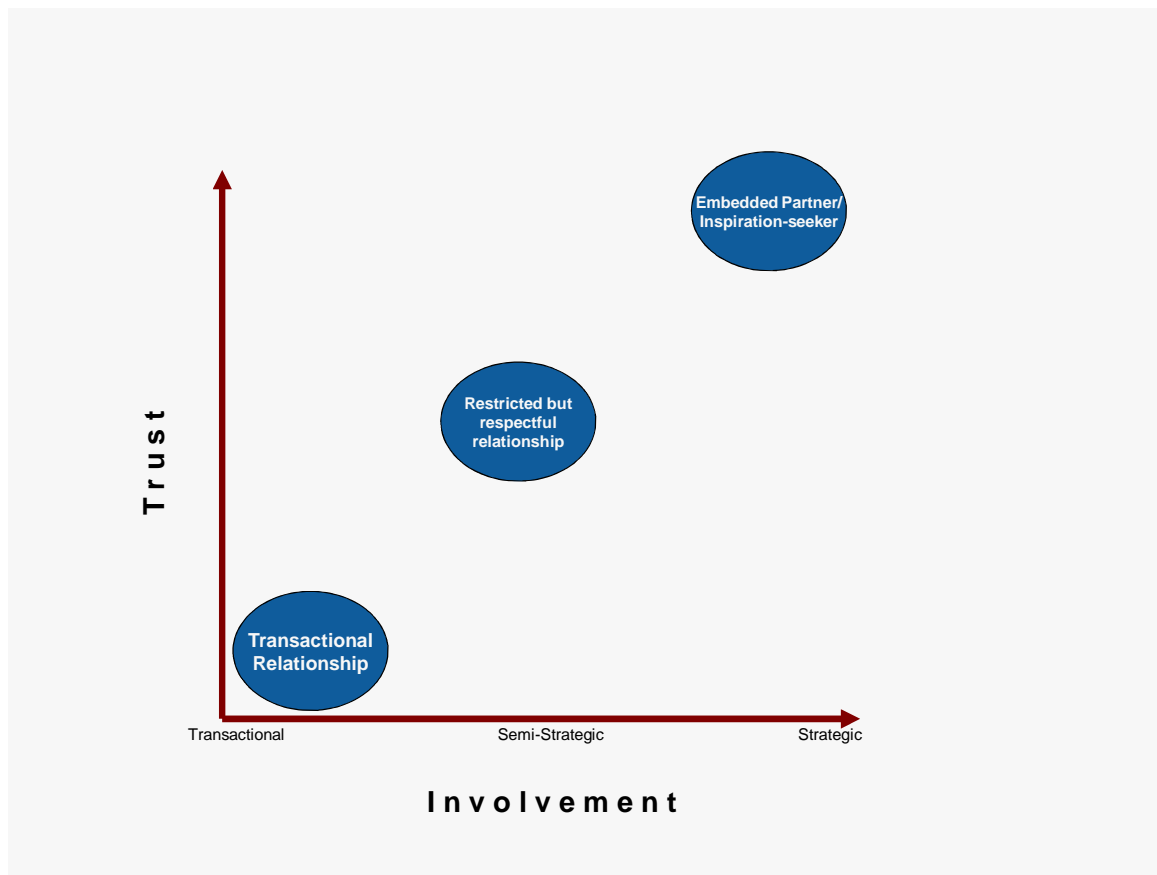
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Figure 3:
Degree of Trust and Involvement in Outsourcing Relationships : Relationship Types

An embedded strategic partnership is characterised by integration. Respondent 9 used the image of the two parties being in a single bed together rather than a 7 foot bed. The relationship is 'peer-to-peer' rather than 'master-servant', and there is a strong commitment to mutual goals and benefits, and a mutual desire for strategic innovation and continuous improvement. Transparency and openness are essential; the outsource supplier should, for example, have an embedded role in the client's planning and forecasting processes. The attitude is one of, *"we're in this together,"* and the issuing of joint communications and providing references for each other should be the norm.

Of course, the outsource supplier needs to earn the right to get to this point by building trust, step by step. Commitment, strong engagement, and open, constructive, honest dialogue all play a key role in this. As Respondent 5 says, it is essential to, *"keep addressing issues, and go and **see** people if they are unhappy."* The outsource supplier must care passionately about the client's success, and be determined to take the client organisation, and the individuals within it, to the top. Being aware of the needs and aspirations of individual managers within the client organisation, and striving to address these needs, is a crucial building-block in the outsourcing relationship. Success for the client and outsource supplier must be inextricably linked, so that mutual goals bring mutual benefits and value.

An embedded strategic partnership could be likened to the relationship between an Olympic athlete and his/her coach or mentor. The coach cares passionately about the athlete's success who, in turn, has a strong respect for, and unshakeable trust and confidence in the coach. There is a mutual striving for excellence, and a total commitment and dedication to

continuous improvement. The coach thrives on the athlete's success, and the potential rewards for both parties are enormous.

9.3. How to 'Check the Temperature' of the Outsourcing Relationship

Most outsource suppliers and clients gauge 'how the relationship feels' through a mixture of formal and informal feedback, for example, in Joint Management Committee meetings (OS4 and Client 6), and at the coffee machine. In most of the outsource supplier/client relationships examined, there is an awareness that perceptions of the relationship could be captured in a more structured, systematic, rigorous and effective way. As the literature revealed, there is a gap in advice on how to measure the 'softer' side of the success of an outsourcing relationship.

The case studies illustrate that, in some cases, the perception of the relationship may be very positive at senior levels but, especially in large-scale outsourcing agreements, there may be pockets of discontent further down the organisation, at an operational level. It would be useful, therefore, to instigate more frequent 'relationship checks' at a variety of different levels within both organisations. This would enable any issues to be 'flushed out' and addressed, and would help senior managers to cascade the positive spirit of the relationship across and throughout both organisations.

Customer satisfaction surveys are the most widely used method (among case study respondents) of capturing data to 'check the temperature' of the relationship. These tend to be filled in by client organisations providing outsource suppliers with an indication of satisfaction levels. Net promoter/net recommender scores are also used by some outsource suppliers to check the client's perception of the relationship. These surveys, however, are usually only carried out once a year, so give a very infrequent, one-way 'snapshot' of satisfaction at a particular point it time. Two-way, 360° assessments, when the outsource supplier is also given the opportunity to provide feedback on the client are less usual. Respondents from most outsource suppliers and client organisations favoured greater use of two-way, 360° assessments, along with greater encouragement of forums where open, honest dialogue between the two parties could take place. The author would also suggest that any mechanisms used to 'check the temperature of the relationship' should be integrated into both parties' routines on a regular, frequent basis, so that feedback on this issue is constant.

Suggestions to Improve 'Relationship Checks'

1. Two-way, 360° assessments at a variety of levels across both organisations, so each party, in operational as well as senior roles, has the opportunity to give regular feedback on 'how the relationship feels'.

   o A straightforward closed question could be asked, for example: *"How well do you think the relationship between [outsource supplier] and [client organisation] is working?"* (e.g. 1 – 10 scale). This would facilitate a broad analysis of overall perception.

   o Further space could be provided to allow respondents to expand on why they feel this is the case, and raise any important issues.

> o   This mechanism could, for example, take the form of an e-mail or 'pop up' that appears on the employee's computer as it shuts down at the end of the week.

2. 'Relationship check' forums/focus groups where a skilled mediator could encourage open, honest dialogue at a variety of levels between the two organisations.

3. The following questions emerged in the course of the case study interviews, when discussing how to 'check the temperature' of the outsourcing relationship. They could be useful areas to explore in future outsource supplier/client 'relationship check' initiatives:

"Where did the relationship begin, and what has it evolved into? For example, how many services has the outsource supplier sold into other parts of the client's business?"

"How often do you have meetings or telephone conversations with your counterpart in the partner organisation?"

"How often do you go out for lunch/dinner or meet socially with your counterpart in the partner organisation?"

"How much pain did the change brought about by the introduction of the outsourcing partner cause you?"

"How many iterations were required to get things right?"

"What response do you get to requests for additional help?"

"When things go wrong, does the partner organisation offer additional help?"

"Has the outsourcing relationship made your job easier, or more satisfying? Has it enhanced your career prospects?"

"How often have you had to refer to the contract?"

"How often have you said, 'I wasn't expecting that' or 'that wasn't what I meant!'"

9.4.   Key Factors Leading to a Successful Outsourcing Relationship: Based on Case Study Interviews

Fifteen factors most critical to the success of an outsourcing relationship emerge from the case study interviews. The author has listed these below, having grouped them into the following three areas:

1. Process issues

2. People and relationship issues

3. Outcomes

(Number of mentions) = the number of respondents who cited this factor in their *"top three things that make an outsourcing relationship work really well."*

Process Issues

- Understanding the client's business and brand (2 mentions)

- o Each party must understand the other's organisation, but it is particularly critical for the outsource supplier to have a thorough understanding of its client's business and brand.

- A good contract (1 mention)
  - o The contract must clearly specify what needs to be done (1 mention)

- Strong governance (5 mentions)
  - o To ensure that the right connections are made across and throughout the two organisations

  - o Structured, disciplined engagement and regular meetings are key

  - o Well functioning teams should be in place with clear contact points, for example with outsource supplier and client organisation team structures mirroring each other

- Measuring value and success (2 mentions)
  - o Reporting and monitoring various aspects of value derived from the relationship as well as cost savings

People and Relationship Issues

- Mutual trust and confidence (8 mentions)
  - o The outsource supplier needs to inspire confidence, and trust needs to go both ways

- Support and 'buy-in' at all levels (2 mentions)
  - o Board and senior management support as well as stakeholder acceptance are crucial

- Responsiveness, openness, transparency and honesty (6 mentions)
  - o Ability of the outsource supplier to understand the client's business objectives, grow, learn and be flexible, and the willingness of the client to share its business objectives, be open and constantly communicate with the supplier

  - o Both partners should be honest, open, transparent and responsive

- Communication (2 mentions)
  - o The outsource supplier should be able to articulate and communicate value and success effectively to the client

  - o Regular formal and informal communications to manage perceptions are key

  - o Mutual feedback through formal and informal channels must be encouraged

- 'Good fit' (3 mentions)
  - o A good cultural 'fit' between the two partners is essential

  - o The combination of the capability of the service provider and the capability of the client (tools, individuals etc.) gelling together effectively leads to success

- 'Can do' people (1 mention)

- o It is essential to have the right people in place in both organisations to manage the relationship – experienced, pragmatic service/operations managers with a 'can do' attitude

- Strong, individual relationships at all levels (2 mentions)
  - o Strong relationships should be built at an operational level, not just at senior executive level

Outcomes

- Delivering what you promise to deliver (5 mentions)
  - o Meeting requirements on service-cost balance on both sides

  - o Understanding roles and responsibilities, and delivering excellence within the scope of these roles and responsibilities

  - o Do what you say you will do; deliver against commitments

- Giving extra value and on-going innovation (3 mentions)
  - o Delivering value and business benefits on a number of fronts, for example, delivering personal value to stakeholders as well as organisational value

  - o The outsource supplier should strive to keep the relationship fresh and proactive, delivering on-going innovation

  - o Value should go far beyond meeting SLAs and KPIs: impress, surprise, delight, be enthusiastic, 'go the extra mile', think 'out of the box' and innovate

- Achieving mutual goals, bringing mutual benefits (4 mentions)
  - o Have agreed and aligned objectives and work towards a common goal, with shared risk and reward for achieving those goals

  - o Be totally committed to securing mutual benefit

- Providing missing expertise (1 mention)
  - o The outsource supplier must bring significant expertise that the client does not have
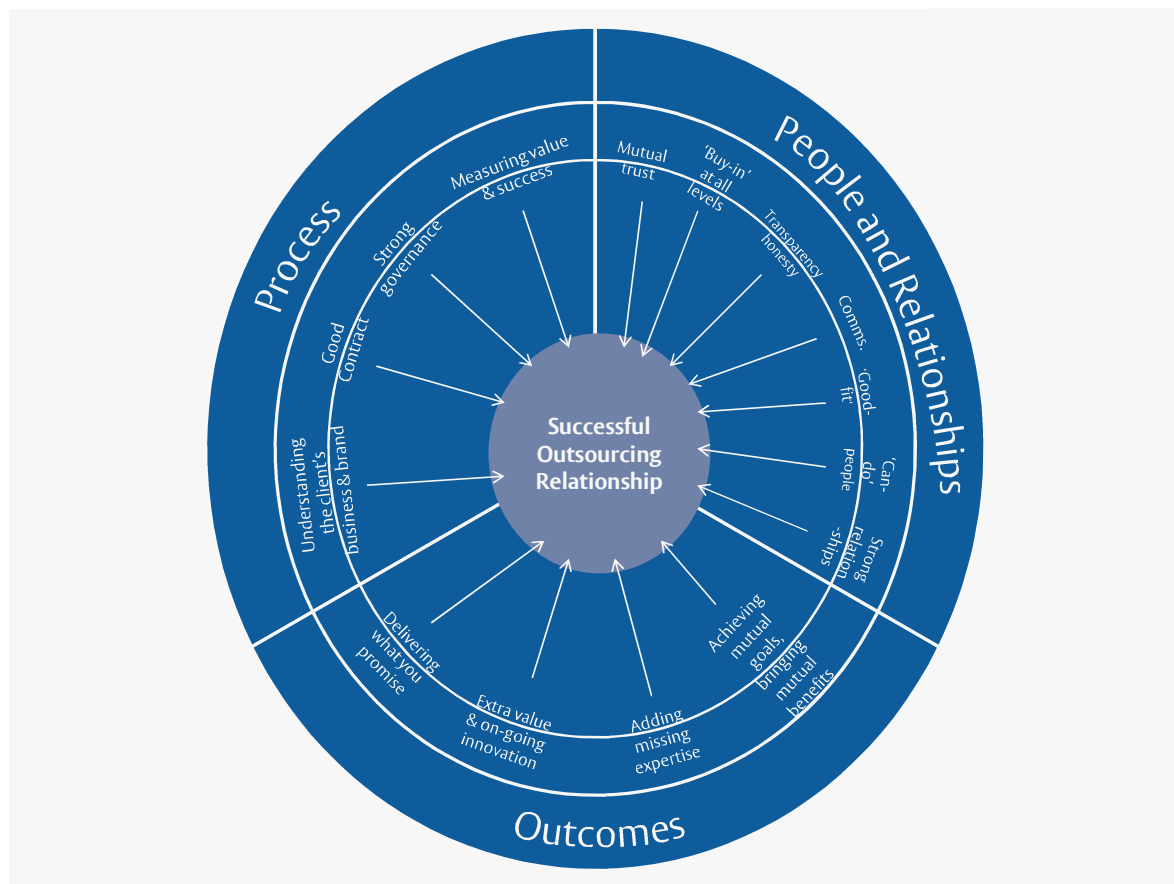
Figure 4:
Key Factors Leading to a Successful Outsourcing Relationship (based on Case Study Interviews)

The identification of these key factors provides valuable insight to both outsource suppliers and client organisations on how to manage outsourcing relationships successfully. Each of the factors highlighted is a building block of best practice, and if all of these blocks can be brought together and embedded in the outsourcing partnership, the author believes that this should provide a firm foundation for a mutually successful and valuable relationship.

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Appendix 1 - Discussion Guide For Case Study Interviews with Outsource Suppliers

HCCM Research Project

Best Practice in Managing Relationships with Outsource Partners: An Outsource Supplier and Client Perspective

Length of interview: Approximately one hour

1.   Outline the Research Objectives

The key objective of this research is to identify best practice in managing relationships with outsource partners. We will seek to address this issue by exploring how best to manage the outsource relationship, from the perspective of both the outsource supplier and the client.

I'd like to have a one hour discussion with you about your outsourcing relationship(s) with *(name of client organisation)*, to arrive at insights on best practice.

2.   General Discussion about the Organisation: 10 minutes

- Brief summary of your outsourcing offering: what do you specialise in?
- What do you do really well as an organisation? What do you not do so well? (Strengths and weaknesses).
- What challenges does your organisation face, and how are you addressing these challenges? (Opportunities and threats).

3.   What are the Factors that Lead to a Successful Outsourcing Relationship? 15 Minutes

- How do you define 'success' in an outsourcing relationship?
- What makes an outsourcing relationship excellent?
- Tell me about success factors with regard to the different phases of the outsourcing project:
  o Pre-transition: putting together proposal etc.
  o Transition
  o Post-transition: maintaining the relationship
- How is the team set up to manage the outsourcing project, and Why?
  o What are the roles and responsibilities of the different levels of management?

o   Why is the outsourcing team set up in this way? Why does it work well? What could be improved?

- What are the most challenging aspects of an outsourcing relationship, and what can you do to address these challenges?

4.   Measuring the Success and Value of an Outsourcing Relationship: 15 minutes

- How do you measure the success of an outsourcing relationship?
  o   What criteria are used for measuring the success or failure of the outsourcing arrangement?

  o   How does the organisation align and share its measures of success with you, the outsource supplier/partner?

  o   What evidence is there of a strategic measurement framework or governance framework being used to support the outsourcing arrangements? Do you believe it is important to use a governance framework? If so, why?

- How do you define and measure value in an outsourcing relationship?
  o   How would you define 'value' in an outsourcing relationship?

  o   What aspects of value are measured in an outsourcing relationship? How are these aspects measured? Are less tangible, non-financial aspects of value considered?

  o   Service performance reporting and key performance indicators: how appropriate and useful are these, from your perspective and that of your client?

  o   Do you and the client organisation track the benefits of outsourcing arrangements? How?

- How do you think the measurement of the success and value of the outsourcing relationship could be improved?

5.   Improving Understanding and Partnership Between the Outsource Supplier and the Client: 10 minutes

- How well do you and the client organisation understand the total cost of the outsourcing arrangement, and how these costs may change over time (including hidden costs)?
- How well does the client understand exactly what is going to be delivered by the outsource supplier? Is there a mismatch of expectations? How could this be improved?
- What level of trust and partnership do you feel you have with your client? What evidence do you have of this?

6.   How do you Maximise Benefits for Both Parties? 5 Minutes

- How do you provide the ability to flex the contract to both sides' advantage?
- How does the outsource supplier provide the flexibility to meet changing requirements?

7.   Impact of the Outsourcing Relationship on End-Users and the Brand: 5 Minutes

- How does the management of the relationship between you and your client impact on the end customers/users, and on the client organisation's ability to manage its brand?

8.   And Finally...

- In your opinion, what are the three things that make an outsourcing relationship work really well?

Thank you for your time.

Appendix 2 - Discussion Guide For Case Study Interviews with Client Organisations

HCCM Research Project

Best Practice in Managing Relationships with Outsource Partners: An Outsource Supplier and Client Perspective

Length of interview: Approximately one hour

1.   Outline the Research Objectives

The key objective of this research is to identify best practice in managing relationships with outsource partners. We will seek to address this issue by exploring how best to manage the outsource relationship, from the perspective of both the outsource supplier and the client.

I'd like to have a one hour discussion with you about your outsourcing relationship(s) with *(name of outsource supplier)*, to arrive at insights on best practice.

2.   General Discussion about the Organisation: 10 minutes

- Brief summary of the activities/processes that you outsource. Why were these processes selected for outsourcing?

- What do you do really well as an organisation? What do you not do so well? (Strengths and weaknesses).

- What challenges does your organisation face, and how are you addressing these challenges? (Opportunities and threats).

3.   What are the Factors that Lead to a Successful Outsourcing Relationship? 15 Minutes

- How do you define 'success' in an outsourcing relationship?

- What makes an outsourcing relationship excellent?

- Tell me about success factors with regard to the different phases of the outsourcing project:

  o   Pre-transition: preparing the organisation for outsourcing; receiving proposals from outsource suppliers etc.

  o   Transition

  o   Post-transition: maintaining the relationship with the outsourcer

- How is the team set up to manage the outsourcing project, and Why?

  o   What are the roles and responsibilities of the different levels of management?

- o Why is the team set up in this way? Why does it work well? What could be improved?

- What are the most challenging aspects of an outsourcing relationship, and what can you do to address these challenges?

4.   Measuring the Success and Value of an Outsourcing Relationship: 15 minutes

- How do you measure the success of an outsourcing relationship?
  - o What criteria are used for measuring the success or failure of the outsourcing arrangement?

  - o How do you align and share your measures of success with those of your outsource supplier/partner?

  - o Do you use a strategic measurement framework or governance framework to support the outsourcing arrangements? Do you believe it is important to use a governance framework? If so, why?

- How do you define and measure value in an outsourcing relationship?
  - o How would you define 'value' in an outsourcing relationship?

  - o What aspects of value are measured in an outsourcing relationship? How are these aspects measured? Are less tangible, non-financial aspects of value considered?

  - o Service performance reporting and key performance indicators: how appropriate and useful are these, from your perspective and that of your outsource supplier?

  - o Do you and the outsource supplier track the benefits of outsourcing arrangements? How?

- How do you think the measurement of the success and value of the outsourcing relationship could be improved?

5.   Improving Understanding and Partnership Between the Outsource Supplier and the Client: 10 minutes

- How well do you and the outsource supplier understand the total cost of the outsourcing arrangement, and how these costs may change over time (including hidden costs)?
- How well do the people within your organisation understand exactly what is going to be delivered by the outsource supplier? Is there a mismatch of expectations? How could this be improved?
- What level of trust and partnership do you feel you have with your outsource supplier? What evidence do you have of this?

6.   How do you Maximise Benefits for Both Parties? 5 Minutes

- How do you provide the ability to flex the contract to both sides' advantage?

- How does your outsource supplier provide the flexibility to meet changing requirements?

7.   Impact of the Outsourcing Relationship on End-Users and the Brand: 5 Minutes

- How does the management of the relationship between you and your outsource supplier impact on the end customers/users, and on your ability to manage your brand?

8.   And Finally...

- In your opinion, what are the three things that make an outsourcing relationship work really well?

Thank you for your time.

The Henley Centre for Customer Management

The Primary Objective of the Henley Centre for Customer Management is to promote Customer Focus and Service Excellence best practice through observing practice in leading companies and synthesising this into useful knowledge that helps members to improve their own Customer Management and Customer Service plans and implementations.

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Each year, the Centre aims to attract a membership of between 10 and 20 organisations, each a leader in their sector.

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The Henley Centre for Customer Management is supported by members representing a diverse range of organisations.

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Maximising Value through Relationships