Value Co-Creation in Strategic Partnerships: An Outsourcing Perspective

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Abstract

Purpose – This research aims, firstly, to identify the factors that are critical to the success of managing outsourcing relationships; secondly, to take the most dominant of these success factors and provide insights on how to implement them within strategic outsourcing relationships. The research explores how mutual value can be co-created most effectively, from both the outsource supplier and the client perspective.

Methodology/approach - We position our study within a service perspective, relating it to the concept of 'return-on-relationships' (Grönroos, 2010), and placing it within the context of a business-to-business, outsourcing relationship. A qualitative research approach was undertaken. Twenty nine semi-structured, in-depth interviews were conducted with managers from outsource suppliers and their client organisations.

Findings - Our findings suggest that value is co-created in an outsourcing relationship, through the success of the interaction itself, and through the strength of collaboration in the partnership. Grönroos' (2010) concept of 'practice matching' is relevant in an outsourcing relationship context.

Research implications – The research could be replicated in the context of other types of strategic partnerships, to identify any differences that emerge.

Practical implications – This study identifies a range of processes, tools, behaviours and attitudes that organisations can put in place, to facilitate the effective implementation of the success factors.

Originality/value - This research makes a contribution to the literature on return-on-relationships, adding to our understanding of how mutual value can be co-created in a business-to-business relationship.

Key words – Return-on-relationships; value co-creation

Paper type – Research paper

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1. Purpose of Research

The purpose of this research is two-fold: firstly, to identify the factors that are critical to the success of managing outsourcing relationships; secondly, to take the most dominant of these success factors and provide insights on how to implement them within strategic outsourcing relationships. The research explores how mutual value can be co-created most effectively, examining the outsourcing relationship from the perspective of both the outsource supplier and the client organisation.

2. Research Methods

A detailed review of academic literature was conducted in the field of 'return-on-relationships' (Grönroos, 2010), and service-dominant logic (Grönroos, 2008; Grönroos & Helle, 2010; Grönroos & Ojasalo, 2004; Gummesson, 2008; Vargo & Lusch, 2004; Vargo, 2008). This allowed us to position this study within a service perspective: *"value created for the supplier and value created for the customer cannot be kept apart; both emerge from the same process"* (Grönroos & Helle, 2010). It also enabled us to relate our study to the concept of 'return-on-relationships', placing it within the context of a business-to-business, supplier – client, outsourcing relationship.

A qualitative, interpretive research approach was followed, where depth interviews were analysed, *"attempting to make sense of or interpret phenomena in terms of the meanings people bring to them"* (Denzin and Lincoln, 1998). The research consisted of two stages:

Stage 1 - Identifying factors critical to the success of the outsourcing relationship

Sixteen semi-structured, in-depth interviews were carried out with senior managers from outsource supplier-client dyads. In this stage of the research, managers from four different outsource suppliers were interviewed. Their areas of expertise comprised workforce management services; business process outsourcing; IT outsourcing; and business transformation outsourcing. Each of these outsourcing organisations selected one or two client partner organisations for interview, so that the success and value of the supplier-client relationship could be analysed. Managers from six different client organisations were interviewed. These client firms covered a range of industries: healthcare (two organisations); electronics products; retailing; home delivery service; pensions and insurance.

Stage 2 – Providing insights on how to implement the most dominant of these success factors within strategic outsourcing relationships

The fifteen success factors identified in stage 1 of the research were narrowed down to the seven most dominant success factors. While all fifteen success factors were highlighted as important by respondents, the success factors identified as most dominant were those which were mentioned most frequently by respondents when asked, *"In your opinion, what are the top three things that make an outsourcing relationship work really well?"* (Dibley & Clark, 2009).   Stage 2 of the research focused on how to implement the following seven most dominant success factors:

- strong governance;
- measuring value and success;
- openness, transparency, honesty and responsiveness;
- mutual trust and confidence;
- delivering what you promise;
- achieving mutual goals bringing mutual benefits;
- giving extra value and on-going innovation.

Thirteen semi-structured, in-depth interviews were conducted with senior managers. Ten of the interviews were client-outsource supplier dyads, while the remaining three interviews were with outsourcing industry and client experts. Managers from four outsource suppliers were also interviewed in this stage of the research. Three of these suppliers were included in stage 1 of the research (those specializing in workforce management services; business process outsourcing; and IT outsourcing). A fourth outsourcing organisation (supplying public sector services on behalf of the Government) was, in addition, included in this stage of the research. Senior managers from seven client organisations were interviewed, representing a range of sectors: healthcare (four organisations); car manufacturing; conservation charity; low-cost airline. Two of the healthcare organisations were also included in stage 1 of the research.

The semi-structured interviews were 60 – 90 minutes in duration. Probing, open-ended questions were put to the respondents, and all interviews were recorded and transcribed (except on three occasions when permission to record the interview was not granted, and extensive notes were taken instead). A discussion guide was sent to each respondent in advance, to allow them to prepare for the interview. In stage 1, questions focused on eliciting the factors that lead to a successful outsourcing relationship; in stage 2, questions focused on eliciting insights into how to embed each of the dominant success factors in a strategic outsourcing relationship. All data were analysed using content analysis, and key issues were developed into thematic groupings.

3. Literature Review

In addition to the literature mentioned in section 2, above, a wide range of literature on the subject of outsourcing relationships and strategic partnerships was analysed: from articles discussing the principles of good implementation, to change management literature, to papers examining the issues of trust, governance, measurement and innovation. Some interesting insights emerged. Firstly, the literature reveals that effective implementation relies upon a dynamic network of promises being kept: those made between employees, customers, suppliers and other stakeholders (Sull & Spinoza, 2007). This involves careful communication, co-ordination and commitment.

For any change programme to be successful, the organisation should address employees' behaviour, capabilities, beliefs and values, identity, 'spiritual' factors, and other psychological factors (Dilts, 2003; Klimas & Ruzevicius, 2010). In the context of an outsourcing relationship, these factors should be aligned between the client and supplier organisations, as far as possible. Persuasion also needs to take place, and this should be followed by acceptance on the part of employees in both organisations (Garvin & Roberto, 2005; Klimas & Ruzevicius, 2010). Kotter and Rathgeber (2005) summarise the situation succinctly when they assert that implementations succeed because of *"changes in the hearts of employees"* (Kotter & Rathgeber, 2005). It is useful to keep these points in mind, as these conditions need to be fulfilled before considering how to implement the specific dominant success factors identified.

The literature demonstrates that the nature of the relationship itself can generate value, not just the 'harder' more tangible factors. Rogers (2008) makes the point that firms know they must look for innovation, expert skills, shared risk, accelerated time to market, improved customer service and growth from outsourcing arrangements, but that 'soft' factors such as shared goals and willingness to partner, should also be taken into consideration (Rogers, 2008). Rogers refers to co-operation theory, which suggests that, *"the best outcomes are achieved through parties to an agreement perceiving their goals to be interdependent"* (Rogers, 2008); the literature shows this to be the case for firms wishing to create value with their outsourcing providers.

Grönroos (2010) presents a service-based relationship perspective on business, which highlights the themes of inter-dependent goals, and the co-creation of value and mutual benefits: *"Adopting a service-based relationship perspective on business means that the supplier and/or customer gear their practices towards each others' practices (Practice Matching), so that the supplier supports the customer's business process in a value-creating way, and thereby, in return, gains financial value for itself. [...] Hence, ROR as financial value is created mutually and reciprocally (through a Practice Matching and Resource Integration process)* (Grönroos & Helle, 2011; forthcoming; based on Vargo, 2008; cited in Grönroos, 2010). See Figure 1, below:

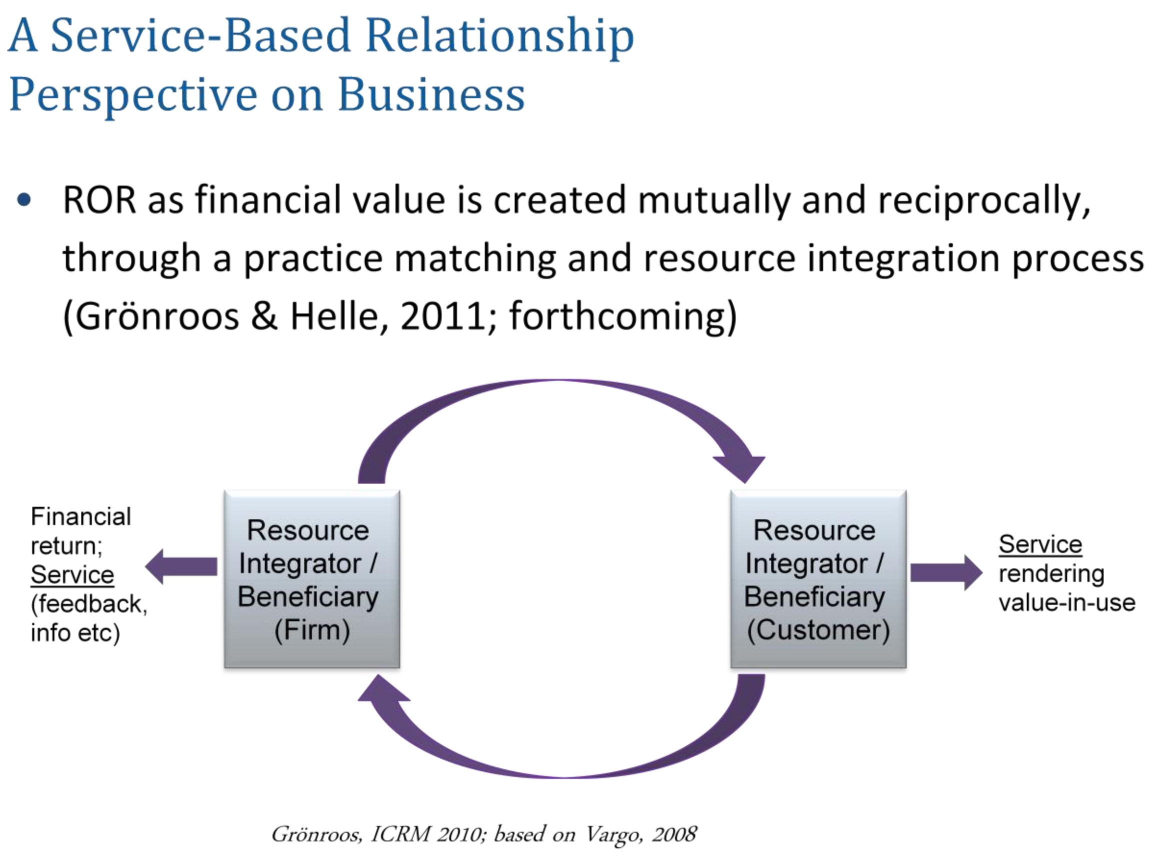

Figure 1: A Service-Based Relationship Perspective on Business (Grönroos, 2010).

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

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

It is valuable to see whether the findings from our study resonate with this concept of 'return-on-relationships'. We will return to this subject in section 5 (Discussion and Conclusions).

4. Key Findings

4.1 Identifying the Most Dominant Success Factors

Fifteen success factors emerged from the **stage 1** interviews. These were categorized as process issues; people and relationship issues; and outcomes. These fifteen success factors were then distilled down to the most dominant factors. As discussed in section 2 (Research Methods) the most dominant success factors were identified as those which received the highest number of 'top three' mentions during the interviews: that is, an assessment was made of the number of respondents who cited a factor in response to the question, *"In your opinion, what are the top three things that make an outsourcing relationship work really well?"* The factors which were included by four or more respondents in their, 'top three things...,' were categorised as the most dominant success factors.

The authors considered these factors to be at the heart of the creation of mutual value in the outsourcing relationship: 1) strong governance; 2) mutual trust and confidence; 3) openness, transparency, honesty and responsiveness; 4) delivering what you promise; 5) achieving mutual goals bringing mutual benefits; 6) measuring value and success; 7) giving extra value and on-going innovation. Factors 6) and 7) emerged as slightly less dominant than the others. However, in both the literature review and the depth interviews carried out in stage 1, these factors emerged strongly as particularly complex to deliver. It was therefore considered that guidance on how to implement and embed these factors in an outsourcing relationship, would be particularly useful. The seven dominant success factors identified are represented diagrammatically below, in Figure 2:

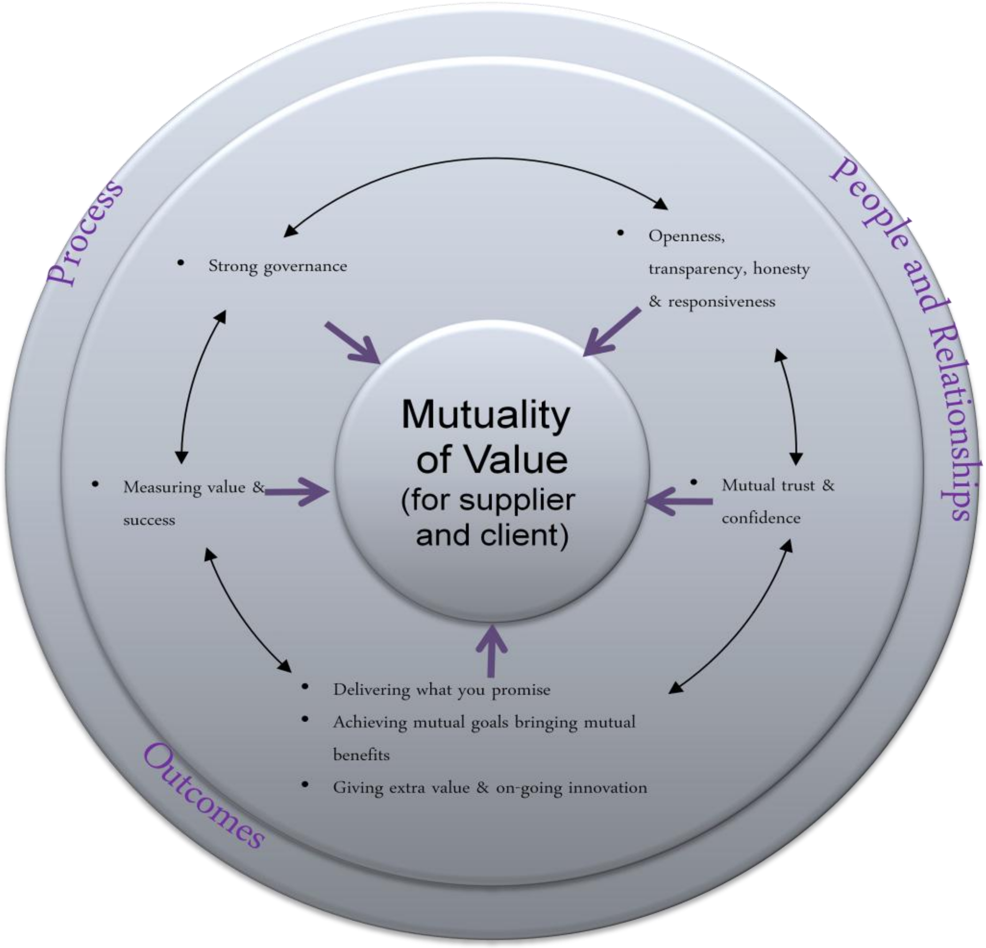

Figure 2: Dominant Critical Success Factors and the Creation of Mutual Value

4.2 Summary of Findings From In-Depth Interviews

The in-depth interviews in **stage 2** of the research study reveal a wealth of insights into how to embed the dominant success factors into strategic partnerships, thereby co-creating value. Through analysis of the data, we have categorised all insights as either: 1.processes; 2. tools or devices; 3. Behaviours or attitudes – all of which, respondents believe, would aid the successful implementation of the dominant success factors, within an outsourcing relationship. Below is a summary of implementation recommendations for each of the dominant success factors, along with some illustrative quotes from respondents:

Codes: OS = Outsource Supplier; R = Respondent; C = Client

4.2.1 How to Implement Strong Governance

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

"You need to ensure you get the right, responsible people into the weekly, monthly and quarterly meetings, so that you can drive the governance through from a day to day, operational level to a more strategic position." (OS2, R1).

"It's about understanding roles. It's,within the meeting, everyone understanding why they're there, and what value they're bringing to it from the perspective of their expertise, but also an understanding of, ultimately, who has final ownership – the client manager and his or her counterpart on the client side." (OS2, R1).

4.2.2 How to Measure Value and Success Effectively

	How to Measure Value and Success Effectively
Processes	Revisit KPIs and SLAs regularly. Measure 'softer' aspects of value. Measure client satisfaction. Measure value looking forwards not backwards: 'value acceleration.' (See quote below). Measure 'total cost of performance,' not cost of supplier.
Tools/Devices	Have relevant KPIs and SLAs. Hold quarterly meetings to define how value is changing. Conduct annual/bi-annual customer satisfaction surveys. Introduce scorecard measuring relationship rubrics. 'Referenceability': Will client give you a good reference? Case studies: Will client develop joint case studies about the relationship with you? Conduct 'real time' measurements. Use data analytics to support 'value acceleration'.
Behaviours/Attitudes	Recognise and communicate 'softer' aspects of value.

"This is why value is so hard to measure; everyone seems to drop it and focus on cost. Value changes over time: When you start a project it might be cost reduction, then two years later , they've got cost reductions, and value might be simplification, then two years later the client might say, 'You're not really moving us forwards'" (OS4, R1).

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

Value-acceleration: *"You're saving the customer money in the future, by being able to fill their needs faster and more efficiently than they would have done otherwise [...]. Now, instead of managing a process and optimising a supply chain, which is a given, you're thinking about the customer's strategic plan, and [how you can help them] execute that plan."* (OS1, R1).

4.2.3 How to Embed Mutual Trust and Confidence in the Relationship

	How to Embed Mutual Trust and Confidence in the Relationship
Processes	Set expectations clearly. Provide sensitive financial and other management information where appropriate. Articulate the client's 'pain'. Provide effective crisis management for the client.
Tools/Devices	Have frequent, face-to-face meetings. Reward excellent work. Supplier must offer client leading edge knowledge and expertise. Hold events/activities outside of the work context, e.g. lunches, dinners etc. Have 'unofficial' conversations with partner ('off the record' comments).
Behaviours/Attitudes	Demonstrate mutual dependence – let the client/supplier know it is important to you. Let the supplier get on with the job. Be transparent and honest; deliver on what you promise. Relationship managers should engage with people on all levels. Be supportive, encouraging, respectful of your partner.

	Show commitment; care about the relationship. Ask questions to understand the client's motivations and issues. The two parties should test assumptions about each other, to check extent of shared values.

The supplier should, *"make the client feel you are there to make him/her a hero in his own organisation"* (OS3, R1).

"I understand your [client's] needs and struggles, I understand your pressures, and I have a solution" (C4, R1).

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

"[Client 2] have made it clear they don't want us to lose money; [...] they want us to be here in 2, 5, 10 years. We got over our fear of sharing with them how we make money. Since we've done that, the conversations happen very quickly." (OS1, R2).

"There isn't any company in the world I'd rather have at my side than [Outsource Supplier 1] in the event of a natural disaster. People will volunteer weekends and 24hrs a day to help our clients get through something like that [...]. We rise to the occasion." (OS1, R2).

4.2.4 How to Embed Responsiveness, Openness, Transparency, Honesty

	How to Embed Responsiveness, Openness, Transparency, Honesty
Processes	Information sharing. Clear escalation process to resolve issues. No surprises on billing.
Tools/Devices	Have individuals 'facing-off' to named individuals.

	Team-building awaydays, Xmas parties, lunches.
Behaviours/Attitudes	The client must recognise the value the supplier is adding, and the supplier must understand the client's 'pain'. Openness must go both ways. The desired behaviour will occur more easily if values and beliefs are shared.

"We've done a good job at listening to what their pain is; when we presented a solution back, we always addressed the pain, not necessarily focusing on the bottom line for [Outsource Supplier 1]. Our solution helped them fix a problem. It earned us credibility." (OS1, R3).

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

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

4.2.5 How to Ensure the Supplier Delivers What it Promises

	How to Ensure the Supplier Delivers What it Promises
Processes	Both parties must agree an interpretation of what has been promised. Have regular 'checks and balances' in place; track and monitor every promise. Both parties must understand and agree on the client's priorities. Agree achievable timescales. Relationship Manager must 'map' his/her account. Communicate the dependencies on the client that exist, if service delivery is to be successful. Client must remove barriers to success where these exist.

	Both sides must invest in continuous quality improvement.
Tools/Devices	3rd party facilitator to run a series of workshops, to help both sides agree meaning. Weekly sessions to track progress. Weekly progress reports. Regular calls, meetings. Trend analysis to spot potential issues early. Client to survey internal customers. Use governance framework to understand what has gone wrong when there is a failure.
Behaviours/Attitudes	Be dynamic about proactively managing expectations. Account/Relationship Manager must be transparent, consultative, listen, innovate, be able to ask the right questions to identify the client's 'pain'; be able to communicate with people at different levels, and shift mode of thinking and speaking, depending on the audience. Keep challenging each other as partners, demanding more from the relationship.

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

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

"Ensure you've properly mapped and understood issues surrounding each of the customers within the organisation – how those relationships work and how people react." (OS3, R1).

"Bring in a 3rd party facilitator to run a series of workshops, to help both sides agree on meaning. [...] 'What have we actually agreed here?" (OS4, R1).

4.2.6 How to Achieve Mutual Goals and Mutual Benefits

	How to Achieve Mutual Goals and Mutual Benefits
Processes	Carry out joint strategic planning Explore mutually beneficial opportunities at the highest level. Use a 'value-acceleration' process to co-create value.
Tools/Devices	Hold joint strategic planning days. Develop joint strategic plan: a 'living', evolving document. Make joint applications for awards. Supplier must offer leading-edge knowledge and expertise. Use data analytics to support value-acceleration.
Behaviours/Attitudes	Client must believe that success for the supplier = success for the client. Client should view supplier as a trusted adviser, an extension of their own enterprise, an opportunity to co-create value. Mutual respect. Commitment, personal investment, and full ownership from both sides.

"Value at a relationship level is created in the interaction, and created in each party understanding what the other needs; what they need to be successful and functioning on a partnership basis – not as a supplier and client" (OS1, R1).

"The client should say, 'I like working with these people because I learn from them; I value their opinions'; you've got mutual discovery going on" (OS4, R1).

"I'm supporting the growth of their business; that stimulates them to do things for me that they might not be contracted to do. It's a balanced, give-and-take relationship. I make sure information is shared; by withholding information, you're shooting yourself in the foot […]. The better they perform, the better they perform for us. We want to ensure they're motivated,

progressive and doing industry best practice – we'll do whatever we can to support that" (C5, R1).

"If you don't value your client, they feel it. If you don't feel value in any relationship, you behave in a particular way" (OS3, R1).

4.2.7 How to Deliver Extra Value and On-Going Innovation

	How to Deliver Extra Value and On-Going Innovation
Processes	Supplier must explore and identify connections between its knowledge/expertise and the client's needs. Continuous improvement process.
Tools/Devices	Have the right people and roles in place to facilitate effective channelling of new ideas. Contractual obligation to have quarterly innovation forums, 'blue-sky' workshops. Provide different, creative, fresh environments for meetings/forums. Contractual obligation for continuous improvement. Use client as 'test-bed' for new ideas.
Behaviours/Attitudes	Culture of openness to innovation on both sides. Supplier should act as a 'wing man', looking out for the client. Client must expect and demand innovation. Client must be open and transparent about the issues it is facing.

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

"Innovation happens when the client encourages it, by sharing and transparency, e.g. saying, 'We're going through a restructuring and we'd love your thoughts on how we're going to manage this new model'" (OS1, R3).

"Innovation is the life-blood for business. It happens at the intersection of ideas." (C4, R1).

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

"Bring me 5 ideas; 4 may be stupid, but one will be really good. […] I need you there when there's not a problem, so that I have confidence that you're on my wing, looking for ways to help me" (OS1, R2).

4.3 Interview Findings: Echoes from the Literature

In **stage 2** of the research, many key insights from the literature review regarding the implementation of some of the dominant success factors identified, are echoed in the findings from the authors' primary research. The following points from the literature are all points that also emerge strongly in the depth interviews:

How to Achieve Strong Governance

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

How to Implement Effective Measurement

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

How to Deliver Innovation

- The outsource supplier should be a knowledge intensive service provider (Windrum, 2009).
- Recognise the value of strategic co-invention and co-creation based interactions with outside resources (Huston & Sakkab, 2007).

- Communication, information-sharing and flexibility are essential (Weeks, 2009; Martínez-Sánchez et al, 2008).

How to Embed Mutual Trust

- Mutual dependence is crucial (Goo et al, 2009).
- Well-structured contracts and SLAs can provide the reassurance required to develop trust (Goo et al, 2009).
- Perceived shared values aid identification-based trust (Lievens & Corte, 2008).
- Communications, reputation and approachability all aid knowledge-based trust (Lievens & Corte, 2008).
- Factors for maintaining trust: transparency, demonstrability, honesty, process followed, commitment and communication (Oza et al, 2006; Zhijian et al, 2009).

5. Discussion and Conclusions

Our findings suggest that mutual value is co-created in a strategic outsourcing relationship through the success of the interaction itself, and through the strength of collaboration in the partnership. If we return to Grönroos' (2010) concept of practice matching, it is clear how relevant this approach is in the context of implementing best practice in outsourcing relationships: the alignment and matching (between the client and supplier firms) of each of the dominant success factors identified, is fundamental to the co-creation of mutual value (see figure 3, below).

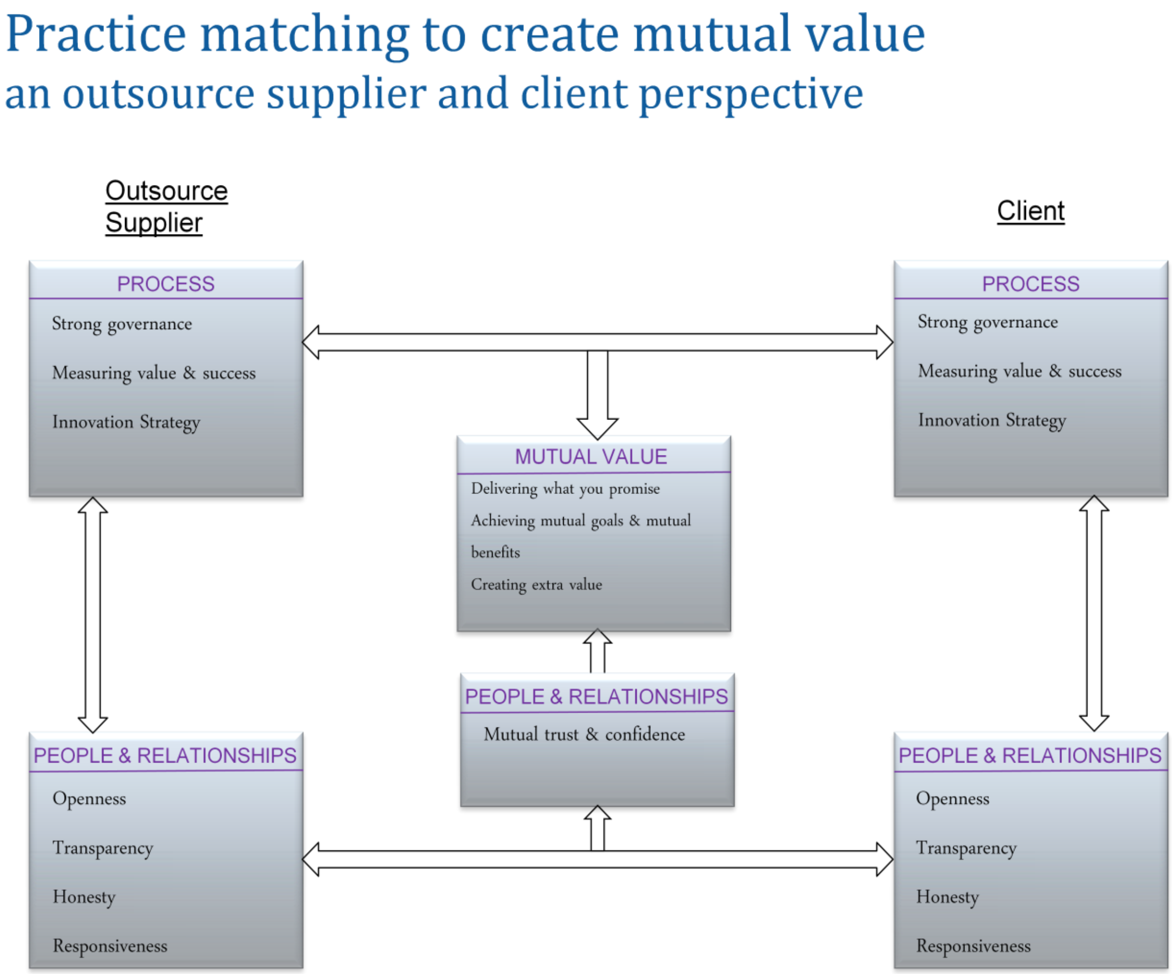

Figure 3: Practice Matching to Create Mutual Value: An Outsource Supplier and Client Perspective. (Grönroos' (2010) concept of practice matching was used as a basis for this diagram.)

Grönroos (2010) describes how the supplier and customer must align critical resource, competencies and processes in the context of generating mutual and reciprocal value. In our research findings, it is clear that the supplier and client organisation's approach to governance, measuring value and success, and innovation strategy must all be aligned. Similarly, openness, transparency, honesty and respnsiveness must be present on both the supplier and client side. Respondents from both supplier and client organisations describe the requirement for their firms to align their practices, processes, behaviours and attitudes, in order to embed the desired factors into the relationship, and thereby create mutual and reciprocal value. Our findings, then, clearly resonate with Grönroos' (2010) concept of practice matching.

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

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

6. Research Implications and Practical Relevance

This study makes an interesting contribution to the literature on return-on-relationships, adding to our understanding of how mutual value can be co-created in a business-to-business relationship. Extending this research to give a financial interpretation of the value described would be interesting. It would also be worthwhile replicating this research in the context of other types of business to business strategic partnerships, given that we have focused on outsourcing relationships; any differences that emerge could then be identified and analysed. Finally, it would be valuable for a larger scale study to be carried out in order to quantify the results outlined in this qualitative study.

The research is highly relevant to managers, as it identifies a set of dominant success factors that need to be present for a strategic relationship to flourish. It also proposes a range of processes, tools, behaviours and attitudes that organisations can put in place, to facilitate the effective implementation of the success factors, in the context of an outsourcing relationship.

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