Whitepaper

In association with the
London School of Economics

The Outsourcing Enterprise
The power of relationships

Leslie P. Willcocks, Sara Cullen

Releasing your potential

Seven key relationship lessons from The Outsourcing Enterprise

Through analysis of our research base, which represents 15 years of combined research into over 1200 organisations, seven key lessons emerge:

1. Outsourcing relationships accounting for 20 per cent or more of the IT or business process outsourcing budget are themselves strategic assets and demand on-going senior executive investment and attention.

2. Outsourcing arrangements with well-managed relationships are more likely to be successful. Relationship management can create a 20 per cent to 40 per cent difference on service, quality, cost and other performance indicators. Globally, organisations investing most in developing successful relationships consistently perform better than competitors or agencies in the same sector.

3. There is no such thing as an instant relationship: trust is earned and relationships built through performance, day by day.

4. Management needs to be proactive and sow the seeds for a successful relationship before the start of the deal and cultivate it thereafter at three levels - executive, managerial and operational.

5. For all but short-term arrangements, power-based relationships are poor substitutes for cooperation and trust building processes given the high transaction costs of monitoring and of imposing sanctions, the negative orientations and behaviours adopted, and the limited goals that can be pursued by the parties.

6. The contract is a necessary but insufficient governance tool for outsourcing. That said, poorly constructed contracts, based on faulty costservice analyses, and containing ambiguities, loopholes and incomplete terms, can seriously damage outsourcing health.

7. In outsourcing relationships, you mainly hit that at which you aim. Using measures like relationship values charters, regular relationship health checks and contract scorecards sets and aligns targets and encourages superior performance.

Logica is a leading IT and business services company, employing 39,000 people across 36 countries. It provides business consulting, systems integration, and IT and business process outsourcing services. Logica works closely with its customers to release their potential – enabling change that increases their efficiency, accelerates growth and manages risk. It applies its deep industry knowledge, technical excellence and global delivery expertise to help its customers build leadership positions in their markets. Logica is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG). More information is available at www.logica.com.

Contents

Introduction

Fifteen years' worth of research into information technology and business process outsourcing has produced a basic body of knowledge about outsourcing. But the focus has now shifted to what makes one outsourcing deal more successful than another.

In trying to identify what makes for success in outsourcing, practitioners invariably highlight 'relationships' - but there are few precise findings on how such successful relationships should be developed[1]. Successful relationships don't just happen. In this paper we show that overall strategic business intention must determine the nature of the relationship and the contract. A detailed design is essential to build effective relationships throughout the life of the deal. This determines the key underlying drivers of behaviour, and whether power-based or trust-based relations emerge. Positive intervention by top management is vital to make the 'chemistry' work as is establishing targets. Thus a relationship values charter sets a benchmark for behaviour, while regular health checks and contract card monitoring to assess the success of the relationship are crucial throughout.

> "Outsourcing is not a fad, but a substantial part of corporate and government expenditure, needing top team oversight and management."

CEOs: pay attention to your outsourcing relationships

Outsourcing is most successful when viewed as a business strategy, not as a transaction. Relationships form an integral part of that strategy and are not an inadvertent by-product to executing a contract. In our study of organisations seeking IT cost savings via outsourcing, we found that good relationship management made a 40 per cent difference in cost savings. Another study of 235 client organisations identified good relationships as one of the most important factors contributing to effective delivery and successful contract management. Good relationship management techniques, such as flexible working arrangements, willingness to change, and frequent and effective communication, were the key factors highlighted[2]. Given these findings, it is clear that relationships, especially in large-scale deals, matter to the extent that they must be planned strategically at CEO and board level. Only CEOs can determine the strategic intention of the relationship and establish the major contractual parameters that can affect whether the relationship is power- or trust-based. And only CEOs can ensure that the mechanisms, people and incentives are in place to build the desired relationship and create an environment in which to foster the 'trust dividend' that can lead to significant cost savings.

In formulating an outsourcing relationship strategy, executives must first look at the business intention behind the deal. One useful model (see Figure 1) analyses outsourcing relationships as choices on strategy and capability. According to this model, clients choose between degrees of operational efficiency or business value, and also between degrees of resource accessibility or leadership from the supplier[3]. Organisations that do not make choices in this deliberate and coherent way usually end up with confused and uncertain, often conflicting expectations that are very difficult to fulfil.

Figure 1: Outsourcing as the choice between strategic intent and business capability

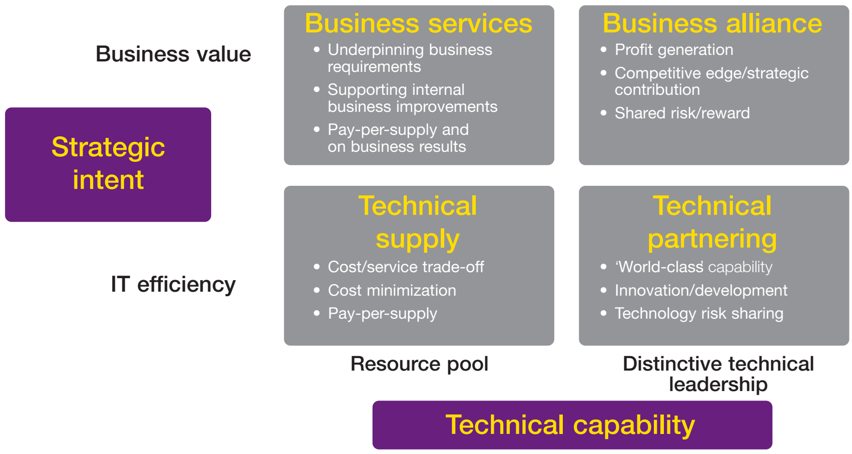
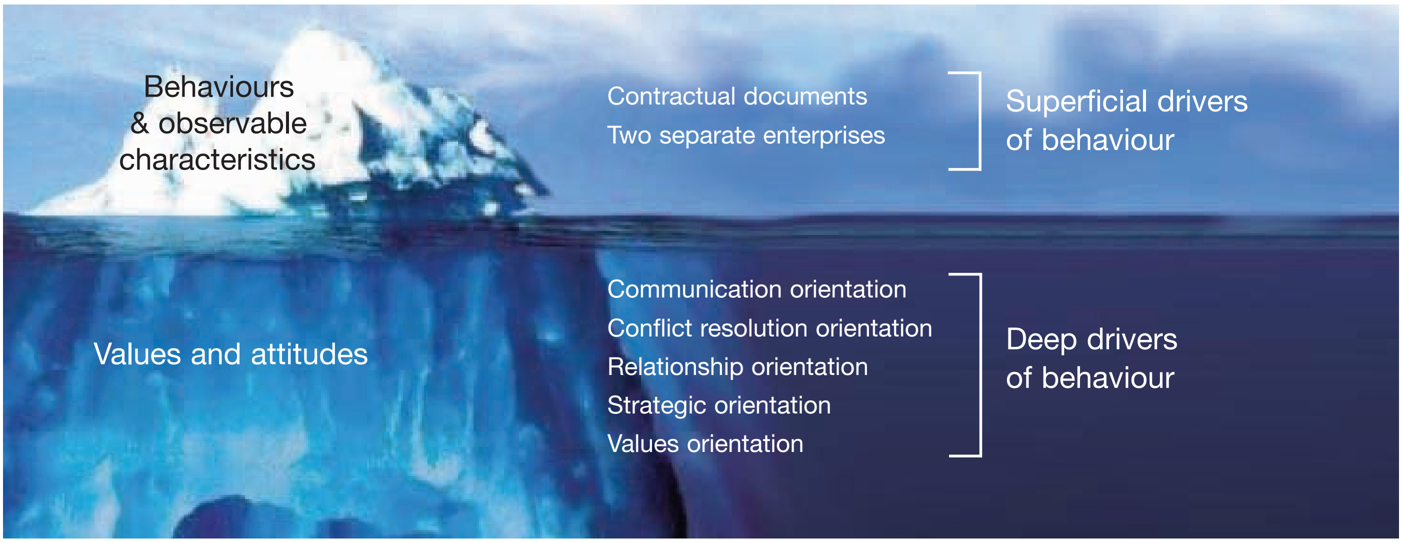


Figure 2:
Outsourcing:
the underlying drivers
of behaviour

The contract is an obvious - but ultimately superficial - driver of day-to-day behaviour. In our study of 235 organisations mentioned above, none of the organisations cited the contract as a key factor in successful delivery and management. Less successful outsourcing deals over-emphasise the forces that drive behaviour shown in the upper region of the 'iceberg' in Figure 2. The success of these drivers is limited, however. The deeper and more powerful drivers are rooted in the values and attitudes of the people responsible for carrying out the agreement. These need to be expressed and secured in the processes and in the people involved across the outsourcing relationship.



These underlying drivers in turn determine whether the relationship will be more poweror trust-based. Trust and power represent alternative ways to minimise risk and secure cooperation. Power-based relationships are based on the negative threat of sanctions that might be applied to gain compliance. In power-based relationships conflict resolution becomes paramount as manipulation and blame spread. Short-term gains, 'more for less' and self-interest are the abiding motifs. However, power is a poor substitute for trust, given the high costs involved in monitoring and imposing sanctions, the negative orientations and behaviours adopted, and the limited goals that can be pursued by the parties.

Therefore relations that generate trust create a 'trust dividend' that offers an important competitive advantage over those that do not. And this means moving to more open and collaborative communications, resolving conflicts constructively, and seeing the arrangement as a co-dependent long-term investment designed to benefit both parties.

This is not to say that power, and especially the balance of power, is not important. Outsourcing relationships where power is more equally distributed are much more successful for both sides than those in which one side dominates. At the same time, trust is not won automatically but is built on regular delivery of what is expected and what has been promised. Without delivery, trust will not build - or will slowly erode - and both sides resort to power-based relationships and tight contract terms in order to try to get what they want[4].

In most cases, the client will want a balance between the two alternatives of power and trust. Extremes of either are generally unacceptable to clients or suppliers and rarely sustainable over longer periods.

The power of people

Those that believe that outsourcing is a relatively straightforward transaction involving the simple transfer of services to a supplier, and that benefits will automatically follow, are taking a very myopic view of the arrangement. Outsourcing is a complex strategy for managing the delivery of what is often a range of services and, like all management strategies, the key to success lies in how that strategy is planned, implemented and managed. This depends, firstly, on the people involved, and, secondly, on how productive relationships are built and sustained throughout the life cycle of the arrangement.

On the people front, it is possible to identify several types of management behaviour on both sides that can reduce the scale of the 'trust dividend'(5).

Client-side:

i) Managers that are far too passive or over-dependent on the supplier. A variant is the client who forces the supplier to make all the decisions.

ii) Managers that will only manage what is familiar, or get too involved in technical detail rather than accepting their broader management remit.

iii) Managers that simply see themselves as administrators, interpreting their role as a passive one of processing, filing and disseminating.

iv) Those that see the supplier as basically untrustworthy and immediately blame them for anything that goes wrong in a deal. This only entrenches opposition and over time becomes a self-fulfilling prophecy.

Supplier side:

i) Managers that focus entirely on profit, no matter what was agreed.

ii) Those that are more concerned with selling new work than delivering what has already been stipulated in the contract.

iii) At the other extreme are managers that are prepared to promise whatever the client wants and end up at odds with their own management as a result.

iv) Managers that resist change and are prone to routine.

v) Managers who wait to be caught out and have recourse to apology as their main weapon, only to find that in outsourcing this is not a strategy that can be sustained for long.

In the utopian outsourcing arrangement all of the positive role models in Figure 3 would be found in the organisations and their contract management teams. In reality, the presence of even only one of these types can make a positive difference to an arrangement.

Figure 3:
Positive role models in outsourcing

Contract management - positive role models	
Client	**Supplier**
The empathiser Takes into account the supplier's needs and motivations	**The saviour** Turns the shop around and continues to produce answers
The collaborator Involves the supplier and seeks their perspective	**The pleaser** Continuously trying to satisfy the client and introduce improvements
The wise owl Knows the industry well, has managed a multitude of deals before, and knows how to manage both sides	**The straight shooter** Tells it like it is, forthright
The progresser Focused on continuous improvement in both parties, an entrepreneur of sorts	**The trusted colleague** Can be relied upon, is a good sounding board and even provides mentoring
The facilitator Problem solver, makes things happen	**The value maximiser** Seeks to add value and long term potential to the deal
	The relationship developer People person: facilitates trust and respect at all levels

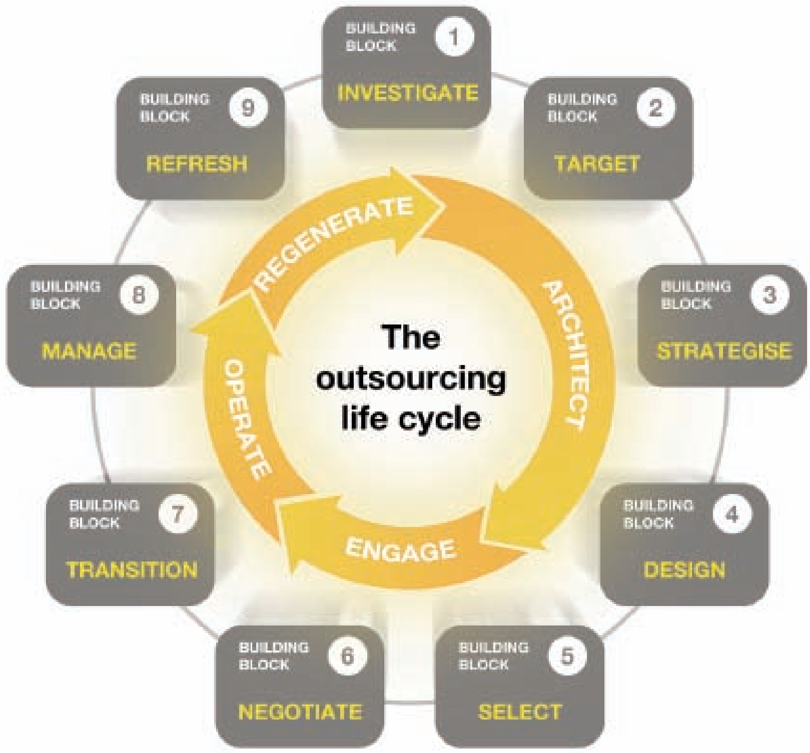
What, at a deeper level, makes relationship chemistry work in outsourcing? There are six underlying people attributes that contribute to positive roles on both sides of the deal.

The first is **monitoring and protecting** - ensuring the organisation is secure, that risks are addressed and compliance comprehensive. The second is **facilitation and problem-solving** – breaking down barriers to make things happen. The third is **organising** - planning and controlling processes and maintaining records and audit trails. **Relationship development** is the fourth attribute - building trust, respect and good personal relationships. **Entrepreneurship** is also needed in order to create innovation, find better ways of doing things and unleash the long term potential in the relationship. Finally, both parties will have **'scanners'** - skilled and well-connected networkers, born explorers who delve into the detail of other agreements and relationships and act as natural benchmarkers on issues such as contracts, practices and costs and risks.

Round and round we go: the relationship life cycle

In addition to people, outsourcing relationship success also stems from structure and process. The first paper in The Outsourcing Enterprise series put forward a comprehensive outsourcing life cycle comprising nine key building blocks (see Figure 4).

Figure 4:
The outsourcing life cycle



Successful outsourcing relationships have to be developed and sustained throughout all nine of these building blocks. Unfortunately 60 per cent of clients consider their lack of experience as one of the most significant obstacles to creating a successful relationship[6]. For this reason, we focus on the client's role in instigating, building and managing the outsourcing relationship in the below analysis. A further briefing in 'The Outsourcing Enterprise' series will deal with outsourcing from the point of view of the supplier's capabilities.

Building Block 1: Investigate relationships that work and ask why

The goal at this stage is to replace assumptions with realistic expectations that match the client's circumstances and the outsourcing markets in which it is procuring services. Before embarking on the outsourcing journey it is important to go out and test assumptions against experts, other organisations, and the marketplace. This is vital not only for peace of mind but in order to respond intelligently to the supplier's pitch. It equips the client to sit down and analyse the situation in an intelligent and detailed way with the supplier rather than negotiate in an ill-informed manner.

Building Block 2:
Target the most appropriate kind of relationship

Of particular importance at this stage is the internal and external stakeholder profile. This identifies the people with whom the supplier is likely to require some form of relationship - who cares about the service and what aspects do they care about most? For instance, one government agency interviewed wanted to achieve business reengineering through outsourcing. Senior management wanted assurance of best practice and quality service; Finance wanted accurate and timely financial data; IT wanted data compatibility, accurate and timely updates and a secure environment; customers wanted timely responses, and third party sub-contractors wanted accurate payment, fair assessment and facilitating information to perform services. The agency prepared stakeholder profiles for the bidders. Each bid came up with innovative solutions in stakeholder management, and the final agreement with the winning supplier had KPIs reflecting all stakeholder needs, not just the standard industry metrics.

Building Block 3:
Establish a strategy for the relationship

This stage is crucial if the client organisation is to navigate the outsourcing arrangement effectively throughout its life cycle. Strategy sets the parameters for what will happen subsequently, defining the vision of the client's use of outsourcing, setting up the stages of the programme, identifying the skills at particular times, and developing a framework for communicating. It is essential to get this right: the wrong or inappropriate strategies will impose inflexibilities that are difficult and expensive to remove later on.

One company interviewed had looked at outsourcing as a strategy to get organisational change and planned that strategy with care. It did not assume cultural innovation was a guaranteed benefit from outsourcing however it did believe the supplier would be well placed to introduce innovation and re-engineering that was sorely needed. It tested various models with the industry (different payment and risk/reward schemes). The model chosen recognised that the supplier should be paid to generate ideas and business cases first. Within the first year, it had received more innovation ideas than it had ever generated internally. Thus, the desired relationship, that of the supplier delivering operational services as will as being a vital change agent, was successful.

Building Block 4:
Design a framework for the relationship

This block builds on the earlier ones in order to convert the desirable arrangement into a commercially sound one. It covers the detailed design of the arrangement and includes as part of that design the relationship with the supplier.

Building Block 5:
Choose a supplier that meets your relationship needs

Tendering is the most common method of selection. This has the advantage of putting pressure on suppliers to deliver best value and of exposing the organisation to a variety of capabilities and solutions. Where price is the only criterion, evaluation is relatively straightforward. However, assessment becomes much more complex when value also enters into the picture as this is where relationships really come into play. Service delivery usually becomes the main criterion, but clients in the more successful deals also look for a far greater range of skills from their suppliers, including well-developed customer awareness skills. Clients that assess suppliers in this more holistic manner achieve faster and more sustainable results.

Building Block 6: Negotiate the type of relationship you want

Any positive steps taken earlier in the process to signal and build the relationship, risks being lost at this point. A classic mistake is to have, on each side, separate teams for developing the proposal, for negotiating and for delivery. Not involving the delivery managers in negotiations only stores up trouble for the future.

The same is true of contracts with excessively stiff penalties, overly thin supplier margins and only limited amounts of additional work to bid for. Not allowing the supplier a reasonable profit can turn into a 'winner's curse', damaging relationships and performance all round. In one study we found that in nearly a fifth of outsourcing contracts the suppliers stood to make no profit at all! In three-quarters of these no-profit arrangements what looked like a win - lose deal for the client and supplier eventually turned into a lose-lose deal for both. The relationships in those deals were either hostile or tentative to non-existent[7].

Building Block 7: Work at the transition relationship

Transition officially begins when the contract starts and ends on a specified date or on the signing of a transition acceptance form. Actually, it begins much earlier and ends much later – or, if not managed properly, never ends at all! It is therefore critical for both parties to begin planning the transition as soon as they believe outsourcing will go ahead. A good start helps smooth the subsequent path. An important factor is to have clearly defined roles during the transition. Typically during transition, client and supplier play their way through a series of matching roles. There will be a joint steering committee, but also, for example, Transition Program Leaders on both sides, communications representatives, HR, business, business process, technical representatives, and administrative resources. Those that recognise this is a resource-intensive time and commit accordingly to planning a bi-party programme will lose less knowledge during transition, and enjoy a much more successful outsourcing relationship later on, maximising the 'trust dividend'.

Building Block 8: Manage your relationship

This stage involves implementing and managing new ways of working. New workflows, communications and sign-offs are necessary. New relationships have to be quickly forged. People accustomed to working in a certain way will have to become open to new working practices. Whether the relationship is power- or trust-based, long-term success will depend on how the relationship is managed. In a poor relationship even the best governing documents (contracts, SLAs, etc) can become weapons of warfare used against the other party rather than steps to successful outcomes. A successful relationship requires substantial investments of time and effort by both parties and at all levels. These are investments well worth making in order to derive the most from the 'trust dividend'; establish shared values, create mutual understanding and insights and build the crucial personal relationships that will certainly be needed to overcome the hurdles that will inevitably occur later on.

Building Block 9: Review your relationship

At this point, clients face a range of options: renewal; re-negotiation; re-tendering; backsourcing or termination. This is the moment for a detailed SWOT assessment of the arrangement. A key part of this will be to scrutinise the strengths and weaknesses (SW) of the outsourcing relationship as it has evolved during the lifetime of the deal and carefully examine the opportunities and dangers (OT) that it presents in its developed form. Assuming the decision is the more common one of continuing with the supplier, this analysis helps forward planning on the desired dimensions of the relationship in the future, and the feasible objectives, structures, processes and measurement systems that can be placed in any renewed contract.

How healthy is your outsourcing relationship?

Relationships are not just about subjective feelings - ‘feel-good’ or ‘feel-bad’ factors. Establishing outsourcing relationships, keeping them on track and getting the most out of them requires measurement. All parties will benefit from negotiating and clarifying a relationship values charter at the beginning of the deal, from regular health checks during its course, and from monitoring - using a contract scorecard - the alignment of strategy, service, relationships and financial outcomes.

But getting the right culture between the parties has proven to be one of the most difficult aspects of an outsourcing agreement. This is why some seasoned outsourcing clients are increasingly adopting a form of initial agreement called a ‘Relationship Values Charter’ or a ‘Code of Conduct’ that describes and agrees the values and behaviour to be demonstrated throughout the relationship. Identifying the desired qualities and behaviour at this stage is invaluable as it helps clients identify a supplier that best ‘lives’ these values.

A Relationship Values Charter agreed between a communications manufacturer and its main IT infrastructure supplier is shown in Figure 5. This was first devised during Building Block 4 (Design) but subsequently proved its worth at several key points later in the life cycle of the outsourcing deal. For instance, during Building Block 5 (Negotiation) it was used to draft the relationship-related questions in the request for tender and guide the checking of customer references, and during Building Block 7 (Transition) it was employed to evaluate the relationship on a bi-annual basis. As a result, the client not only chose a supplier who had demonstrated the desired values and behaviour with its other clients, but both parties had created a framework on which to build their relationship.

Figure 5:
A specimen relationship values charter

A specimen relationship values charter

Service	We do not desire to apply penalties. The Services will be of a consistent high standard, comparable to market standards, and customers will be delighted.
Financial	We will achieve our financial goals: Client - reduce cost over time and have competitive pricing at all times Contractor - reasonable profits.
Communication	We will communicate frequently, openly and honestly with each other.
Meet needs	We will be both proactive and reactive to each other's needs.
Creative solutions	We will constantly search for better ways of doing things.
Conflict	We recognised conflict as natural and will focus on solving the problem, not apportioning blame. We will resolve conflict at the lowest level.
Fairness	We will be fair to all parties.
Time	We will provide each other time and management focus.
External relations	We will project a united front and will not discuss sensitive issues outside of the relationship.
Industry model	Our relationship will be seen as an industry model.
Enjoyment	We enjoy working together and respect one another.
Added value	We will both derive more value from our relationship than just the exchange of money for services.
Works seamlessly	The services value chain will appear seamless.
Technology leadership	We both wish to have recognised technology leadership.

Given the importance of the outsourcing relationship, a 'health check' diagnostic is vital to determine whether it is performing well or beginning to develop symptoms that require remedial action. Figure 6 provides an abbreviated form of a diagnostic used in one successful arrangement.

Organisations that are veterans at outsourcing know that success in it spans several dimensions. They know it is not just a matter of cost but also the quality of the service. They know it is not just about getting what you pay for in the short-term, but whether the long-term relationship is productive or dysfunctional. Further, they know outsourcing is not just an operational exercise but that there are important strategic goals to achieve as well.

Reflecting the many dimensions involved in an outsource, many organisations regularly check supplier performance against five or six major objectives – and some against as many as seventeen! To side-step this complexity the industry is increasingly recognising the value of balanced scorecards. These establish how the quality of the service will be evaluated, the financial outcomes will be judged, the relationship is conducted and whether the outsourcing deal has achieved its strategic aims. In total, it provides a valuable tool for senior executives to assess the overall success of the deal.

Category	Diagnostic questions
Behaviours exhibited	1. Do both parties display ethical behaviour? 2. Is there an 'us' vs. 'them' mentality? 3. Are both parties proactive? 4. Does either party blame the other when problems arise? 5. Does either party misrepresent the relationship to others? 6. Do the parties give each other recognition when it is due? 7. Are there key individuals who dislike each other?
Perceptions of the parties regarding one another	8. Do both parties respect one another? 9. Do both parties think the other party is a good listener? 10. Do both parties believe the relationship is a role model for the industry? 11. Do both parties use the relationship as an example of good practice within their respective organisations? 12. Are both parties reliable? 13. Are there unfulfilled promises by either party? 14. Does either party think the other party is not pulling their weight or living up to their accountabilities? 15. Do the parties think of the other party as trustworthy? 16. Does either party display the NIH (not invented here) syndrome (i. e. 'it's not our problem, it's their problem')? 17. Do both parties understand each other's businesses, underlying drivers and motivations and politics?
Investment in the relationship	18. Are both parties investing management time and effort? 19. Are there solid relationships at all appropriate levels? 20. Does each party get the management attention it needs from the other? 21. Is the client organisation an enthusiastic customer reference site for the supplier?
Communication	22. Is there regular communication? 23. Is there regular feedback? 24. Do the parties provide early warning to each other? 25. Do the parties suggest improvements to one another?
Relationship processes	26. Are there clear protocols between the parties? 27. Does each party assess the satisfaction of the other party? 28. Do the parties plan together? 29. If the contract has financial rewards for superior performance, have such awards been applied? 30. If the contract has financial consequences for poor performance, has such recourse needed to be continually applied? 31. Do the parties continuously seek better ways of doing things?

An example contract scorecard evaluates outsourcing success more holistically across four quadrants: service quality, finance, relationship, and strategy. If an organisation uses contract scorecards, it will often summarise the results in the form of a senior executive 'dashboard', supported by a comprehensive performance report providing the results in detail, identifying the causes of failures, and recommending any remedial action to be taken. An example of such a high-level dashboard is given in Figure 7. Whether organisations choose to use a balanced scorecard depends in part on their need to inform their main stakeholder groups. There are four main stakeholder perspectives that an organisation may wish to address in assessing success via a contract scorecard (see Figure 8).

Figure 7:
Contract scorecard dashboard

Service quality ■ 2/20 KPIs exceeded ■ 12/20 KPIs met ■ 6/20 KPIs failed	**Relationship** ■ Average score (out of 5) ■ Client = 3.2 ■ Supplier = 2.7 ■ 4/10 behaviours poor for both parties
Financial ■ 5% Increase from prior period ■ 20% Decrease against baseline ■ 15% Over benchmark ■ 50% Contribution to TCO and rising	**Strategy** ■ 9/14 Increase from prior period ■ One co-developed application available for sale ■ 5/20 proposed SMEs (local companies) in use

Figure 8:
The contract scorecard:
four stakeholder perspectives

- **Contract value for money**
  A combination of the service quality and financial measures, this is of particular interest to the user business groups that actually benefit from the service and pay for it. The base expectation is that we get the service metrics agreed to in the contract at a price that meets financial expectations.

- **Contract context**
  A combination of the relationship and strategic measures, this represents the setting surrounding how the contract is delivered. Here we assess how the deal has been conducted overall, irrespective of the specific services delivered and their cost. This is of particular interest to the CEO and senior management.

- **Contract operations**
  A combination of the service quality and relationship measures, this assesses how the contract has worked out in practice. Are service outcomes being achieved in ways that strengthen the relationship and interactions? This is of particular interest to those working closely with the supplier – users, contract management and retained IT staff.

- **Contract strategic agenda**
  A combination of the financial and strategic measures, this assesses how the contract fits into the bigger picture. Is the contract not only financially effective, but also supports achieving wider corporate goals? These wider goals are of most interest to senior management.

Organisations may not need to assess all outsourcing deals across all four quadrants. However, where a deal becomes strategically more important and lasts longer, more and more of the scorecard is likely to come into play. The expectations for a 10-year whole-of-IT deal, for example, will probably involve more just than the value-for-money criterion and may extend to the entire scorecard.

For any CEO at the helm of an outsourcing enterprise the contract scorecard is therefore a tool of proven value and well worth implementing. But once the decision to outsource has been made and the deal bedded down, it can be tempting to just let the deal run and manage it at a low, 'tick-over' level. However, this is a form of managerial sleepwalking, and organisations that indulge in it will never wake up to the full benefits and value they might have enjoyed from outsourcing.

Logica's top ten predictions for outsourcing relationships, 2005-2010

Greater emphasis on relationship management; this could cost between 6 – 12 per cent of contract value	With the ITO market set to grow by seven per cent annually over the next five years and BPO by 10 per cent, there will be greater client and supplier awareness of - and investment in - relationship management.
Relationships will be increasingly leveraged as strategic assets	Relationships will be viewed not only as strategic assets (particularly those costing more than 20 per cent of the function's budget) but will be increasingly operationalised in specific contracts, structures, and processes.
Selective, multiple supplier, sourcing will continue to dominate	Greater investment in both relationship management and in-house capability will be required as the use of outsourcing expands.
Organisational relationships will be more stringent	The honeymoon for equity relationships deals in which clients and suppliers buy shares in one another is over. Nearly all those signed from the mid-1990s have now been reversed. Organisations will take a much harder look at the contractual arrangements and governance mechanisms that make closer strategic relationships possible.
More contracting will be based on values and behaviour	Value-based behavioural contracts and tools like relationships values charters will gain popularity and application.
Past clients will have a greater role to play in winning business, by testifying on strength of past relations	Expect much greater focus in evaluating potential suppliers on demonstrated competence in relationship management. To remain competitive, suppliers will have to respond to these demands.
Relationship planning will become more rigorous	There will be an increasing emphasis on designing inter-organizational relations at every level, and both client and supplier will become much more aware of the types of people and skills needed for relationship-orientated roles.
Measurement and diagnostic techniques will become commonplace	'Relationship engineering' will become more sophisticated in the techniques adopted. Techniques such as relationship health diagnostics, contract scorecards, team building, and psyschometric testing will become much more common.
Value-add will overtake technical excellence, and even cost, as a priority	Value-added relationships will become the norm. Clients will increasingly look for business ideas, innovation and environmental scanning from suppliers. Expect a much greater focus by clients on business, not just technical outcomes.
Suppliers will become more entrenched in their clients' businesses	Suppliers will increasingly be expected to support clients' mainline services, identifying new sales opportunities, become a client of the client. There will be far greater exploitation of outsourcing relationships, for example, for cross-selling purposes

The research bases

The first research base consists of 112 sourcing case histories (mainly in the area of IT) studied longitudinally from 1990 to 2001. These are described in Lacity, M. and Willcocks, L. (2001) Global IT Outsourcing: In Search Of Business Advantage (Wiley). The second is a study of relationships through seven case histories. This appears in Kern, T. and Willcocks, L. (2001) The Relationship Advantage (OUP, Oxford). The third is a 2001-2005 longitudinal study of business process outsourcing practices, with a particular focus on four cases in aerospace and insurance.

We also draw upon a fourth research stream consisting of ten cases of application service provision, published in Kern, T, Lacity, M. and Willcocks, L. (2002) Netsourcing (Prentice Hall, New York). Additionally there are two published studies of offshoring arrangements drawn upon. These are by Kumar, K., and Willcocks, L. ((1997) Offshore Outsourcing: A Country Too Far? in ECIS Conference Proceedings, Lisbon. In addition, Rotman, J., and Lacity, M. (2004) Twenty Practices For Offshore Sourcing, MISQE, 117-130.

A further research stream analysed vendor capabilities and is represented in Feeny, D., Lacity, M. and Willcocks, L. (2005) Taking the Measure of Outsourcing Providers. Sloan Management Review 46, 3. We also draw upon five outsourcing surveys carried out in USA, Europe, and Australasia in 1993, 1997 2000, 2001 and 2002 covering multiple sectors and over 900 organisations.

A final research stream, by Sara Cullen, assessed 100 ITO/BPO initiatives of a variety of business functions during the decade from 1994 to 2003 to determine what worked and what did not work, what drove the various degrees of success and failure, and the emerging lessons. The research is represented in Cullen, S. and Willcocks, L. (2004) Intelligent IT Outsourcing (Butterworth) and Cullen, S., Seddon, P. and Willcocks, L. (2005). Managing Outsourcing: The Lifecycle Imperative MISQE, 4, 1.

Combined, this work forms a 450 case research base held by the researchers at Warwick, Melbourne, Missouri and St. Louis Universities. The research base covers all major economic and government sectors, including financial services, energy and utilities, defence and aerospace, retail, telecoms and IT, oil, transportation, central, state and local government, health care, industrial products and chemicals, and is drawn from medium, large and multinational organisations based in Europe, USA and Asia Pacific.

Notes

1. See Goles, T. (2001) The Impact of the Client-Vendor Relationship on Information Systems Outsourcing Success. Unpublished Ph.D. Thesis, University of Houston. Also Kern T. and Willcocks, L. (2001) The Relationship Advantage: Information Technologies, Sourcing and Management. Oxford University Press, Oxford.
2. See Willcocks, L. and Fitzgerald, G. (1994) A Business Guide To IT Outsourcing, Business Intelligence, London. Grover, V., Cheon, M. J. and Teng, J. (1996). The Effect of Service Quality and Partnership on the Outsourcing of Information Systems Functions, Journal of Management Information Systems, 12, 4, pp. 89-116. Cullen, S., Seddon P., and Willcocks L. (2001) IT Outsourcing Practices in Australia, Deloitte Touche Tohmatsu, Sydney.
3. From Kern T. and Willcocks, L. (2001) The Relationship Advantage: Information Technologies, Sourcing and Management. Oxford University Press, Oxford.
4. These are conclusions drawn from 100 plus case studies in Lacity, M. and Willcocks, L. (2001) Global IT Outsourcing: Search For Business Advantage (Wiley, Chichester) and are supported in the later Willcocks, L. and Lacity, M (2006) Global Sourcing of Business and IT Services (Palgrave, London) .
5. This is based on unpublished PHD research into 107 case studies by Sara Cullen. (2005) Towards Reframing Outsourcing: A Study of Choices in Process, Structures and Success (Melbourne University, Melbourne)
6. Cullen, S., Seddon P., and Willcocks L. (2001) IT Outsourcing Practices in Australia, Deloitte Touche Tohmatsu, Sydney.
7. Reported in Kern, T., Willcocks, L. and Heck, E. (2002) The Winner's Curse In IT Outsourcing: Strategies To Avoid Relational Trauma. California Management Review, 44, 2, , 47-69.

About the authors

Leslie Willcocks

Leslie Willcocks has an international reputation for his work in outsourcing, IT and change. He is Professor of Information Management and E-business at Warwick Business School, UK. He is also Associate Fellow at Templeton College, Oxford, Visiting Professor at Melbourne and Erasmus Universities and is Editor-in-Chief of the Journal of Information Technology. He is coauthor of 25 books and over 150 papers in journals such as Harvard Business Review, Sloan Management Review, California Management Review, MIS Quarterly, MISQ Executive, and Journal of Management Studies. In February 2001, he won the PriceWaterhouseCoopers/Michael Corbett Associates World Outsourcing Achievement Award for his contribution to this field. He is a regular keynote speaker at international practitioner and academic conferences, has extensive consulting experience, and is regularly retained as adviser by major corporations and government institutions.

Sara Cullen

Sara Cullen is a former national partner at Deloitte Touche Tohmatsu (Australia). She has consulted to 85 private and public sector clients in 110 projects with contract values up to US$1.5 billion per annum. She is a widely published, internationally recognised author having written 19 publications, conducted 7 reviews for government, featured in 40+ articles and presented in 100+ major conferences. Her publications include, with Leslie Willcocks, Intelligent IT Outsourcing (Butterworth). She has been featured numerous times in such publications as ABIE Source, Australian Financial Review, Business Review Weekly, the Bulletin, Computerworld, Directions in Government, New Accountant, Strategic Asset Management, Information Technology Report, MIS,and MISQ Executive.

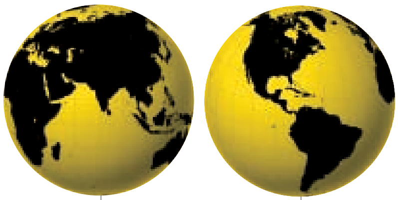
About the Outsourcing Enterprise series

The Outsourcing Enterprise series, sponsored by Logica, provides leading edge thinking from the perspective of the Chief Executive and suggests the nature of the involvement the CEO should have, as well as those issues which should be considered in order to ensure the success of an IT or Business Process outsourcing decision.

- The CEO’s role in delivering strategic advantage
- The CEO guide to selecting effective suppliers
- Building core retained capabilities

Download these papers from our website:
http://www.logica.com/outsourcingenterpriseseries

Copyright statement



Australia
Belgium
Brazil
Canada
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Germany
Hong Kong
Hungary
India
Indonesia
Kuwait
Luxembourg
Malaysia
Morocco
Netherlands
Norway
Philippines
Poland
Portugal
Russia
Saudi Arabia
Singapore
Slovakia
Spain
Sweden
Switzerland
Taiwan
Ukraine
United Arab Emirates
United Kingdom
USA

Logica
Stephenson House
75 Hampstead Road, London
NW1 2PL, United Kingdom.
Telephone: +44 (0) 20 7446 1234
outsourcing@logica.com
www.logica.com