

**An exploration of
client-supplier relationship dynamics
within Business Process Outsourcing**

**A thesis submitted to
University of Dublin, Trinity College
for the degree of PhD**

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DECLARATION

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SUMMARY

Business Process Outsourcing (BPO) is the term used to describe the commissioning by client firms of specialist providers to fulfil certain services on their behalf. These services are generally integral to the client firms' operations, and would traditionally have been carried out within a firm's internal organisational structure. By definition, the services included in BPO are part of a firms' operational business processes. BPO services are therefore distinguished from the outsourcing of functions that are more infrastructural in nature, such as Information Technology Outsourcing (ITO), or Third-Party Logistics Outsourcing (3PL). In practice, four types of services are typically included in this sector: call centre services, financial reporting and accounting services, human resources support services, or procurement services.

Academic studies of BPO have consistently confirmed that, in common with more mature forms of outsourcing, an effective relationship between the client and supplier of services is critical to the overall success of a BPO arrangement. This resonates strongly with my personal experience as a practitioner where, prior to undertaking my full-time PhD studies, I worked for over 30 years in the technology industry. In the final 10 years of this career I was responsible for managing portfolios of large BPO and ITO contracts between my employer (IBM) and a range of customers in Ireland, the UK, and across Europe. Over this time I grew increasingly aware of the importance of the inter-organisational relational dimensions of any outsourcing agreement. I also noted that as business needs change and key actors come and go, client-supplier outsourcing relationships can go through periods when they are very effective, and also periods when they can be highly fractious and dysfunctional. This experience was a prime motivator for this research project as it highlighted the need for a deeper understanding of the drivers of collaboration and friction. In particular it raises a question about whether there is a predictable path of evolution in an outsourcing relationship, and if so what are its phases and points of transition from any phase to the next.

The formal research process that is required of a PhD programme of study allowed me to investigate these questions in a scientific manner. It was decided to focus on BPO because it should not be assumed that relationships would progress similarly in different outsourcing settings. From the outset of the project, it was

recognised that the pursuit of value is a key motivator for clients and suppliers. Therefore the project embedded a central objective of understanding the role of value in influencing relationship progression. A qualitative case-based research methodology was adopted to investigate three BPO cases. At the time of investigation these BPO cases had been in operation for between nine and 11 years. It was therefore important that the range of informants selected could provide client and supplier perspectives on the full duration of these agreements. Current and former employees were asked to participate in order to allow a continuous chronology of each case to be developed based on their recollections. This resulted in interviews with 38 senior representatives in order to achieve data saturation and allow triangulation of inputs (18 from client organisations; 20 from suppliers).

A narrative style was encouraged to allow informants free expression on the factors that they considered important to the client-supplier relationship, and how each case progressed. Secondary sources were researched and these provided additional context and validation of informant inputs. Transcripts of the narrative testimonies were loaded onto a qualitative data analysis tool (MaxQDA) where they were analysed and coded to identify common themes. Qualitative data analysis techniques were then adopted to aggregate these inputs and to identify the factors that determined the quality of these relationships at any point in time. The phases through which the relationships progressed were also analysed for each case. Ultimately, similarities across cases were identified. Building on extant theory these contributed to the development of a theoretical framework of BPO relationship progression as an output of this study.

This project would not have been possible without the cooperation of the 38 interviewees who were very generous with their time and very open in their discussion of the factors that influenced the progression of these BPO relationships. My existing knowledge of these cases and my prior business and personal relationships with these people ensured that this openness was founded on their trust that their inputs would be accurately interpreted and treated confidentially. Of course, this personal involvement also introduces the potential for bias. A number of actions were taken throughout the project to mitigate this risk and to ensure that the conclusions are based solely on the data provided by informants, and that the resulting contributions to understanding, theory, and practice are robust and reliable.

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“Experience, contrary to common belief, is mostly imagination”

Ruth Benedict, American anthropologist and folklorist

(Rubin, 2015)

1. Introduction

The Supply Chain Management (SCM) literature has contributed a wealth of understanding and theory exploring the logistical, informational, procedural, and financial factors associated with the transfer of goods between streams of suppliers and final customers. However scholars have highlighted that the manufacturing-oriented heritage of the discipline has resulted in a failure to keep pace with the increasing importance of services to economic activity in mature economies (Ellram, Tate, & Billington, 2004; Niranjana & Weaver, 2011; Sengupta, Heiser, & Cook, 2006). More recent contributions (e.g. Breidbach, Reefke, & Wood, 2015; Carter, Rogers, & Choi, 2015; Sampson & Spring, 2012) continue to encourage further research into Service Supply Chains (SSC), which Ellram et al. (2004, p.25) first defined as “the management of information, processes, capacity, service performance and funds from the earliest supplier to the ultimate customer.” Although the increasing centrality of services to supply chain operations is acknowledged, contributors to the SCM literature also recognise the challenges involved in extending the boundaries of the discipline to incorporate services functions. Carter et al. (2015, p.95) posit that SSCs may have different characteristics to traditional goods-oriented supply chains “due to the ethereal quality of services and the instantaneous production and consumption of services.” Others emphasise that trends towards global sourcing and outsourcing of services have resulted in increasingly complex, fragmented and multi-tiered designs (Mena, Humphries, & Choi, 2013; Simpson et al., 2015).

This research project aims to contribute to the body of on-going research seeking to unravel this complexity. It does so by focusing on services outsourcing, which first emerged as a significant sector in the 1990s when early adopters began to outsource IT services to large technology providers. Since then the sector has grown and matured to the point where the use of third parties for the provision of a range of support services has become a critical organisational and strategic consideration for most firms. This project specifically considers Business Process Outsourcing (BPO), which is an increasingly pervasive form of inter-firm engagement whereby client organisations extend their SSCs by commissioning specialist providers to deliver functions such as call centre services and financial management services, which would traditionally have been delivered by directly-employed staff.

It is well established in the extant SCM literature that effective supply chains depend on appropriate inter-firm relational designs and the management of resistance to relational strategies (Bensaou, 1999; Fawcett, McCarter, Fawcett, Webb, & Magnan, 2015; Lambert, Emmelhainz, & Gardner, 1996). This requires alignment of objectives and resources as well as explicit actions to ensure information symmetry across supply chain partners (Allred, Fawcett, Wallin, & Magnan, 2011; McCarthy, Silvestre, & Kietzmann, 2013). This project is founded on the premise that where services, rather than goods are delivered, the relationship between the client and provider of services is even more important given the additional complexities involved. By analysing the client-supplier relationship the project explores a foundational pillar of how SSCs operate. As BPO services are typically contracted for periods of five or more years (El-Messidi, 2012) the project is particularly concerned with how these relationships develop over such extended durations. Therefore the topic for this research project is:

An exploration of client-supplier relationship dynamics within Business Process Outsourcing

As is the case with all inter-organisational relationships, firms enter services outsourcing arrangements with the specific objective of realising sources of value that cannot be achieved when acting alone or with some other partner (Lioliou, Zimmerman, Willcocks, & Gao, 2014). Indeed the creation of shared value is a fundamental purpose of any supply chain (Hammervoll, 2009). Therefore due to the central importance of value to the client-supplier relationship, any exploration of relationship dynamics must also consider the pursuit of value that is the function of these relationships. This underlying connection between a developing client-supplier relationship and its value objectives is reflected in the research question, which is:

How does the search for value by each of the parties to a Business Process Outsourcing arrangement influence the development of the relationship?

The following section of this introductory chapter outlines the context and background for this research project, including the rationale for selecting BPO client-supplier relationships as a focus for study. The areas in which this project aims to make a contribution are then outlined. The chapter concludes with a description of the structure of the remainder of this thesis.

1.1. Research context and background

The context and background for this research is outlined in this section by addressing three questions: 1) What is Business Process Outsourcing?; 2) Why does it merit separate study?; 3) Why focus on relationships and value? To provide additional context, the background of this researcher and the personal motivation that encouraged the exploration of this topic are then briefly discussed.

1.1.1. What is Business Process Outsourcing (BPO)?

BPO is defined by Lacity, Soloman, Yan, and Willcocks (2011a, p.221) as “the sourcing of business processes through external third parties.” That is, BPO involves a commercial engagement between two firms whereby a supplier is commissioned to deliver certain services to a client. The services involve the operation of processes that are integral to the client’s business and which would traditionally have been delivered using internal firm resources. The term BPO is used throughout the academic literature to distinguish this market segment from other forms of services outsourcing such as Information Technology Outsourcing (ITO) or Third-Party Logistics (3PL) outsourcing. ITO first came to prominence in the late 1980s and it is therefore regarded as a more mature form of services outsourcing and a precursor to BPO. Building on the experience gained by clients and service providers through ITO engagements, the BPO segment developed from the late 1990s onwards. This development was significantly enabled by improvements in global communications network infrastructure and costs. These made it feasible to connect remote locations (e.g. India) to established markets, and to use the lower-cost workers in these locations for the fulfilment of back-office tasks. The role of communications technology in unlocking this potential is reflected in early references in the literature to the outsourcing of certain business processes, describing them as *IT-enabled services* (Devata, Kumar, & Stratopoulos, 2005; Henley, 2006; Willcocks, 2010).

The outsourcing of non-IT services grew rapidly in the early years of the new millennium and BPO was soon recognised as a segment in its own right. The ITO segment also continued to grow and it was estimated to have represented \$288b of annual global spending by 2013, with Compound Annual Growth Rates (CAGR) of 5.4% projected through 2017 (Gartner, 2013). Due to the relative immaturity of the BPO segment an estimate of the size of the segment proved “notoriously difficult to

arrive at.” (Feeny, Willcocks, & Lacity, 2009, p.341) Lacity et al. (2011a) also found that BPO market estimates varied widely. However, the consensus across studies indicated that from 2000 onwards the BPO market grew at a faster rate than ITO. As a result, Oshri, Kotlarsky, Rottman, and Willcocks (2009) predicted that the size of the BPO market would soon exceed that of ITO. This prediction appears to be validated by estimates that the BPO segment had grown to \$304b in annual spending by 2013 (Berthiaume, 2013).

Although the accessibility of low cost labour in remote countries spurred this growth, *offshoring*¹ represents only one dimension of BPO services delivery. Services may also be delivered from the home country where this allows access to complementary skills or productivity advantages (ISG, 2013; Lacity, Khan, & Willcocks, 2009). When defining the boundaries of BPO, some studies (e.g. Devata et al., 2005) include initiatives whereby firms source the delivery of services from international subsidiaries that remain within their internal organisational structure. However, this present project shares the view of the majority of studies which regard such internal initiatives under the separate category of *captive* delivery centres that are not part of BPO (Aman, Hamzah, Amiruddin, & Maelah, 2012; Oshri et al., 2009; Willcocks & Lacity, 2009b). Although the term BPO is frequently used loosely to cover the outsourcing of any non-IT services, a number of authors define its scope more narrowly by specifying that it covers four types of outsourced services: call centre management services, finance and accounting services, procurement services, and human resources management services (Lacity & Willcocks, 2013; Linder, 2004; Saxena & Bharadwaj, 2009). To provide focus to this project this more narrow definition will be adopted. It is nevertheless recognised that further niche forms of non-IT services outsourcing continue to emerge and may adopt similar characteristics to BPO services. For example, trends towards Knowledge Process Outsourcing (KPO), Engineering Services Outsourcing (ESO), and Legal Services Outsourcing (LSO) are currently attracting research attention and focus from industry consultants (ISG, 2014b; Lacity et al., 2011a; Lacity, Willcocks, & Burgess, 2014; Oshri et al., 2009).

¹ Offshoring is also referred to in the literature as International Outsourcing of Services (Kedia & Lahiri, 2007)

1.1.2. Why does BPO merit separate study?

Lacity et al. (2011a) provide a comparative study of BPO research outputs and the outputs from studies of the more mature ITO segment. Although they identified a number of similarities in research findings, some statistically significant differences were also noted. For example, it was found that firms with good financial performance are more likely to consider BPO, whereas ITO clients tend to be those experiencing financial difficulties. This contributes to a broad consensus that the BPO segment does not follow all of the attributes of other forms of outsourcing and deserves separate focus by researchers in order to improve our understanding of its distinguishing features and operational characteristics (Busi & McIvor, 2008; Lacity et al., 2011a; Lacity, Willcocks, & Rottman, 2008; Niranjana, Saxena, & Bharadwaj, 2007).

The second reason for focusing on BPO is that this market is still relatively immature and it has strong prospects of further growth. However the achievement of this unfulfilled potential is contingent on the ability of practitioners to make these arrangements more effective in contributing anticipated value to participating firms. In the mid-2000s some commentators predicted aggressive CAGR projections of 20-25% for the segment (Couto & Divakaran, 2006; Willcocks & Lacity, 2009a). These have clearly not been achieved and more modest annual growth in the region of 5% per annum is now anticipated until 2019 (IDC, 2016). The global economic downturn has undoubtedly dampened market growth, but Willcocks, Cullen, and Craig (2011, p.xxiii) also conclude that clients and suppliers have so far failed to find ways of exploiting the “massive untapped potential for the BPO market.” Part of this potential lies in the possibility of achieving financial benefits that consistently mirror those that have been achieved in successful ITO arrangements. Fitzgerald and Willcocks (2009) found that when executed effectively these can allow a client to achieve cost savings of approximately 15%, and the supplier to achieve profit levels of 15-20%. However, delivering operational cost reductions is not the only source of value to clients of services outsourcing arrangements. In their study of sourcing trends, Edgell, Meister, and Stamp (2008, p.175) concluded that as customers and service providers mature, achieving cost savings alone only “scratches the surface” of the potential to deliver value from services outsourcing. Lacity and Willcocks (2013) also found that BPO clients expect much more than cost savings and they cite a survey which concluded

that clients also expect suppliers to introduce innovations in how in-scope business processes are designed and executed.

Therefore, although BPO growth rates have declined it remains a sizeable global market with significant additional potential if the effectiveness of these arrangements can continue to improve. This led Willcocks et al. (2011, p.274) to conclude that BPO “has had a false start.” The segment merits separate study to understand how it may further develop and this project aims to contribute to this understanding. As summarised in the next section, the client-supplier relationships on which these arrangements are founded merits particular research attention.

1.1.3. Why focus on value-seeking relationships?

Studies have repeatedly found that relationship issues are a major reason why outsourcing arrangements frequently do not deliver the expected outcomes (Fitzgerald & Willcocks, 2009; Goles & Chin, 2005; Hefley, Loesche, Khera, & Siegel, 2005; Sanders, Locke, Moore, & Autry, 2007; Webb & Laborde, 2005; Willcocks et al., 2011). In their study of relationships between clients and suppliers engaged in ITO engagements, Goles and Chin (2005) found that 25% of contracts experiencing a relationship failure. Other studies found that one third of organisations cancelled or renegotiating their contracts in the previous five years, of which only 50% were awarded again to the incumbent supplier (Cullen, Seddon, & Willcocks, 2009). Although much of the empirical evidence relating to services outsourcing relationships relates to ITO, Lacity et al. (2011a) found that evidence from the more limited number of BPO studies confirms the central importance of the relationship also in this context. While formal contractual agreements provide an important foundation for these arrangements, Willcocks et al. (2011, p.51) conclude that “relationships are the key to success”.

There has been limited research focus to date on the question of how client-supplier relationships develop in a services outsourcing context. A number of authors propose outsourcing life-cycle frameworks (e.g. Bhide, 2005; Cullen, 2005; Gottschalk & Solli-Sæther, 2006; Mahmoodzadeh, Sh, & Yazdi, 2009; Willcocks et al., 2011). However these tend to focus on the major commercial phases (e.g. strategy formation, decision-making, supplier selection etc) and they do not focus on how client-supplier relationships develop during the operational phase of any outsourcing

arrangement (Lyons & Brennan, 2014). As the operational relationship will determine success or failure, and as this continues for a significant portion of the elapsed time of any outsourcing arrangement, the formation and progression of these operational relationships merits investigation.

When outsourcing is properly planned and implemented there is potential to uncover sources of value that can lead to significant competitive advantage (Willcocks et al., 2011). In spite of the challenges and risks involved, the ongoing market growth indicates that clients and suppliers still believe that by engaging in BPO arrangements they can unlock sources of value that they cannot realise when acting alone (IAOP, 2014d). However to achieve this, an effective client-supplier relationship must be sustained and there should be a win-win for both parties in order to avoid conflict and a dysfunctional relationship (Kern, Willcocks, & van Heck, 2006; Saxena & Bharadwaj, 2009). Therefore the purpose of the relationship is to achieve value that can be shared between the parties, and this project assumes that the progression of the relationship will be influenced by perceptions of this value-potential. In other words, the progression of a client-supplier relationship cannot be assessed unless this includes a focus on the potential for value that motivates the parties to sustain or inhibit the relationship. For this reason this project considers value to be fundamental to relationship progression.

1.1.4. Researcher motivation

Prior to undertaking a full-time PhD programme, this researcher worked for a multinational technology company (IBM) for almost 30 years. During the last 10 years of this career responsibilities included the management of portfolios of BPO and ITO arrangements through which IBM provided services to a number of clients. These clients were mainly based in the UK, but some operated in Ireland and across Europe. Through this experience I observed firms making the “leap of faith” to trust an external supplier such as IBM to deliver services that were critical to the operation of their businesses. As these were typically 5-10 year agreements, I found it particularly interesting that the personal and inter-organisational relationships on which they were founded needed to withstand unanticipated changes in the business environment in which they operated. They also needed to avoid being overly-

constrained by the contractual parameters that were established when both parties committed to these terms at the inception of the agreement.

I was therefore motivated by the desire to develop deeper and more informed insights into these arrangements. This should build on input from existing studies, while contributing to the body of knowledge that can guide the academic and practitioner communities in achieving a better understanding of how such relationships are formed, operate, and evolve. I envisaged that my background as a practitioner would enable me to interpret the complexity of these outsourcing contexts. When coupled with the academic discipline of a PhD research process this should derive relevant insights. I was also confident that I could use my network of industry contacts to gain levels of access and input that would be difficult to achieve by researchers who did not have such practitioner credentials.

1.2. Research contribution

The only major review of BPO literature to date (Lacity et al., 2011a) calls for more research to address the shortage of empirical studies in this area. As summarised in the following sub-sections, this research project aims to respond to this call by making contributions that will improve understanding, contribute to theory development, and be of relevance to practice.

1.2.1. Contribution to improved understanding

This research project aims to make an academic contribution by adding to the body of knowledge on the relatively immature BPO segment. Specifically, the requirement for a deeper understanding of client-supplier relationships and their evolution in this context is highlighted by a number of authors (Goles & Chin, 2005; Kern & Willcocks, 2002; Lacity & Willcocks, 2009a; McCarthy et al., 2013). Through its focus on the evolution of value-seeking relationships in a BPO context, this research will improve this understanding.

An initial contribution to this end was made in Lyons and Brennan (2014) that was published in the September 2014 issue of the specialist journal for outsourcing research: *Strategic Outsourcing: an International Journal*. This paper used a systematic literature review process to identify 52 contributions that use conceptual frameworks to describe outsourcing relationships. By developing a typology of these

frameworks and performing a meta-analysis, the paper provides summaries and comparisons of findings from frameworks adopting different styles. This improves understanding of relationship dynamics by overcoming challenges of incommensurability associated with the diverse set of styles and focus-areas adopted.

The research activities undertaken as part of this project further improve understanding of value-seeking relationships within BPO arrangements. Three cases are studied in depth through input from 38 practitioners who were deeply involved in these arrangements – both from the client and supplier sides of the relationships. The analysis of this input provides a rich set of data that is analysed to derive insights into the factors that influenced the progression of each relationship, and any similarities or patterns that are apparent across these cases.

1.2.2. Contribution to theory

A number of authors have called for more research contributing to the development of endogenous theories for BPO (Busi & McIvor, 2008; Lacity, Willcocks, & Khan, 2011b; Mahnke, Mikkel Lucas, & Vang, 2005). This requirement is echoed by Lacity, Khan, Yan, and Willcocks (2010) who also argue that outsourcing arrangements provide a rich context for the testing and refinement of established theories. They argue that researchers in this field should "seek to inform reference discipline theory as much as we seek to be informed." (p.415) This research project contributes to discourse on the applicability of extant theory and the opportunities for the further development of theory to increase its relevance to an outsourcing context.

Specifically, the project aims to contribute to the development of theory that explains how inter-organisational relationships (IORs) are formed, operate and evolve in this context. Theoretical traditions exploring IORs have typically focused on buyer-seller relationships that develop progressively deeper as the parties gain more trust and understanding of each other (Anderson, 1995; Duffy, 2008; Dwyer, Schurr, & Oh, 1987; Ring & Van De Ven, 1992; Wilson, 1995). As these relationships are typically comprised of sequences of transactional exchanges, if the results are unsatisfactory the relationship may be constrained or terminated at any point by either party. If we consider those relationships metaphorically as "extended courtships", by contrast an outsourcing relationship may be considered as an "arranged marriage."

That is, a contract for a long-term relationship is agreed following a period of negotiation by the business leaders, procurement professionals and lawyers, representing the client and supplier firms respectively. Once the contract is signed, the operational participants are expected to make it work so that contractual obligations are satisfied while familiarity builds. There are limited theoretical constructs to assist us in understanding how IORs operate while under the influence of such structural bonds, and particularly how the relationship develops and responds to unforeseen circumstances. This project will make a theoretical contribution to address this deficit.

An additional theoretical focus of this research topic relates to the question of how value is created, captured and shared between the parties over the course of a BPO relationship. Again, established theory provides limited insights as reflected in the conclusion of Sánchez-Fernández, Iniesta-Bonillo, and Holbrook (2009, p.94) that particularly in services contexts, research into the topic of value remains “nascent and in the early stages of conceptual development.” Other studies found that theories explaining value are generally less developed in a B2B context than they are for B2C exchanges (Coutelle-Brillet, Riviere, & des Garets, 2014; Lindgreen, Hingley, Grant, & Morgan, 2012). The empirical research that is completed in this project will contribute to the development of theory providing insights into expectations of value by BPO partners and how this value is perceived and evaluated over the term of the outsourcing arrangement.

By exploring these theoretical domains from a BPO perspective the project also has potential to contribute to the development of the SCM discipline and in particular to contribute theoretical insights that are relevant to SSCs. In their call for further developments in supply chain theory Carter et al. (2015) specifically highlight the need to recognise that services have particular characteristics that warrant separate focus and theoretical development. This project offers a contribution that responds to this call.

1.2.3. Contribution to practice

This research also makes a contribution to practice by providing deeper insights into the factors that assist organisations in developing win-win services outsourcing relationships. The appetite of the practitioner community for such

insights is evidenced by survey results calling for a better understanding of how experience from more established forms of outsourcing (e.g. ITO) applies to BPO (Lacity et al., 2009). In other studies, practitioners express a need to understand how their firms can better integrate the value that outsourcing arrangements can deliver (Holcomb & Hitt, 2007), and how relationships with suppliers can be improved to contribute innovations that will benefit clients (Lacity & Willcocks, 2013). This research will provide insight that respond to these practitioner needs through its analysis of how BPO relationships develop as both parties seek to realise benefits over an extended period.

1.3. Thesis structure

This thesis is presented in nine chapters, including this Introduction. The following two chapters provide additional context and background to the study.

CHAPTER 2: Literature Review: This discusses the literature that informed the study. It focuses on literature contributions that specifically explore a) outsourcing, before then considering literature on b) inter-organisational relationships, and c) value. The overlaps between these bodies of literature are also explored and knowledge gaps are identified.

CHAPTER 3: Methodology: This chapter explains the philosophical paradigm that guided the research direction, and then outlines the methodology and methods that were adopted.

The next three chapters describe the cases that were selected and studied using the chosen methodology. One finding from the Literature Review was that the nature of an outsourcing relationship can vary across a spectrum of alternatives with different degrees of relationship depth – from arms-length to fully integrated. The methodology design recommended that cases at different points in this spectrum should be selected. Therefore, the three cases that were studied incorporate different degrees of relationship depth between a client and a supplier. Each of these chapters summarises how the informants who provided input to the study were involved, and over what timeframe. This confirms that for each case input was received covering the lifetime of the relationship that was studied, which ranged from nine to 11 years in duration. A chronology of each relationship progression derived from the information provided by

informants is also described. Each of these chapters also includes an assessment of the phases through which these relationships progressed, and the factors that influenced this progression.

CHAPTER 4: Case 1: Virgin Media: This chapter explores the BPO relationship between IBM and Virgin Media UK Ltd for the provision of call centre services.

CHAPTER 5: Case 2: Xerox: This chapter explores the relationship between IBM and Xerox Europe for the provision of call centre and financial support services.

CHAPTER 6: Case 3: Southwest One: The relationship between IBM and three public authorities in the southwest of the UK for the provision of a broad range of shared services is described in this chapter. The three clients in this case are Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police.

The final chapters in this thesis submission derive overall conclusions from the three cases that were explored.

CHAPTER 7: Cross-case Analysis of RQ and Phase Transitions: This chapter considers the three cases and focuses on the phases through which each relationship was observed to progress. The factors that influenced the Relationship Quality (RQ) of these phases are analysed based on informant input. The transitions between phases are also analysed to understand what factors triggered these transitions.

CHAPTER 8: Theoretical Framework of Relationship Progression: This chapter builds on the findings from the cross-case analysis to explore any patterns that are apparent between the phases through which each of these relationships progressed over their lifetimes. A theoretical framework is developed to explain relationship phases and the factors that trigger transitions between these phases.

CHAPTER 9: Conclusions: The final chapter discusses the overall conclusions that are derived from this study and summarises the contribution that these make to understanding, theory, and practice. Opportunities for subsequent research are also identified.

This thesis submission also includes a number of appendices as follows:

APPENDIX A: Glossary of Acronyms: This is provided as an aid to the reader by explaining abbreviations that are used in the text.

APPENDIX B: Definitions: This appendix provides definitions of terms that are referenced in the body of the thesis.

APPENDIX C: Research Overview – sent to participants: This is a presentation of the research instrument that was developed as a communication to prospective informants outlining the purposes of the research and the approach to interviews.

APPENDIX D: Interview Guidelines: This instrument was developed as an aid to the researcher in managing the interviews so that they addressed the required topics in the available time.

APPENDIX E: Exploratory Effects Matrices: This appendix presents the matrices that were developed to identify relationships between variables as part of the cross-case analysis phase of the project. It contains extensive examples of the informant comments included in the analysed data.

APPENDIX F: Zone of Tolerance determinants: This appendix reproduces the framework developed by Ziethaml, Berry, and Parasuraman (1993) to describe the determinants of customer expectations of service. This is provided to assist in the explanation of Zone of Tolerance theory which influenced the development of the theoretical framework of relationship progression.

APPENDIX G: Summary of outsourcing research gaps: This provides a detailed description of the categories of research opportunities that were identified during the review of services outsourcing literature described in Chapter 2.

1.4. Summary

The outsourcing of services is an increasingly common initiative adopted by firms seeking new supply chain designs that allow them to focus on core competencies and realise new sources of value. BPO represents a vibrant segment of this market, having grown rapidly to overtake more established segments such as ITO, but also having potential to increase its potential for participating firms. This potential

depends on the effective development of relationships between clients and suppliers as they work together to identify and share the resulting value. This project seeks to explore this relationship development and in doing so contribute to understanding, theory, and practice that is relevant to BPO and to the wider contexts of services outsourcing and services supply chains. The following chapter explores the literature that informs this research.

2. Literature Review

This project focuses on how BPO relationships within a supply chain develop over time as both the client and supplier seek to maximise the value that they realise from the relationship. The purpose of this literature review chapter is to distil relevant learning from extant research and theorising across the three pillars of the research topic and question. These are:

1. **Services Outsourcing:** This first section of the review focuses on services outsourcing in order to establish a foundational understanding of the history, scope, and knowledge requirements of this segment. It considers literature covering all forms of services outsourcing to ensure that the project draws from a wider base of knowledge than would be possible if the focus was limited to the relatively immature BPO segment. This also reflects the conclusion of Lacity et al. (2011a, p.243) that although some specific differences in findings are evident “ITO and BPO research have produced mostly consistent results.” Therefore this section assumes that BPO arrangements will demonstrate many characteristics that are consistent with other forms of services outsourcing, while noting any relevant findings that are specific to a BPO context.
2. **Inter-Organisational Relationships (IORs):** This section reviews the literature on IORs and considers a range of theoretical traditions that are adopted by authors to explore different dimensions of B2B relationships. The insights revealed through these lenses are explored with the objective of developing a broad understanding of how IORs are formed, operate, and evolve. The section then considers these findings in relation to any specific findings into the IOR dimensions of services outsourcing.
3. **Perceived Business Value:** Value as perceived in a B2B context is central to the research topic and question and therefore merits separate consideration in this literature review. In common with the approach taken to reviewing the IOR literature, this section considers how a range of theories are drawn-upon by authors to explore relevant dimensions of the subject: namely value creation and value appropriation. Again, having developed a level of understanding based on the literature exploring these dimensions of value in a general B2B context, this section considers how these themes are addressed within the services outsourcing

literature. This assists understanding of how value may be conceptualised in this more specific context.

An objective of each of these sections is to uncover and summarise the insights that the extant literature reveals into these three major pillars of this research project. A second objective is to provide a base of understanding that crystallises the landscape to be investigated through an appropriate methodology. This is achieved at the end of this chapter through the development of a research model which builds on the outputs of this literature review to describe the major elements that should be explored through the data gathering and analysis activities that are developed in Chapter 3.

2.1. Services outsourcing literature

The review of the literature that is presented in this section seeks to provide a foundational understanding of services outsourcing by exploring a) the historical development of the segment, b) the scope and boundaries of services outsourcing engagements, and c) the state of current research into the segment with reference to prior studies which have identified gaps in research to date. The body of literature that has informed this review was initially assembled by studying extant literature reviews published in the 10 years 2004 and 2014 (Alsudairi & Dwivedi, 2010; Dibbern, Goles, Hirschheim, & Jayatilaka, 2004; Fjermestad & Saitta, 2005; Gonzalez, Gasco, & Llopis, 2006; Lacity et al., 2009; Lacity et al., 2010; Lacity et al., 2011a; Lyons & Brennan, 2014; Mahnke et al., 2005; Sargent, 2006). Additional sources were identified as follows.

1. By searching academic data bases for further - and particularly more recent contributions - by authors who received prominent attention in these extant literature reviews,
2. By studying previous and current issues of journals that were found to be a frequent source of papers on outsourcing as referenced in these reviews. The specific journals searched were *Business Process Management Journal*, *Journal of Information Technology*, *Journal of Supply Chain Management*, and *Strategic Outsourcing: an International Journal*.
3. As identified in the literature analysis by Gonzalez et al. (2006) the most prolific contributors to the literature on ITO until that point were Professor Leslie

Willcocks of the London School of Economics, and Professor Mary Lacity of the University of St Louis Missouri. Further reviews as part of this study continued to find many valuable contributions by these authors providing research into a number of other services outsourcing applications as these emerged. They also edited a book series entitled *Technology, Work and Globalization* published by Palgrave Macmillan. This book series was included in this review given its specific focus on outsourcing, and the eminence of these editors. It is also worth noting that I had the opportunity to meet these two senior academics at a conference in Phoenix, Arizona during 2015, and I solicited their views on relevant literature sources. Their recommendations were incorporated into the reference material for this study.

4. In order to ensure that this literature review took account of market developments, analyst reports, and practitioner concerns, subscriptions were also made to a number of sources that aim to offer insights into the segment. These included *Gartner*, the *Information Services Group (ISG)*, the *International Association of Outsourcing Professionals (IAOP)*, and the *Shared Services & Outsourcing Network (SSON)*.

These sources enabled the creation of a bibliography of over 230 contributions. These were the primary reference points that informed the following sub-sections describing the history, features, and research requirements of services outsourcing.

2.1.1. Historical development

The progression of the services outsourcing segment can be surmised from the literature as follows:

Historical Context (pre-1990's): Dibbern et al. (2004, p.9) acknowledge that outsourcing “has been around for centuries.” Similarly, Willcocks (2011) suggests that the use of organised groups of mercenary soldiers as described in Machiavelli’s *The Prince* can be regarded as a form of outsourcing that was prevalent in the 16th century, and indeed in the centuries before this. Although many other examples of outsourcing can be found throughout history, the growth of the services sector in the 1980’s triggered the emergence of the phenomenon of services outsourcing (Kakabadse & Kakabadse, 2000). This was also encouraged by the focus on re-engineering of processes in the 1970’s and 1980’s. This encouraged firms to consider

whether these processes needed to be performed within their organisations, or could achieve equal or better outputs with improved costs if they were fulfilled through external third parties (Davenport, 2005). Lacity and Willcocks (2012) argue that the consideration of outsourcing became an inevitability as the value that firms built up over time in processes or services levelled-out, causing them to consider alternative delivery mechanisms to uncover new sources of value from these discrete processes and services. Quinn and Hilmer (1994) describe how during the late 1980s and early 1990s firms began to actively consider outsourcing as a strategy which would allow them to focus on processes that could be regarded as core competencies (Prahalad & Hamel, 1990), while allowing non-core processes to be delivered by third parties. They distinguish between traditional outsourcing to deliver short term cost benefits and *Strategic Outsourcing* which is based on a thoughtful analysis of core competencies. This more strategic motivation is designed to deliver rewards such as leveraging external competencies and lowering long-term capital investments.

The “Kodak effect” and the growth in ITO (1990’s): A number of authors highlight the boom in IT outsourcing that followed the landmark deal in which the Kodak Corporation outsourced major parts of its IT services to IBM in 1989 (Cullen, 2005; Davenport, 2005; Loh & Venkatraman, 1992). Although annual spending on ITO grew from \$50b in the early 1990’s to \$152b by 2000, there were still only approximately 120 such deals globally (Willcocks, 2011). These were of significant scale and importance to the organisations involved. However, there remained a reticence on the part of many clients to undertake ITO because they were less experienced than suppliers of services and they found it difficult to make comparisons and form value judgements (Quinn & Hilmer, 1994). As ITO engagements became more pervasive and clients became more knowledgeable, the rate of growth increased. Lacity and Willcocks (2001) suggest that this was also encouraged by a change in attitude by many firms to their IT functions. That is, they no longer regarded IT as a core competency of the organisation, and increasingly viewed it as an infrastructure that deserved scrutiny and provided opportunity for cost reduction. As the ITO segment grew, so did the level of academic interest in this phenomenon. The volume of academic contributions considering various aspects of ITO operation and growth significantly increased (Gonzalez et al., 2006). This led to the publication of a number of significant literature reviews on ITO in subsequent years (Alsudairi & Dwivedi,

2010; Dibbern et al., 2004; Fjermestad & Saitta, 2005; Gonzalez et al., 2006; Lacity et al., 2009; Lacity et al., 2010; Mahnke et al., 2005).

Emerging BPO segment positioned as a derivative of ITO (2000's): The effort required to avert the *Y2K bug* forced IT functions in many firms to search for new and low cost sources of technical skills. This encouraged the consideration of capabilities from locations such as India to assist, either by commissioning sub-contractors to travel from these countries, or by providing support remotely from these locations. Devata et al. (2005) argue that this increased familiarity with these valuable capabilities, and also that the repatriation of migrant workers to their home countries after these projects, created a kernel around which new services could be offered from distant, low-cost locations. They also highlight a significant increase from the mid-1980's onwards in countries opening their physical and economic borders, while at the same time there were significant improvements in the affordability and reliability of international data networks that facilitated remote working (e.g. they highlight that increases in network capacity caused the cost of a 2 megabit-per-second data connection between the US and India to decrease from \$1m p.a. in 1997 to \$0.2m in 2002). These and other advances in information technologies, allowed firms to consider the outsourcing of business processes that could previously only have been performed within the physical confines of the firm (Beck, 2005; Devata et al., 2005). In some cases these new outsourcing opportunities were referred to as *IT-enabled services*, on the basis that technological advances had enabled access to these capabilities (Devata et al., 2005; Henley, 2006; Willcocks, 2010). The deteriorating economic climate in the wake of the attacks on the USA on September 11th 2001, and the increasing pressure of global competition made it more difficult for companies to ignore the cost advantages that could be attained by outsourcing new kinds of services to offshore locations, in spite of the perceived risks involved (Bhide, 2005). Initially the most significant non-IT activity to be outsourced was in call centre services (Aman et al., 2012). However, as the scale and breadth of such services increased, the term BPO emerged to cover the outsourcing of the four major types of service that were driving the growth in non-IT services outsourcing: a) Call centre services, b) Finance and Accounting services, c) Human Resources management services, and d) Procurement services (Lacity & Willcocks, 2013; Linder, 2004; Saxena & Bharadwaj, 2009). The term *offshoring* became synonymous with outsourcing because the ability

to move work to countries providing good skills at low labour rates triggered a further boom in services outsourcing, and particularly BPO. However, the literature explains that delivering these services from low-cost countries is just one option, and delivery of outsourced services remains possible from within the same country (*onshore*), or through a hybrid of onshore and offshore delivery capabilities (Banerjee & Williams, 2009; Devata et al., 2005; ISG, 2013).

Separate focus on BPO encouraged in the literature (2010's): The ongoing growth of BPO encouraged more studies of this segment in its own right. In a comprehensive literature review Lacity et al. (2011a, p.222) asserted that until that point the “entire body of BPO research has never been reviewed.” Amounts invested by firms in BPO services continued to grow and the segment soon exceeded the size of the more established ITO segment (Oshri et al., 2009). Technology continued to improve and firms grew more experienced in managing remotely-delivered services. This encouraged a shift from the use of outsourcing only for activities that were considered peripheral to the business, to its use also for key services such as design, engineering, research, and marketing (Dobrzykowski, Tran, & Tarafdar, 2010; Gottfredson, Puryear, & Phillips, 2005; McIvor, 2000). The delivery of services became more industrialised as suppliers built generic service delivery capabilities aimed at maximising economies of scale by servicing many clients (Lacity & Willcocks, 2012). The speed of this growth had a number of impacts (Willcocks et al., 2011). Firstly, clients and suppliers had to move very fast to keep-up with the latest market trends and to grapple with new sources of competition and value. Secondly, senior executives were required to make sourcing decisions very quickly without necessarily having the time to think about longer term implications and strategic considerations, even though this is precisely what is required of a sourcing strategy. Technological advances continue to present challenges and opportunities. The availability of *cloud-based services* presents clients with a new option for sourcing IT capacity through shared infrastructure rather than by outsourcing to a third party (Willcocks, Venters, & Whitley, 2013). This presents new competition and opportunity to outsourcing suppliers. Similarly, improvements in internet infrastructure and applications make it increasingly possible to service customer enquiries electronically rather than by phone, thus reducing the need for call centre services. These are symptoms of a wider debate in the outsourcing literature

regarding the optimum direction for the segment. Some argue that the best route forward lies in process standardisation and commoditisation to make it easier for clients to assess offerings and to create interfaces between their internal processes and standardised services (Davenport, 2005; Ramkumar & Cooper, 2004). Others encourage practitioners to move “beyond commoditization” (Lacity & Willcocks, 2012, p.xv) by implementing deeper collaboration and customisation of service offerings as a way of delivering added value.

Current state of the services outsourcing segment (2016): For a more current perspective on the state of the segment it is useful to consider recent reports from market analysts. ISG predicts that the value of services outsourcing contracts awarded globally increased by more than 10% in 2014 when compared to the previous year (ISG, 2014a). However in spite of the double-digit percentage increases in the *value* of contracts awarded in 2014 when compared to 2013, they estimate that the *number* of contracts signed during 2014 exceeded that of 2013 by just 4%. This is evidence of market development activity being driven more by renegotiation and restructuring of existing contracts, rather than agreement of contracts with new clients for new scope. Some analysts argue that this is the first signs of saturation of the market (Overby, 2011; SSON, 2013). It is also reported that as growth in cross-industry offerings such as call centre services levels-out, BPO providers are beginning to focus on segment-specific offerings as a new source of growth (e.g. healthcare, insurance). Analysts report investments by providers in capabilities, software and other assets that are specific to these industry-segments (EY, 2013; ISG, 2014a). Expansion into new applications of outsourcing such as Legal Services Outsourcing (Lacity et al., 2014) and Engineering Services Outsourcing (ISG, 2014b) also serves to fuel the on-going growth of the services outsourcing segment. Increased investment in onshore capabilities is also reported as providers address the need for better integration and coordination with the increasingly complex client processes being delivered. These also reflect sensitivities related to data protection concerns, and the emergence of lower cost options (referred to as “tier-2 locations”), particularly within the USA (SSON, 2014).

Definition / Sources	Inter-organisational	Delegatory	Process-centric	Contractual	Outcomes-oriented	Continuous
A movement of business processes from inside an organisation to external service providers (Click & Duening, 2005).	X	X	X			X
Outsourcing occurs when an organisation contracts external resources and professional services in order to develop or operate their information systems thereby meeting specific business needs (Dalcher, 2005).	X	X	X	X	X	
Long-term contracting-out of Information Technology enabled business processes to an outside provider to help achieve increased shareholder value (Devata et al., 2005).	X		X	X	X	X
Making arrangements with an external entity for the provision of goods or services to supplement or replace internal efforts (Dibbern et al., 2004)..	X				X	
The decision by an organisation to seek external resources for satisfying IS requirements [and] where the outsourcing partner is responsible for managing the components (Fjermestad & Saitta, 2005).	X	X				
An ongoing, long term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive IT activities, processes, or services, with the understanding that the benefits attained by each firm are at least in part dependant on each other (Goles & Chin, 2005).	X	X	X	X	X	X
The sourcing of business processes through external third parties (Lacity et al., 2011a).	X		X			
Contracting with service provider(s) for the provision of execution of business process operations as per client's requirements (Maelah, Aman, Hamzah, Amiruddin, & Sofiah Md, 2010).	X	X	X	X	X	
The delegation of a business process to an external service provider who owns, administers, and manages it, according to a defined set of metrics (Saxena & Bharadwaj, 2009).	X	X	X		X	X
The handing over to a third party management of IT/IS assets, resources, and/or activities for desired results (Willcocks & Lacity, 1998).	X	X			X	

Table 1: Definitions of services outsourcing

2.1.2. Distinguishing features of services outsourcing

The volume of academic interest in services outsourcing as summarised in the previous section confirms that this sector has unique characteristics that distinguish it from other forms of B2B relationships. This section explores these characteristics so that the subsequent sections on IORs and value realisation can also reflect on features that are specific to this context.

Many definitions of outsourcing are offered in the literature, causing Mahnke et al. (2005, p.246) to conclude that “disagreement and confusion about the definition of outsourcing are still widespread.” Table 1 lists 10 definitions of outsourcing that were found in the reviewed literature. This list is sorted alphabetically, by name of the primary author. The columns in the table identify six characteristics that emerge from an analysis of each of these definitions. The table shows that all of these characteristics are not reflected in every definition. This is consistent with the conclusion of Gilley and Rasheed (2000) that definitions of outsourcing should be regarded as complements rather than substitutes. Therefore when considered in aggregate, these six characteristics clarify how the literature distinguishes services outsourcing from other forms of services relationships. The remainder of this section discusses each of these characteristics with reference to relevant contributions from the reviewed literature. This is followed by a summary of how, when combined together, these characteristics provide boundaries for the identification of activities that may be considered within the scope of services outsourcing.

1. **Inter-organisational:** All of the definitions that were assessed highlight the inter-organisational nature of outsourcing. This implies that outsourcing involves a business-to-business relationship and does not extend to relationships between organisations and individuals (e.g. individual sub-contracting), or intra-organisation configurations (e.g. the transfer of activity within a multi-national to a remote subsidiary). According to these definitions the nature of the IOR is hierarchical, involving a client and a provider of services.
2. **Delegatory:** A number of the definitions indicate that the inter-organisational arrangement includes the full delegation of the management of the operation to the outsource partner. This implies clear boundaries of responsibility, with management accountability for the service resting with the supplier. This distinguishes outsourcing from services relationships where supplementary

resources are procured and then operate under the client's management control and direction. Gilley and Rasheed (2000) suggest that outsourcing reflects a decision to reject the internalisation of an activity, and that this can apply to functions that were previously performed internally in the organisation (*substitution*), or for functions where a decision was made never to develop an internal capability in the first place (*abstention*).

3. **Process-centric:** There is a strong consensus across the definitions that the activities that are the focus of an outsourcing arrangement should represent a homogeneous function of the business. In other words, outsourcing is positioned as being oriented around cohesive business processes, rather than discrete tasks. Some of the definitions make this point by referring to specific business processes (Click & Duening, 2005; Dalcher, 2005; Devata et al., 2005; Lacity et al., 2011a; Maelah et al., 2010; Saxena & Bharadwaj, 2009). Goles and Chin (2005) add the qualifier that the activities should be “comprehensive”, thus implying that the functions outsourced should also have critical mass. The overall inference is that the activities outsourced should represent integrated processes with defined scope, function, and boundaries.
4. **Contractual:** The contractual nature of the arrangement is emphasised across a number of these definitions. This implies commitment to pre-defined responsibilities and longevity, supported by negotiated contractual terms and conditions. A number of studies found a link between success in outsourcing and the completeness of the contracts under which they operate (Aman et al., 2012; Barthélemy, 2003; Edgell et al., 2008; Wüllenweber, Beimborn, Weitzel, & König, 2008). However, many authors emphasise the need to find an effective balance between the management of contractual obligations and the maintenance of a flexible and collaborative relationship between the parties (Feeny et al., 2009; Goles & Chin, 2005; Sanders et al., 2007; Vitasek & Manrodt, 2012; Webb & Laborde, 2005; Wüllenweber et al., 2008).
5. **Outcomes-oriented:** The definitions in Table 1 indicate that outsourcing initiatives are designed to contribute to specific business outcomes (Dalcher, 2005; Dibbern et al., 2004; Goles & Chin, 2005; Maelah et al., 2010). Saxena and Bharadwaj (2009) emphasise that the outputs should be measurable, and Devata et al. (2005) suggest that there should be a clear contribution to shareholder value. The definition offered by Goles and Chin (2005) is unique within this set as it

acknowledges that there should be benefits for both the client and the supplier, and that the realisation of these benefits involves inter-dependencies. This emphasis on the need to consider the objectives of both parties reflects the conclusions from a number of outsourcing studies that the most successful arrangements are those that achieve outcomes representing a win-win for the client and supplier (Kern et al., 2006; Saxena & Bharadwaj, 2009). This is based on the finding that a win-lose scenario frequently leads to dysfunctional behaviour by the disadvantaged partner as they try to improve their returns from the relationship.

6. **Continuous:** Two of the definitions (Devata et al., 2005; Goles & Chin, 2005) specify that an outsourcing arrangement will be “long term”, although they are not specific about what this means. Implied in most of the other definitions is that the arrangement will be ongoing, and not transactional in nature. This reflects the finding of El-Messidi (2012) that, although the term of outsourcing contracts is reducing, the average duration of contracts is still between 4 and 5 years.

These six characteristics distinguish outsourcing from other forms of services procurement. According to this set of definitions, if a service is performed by a supplier for a customer it can be considered to be outsourced if it operates within an *inter-organisational* relationship, that involves the *delegation* of management responsibility, for a homogeneous business *process*, via a *contractual* arrangement, where specific *outcomes* are expected, and where the arrangement is expected to be *continuous* over an extended period. Based on these characteristics, the definition by Goles and Chin (2005) is considered to be most comprehensive. Although written from an ITO perspective, it may be generalised as follows:

[Services outsourcing is] an ongoing, long term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive activities, processes, or services, with the understanding that the benefits attained by each firm are at least in part dependant on each other (adapted from Goles & Chin, 2005, p.49).

A wide variety of services functions can therefore be a target for outsourcing, whether they are considered peripheral to the business (e.g. cleaning services), or central to its operation (e.g. financial accounting services). However, services functions that are more task-oriented (e.g. the commissioning of external consultancy), that do not involve a hierarchical client-supplier relationship (e.g. a joint

venture with shared investment), or that involve individuals rather than organisations (e.g. the hiring of subcontractors) should not be regarded as outsourcing according to the consensus of these definitions. Of course these characteristics are open to interpretation and subject to context. For example, in most developed economies the procurement of electricity would not be regarded as an outsource relationship, as firms do not generally regard utilities as business processes. However, the interpretation may be different in a developing economy where the firm may decide between producing the utility internally and managing this as an infrastructural process, or “outsourcing” to an emerging utility provider.

Taken in isolation, none of the above characteristics are unique to outsourcing and each of them may be evident in other types of service exchanges between suppliers and their clients. However, the implication of these definitions from the literature is that the service can be considered to be outsourced when these characteristics exist in combination with each other.

2.1.3. Outsourcing research requirements

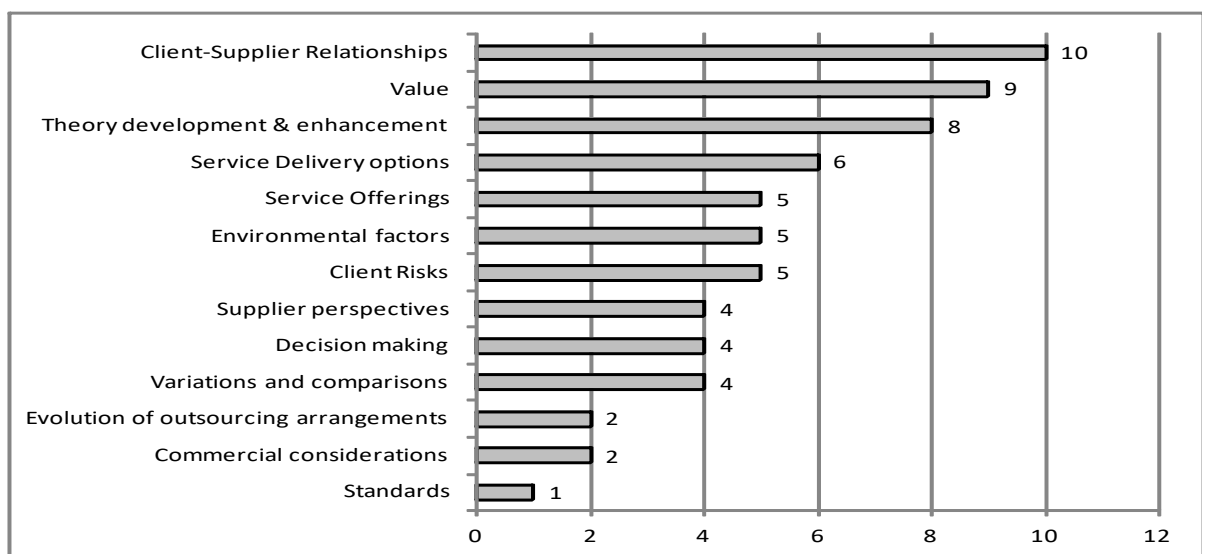


Figure 1: Categorisation of outsourcing research gaps

Although outsourcing has evolved significantly in the last 25 years, scholars continue to highlight limitations in our understanding and call for more research to address these limitations. In order to provide additional focus for this project, and to assess the current status of research on the subject, an analysis of these research requirements was undertaken. This was done through a study of the 10 literature reviews that provided the starting point for the review of outsourcing literature that

informed the previous sections (Alsudairi & Dwivedi, 2010; Dibbern et al., 2004; Fjermestad & Saitta, 2005; Gonzalez et al., 2006; Lacity et al., 2009; Lacity et al., 2010; Lacity et al., 2011a; Lyons & Brennan, 2014; Mahnke et al., 2005; Sargent, 2006). An analysis of these literature review papers found a total of 65 gaps that their authors identified in extant research into services outsourcing.

A categorisation of the full list of 65 gaps revealed through this analysis is presented in Figure 1. Appendix G provides descriptions of the opportunities for further research that are included in each category in this analysis. Understandably, there is some duplication between the gaps suggested by different authors, and in some cases a similar gap is identified in papers considering the literature relating to different applications of services outsourcing (e.g. ITO and BPO). It is also likely that gaps identified in some of the earlier contributions have been addressed by subsequent research. However, this categorisation serves to provide an overall perspective on research requirements, and in particular the relative significance of groupings of gaps under major headings. For example, it highlights a consensus across these authors on the need for more research into client-supplier relationships (15% of total), and value realisation from these relationships (14%). It also highlights the calls for the development and enhancement of endogenous theories of outsourcing (12%). The research gaps relating to the client-supplier relationships include:

- a. Calls for more studies to improve understanding of relationship-management considerations such as the capabilities that should be retained and developed within a client firm to enable more effective management of suppliers (Lacity et al., 2011a),
- b. How relationships may be managed more effectively to achieve desired outcomes (Busi & McIvor, 2008), and
- c. How to more effectively manage relationships with suppliers in remote locations (Sargent, 2006).
- d. As well as forming the largest category identified in this analysis, relationship considerations are also embedded within other categories such as those relating to value, theory, risks, supplier perspectives, and evolution.

The prominence of gaps relating to value realisation in this categorisation is also evidence of the central importance of value creation and appropriation to the successful operation of outsourcing relationships. These include requirements to:

- a. Improve knowledge which will assist firms in choosing those outsourcing opportunities that will deliver the most value (Banerjee & Williams, 2009),
- b. Help suppliers to identify more innovative sources of value (Lacity et al., 2010; Lacity et al., 2011a), and
- c. Generally to provide more in-depth insights into value as represented by outcomes and success factors (Busi & McIvor, 2008; Dibbern et al., 2004; Lacity et al., 2010).

As these themes of relationships and value are also central to the topic and question that are the focus of this present research project, this further underlines the importance of considering the wider bodies of literature that consider these subjects. These two subject areas are therefore addressed in the following sections of this chapter.

2.2. Inter-organisational relationships literature

The purpose of reviewing the literature on IORs is to explore the insights and explanations that these sources provide into the formation, operation, and evolution of B2B relationships in a services outsourcing context. As theory provides explanations of phenomena and concepts (Carter, 2011; Ketchen & Hult, 2011; Whetten, 1989), the approach adopted is to use theory as the entry-point for this exploration, and in so doing to ensure that any conclusions are supported by established theoretical principles. However, there is no single cohesive theory that explains all of these dimensions of IORs. Therefore a number of traditions are drawn-upon and combined to enlighten our understanding. This is consistent with the view promoted by Poole and Van de Ven (1989) that new insights can be derived by drawing on multiple theoretical perspectives, and that these theories should not be regarded as statements of ultimate truth, but should rather be viewed as “alternative cuts of a multifaceted reality.” (p.563)

Given the intention to use theory as the entry point for exploring IORs, a rationale was therefore needed to identify the most pertinent theoretical traditions to illuminate this analysis. As such theories should accommodate the specific characteristics of outsourcing, it was decided that the theories chosen should be those that have been found by scholars to be most effective in exploring outsourcing relationships. Lyons and Brennan (2014), which was an early output of this research

project, identified those theories that are most frequently drawn-upon by scholars studying aspects of outsourcing relationships, including their governance characteristics, the climate in which they operate, the management tactics used to influence the relationships, and the progression of the relationship. The theories identified in this paper are: Agency Theory (AgT), Relational Exchange Theory (RET), Relational Governance Theory (RGT), Resource-Based Theory (RBT), Social Capital Theory (SCT), Social Exchange Theory (SET), and Transaction Cost Economics (TCE) theory. These theories were therefore selected as the entry points to exploring the broad characteristics of IORs, in order to provide a deep context for our study of outsourcing relationships.

Following the approach to the analysis of complementary theories used by other authors (e.g. Mele & Della Corte, 2013; Pels, Möller, & Saren, 2009) a meta-theoretical method was adopted. This approach provides an accessible means of assessing what each of the chosen research traditions offers to our understanding of IORs, and how these perspectives complement each other to provide overall insights. Pels et al. (2009, p.333) describe this method as a “systematic evaluation of the basic assumptions and questions that each of the research traditions makes about the core phenomena.” For the purposes of this study, the core phenomena are those relating to a) the formation of relationships, b) their operation, and c) how they progress over time.

The output of this meta-theoretical analysis is presented in Table 2. This table identifies a significant reference paper that focuses on the theory in question and which provides insights into how the theory addresses the three dimensions of IORs that are of interest here. The central concepts underpinning the theory as articulated in this reference paper are summarised, and specific insights relating to these three dimensions are identified. Where contributions from other authors considering these theories complement these explanations, these are also cited.

Theoretical Basis / Reference Paper	Summary of central concepts relating to IORs	Relationship Formation	Relationship Operation	Relationship Progression
<p>Agency Theory (AgT)</p> <p>Eisenhardt (1989a)</p>	<p>Principals and Agents involved in a relationship have differing goals and attitudes to risk. Principal-Agent relationships should reflect efficient organisation of information and costs related to risks.</p>	<p>Contracts appropriate to the context are agreed when the relationship is formed. These can be behaviour-based (e.g. time & materials) when outcome uncertainty is high, when Agent risk aversion is high, and when outcomes are not easily measured. Outcome-based contracts (e.g. fixed price) are effective when the Principal's risk aversion is high, outcomes are measurable, and processes are well-defined (Lacity & Willcocks, 2009b; Logan, 2000).</p>	<p>Operational challenges can emerge if the goals of the Principal and Agent are not aligned. It can be difficult and expensive for the Principal to determine what the Agent is actually doing. This is particularly important for behaviour-based contracts, but information systems can help. Attitudes are influenced by self-interest and bounded rationality.</p>	<p>No robust insights identified.</p>
<p>Relational Exchange Theory (RET)</p> <p>Dyer and Singh (1998)</p>	<p>The inter-organisational relationships within which the firm is embedded create sources of competitive advantage.</p>	<p>Firms forming IORs aim to achieve <i>relational rents</i> through investments in assets specific to the relationship, substantial knowledge exchange, combining resources, and more effective governance leading to lower transaction costs.</p>	<p>When relationships are operational, the ability of firms to exploit <i>relational rents</i> is based on their absorptive capacity (Lavie, 2006). Relational exchanges compensate for contract incompleteness (Swar, Moon, Oh, & Rhee, 2012).</p>	<p>Relationships evolve through phases as trust builds between buyers and sellers. The phases are <i>Awareness, Exploration, Expansion, Commitment, Dissolution</i> (Dwyer et al., 1987).</p>

<p>Relational Governance Theory (RGT)</p> <p>Zaheer and Venkatraman (1995)</p>	<p>The governance of contractual relationships must consider sociological as well as economic factors (also referred to as <i>Relational Contracting</i>). Contracts are inevitably incomplete and therefore social and relational connections must be developed to ensure resolution in areas that are not sufficiently defined in contractual stipulations (Grandori, 2006).</p>	<p>Formation includes investment in relationship-specific assets that can include <i>human</i> and <i>procedural</i> assets in services contexts. Levels of risk and levels of trust combine to determine what form of governance structure is appropriate. The alternatives are: <i>Market-based</i>, <i>Hierarchical</i>, <i>Relational</i> contracts, and <i>Recurrent</i> contracts (Ring & Van De Ven, 1992).</p>	<p>Social and relational exchanges as part of a governance process facilitate the operation of the relationship and compensate for contract incompleteness.</p>	<p>Recurrent transactions provide a context for the development of trust over time, thus ensuring a strong relationship between trust and the governance process (Ring & Van De Ven, 1992).</p>
<p>Resource-Based Theory (RBT)</p> <p>Barney (1991)</p>	<p>Firms within an industry are heterogeneous in terms of the resources that they control. These resources are not perfectly mobile.</p>	<p>Firms form IORs when internal capabilities can be complemented by capabilities available from intermediate markets to create competitive advantage (Holcomb & Hitt, 2007).</p>	<p>IORs can enable access to resources without requiring their full ownership and control by the firm. However, this presents operational challenges in ensuring that value is captured from these relationships (Verwaal, Commandeur, & Verbeke, 2009).</p>	<p>RBT holds that sustained competitive advantage depends on the maintenance of the value, rarity, imperfect ability to imitate, and imperfect substitutability of resources. In networked environments the nature of relationships may be more important to this sustainability, than the nature of the resources (Lavie, 2006)</p>

<p>Social Capital Theory (SCT)</p> <p>Payne, Moore, Griffis, and Autry (2011)</p>	<p>The structure and content of an actors' social relations earns goodwill for the individual or the group that they represent. The resulting <i>social capital</i> is influential at multiple levels in social systems.</p>	<p>No robust insights identified.</p>	<p>Actors can leverage social ties to gain access to needed resources, including the building of bridges through which valuable information can pass (Gligor & Autry, 2012).</p>	<p>The tenure of relationships can increase social capital and contribute to their smooth operation. Antecedents of social capital generation and how it changes over time are not well understood.</p>
<p>Social Exchange Theory (SET)</p> <p>Lambe, Wittmann, and Spekman (2001)</p>	<p>Exchange relations involve economic and/or social outcomes. These outcomes are compared over time to other exchange alternatives to determine dependence on the exchange relationship.</p>	<p>No robust insights identified.</p>	<p>Dyadic exchange relations consist of voluntary transactions involving the transfer of resources (Kern & Willcocks, 2000). Trust is the key variable (Swar et al., 2012).</p>	<p>Positive outcomes over time increase a firm's trust in its partners and their commitment to the exchange relationship. Positive relational exchanges over time result in norms that govern the relationship.</p>
<p>Transaction Cost Economics (TCE)</p> <p>Williamson (1979)</p>	<p>A firm should use its internal <i>hierarchy</i> to satisfy its needs when the internal transaction costs are less than those available externally. It should buy in the <i>market</i> when this difference is reversed (Williamson, 2001). <i>Hybrid</i> contracting options can be adopted, with varying governance characteristics depending on the levels of uncertainty, frequency of interactions, and the specificity of assets.</p>	<p>Governance structures established when forming the relationship should recognise the differing attributes and costs of transactions and reflect the needs of the parties to protect against opportunistic behaviour by each other (Williamson, 2001). The design of organisation arrangements should also recognise that contracts are unavoidably incomplete.</p>	<p>Governance is the means by which order is achieved and mutual gains are delivered from the relationship (Williamson, 2001). Personal commitments between actors will discourage opportunistic behaviour.</p>	<p>Transactions can be occasional or recurrent. Relational considerations will apply to recurrent transactions.</p>

Table 2: Meta-theoretical analysis of theoretical perspectives on inter-organisational relationships (IORs)

The sub-sections that follow reference this meta-theoretical analysis to assess how these traditions are drawn-upon to explain IOR formation, operation, and progression respectively. This is followed by a discussion on how the themes that are evident in the literature on IORs resonate with research outputs and conceptual contributions describing services outsourcing relationships. This enables the identification of synergy and contrast between the outsourcing literature and the broader literature on IORs.

2.2.1. Relationship formation

The concepts underpinning RBT help to explain why firms form IORs. That is, as heterogeneous resources are the source of competitive advantage, when valuable resources are not available within the firm access to them can be achieved by forming relationships. RET describes how firms expect *relational rents* from these IORs and contends that these returns are directly related to the levels of investment by the parties in assets specific to the relationship, knowledge exchange, combining resources, and effective governance. Governance (including contractual structures and agreements about how the relationship will be jointly administered) is also central to the question of how firms own and control the resources that are to be accessed through the relationship. A number of theories highlight that a range of alternative structures and forms of governance are possible (AgT, RGT, TCE).

A premise of TCE is that transaction attributes and costs will determine whether a firm should choose to make a product or service using its internal *hierarchy* or buy it in the *market* (Williamson, 1979). This is reflected in the fundamental proposition of TCE that the cost and competence of governance structures is aligned with transaction attributes “so as to effect a (mainly) transaction cost economizing result.” (Williamson, 2001, p.5) If the firm chooses to buy the product or service in an imperfect market, structural safeguards should be put in place. Typically these safeguards will be implemented as contractual obligations and/or governance mechanisms that are designed to discourage opportunistic behaviour by the seller that would present risks to investments in assets that are specific to the transaction. These are characterised as *hybrid* forms of contractual governance that implement appropriate levels of safeguard depending on the frequency of the transactions (*occasional* or *recurrent*) and the nature of the investment that is required

to enable the transaction (*nonspecific, mixed, or idiosyncratic*). Williamson (1979) builds on the foundational descriptions of contracting options by Macneil (1974), to clarify that contracts need not attempt to make provision for all eventualities (*classical* contracts), or even to specify how unknowns will be handled (*neoclassical* contracts). Rather than focusing on how tasks will be administered, contracts can instead allow for future unknowns by focussing on the relationship between the parties and describing how this will operate (*relational* contracts). Social dimensions, as described through SET and SCT underpin these relational structures.

RGT also recognises that between the extremes of hierarchical and market relationship types there exist many relational forms such as joint ventures, strategic partnerships, and alliances (Zaheer & Venkatraman, 1995). However, a premise of RGT is that the governance of these relationships adopts both economic and sociological characteristics. It is argued that TCE is limited by its primary focus on structural (economic) considerations, and does not sufficiently emphasise that process (sociological) factors such as the level trust between the parties are also an important influence on the governance of IORs. Ring and Van De Ven (1992) state that although TCE provides a strong theoretical basis for considering the extremes of hierarchical and market transactions, it does not adequately explore the governance structures and dynamic nature of repeated transactions. Although TCE caters for recurrences of discrete transactions, they contend that the theory fails to recognise the existence of on-going exchange relationships that are relational in nature. They conclude that considerations relating to risk and trust combine to determine whether an exchange relationship is best served through a governance structure that is based on the *market* (low risk / low reliance on trust), a *hierarchy* (high risk / low trust), a *recurrent* contract (low risk / high trust), or a *relational* contract (high risk / high trust). Contributors to the RGT tradition make convincing arguments to support the hypothesis that governance arrangements are influenced by economic and sociological factors (Grandori, 2006; Ring & Van De Ven, 1992, 1994). However, the evidence is inconclusive as to the extent to which sociological considerations such as trust influence the governance structure of the IOR when it is formed, as distinct from when it evolves. The study completed by Zaheer and Venkatraman (1995) found clear evidence of the impact of trust on how governance arrangements develop over time, but it was less conclusive about its level of influence on the formation of the IOR.

AgT posits that the governance characteristics to be reflected in a contract will vary depending on the information needs of the Principal and Agent, and their respective appetites for risk (Eisenhardt, 1989a; Logan, 2000). In particular, these factors will determine whether *outcome-based*, or *behaviour-based* contracting mechanisms are more appropriate. These factors appear consistent with the considerations of trust and risk as discussed by authors contributing to the RGT tradition (Ring & Van De Ven, 1992; Zaheer & Venkatraman, 1995). Indeed, the emphasis in the TCE tradition on using governance and additional safeguards to protect specific asset investments (Williamson, 1979) can also be considered as strategies to implement appropriate levels of information exchange and risk management.

Although there may be different points of emphasis between the AgT, RGT and TCE perspectives, they all reflect a similar conclusion that IORs can take a number of different forms depending on the factors influencing the parties. Many other authors consider IORs from a range of theoretical perspectives and also conclude that the depth of the relationship that is appropriate in different settings will vary across a spectrum of alternatives (e.g. Cooper & Gardner, 1993; Duffy, 2008; Golicic & Mentzer, 2005; Lambert et al., 1996; Lavie, 2006; Müller-Seitz, 2012; Oliver, 1990). At one end of this spectrum are arms-length relationships that are transactional in nature and where there is limited contact and no integration between the organisations. At the other end are highly involved relationships that verge on virtual integration between the organisations. Between these extremes are hybrid forms that can be categorised as various forms of partnership where there is a level of mutual dependence and cooperation between the organisations in order to protect their respective objectives. Makadok and Coff (2009) provide an additional perspective by arguing that levels of *authority*, *ownership*, and *incentives* will determine the extent to which the governance of the relationship will be driven by market factors (i.e. via open competition), or hierarchical management direction (i.e. via authority and control). They develop a conceptual framework to argue that a hybrid of these influences need not be characterised as a point on this spectrum of extremes, but can incorporate elements of each end of this spectrum.

In summary, the theoretical perspectives discussed in this section indicate that firms form these IORs in order to get access to resources (RBT), achieved through

investments in the relationship (RET). They secure this access by choosing from a range of possible governance structures, reflecting different depths of IOR, and with appropriate safeguards to protect their investments and ensure that outcomes are in line with their requirements (AgT, TCE). Governance designs that are planned when the relationship is formed should recognise the importance of social as well as economic considerations (RGT, SET, SCT). The successful operation of the IOR as discussed in the following section will be significantly influenced by the appropriateness of these structural decisions.

2.2.2. Relationship operation

The meta-theoretical analysis presented in Table 2 highlights a consistent conclusion across the theoretical traditions that structural and social considerations should be balanced against each other when managing objectives and resolving conflict as part of the operational governance of IORs. AgT emphasises the need for the Principal and Agent to cooperate in spite of the fact that they may have differing goals and attitudes to risk. Both are influenced by self-interest and bounded rationality but require the cooperation of the other if the relationship is to be effective (Eisenhardt, 1989a). Wilson (1995, p.342) summarises the challenge by saying that in IORs “enlightened self-interest operates”, and as a result “both partners will press hard to obtain advantage but will stay within the bounds of the trust compact they have developed.” The basis of conflict in IORs is also explored by Allred et al. (2011) who point out that individual firm specialisations create the opportunity for collaboration, but if participating firms are overly focused on the objectives determined by their specialist area it can lead to conflict. They found that entrenched organisational structures and cultures perpetuate inter-organisational conflict and stifle cooperation.

Despite the challenge involved in managing these factors, the RBT perspective emphasises that IORs can provide an effective means of gaining access to supplementary resources. However, as the ownership and control of these resources in an IOR is diluted, there is an increase in the importance of influencing a partner organisation without always having to rely only on obligations dictated by structural bonds. Hence, the importance of social and relational contacts in compensating for the incompleteness of contracts is recognised in a number of the traditions (RET,

RGT, SCT, SET). Carey and Lawson (2011) demonstrate that the social capital developed over the course of a relationship can represent a valuable asset by facilitating access to resources that may only be achieved through social relationships. They emphasise the importance of distinguishing between the obligations enforced through contractual relationship governance, and the stock of goodwill that is embedded in social capital. Roden and Lawson (2014) explain that relationships in a buyer-seller context should be understood as a combination of *relational* connections between individuals (based on trust and obligation), *cognitive* factors (shared vision and goals), and *structural* dimensions (governance, network connections). Together these contribute to the social capital that influences the day-to-day operation of the relationship.

TCE is sometimes criticised on the basis that it primarily focuses only on economic factors (Lambe et al., 2001; Ring & Van De Ven, 1992; Willcocks & Choi, 2009). However, even in the earliest introduction to its concepts Williamson (1979) recognises that if individuals involved in a transaction have a personal commitment to each other, this will deter opportunistic behaviour. He states that "other things being equal, idiosyncratic exchange relations which feature personal trust will survive greater stress and display greater adaptability." (p.240)

Although the theories summarised in Table 2 emphasise the importance of social and inter-personal exchanges in compensating for contract incompleteness and ensuring operational effectiveness, it is worth noting that the literature also highlights some moderating influences. Spekman and Carraway (2006) identified a reluctance on the part of buyers to build closer ties with their suppliers for fear of becoming overly-dependent on a narrower set of partners. Although the benefits that can be attained through relational contacts is not disputed, Ramirez (1999) emphasises that to exploit these benefits it is also important to understand and manage inter-organisational boundaries as "good fences make good neighbours." (p.56) Golicic and Mentzer (2005) reference the findings from a number of studies indicating that the magnitude of relational contact between the parties to an IOR will vary depending on the situation, the degrees of investment, and the expected outcomes. This variance is inevitable as firms cannot afford to invest the same levels of resource in all of their relationships. Their study concluded that there is a linear relationship between the

depth of governance processes (arms-length to fully integrated), and the strength and closeness of the relationship that was observed.

Therefore the operational management of IORs can prove challenging when attempting to achieve individual and joint objectives by encouraging cooperation, minimising conflict, and controlling relational costs and risks. The theories considered here confirm the importance of social and inter-personal connections to the smooth operation of IORs while managing these challenges. This also implies that the perceptions of actors about the effectiveness of IORs can vary between different relationships, and over time within the same relationship. In the literature, the terms *relationship climate* and *relationship quality* are sometimes used interchangeably when discussing such perceptions. To avoid confusion these terms merit some definition here. In the remainder of this thesis the term *relationship climate* is used specifically to refer to the atmosphere within the relationship at a particular time, as exhibited in the level of cooperative attitudes and sentiments that are displayed (Duffy, 2008). The term *relationship quality* is used to refer to a broader concept that is influenced by the climate, but which also incorporates whether the parties to the relationship are actively engaged and committed to its improvement, and whether the relationship is delivering satisfactory results to both parties. This is consistent with the definition proposed by Fynes, de Búrca, and Mangan (2008, p.58) of Relationship Quality (RQ) as “the degree to which both parties in a relationship are engaged in an active, long-term working relationship and operationalise the construct using indicators of trust, adaptation, communication and co-operation.”

Studies into RQ in different contexts provide useful indicators of the factors that may influence how services outsourcing relationships may operate under different conditions. For example, Wilson (1995) found that in buyer-seller exchanges, RQ is influenced by factors that include levels of commitment, trust, cooperation, mutual goals, interdependence, satisfaction with performance, adaptation, structural bonds, and social bonds. Whipple, Lynch, and Nyaga (2010) found that satisfaction with the relationship is driven by performance, relationship activities, commitment, trust, rewards & cost sharing, dedicated investments, communication, and information sharing. The confluence of economic and attitudinal factors in determining the effectiveness of a relationship is also emphasised by Donaldson and O'Toole (2000)

who propose a framework for analysing the strength of the relationship by assessing economic considerations and operational behaviours.

Through an extensive analysis of results from extant studies into RQ in different IOR settings, Vieira, Winklhofer, and Ennew (2008) conclude that all of these factors can be represented by a higher-order construct. They distinguish between the *Dimensions* of RQ and its *Determinants*. The *Dimensions* are those core factors that characterise the strength or otherwise of the relationship. Based on an analysis of prior studies they conclude that these include three factors: a) Trust in each other's integrity and behaviour, b) Satisfaction with each other's performance, and c) perceptions of Commitment to maintaining a relationship that is valuable to both. They identify four factors that coalesce as the *Determinants* of RQ: a) the existence of Mutual Goals that can only be achieved through joint action, b) effective Communication between the parties, c) the Domain Expertise of each as evidenced by their technical skills, and d) Relational Value that each receives from the arrangement.

In summary, theoretical inputs and the supporting studies that are referenced in the literature suggest that the operational management of IORs requires careful balancing of social and structural factors in order to achieve effective RQ. Prior studies reveal the factors that contribute to RQ, and these have been usefully consolidated into the higher-order categorisation of determinants and dimensions by Vieira et al. (2008) as discussed above. However, it is still acknowledged that these factors may vary by context. In a subsequent review of IOR literature, Athanassopoulou (2009) calls for more research into the components of RQ in different contexts. He also highlights the paucity of studies investigating the seller's perspective on RQ and recommends more qualitative studies to provide deeper insights than have been achieved through the mainly quantitative studies to date.

RQ is a very useful concept in the context of this study as it recognises that the quality of inter-firm relationships differs from case to case, and it helps to elucidate these differences. Prior studies of RQ provide useful insights on the factors that contribute to the quality of a relationship, even though they recognise that these may vary somewhat by context. Of specific interest in the context of this present research project is the question of how and why RQ changes during the course of an on-going

relationship. It is therefore important to investigate contributions to the literature that explore how IORs develop and progress over time.

2.2.3. Relationship progression

The influence of trust on how IORs develop over time is a recurring theme across a number of theories. SCT posits that trust contributes to the development of social capital as the relationship matures. RGT and SET hold that recurrent exchanges provide the context for developing this trust. TCE also recognises that recurrent transactions build a foundation for the development of deeper relational exchanges.

Dwyer et al. (1987) provide further insights into how deeper relationships are founded on increasing levels of familiarity and trust. They do so by building on RET principles to propose how buyer-seller relationships develop over time. They conclude that relationships progress sequentially through defined phases as follows: (1) increasing *Awareness* between the organisations, leads to (2) *Exploration* of opportunities to work more closely together, resulting in (3) *Expansion* of their interactions, which encourages the parties to (4) make a more formal *Commitment* to each other. When the relationship has fulfilled its usefulness this leads to a final phase of (5) *Dissolution*. The early phases of this development are characterised by attraction between the parties, communications and bargaining, and a build-up of trust if each party feels that power is being used fairly by the other. This leads to the development of norms and common expectations, before shared values, governance structures, and joint investments are established signalling that both parties are prepared to establish commitments to the relationship.

The framework describing relationship evolution proposed by Dwyer et al. (1987) is supported by strong theoretical reasoning and has intuitive credibility. It has clearly influenced subsequent research contributions as evidenced by the fact that until November 2014 it was cited 1,395 times in the Business Source Complete data base. However, in the paper in which it is developed it is positioned as propositional, as the authors recognise that it was not developed from empirical evidence. It is therefore important to this present research project to identify further research outputs that contribute to our understanding of how relationships evolve over time. Of particular interest are research outputs that provide further insights into the influence of trust on IOR progression as this factor features so prominently across the

theoretical perspectives summarised in Table 2. Three relevant studies were identified as follows:

- **Trust and Power:** Using a longitudinal case-based methodology, Narayandas and Rangan (2004) studied how the progression of relationships was influenced by the relative power positions of firms in a dyadic IOR. They found that in the early phases firms used their power position when negotiating initial agreement terms. However, after the agreement became operational, satisfactory performance levels enabled inter-personal trust to be developed and further inter-organisational commitments to be agreed. They noted that trust developed based on experience, one episode at a time. They found that increased trust led to increased commitment, and not the other way around. Also, as trust increased, the parties could leverage this to seek flexibility from the strict enforcement of initial contract terms. Ultimately, the increased inter-organisational commitment that resulted from this was found to neutralise initial power imbalances between the parties, meaning that a weaker firm can still thrive through a relationship with a powerful partner. Although they observed a logical progression in the maturity of these relationships, they are careful to highlight that the evolution is not always smooth. Internal and external changes can derail its progression and set it back considerably.
- **Trust and Influence:** The quantitative study by Meehan and Wright (2013) built on the work of Dwyer et al. (1987), complemented by subsequent contributions and their own research findings. They conclude that relationships progress through phases of *Initiation*, *Performance*, *Commitment*, and *Alliance*. To assess the factors that influence this progression, they surveyed buyers and sellers (n = 355) to understand how the factors over which the parties sought to have influence changed as IORs developed. Their hypothesis when initiating this study was that, as IORs mature and relational factors develop, the priorities of the parties would shift from seeking to influence commercial and operational matters, to those relating to strategic issues and attitudes. However, their study found this not to be the case and their data indicates that as relationships mature the focus on economic considerations does not diminish, but instead is complemented by additional focus on the relational aspects.

- **Trust and Control:** Edelenbos and Eshuis (2012) studied the interplay between trust and control as IORs progress. They focused on control as a variable that is related to trust based on common definitions of trust “in terms of the willingness to become vulnerable to another whose behaviour is not under one’s control.” (p.648) They examined the co-evolution of trust and control in two case studies and concluded that it is not a “zero-sum game.” Rather, they found that in these cases trust and control co-evolved jointly and gently.

The three studies referenced above are of particular interest because they consider tenured relationships that have progressed through the initial stages of *Awareness* and *Exploration*. They therefore provide some insights into the factors that influence the evolution of established IORs. These studies continue to emphasise the on-going importance of trust as the relationship develops. They conclude that, although increased trust may mediate how the parties exercise their relative power positions (Narayandas & Rangan, 2004), this does not dilute their desire to influence outcomes (Meehan & Wright, 2013), or to exert control over resources (Edelenbos & Eshuis, 2012). The implication of this is that self-interest remains a key motivation as the relationship matures, although increased trust can enable a broadening of the relationship to one where the parties are willing to increase their inter-dependencies.

The above contributions indicate that the progressive deepening of IORs is encouraged by increasing levels of familiarity and trust. This provides a source of confidence for increasingly critical connections between a buyer and seller as their relationship develops. This project will need to consider how this applies in an outsourcing context where highly inter-dependent relationships are established through contracts before relationships become operational and trust begins to develop. The next sub-section continues this consideration by focusing on how inter-organisation relational dimensions are addressed in extant outsourcing studies. The extent to which this resonates with the insights that the broader IOR literature provides into relationship formation, operation, and evolution is also discussed.

2.2.4. Resonance with the outsourcing literature

The review of outsourcing research that is described in section 2.1 found many contributions exploring the relationship between clients and suppliers. These focus on a variety of different relationship dimensions, ranging from how relationships should

be structured and governed, to how they may be influenced and managed. This diversity of perspectives raises a challenge of commensurability when attempting to synthesise how relationship concepts are addressed in outsourcing research. To overcome this challenge and to contribute to this research project, Lyons and Brennan (2014) recognised that many authors use conceptual frameworks to articulate the multiple influences on outsourcing relationships. Therefore, such conceptual frameworks may be regarded as encapsulations of research outputs, and general conclusions can be derived by collating and comparing frameworks with similar foci. This study that formed the basis for this paper undertook a targeted and systematic literature review process which identified 52 relationship-oriented conceptual frameworks for subsequent analysis. The analysis involved the development of a typology of framework types which facilitated comparisons between frameworks adopting similar styles (e.g. matrix, pyramid, flowchart) to be compared. Frameworks addressing the same dimensions of relationships (e.g. scope, governance, operation) were grouped into families to enable those with a similar focus to be compared. By assessing frameworks by type, within these groups, overall findings from the studies that produced these frameworks were derived. A summary of this categorisation is reproduced in Table 3.

TYPOLOGY		FORMATION		OPERATION		PROGRESSION	TOTALS	
		Relationship Scope	Relationship Governance	Relationship Disposition	Relationship Tactics	Relationship Evolution		
CATEGORISATION FRAMEWORKS	Nominal Categorisation		1	1			2	24
	Matrix	8	7	3	2		20	
	Pyramid		2				2	
CONNECTION FRAMEWORKS	Interaction			2	3		5	13
	Dependency	1		2	1		4	
	Flowchart	4					4	
PROGRESSION FRAMEWORKS	Two Dimensional Progression	2	2	1		2	7	15
	Lifecycle				1	5	6	
	Stepped					2	2	
	TOTALS	15	12	9	7	9	52	
	<i>by category</i>	27		16		9		

Table 3: Summary of framework categorisation (adapted from Lyons and Brennan, 2014)

Relating this categorisation from Lyons and Brennan (2014) to the discussion of IORs in the previous sections, the table shows that 27 frameworks were found to describe the Formation of outsourcing relationships, including the *Scope* of the relationship (15), and the *Governance* structure adopted (12). Sixteen frameworks addressed relationships Operation, including the *Disposition* of the parties (9), and the management *Tactics* adopted to influence this disposition (7). The Evolution of

outsourcing relationships was considered in nine frameworks in this sample. There follows a summary of the key conclusions from this analysis, with particular reference to how the outputs of research into outsourcing relationships resonate with those previously discussed for more generic IORs.

Relationship formation: In common with the broader literature on IORs, Lyons and Brennan (2014) found that literature exploring outsourcing relationships recognised that these can take many forms across a spectrum of structural possibilities. At one end of this spectrum are relationships that have limited strategic importance to the client and where the level of interaction and engagement with the supplier of services is low. At the other end are highly involved relationships that require significant levels of management attention and that are characterised by deep integration between client and supplier activities. The categorisation reflected in the framework proposed by Kedia and Lahiri (2007) was found to be most representative and convincing. This proposes that outsourcing relationships can be regarded as *Transactional*, *Strategic*, or *Transformational* depending on the extent of the value proposition and the level of involvement between the client and supplier in delivering the service. Sanders et al. (2007) adopt a similar categorisation, and argue that the intense nature of relationships that are categorised at the high-end of this spectrum means that they require significant investments of management time and therefore only a relatively small number of such relationships can be undertaken by a firm. At the other end of the spectrum, it is feasible to manage larger numbers of transactional relationships that are less strategic in nature. Therefore, like other IORs, outsourcing relationships can take a number of forms that exhibit different characteristics. The major implication of this for this research project is that the research design must recognise that multiple variations of relationship types exist, and these may exhibit different characteristics in terms of their value objectives and progression.

Relationship operation: Lyons and Brennan (2014) analysed frameworks exploring the disposition of clients and suppliers to their outsourcing relationships, and the management tactics used. The conclusions demonstrate a high level of consistency with the factors influencing IOR operation in more general contexts as discussed above. Trust, control, and the use of power were all found to influence the quality of these relationships (Cullen, 2005; Lacity & Willcocks, 2012; Mao, Lee, & Deng, 2008). The importance of social and personal interactions is highlighted, and

the influence of cultural considerations, behaviours, and investments of time in nurturing the relationship is also emphasised by a number of authors (Bensaou, 1999; Gligor & Autry, 2012; Kern & Willcocks, 2000, 2001a; Mani, Barua, & Whinston, 2006). A further conclusion derived from this analysis is that the successful operation of the relationship requires the commitment of both parties, and alignment between their respective objectives. A corollary of this is that the most effective operational relationships are those that achieve a win-win between the parties (Kern & Willcocks, 2001c; Saxena & Bharadwaj, 2009). In summary, it was found that the quality of the operational relationship may initially be influenced by market conditions, contractual terms, and the balance of power between the parties. However, in order to achieve a win-win they should each display attitudes and actions that build trust and lead to a more mutually-constructive relationship, supported by effective social and personal interactions. An important implication of this for this research project is that relationships operate in different contexts, and a deep understanding of a relationship can only be gained if it is studied with reference to the contextual factors that influence its operation.

Relationship progression: This category contained the lowest number of conceptual frameworks discovered by Lyons and Brennan (2014). The evolution frameworks that were identified were largely found to adopt a very high-level perspective by only considering major phases such as the strategy formulation, partner selection, transition of services, operation of services, and termination of services (e.g. Bhimrao & Vaidyanathan, 2008; Cullen, Seddon, & Willcocks, 2006; Dibbern et al., 2004). The analysis of this group of frameworks found that none of them considered the evolution of the outsourcing IOR itself, and particularly how this progresses during the operational phases when the level of interaction between the parties is at its highest. Although it is recognised that trust and cooperation contribute to this progression, no examples were found that explore this in detail. It is concluded that this represents a significant gap in our understanding and an objective of this research project should be to address this deficit.

2.2.5. Summary of implications from IOR literature for this research

As evidenced in the previous sections, the relationships between organisations are multifaceted and complex. They can take a range of different forms depending on

the objectives and the level of engagement between the parties that this merits. They are driven by social, personal, and other contextual factors that influence subjective assessments on the effectiveness of the relationship. Two particular anomalies arise when considering how themes outlined in the IOR literature apply to services outsourcing:

1. The literature implies that although IORs may be multifaceted, organisations act as cohesive entities in forming and assessing such relationships. There is little recognition of the fact that each partner in an IOR may be comprised of multiple constituencies of stakeholders, each of which may have relationships of varying strengths with stakeholder groups in the partner organisation. This multi-level consideration is of particular significance in services outsourcing as the service being delivered is often highly integrated within the client's business and multiple touch-points may exist between the client and supplier organisations. The extent to which this causes the IOR in an outsourcing context to have multiple complexions merits investigation.
2. The literature on IORs also suggests that organisations choose between market and hierarchical forms of governance, depending on the levels of flexibility or control that are required. The implication is that they may keep their options open by working with partners within a market before sufficient trust is built to commit to a hierarchical relationship with higher levels of mutual commitment. The outsourcing literature also recognises that a spectrum of governance alternatives exists, as argued by Kedia and Lahiri (2007) in their description of *Transactional*, *Strategic*, and *Transformational* relationships. However, as outsourcing often involves high levels of asset specificity and mutual dependence, organisations usually require protection through long-term contractual commitments before the delivery of services commences. Therefore, the flexibility of the parties to exit the arrangement and pursue other alternatives is limited, and relationships must develop within the confines of pre-determined structural bonds.

To understand these nuances, a research project that aims to explore the development of outsourcing relationships must adopt a sampling approach which recognises that different forms exist, and that these may display different characteristics. Conclusions should take account of the context within which the relationship operates, and data gathering strategies should investigate this context.

There is a lack of established theory to explain the progression of the relationship, indicating that an approach conducive to theory development should be adopted. These considerations should influence the methodology and methods as discussed in Chapter 3.

2.3. Perceived Business Value literature

The term *Perceived Business Value* is used here as an overall descriptor of how value is interpreted in the context of B2B exchanges. It incorporates the concepts of a) the creation of value, and b) the appropriation of value between the parties to the exchange. Although these two dimensions of value realisation are closely connected (Ellegaard, Medlin, & Geersbro, 2014), they each have different nuances and implications for our overall understanding of value. Hence, this section of the literature review adopts the perspective that both of these dimensions deserve separate consideration if a sufficiently comprehensive understanding of value is to be derived. Nevertheless, given the interconnectedness of these concepts it is important to begin by describing how the remainder of this section distinguishes between them:

- The concept of *value creation* addresses the question of how any net benefits resulting from an exchange are derived. It considers the components that determine the scale of the benefits resulting from an exchange and the conditions within which this value creation takes place. Some authors (e.g. Dobrzykowski et al., 2010; O'Cass & Ngo, 2011) use the term *value co-creation* to emphasise that the creation of value in a relational context requires the involvement of both parties. Others (e.g. Grönroos, 2011; Ordanini & Pasini, 2008; Ramirez, 1999) adopt the term *value co-production* when further exploring the roles played by the client and supplier in generating value. In the general discussion that follows, *value creation* should be interpreted as a broad term that covers all forms of value generation irrespective of how the value is derived and the extent of collaboration required.
- The concept of *value appropriation* addresses how any value created is shared and absorbed by the parties to the exchange. It considers the factors that influence the control of any value created through the exchange and how the resulting value dividend is distributed. Authors identified in this review display different preferences in using the terms *capture* (e.g. Bowman & Ambrosini, 2000; Priem,

2007), *claiming* (e.g. Verwaal et al., 2009), or *appropriation* (e.g. Ellegaard et al., 2014) to describe the process of absorbing value that has been created. The latter is more often used in relation to collaborative IORs, to incorporate the concept that the capture and distribution of value may not be a natural output of an exchange transaction and may require “deliberate, direct, and active efforts.” (Ellegaard et al., 2014, p.185) As the focus of this study is on IORs, the term *value appropriation* is adopted as a singular concept in this thesis, and should be understood to incorporate how value is captured and shared between the parties to an exchange.

The remainder of this section is informed by literature reviews published in the last 10 years that address perceived value in exchange relationships (Coutelle-Brillet et al., 2014; Ellegaard et al., 2014; Keränen & Jalkala, 2013; Lindgreen & Wynstra, 2005; Sánchez-Fernández & Iniesta-Bonillo, 2007). A consistent conclusion of these reviews is that despite the fundamental importance of value to exchange relationships, our understanding of business value remains ambiguous, divergent, and requires improved conceptualisation (Lindgreen & Wynstra, 2005; Sánchez-Fernández & Iniesta-Bonillo, 2007). Smith and Colgate (2007, p.7) characterise customer value research as “nascent and in the early stages of conceptual development.” Limitations in our understanding of what constitutes value, and how value is exchanged, have been reaffirmed in more recent studies (Chandler & Lusch, 2015; Lindgreen et al., 2012). Sánchez-Fernández et al. (2009) highlight the particular challenges in conceptualising value in services settings given the multiple constituencies involved and the dynamic characteristics of these contexts.

Resolving the pivotal but elusive nature of perceived business value (Sánchez-Fernández et al., 2009) is beyond the scope of this literature review. However the following sections explore definitional and theoretical dimensions of the topic which provide perspective on how value may be better understood in an outsourcing context.

2.3.1. Definitions of Value

Source	Definition
Orientation of definition: Value Creation	
Hammervoll (2009: 222)	[Value creation is] the process whereby the capabilities of partners in a supply chain are combined such that the competitive advantage of the supply chain relationship (or one or more of the partners) is improved.
Porter (1985: 38)	In competitive terms, value is the amount buyers are willing to pay for what a firm provides them. Value is measured by total revenue, a reflection of the price a firm's product commands and the units it can sell.
Sánchez-Fernández and Iniesta-Bonillo (2007: 428)	'[P]erceived value' is a multi-dimensional construct in which a variety of notions (such as perceived price, quality, benefits, and sacrifice) are all embedded [supporting references provided by authors].
Vargo (2008: 211)	[Value co-production:] the joint activities of the firm and the customer in the creation of firm output
Orientation of definition: Value Appropriation	
Ellegaard et al. (2014: 185)	Value appropriation (VA) is defined by the share of exchange rent a focal firm can capture (Gulati & Wang, 2003)
Grönroos (2011: 242)	Value for customers means that they, after having been assisted by the provision of resources or interactive processes, are or feel better off than before.
Ravald and Gronroos (1996: 21)	Perceived value is defined as the ratio of perceived benefits relative to perceived sacrifice (citing Monroe, 1991).
Woodruff (1997: 142)	[a] customer's perceived preference for an evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations.
Zeithaml, Parasuraman, and Berry (1990: 14)	[Value is] the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given.
Bowman and Ambrosini (2000: 2)	<i>Use value</i> refers to the specific qualities of the product perceived by customers in relation to their needs: e.g. the acceleration and styling of the car, the taste and texture of the apple, etc ... <i>Exchange value</i> refers to price. It is the monetary amount realized at a single point in time when the exchange of the good takes place.

Table 4: Definitions of Value

An analysis of definitions of value that were identified in the reviewed literature is presented in Table 4. From these definitions a number of common themes emerge:

- Value is deemed to have been provided if specific benefits are derived and needs are satisfied (Bowman & Ambrosini, 2000; Ravald & Gronroos, 1996; Woodruff, 1997).
- The level of satisfaction achieved is based on perceptions and is relative to the sacrifices made in return for any benefits (Grönroos, 2011; Ravald & Gronroos, 1996; Sánchez-Fernández & Iniesta-Bonillo, 2007; Zeithaml et al., 1990).
- In exchange relationships the delivery of value is dependent on cooperation between the parties (Hammervoll, 2009; Vargo, 2008).
- Some definitions imply that the level of value can be monetized (Bowman & Ambrosini, 2000; Porter, 1985), although others position it as a multi-dimensional concept that can have tangible and intangible elements (Sánchez-Fernández & Iniesta-Bonillo, 2007).

The definitions in Table 4 present a relatively cohesive picture of value creation and appropriation. However, when they are considered in the context of the complex inter-organisational structures involved in outsourcing, they also raise questions that are relevant to this research project. Specifically:

- How does the weighing-up of needs relative to sacrifices operate within exchange relationships in practice?
- If assessments of benefits and sacrifices are based on perceptions, what influences these perceptions?
- In on-going, services-oriented relationships, when are these value assessments made and to what extents are they transactional, retrospective, or forward-looking?
- If value creation through an exchange relationship is dependent on cooperation, how is this balanced against the needs of each party to appropriate an acceptable share of the resulting value?

- If value is a multi-dimensional concept that includes intangible elements, can these be quantified, and if so, how?

The next section reviews contributions in the literature that use established theoretical traditions to provide explanations of value, and considers the extent to which these perspectives provide insights into these questions.

2.3.2. Theoretical exploration of Value

The academic contributions identified in the literature reviews that informed this study (Coutelle-Brillet et al., 2014; Ellegaard et al., 2014; Keränen & Jalkala, 2013; Lindgreen & Wynstra, 2005; Sánchez-Fernández & Iniesta-Bonillo, 2007) draw on a range of theoretical traditions when exploring the many dimensions of perceived business value. Based on detailed reviews of these referenced papers, it was concluded that the following are the most relevant and informative theoretical bases that may be used to explore the concepts of value creation and appropriation in a B2B context: Agency Theory (AgT), Cooperative Game Theory (CGT), Resource-Advantage Theory (RAT), Resource-Based Theory (RBT), Relational Exchange Theory (RET), Service-Dominant Logic (S-DL), Social Exchange Theory (SET), Theory of Utility (TU), Transaction Cost Economics (TCE) Theory, and Zone of Tolerance (ZoT) Theory. References to other theories were also noted in some parts of the literature. However, these were not selected for further analysis as it was judged that they did not relate to the scope of this study. Specifically, Means-End Theory (Gutman, 1982) was not included because it was found to address value considerations relating to consumers, rather than organisations. Axiology Theory (Hartman, 1967) and Consumption Value Theory (Woodruff & Gardial, 1996) were excluded because they were found to be more focused on the nature of value assessments, rather than how value is created and appropriated. Although the insights resulting from the application of Property Rights Theory were found by Coff (2010) to have some merit, he also concluded that this theory provides an incomplete view as it is not integrated with theories of value creation. Therefore, it was also excluded from this analysis.

Similar to the approach taken to the analysis of theory relating to IORs in the previous section, Table 5 presents a meta-theoretical analysis summarising how different dimensions of value creation and appropriation are explained from the ten most relevant theoretical perspectives that were identified.

Theoretical Basis / Reference Paper	Summary of central concepts relating to Value	Value Creation	Value Appropriation
<p>Agency Theory (AgT)</p> <p>Eisenhardt (1989a)</p>	<p>To deliver value, relationships between a buyer (principal) and a seller (agent) should reflect efficient organisation of information and risk-bearing costs.</p>	<p>Value creation is promoted through alignment of goals, efficiency of operations, and symmetry of information.</p>	<p>Value capture is driven by self-interest, bounded rationality, and risk aversion. Outcomes-based contracts shift risk to the provider. Behaviour-based contracts shift risk to the client (Logan, 2000).</p>
<p>Cooperative Game Theory (CGT)</p> <p>Brandenberger and Stuart (1996)</p>	<p>Parties are dependent on each other to create value. Free form interactions between buyers, sellers, and suppliers to sellers determine how value is realised and appropriated. These are subject to the influence of power, negotiation, and perceptions of fairness. Value is determined by the buyer's <i>willingness to pay</i>, <i>price</i>, the seller's <i>cost</i>, and the supplier's <i>opportunity cost</i>.</p>	<p>Value created is the difference between the <i>willingness to pay</i> of the buyer, and the <i>opportunity cost</i> of the supplier to the seller. <i>Willingness to pay</i> is the maximum the buyer would be prepared to pay, and is different to <i>price</i>.</p>	<p>Negotiation skills can determine the customer's <i>willingness to pay</i>, and therefore perceptions of value captured.</p> <p><i>Price</i> negotiations determine value capture between the buyer and seller.</p> <p>Value appropriated to the buyer is the difference between <i>willingness to pay</i> and <i>price</i>.</p> <p>Value appropriated to the seller is the difference between <i>price</i> and <i>cost</i>.</p> <p>Value appropriated to the seller's supplier is the difference between <i>cost</i> and <i>opportunity cost</i>.</p>
<p>Resource-Advantage Theory (RAT)</p> <p>Hunt and Madhavaram (2006)</p>	<p>Resources are defined "the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some marketing segment(s)." (p.69) RAT is an "evolutionary, disequilibrium-provoking process theory of competition." (Hunt & Davis, 2008, p.12)</p>	<p>Value is created from tangible and intangible resources, supported by innovation and organisational learning.</p> <p>Value creation is dynamic and ongoing, based on imperfect information and disequilibrium-provoking competitive pressures.</p>	<p>Entrepreneurship, institutions, and public policy influence value capture (and creation).</p> <p>Appropriation of value is influenced by self-interest seeking human motivations.</p>

<p><i>Resource-Based Theory (RBT)</i></p> <p>Barney (1991)</p>	<p>RBT (Barney, 1991) focuses on the protection and development of resources. A more rounded theory of value requires consideration of what makes a resource valuable (Bowman & Ambrosini, 2000).</p>	<p><i>Use value</i> represents the benefit that the buyer achieves from a product or service. <i>Exchange value</i> is represented by the price.</p>	<p>The <i>consumer surplus</i> is the difference between the <i>use value</i> and <i>exchange value</i>. Appropriation is subject to bargaining. It is determined by the network of exchanges in a chain of buyers and sellers, and their respective <i>consumer surpluses</i>.</p>
<p><i>Relational Exchange Theory (RET)</i></p> <p>Dyer and Singh (1998)</p>	<p>Alliances create value through investments in assets specific to the relationship, substantial knowledge exchange, combining resources, and more effective governance leading to lower transaction costs.</p>	<p><i>Relational rents</i> follow directly from investments in assets, knowledge exchange, combining resources, and effective governance.</p>	<p>Value capture depends on the absorptive capacity of the firm relative to its alliance partner (Lavie, 2006). Appropriation is influenced by bargaining power, degrees of structural bonding, and control rights (Adegbesan & Higgins, 2011; Wilson, 1995). Benefits may be common or private to participating firms. Relational capital limits opportunistic behaviour and provides exploitative and protective qualities that influence value appropriation (Dyer, Singh, & Kale, 2008; Ellegaard et al., 2014).</p>
<p><i>Service-Dominant Logic (SDL)</i></p> <p>Vargo and Lusch (2016)</p>	<p>Service is the fundamental basis of exchange in goods-oriented as well as services-oriented transactions. That is, goods are distribution mechanisms for service provision. In these transactions, service is exchanged for service by institutions in the network of exchanges.</p>	<p>Value is co-created by multiple actors, always including the beneficiary. Value co-creation is coordinated through actor-generated institutions and institutional arrangements. All social and economic actors are resource integrators.</p>	<p>Value can only be assessed by the beneficiary. When service is exchanged for service each party in a network of exchanges absorbs and evaluates the value that they acquire as part of the exchange.</p>

<p><i>Social Exchange Theory (SET)</i></p> <p>Biggemann and Buttle (2012)</p>	<p>Good quality personal exchange episodes create identifiable sources of value, especially in the areas of customer retention and referral.</p>	<p>Positive exchange episodes over time create a climate that is conducive to a constructive relationship (Lambe et al., 2001) and therefore the co-creation of value.</p>	<p>The social exchange climate influences how value is captured and encourages equitable appropriation of value created.</p>
<p><i>Theory of Utility (TU)</i></p> <p>Tellis and Gaeth (1990)</p>	<p>Value is derived by customers based on the difference between the utility that the product provides and the disutility represented by the price.</p>	<p>Value created is the trade-off between benefits made as a result of the exchange and the sacrifices made to achieve these benefits (Monroe, 1991; Ulaga & Chacour, 2001).</p>	<p>Perceptions of value captured vary between customers and between situations (Ravald & Gronroos, 1996). Shares of total value created are determined by the margin between what customers pay and what benefits they receive (Porter, 1985).</p>
<p><i>Transaction Cost Economics (TCE) Theory</i></p> <p>Williamson (2001, 2010)</p>	<p>Organisations can derive value from buying, rather than making a good or service, if the combined cost of acquisition and the cost of executing the transaction is less than the cost of production.</p>	<p>Value created is calculated based on the benefits minus the cost of acquisition and executing the transaction.</p>	<p>Effective governance mitigates uncertainty to ensure that value is captured and fairly appropriated.</p>
<p><i>Zone of Tolerance (ZoT) Theory</i></p> <p>(Johnston, 1995)</p>	<p>In a services context, satisfaction levels are driven by the extent to which service quality meets expectations. Expectations are heterogeneous, ranging from <i>adequate</i> to <i>desired</i> levels. If perceived service falls within this zone the service user will be satisfied, above it they will be very satisfied, and below it they will be dissatisfied.</p>	<p>Value is created when users perceive that the quality of services falls within or above the zone of tolerance. Expectations are determined by a number of factors, including promises made, word-of-mouth, prior experiences, and available alternatives (Parasuraman, Zeithaml, & Berry, 1985; Zeithaml et al., 1990; Zeithaml et al., 1993).</p>	<p>Appropriated value is assessed individually by actors through assessments of service experiences compared to heterogeneous expectations.</p>

Table 5: Meta-analysis of theoretical perspectives of value creation and appropriation

When considered together the theories that were selected go some way towards answering the questions raised by the analysis of value definitions in the previous section.

- *How does the weighing-up of needs relative to sacrifices operate in practice?*
Buyer decisions consider the utility that the purchase will provide relative to the disutility represented by the price (TU). Bounded rationality influences evaluations of the benefits anticipated, relative to the sacrifices, costs, and risks associated with the transaction (TCE). Influenced by CGT, Brandenberger and Stuart (1996) argue that the amount that the buyer is willing to pay is determined by their perception of the benefits that will be received. However, the scale of this *willingness to pay* may be more than the actual price paid, and the value that the buyer absorbs is the difference between the maximum that they would have been willing to pay, and the price. Focusing on the value of resources and influenced by the RBT tradition, Bowman and Ambrosini (2000) reach a similar conclusion. They argue that the value absorbed (*consumer surplus*) is the difference between the benefit that is derived from the use of the product or service (*use value*), and the price paid (*exchange value*). These perspectives build upon the definitions of value that position it as a trade-off between benefits and sacrifices (Monroe, 1991; Ravald & Gronroos, 1996; Zeithaml et al., 1990), and they offer additional insights into how this operates in practice.
- *If assessments of benefits and sacrifices are based on perceptions, what influences these perceptions?*
SET emphasizes the importance of social exchanges in influencing value perceptions. CGT highlights the role of negotiation skills in promoting perceptions of potential benefits relative to sacrifices. The RET perspective explains how perceptions of fairness in value appropriation are influenced by structural bonds and investments in relational capital by the parties to a relationship. Therefore, although individual perceptions of benefits relative to sacrifices contribute to value judgments, relational and social factors play an important part in influencing these perceptions.
- *In on-going, services-oriented relationships, when are these value assessments made and to what extents are they transactional, retrospective, or forward-looking?*

Theories that focus on the formation and operation of the exchange relationship characterize value creation and appropriation as an on-going and dynamic process. Goal alignment, efficient organization of information, and risk mitigation actions can ensure that sources of anticipated value are identified and managed (AgT). These can be secured through on-going investments in the relationship, knowledge sharing, and effective governance (RET). Negotiations that are driven by self-interest motivations (CGT) are balanced against social influences (SET) to ensure fair appropriation of value. Therefore, although individual exchanges may be transactional, in an on-going relationship these will be evaluated with reference to retrospective and forward-looking perspectives. Parasuraman et al. (1985) focus specifically on how satisfaction levels in services-oriented relationships are derived based on perceptions about the quality of service delivered relative to customer expectations. That is, if experiences exceed expectations the customer will be happy with the value delivered, but if they fall short of expectations this will result in dissatisfaction. In later contributions, the same authors develop this concept further by elaborating on the nature of expectations. They analyse the determinants of customer expectations and emphasise that customers will accept heterogeneous levels of service over time and within a range of what is considered adequate and what is desired (Zeithaml et al., 1990; Zeithaml et al., 1993). This has led to the development in the marketing literature of ZoT theory. This further explores the heterogeneity of customer expectations within a zone that ranges between levels of adequacy and desirability. It emphasises that customer satisfaction (and therefore value) is determined by the extent to which experiences fall within or outside this zone (Gwynne, Devlin, & Ennew, 2000; Johnston, 1995; Liljander & Tore, 1993; Stodnick & Marley, 2013).

- *How is cooperation balanced against the needs of each party to appropriate an acceptable share of the resulting value?*

RET and SET offer bases for understanding how cooperation is promoted and how relational considerations encourage fairness in the appropriation of value. TCE provides a more utilitarian perspective and emphasizes the importance of effective governance mechanisms in controlling how value is shared. In a similar vein, AgT affirms the critical importance of aligning goals and managing risk. This is based on the inevitability that even in highly cooperative settings, self-interest and

bounded rationality will influence value appropriation endeavours. Therefore, the meta-analysis suggests that value appropriation is influenced by social and relational factors operating within governance protocols which moderate self-interest motivations. S-DL focuses specifically on value creation and proposes that in goods as well as services transactions, the exchange of value can be conceptualised as service exchanged for service (Lusch & Vargo, 2006; Vargo, 2007, 2008, 2011; Vargo & Lusch, 2004, 2006, 2008, 2011, 2016). That is, value is created through cooperation and resource integration. Each party receives a service from the other as part of the exchange and the value received can only be assessed by the beneficiary.

- *If value is a multi-dimensional concept that includes intangible elements, can these be quantified, and if so, how?*

RAT recognizes that the value embedded in resources can have tangible and intangible dimensions. The RET tradition emphasises that the relationship itself may be considered a source of value. The concepts of *willingness to pay* (Brandenberger & Stuart, 1996), and *use value* (Bowman & Ambrosini, 2000) offer suggestions on how the combination of tangible and intangible benefits can be assessed. Brandenberger and Stuart (1996) propose that a monetary estimate for *willingness to pay* may be derived by considering the maximum amount that a buyer would be prepared to agree in return for the value contribution that is anticipated, and taking account of the risks involved. Therefore, although the combination of tangible and intangible factors may be difficult to quantify in monetary terms, it is suggested that they each have limits that are dictated by the emotional perceptions of value that determine upper-limit of the price that a buyer would be prepared to pay.

Considering the meta-analysis of theoretical perspectives that is discussed above, and the insights that it provides into questions arising from the review of value definitions, the following sub-sections briefly summarise the characteristics of value creation and appropriation that are described in the literature. Resonances with the outsourcing literature are then discussed.

2.3.3. Value creation

The creation of value should be understood as a multi-dimensional concept, recognising that it may be derived from tangible (e.g. assets and technologies) and intangible (e.g. skills and relationships) resources (RAT, RBT, RET). The buyer derives a benefit above their level of sacrifice as represented by the price (CGT, RBT, TU). However, the benefit is reduced by the cost of executing the transaction (TCE), and provisions for the associated risks (AgT, RET, TCE). Buyers and sellers should be regarded as peers collaborating on resource integration, through exchanges of services and value to each other, which only they can evaluate (S-DL).

Value creation is facilitated by a constructive social exchange climate (SET). Particularly within on-going exchange relationships, value creation is a collaborative process that is promoted through alignment of goals (AgT) and through specific relational investments (RAT, RET). Value creation in this context is a dynamic and processual activity that is responsive to its environment (CGT, RAT, RET, S-DL).

2.3.4. Value appropriation

When value is created as part of an on-going relationship, the parties will have individual private objectives as well as shared goals (RET). Driven by self-interest and risk mitigation, firms negotiate with partners to maximise the amount of created value that will be appropriated to them (AgT, RET, SET). However, each party should avoid making unacceptable demands from the other partner if they want the relationship to continue to deliver value dividends (RET, SET).

Value appropriated is determined by individual perceptions of the difference between the benefits derived from the product or service, and the price paid (CGT, RBT). The absorptive capacity of an organisation influences the level of value that it can appropriate (RET). Assessments of value appropriated to either party are based on perceptions that vary between individuals and situations (S-DL), and can be influenced through negotiation (CGT). Appropriated value will also be influenced by the difference between expectations and experiences (ZoT). Effective governance can mediate relational considerations and mitigate uncertainty by monitoring and moderating the appropriation of value (RET, TCE).

2.3.5. Resonance with the outsourcing literature

The analysis of outsourcing research gaps summarised in Figure 1 on page 26 reflects the relative immaturity of research into value in outsourcing as evidenced by the number of calls for more studies in this area. This is also reflected by the fact that this review found few sources in the outsourcing literature that analyse the mechanics of how value creation and appropriation concepts apply in this setting. In spite of a widespread acceptance of the need to continue to improve the value-contribution from services outsourcing, there is little consensus on how this value should be conceptualised and measured. A number of studies found that clients of outsourcing services expect more value-add from suppliers (Banerjee & Williams, 2009; Choudhuri, Maguire, & Udechukwu, 2009), although few specifics are provided on how this should be created and captured. Even though clients specifically identify innovation as a desired source of value-add from suppliers (Lacity et al., 2011a; Lacity & Willcocks, 2013; Whitley & Willcocks, 2011), again studies provide little detail on how this should manifest itself and how it can be translated into value.

The practitioner community also recognises the difficulties in assessing the contribution from the results of collaboration between outsourcing clients and suppliers, and has called for more focus on how such contributions can be measured. The International Association of Outsourcing Professionals (IAOP) is a professional body with over 120,000 members and affiliates worldwide (IAOP, 2014a). In their 2014 annual survey of their members they found that 83% of clients expected their outsourcing providers to introduce innovations that will deliver additional value to the customer's business (IAOP, 2014b). However, they also acknowledge that much work is needed in order to improve understanding of how outsourcing creates value, and how this value contribution can be measured (IAOP, 2014c). In effect, there is agreement on the requirement to better understand value, but there is a lack of consensus on the frameworks that will assist in addressing this requirement.

Although this review found that the two dimensions of value that are discussed above are not dealt with in a very comprehensive manner in the outsourcing literature, the following more general references to these dimensions were noted:

Value creation: Much of the debate in the outsourcing literature is less concerned with questions of *how* value is created and appropriated, and more with

questions of *whether* there is value to be attained. Many examples are given of outsourcing arrangements that failed to deliver the expected value. For example, Gottfredson et al. (2005) found that half of the cases that they studied delivered results that were below expectations. Nevertheless, the on-going growth of the sector is evidence that outsourcing still presents attractive potential, and confirms that some levels of success is achieved when outsourcing is well executed (Jiang, Frazier, & Prater, 2006; Lacity & Willcocks, 2013). In research projects in which the optimum conditions for achieving value are studied, a recurring theme is the importance of a strong, collaborative, and trustful relationship between the parties (Kakabadse & Kakabadse, 2000; McCarthy et al., 2013; Swar et al., 2012; Willcocks et al., 2011). Even if trust is established there is also inherent risk, as outsourcing often involves the external delegation of critical processes. Many studies found that effective governance procedures are critical to the mitigation of the risks associated with realising the desired value from outsourcing relationships (Hefley et al., 2005; Mani et al., 2006; Saxena & Bharadwaj, 2009; Verwaal et al., 2009; Williamson, 2008). The levels of protection provided by contractual safeguards, and the attitude of the parties to the contract will also influence value creation. Although contract completeness has been shown to be important (Barthélemy, 2003; Platz & Temponi, 2007; Wüllenweber et al., 2008), overly restrictive, inflexible, and imbalanced contracts encourage dysfunctional behaviour and discourage collaborative efforts to create and capture new forms of value (Dalcher, 2005; Vitasek & Manrodt, 2012). The desire of practitioners and the academic community to achieve an increased value contribution from outsourcing can also be considered to be part of a wider debate on the optimal direction for the sector and its offerings. One school of thought argues that standardisation and commoditisation of service offerings will make it easier for clients to compare offerings and determine how they can most effectively integrate them into their business models in order to create value (Davenport, 2005; Kakabadse & Kakabadse, 2000; Wüllenweber et al., 2008). Others argue that such commoditisation will restrict suppliers from building long-term value-add relationships (Bharadwaj & Saxena, 2009) and that clients can be best served if suppliers move beyond commoditisation and provide more high-quality and customised services (Lacity & Willcocks, 2012).

Value appropriation: As was highlighted in the review of IOR literature, the most successful and sustainable outsourcing relationships are those that achieve a win-win. This emphasises the importance of ensuring an equitable appropriation of value in order to ensure an effective on-going relationship. A guideline of how potential benefits may be shared is provided by Fitzgerald and Willcocks (2009) who found that ITO contracts can deliver savings to clients in the order of 15% of historical costs, and profits to suppliers in the range of 15-20%. As well as specifying how anticipated value will be captured, contractual provisions will also have a major influence on how this value will be shared between the parties. This will be determined through contract terms and conditions relating to price, performance criteria, bonuses for over-performance, penalties for under-performance etc. These stipulations can only apply to sources of value that were envisaged when the contract was negotiated, and cannot cover all possibilities over the term of the agreement. Some organisations seek to protect against future unknowns by negotiating maximum advantage for themselves during the bargaining phase. They then rely on power, rather than trust, as their central relationship-management philosophy (Cullen et al., 2006). Although this can initially result in a win-lose relationship that satisfies initial self-interest priorities, it typically leads to uncooperative and dysfunctional behaviour that results in a lose-lose (Kern et al., 2006; Willcocks et al., 2011).

2.3.6. Summary of implications from the Value literature for this research

The above review of the literature on value - both in a general context and more specifically in the context of outsourcing - identified some common themes. However, scholars accept that a comprehensive conceptualisation of value remains elusive. In spite of its pivotal importance to services relationships, research outputs relating to value from services have been found to be “scattered and inconclusive” (Sánchez-Fernández et al., 2009, p.94).

Vargo and Lusch (2004, 2006, 2008) argue that the difficulties in conceptualising value are exacerbated because extant theory has largely been developed in relation to the exchange of goods, and is less applicable to a services context. They propose that a higher-order conceptualization is needed to provide a deeper understanding of exchanges of both goods and services. Their on-going development and re-shaping of the foundational principles of S-DL (Vargo & Lusch,

2004, 2011, 2016) has attracted vibrant discourse in the literature. Its focus on value in a services context resonates strongly with this research project. S-DL emphasises that value creation can only be understood by recognising that both parties provide services to each other when goods or services are exchanged:

"Given specialization, mutual service provision is required (desired); relationship, particularly in the normative sense in which it is most often used, is the means. That is, service is exchanged for service, *through* relationship."
Vargo and Lusch (2006, p.48, italics in original)

This supports the premise of this research project that value and relationship development are very closely linked. It also highlights the importance of understanding the contextual factors that influence perceptions of value by multiple actors in the ecosystem of a market (Chandler & Vargo, 2011). This indicates that the research methods employed in this project should be geared towards developing a deep understanding of context, with equal attention being applied to client and supplier perspectives. The multifaceted (tangible and intangible) sources of value should be investigated, with a focus on seeking to understand how perceptions are influenced by assessments of benefits, sacrifices, expectations, and experiences. It is also important to adopt a longitudinal perspective, given the likelihood that value judgments in this context are based on current, retrospective, and forward-looking assessments. Such a perspective should also uncover insights into the role of formal governance, and inter-personal relationships, in monitoring and guiding the development of the outsourcing arrangement in pursuit of on-going value.

2.4. Insights and shortcomings resulting from this literature review

Reviews of these bodies of literature provided important insights into outsourcing, IORs, and value. The reviews of the outsourcing literature enabled the development of a historical perspective on how the services outsourcing sector developed. This provides a contextual foundation to our understanding of outsourcing relationships. This body of literature was also drawn-upon to identify the characteristics of services outsourcing, thus providing useful boundaries for this study. Extant literature reviews were also analysed in order to assess the current state of outsourcing research. This revealed the significant numbers of calls that have been made for studies into how IORs operate in an outsourcing setting, and how value is

created and appropriated. The analysis of outsourcing research opportunities also noted the volume of calls encouraging researchers to explore how extant theory applies to the specific characteristics of this sector, and to develop theoretical advances. In sum, the review of the outsourcing literature confirms the relevance of the research topic and question, and its potential to make a contribution to understanding, theory, and practice.

Reviews of the literature exploring the formation, operation, and evolution of IORs provided insights that resonate strongly with studies of client-supplier relationships in services outsourcing. These show that IORs may vary in depth and in the extent of relational, cognitive, and structural connections between the parties (Roden & Lawson, 2014). Variances are driven by the significance of the arrangement to business objectives, and management judgment on the most effective governance approaches to achieve these objectives. The concept of RQ was also noted as a useful descriptor of how the atmosphere and effectiveness of relationships may vary.

This literature review also studied perceived business value in order to achieve a deeper understanding of the concept and its role as a motivator for forming and sustaining IORs. This dimension of the review found a pervasive acceptance in the literature that the concept of value remains elusive. This is particularly the case in services settings where conceptualisations are complicated by the co-existence of multiple constituents and agendas. Despite this, the subject has attracted vibrant discourse and there have been some recent conceptual advances (notably those associated with the development of S-DL). However, it remains an opportunity for empirical study and theory development to which this present project can make a contribution.

As well as uncovering such insights, this literature review also highlights shortcomings when applied to the topic and question being pursued here. The BPO sector is still relatively immature, and relevant literature is still developing. Although it is useful to draw on research that has focused on more established services outsourcing sectors such as ITO, there are also some notable differences when findings from ITO studies are compared to those focusing on BPO (Lacity et al., 2011a). No guidance was noted in the literature on areas where results are likely to be

similar between BPO and ITO, and where they may differ. However, it is recognised that ITO is becoming a more commoditised offering, driven by technology advances such as cloud computing (Lacity & Willcocks, 2012; Willcocks et al., 2013). The nature of BPO activities such as HR and call centre services implies that these will remain integral to customer business processes and will require features that are unique to individual customer cultures and offerings. Therefore we should not assume that BPO relationships will display similar characteristics to those in ITO engagements.

The extant literature on IORs does not address some of the specific characteristics of services outsourcing relationships. In particular, it does not explain how relationships develop within the confines of the structural bonds that underpin outsourcing relationships and make termination or substitution difficult (e.g. detailed contractual obligations; specific asset investments; the business-critical nature of the services). Nor has the outsourcing literature dealt comprehensively with the question of how relationships progress during their extensive operational phases. Although some generic analysis on the determinants and dimensions of RQ is provided by prior studies, it is acknowledged that these merit further research in different contexts (Athanasopoulou, 2009). BPO is a specific context where “relationships are the key to success” (Willcocks et al., 2011, p.51) and where analysis of RQ is therefore warranted.

While the literature on value provides some conceptual signposts on how to interpret value, it is recognised that this is an evolving body of knowledge, particularly when applied to B2B and services contexts. In particular, the influence of value on relationship progression, and vice-versa, in a services setting has not been adequately addressed in the literature.

2.5. Summary

Figure 2 presents the research model that was developed based on this literature review and as input to the design of the methodology in the next chapter. The figure shows that the primary unit of analysis is the client-supplier relationship and this is understood as a phenomenon that continues for the duration of the commercial outsourcing agreement. It is acknowledged that relationships may be established before the agreement is signed, and some dimensions of the relationship

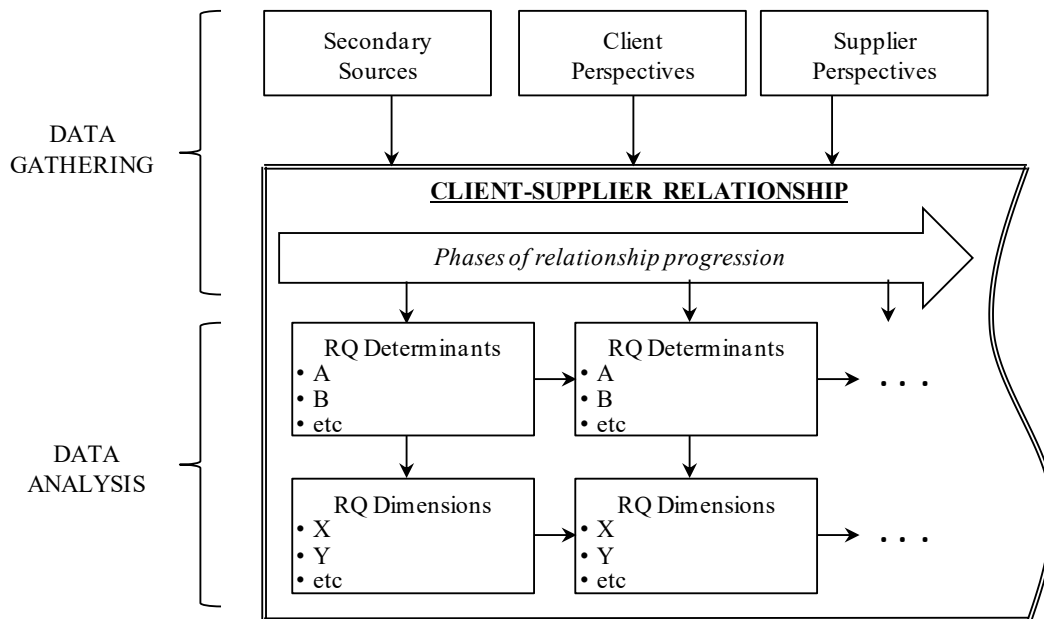


Figure 2: Research Model to guide the methodology

may continue after it terminates. However, the focus here is on the relationship as it progresses throughout the operational phase when contractual obligations apply and services are being delivered. The literature review highlighted the different depths of IOR that may exist, and this is confirmed in outsourcing studies. Therefore the model shown in Figure 2 should apply to relationships with different degrees of integration and governance, while recognising that these may have differing behavioural characteristics.

It is apparent from the literature that perspectives on client-supplier relationships are open to interpretation by actors and are influenced by context. The importance of achieving a win-win in order to avoid dysfunctional behaviour is also evident. This emphasises the need for the methodology to understand individual actor perspectives, from both the client and supplier sides of the relationship. The research model therefore embeds the assumption that participants representing both parties in a dyad will have valuable perspectives on the progression of the relationship, and it is they who will ultimately determine how its effectiveness is perceived. The model also indicates that secondary sources (e.g. press reports, company announcements etc) should be referenced when available to provide additional contextual background and as a counter-balance to actor inputs if there are conflicts or omissions.

The literature review found that IORs can have different levels of quality. Outsourcing studies have confirmed the volatility of outsourcing relationships,

indicating that RQ may vary during the course of the engagement. The model therefore assumes that the relationship may progress through phases characterised by differences in RQ. Descriptions by actors about the relationship progression should be analysed to assess whether such phases exist and how they evolve.

The model does not make any assumption on the nature of the linkages between value perceptions and the progression of the relationship. To do so would be overly-prescriptive and restrictive at this point. These should only be established through the analysis of actor inputs. Following the terminology adopted by Vieira et al. (2008) when analysing *priori* studies of RQ, the analysis of the data should seek to identify what are the *dimensions* that characterise RQ in a BPO context, and what are the *determinants* of this RQ.

The following chapter develops a detailed design of the methodology. This is influenced by the conceptualisation of the phenomenon arising from this literature review and the resulting research model.

3. Methodology

This chapter discusses the philosophical paradigm that guided this research project and explains how this led to the selection of a methodology that is appropriate to the research topic and question. It also describes the methods used to implement this methodology and to analyse the results.

Constructivism, and specifically social constructivism, was identified as the most appropriate philosophical foundation for this research given its focus on how outsourcing relationships develop over time, and how perspectives on this development are based on individual perceptions. As described in the previous chapter, many literature sources conclude that different forms of outsourcing relationships exist, and that any study of these must develop an understanding of the context within which they operate. This is therefore reflected in the choice of methodology which concludes that the research should be case-based, and should consider a range of outsourcing relationships with varying characteristics. As a time-dimension is inherent in relationship development, the cases studied are longitudinal (at least 5 years in duration), and for practical reasons they are studied retrospectively based on the recollections of actors who were central to these relationships from both the client and supplier perspectives.

Table 6 summarises the philosophy, methodology, and methods that were selected. This includes an overview of the reasons behind each selection and the academic influences that guided these decisions. The sections that follow describe this selection process in more detail and justify why, when compared to competing alternatives, these represent the most appropriate fit with the research topic and question. The implementation of the methodology and methods is also discussed, including an outline of the criteria used for case selection and for the identification of appropriate interviewees. The approaches taken to validate these choices, to negotiate access, to execute data gathering, and to analyse the resulting data are also described. The chapter concludes with a summary of the actions taken to mitigate the risk of bias in the gathering and analysis of the data, recognising the researcher's historical knowledge of the cases that were investigated.

	Approach chosen: <i>What?</i>	Summary of reasons: <i>Why?</i>	Significant influences: <i>Who?</i>
Philosophy:	Social Constructivism	Inductive: paucity of existing theory. Central relevance of actors' experiences. Criticality of understanding multiple perspectives.	Guba and Lincoln (1994); Lincoln, Lynham, and Guba (2011).
Methodology:	Qualitative, case-based, retrospective, longitudinal, and selected by following a theoretical-sampling approach.	Importance of context. Requirement to be explanatory. Need to explore how BPO relationships develop over-time. Appropriateness for theory development.	Eisenhardt (1989b); Marshall and Rossman (2011); Yin (1981).
Methods:	<i>Data Gathering:</i> Interviewing, encouraging a narrative style from participants. Limited use of secondary sources when these are available.	Requirement for a deep understanding of context. Importance of time and social dimensions.	Langley (1999); Pentland (1999); Pettigrew (1990, 1997); Pettigrew, Woodman, and Cameron (2001).
	<i>Data Analysis:</i> Coding of interview transcripts, identification of variables, relationships within cases, analysis of similarities and patterns across cases.	Coding assists analysis of large volumes of narrative data. Need to identify variables and relationships between variables. Importance of analysing patterns	Franzosi (2012); Huber and Power (1985); Marshall and Rossman (2011); Miles (1979); Miles and Huberman (1994); Miles et al. (2014);

Table 6: Summary of Philosophy, Methodology, and Methods selection

3.1. Competing philosophical paradigms

Guba and Lincoln (1994) summarise four competing paradigms that represent the major alternatives in social research: *Positivism*, *Post positivism*, *Critical Theory*, and *Constructivism*. These are further developed by Lincoln et al. (2011) who describe each of these alternatives from an ontological, epistemological and methodological perspective. The positioning of various philosophical perspectives as options across a range of alternatives is also adopted by other authors, such as Burrell and Morgan (1979), who discuss the more granular categories of *Positivism*, *Post positivism*, *Critical Realism*, *Interpretivism*, *Constructivism*, and *Subjectivism*. They describe this as a spectrum ranging from objectivist to subjectivist alternatives. There is substantial consistency between the contributions of Lincoln et al. (2011) and Burrell and Morgan (1979), but as it is the most recent contribution and builds on earlier work, the former is drawn-upon in this section as the primary reference point for considering philosophical alternatives. Where understanding can be complemented by other contributions these are also referenced.

- **Positivism:** The basis for the positivist paradigm is that reality can be studied and is apprehensible. At this end of the spectrum it is assumed that theories have been offered and these may be proven through scientific analysis and observation. A positivist paradigm leads to highly objective and rigorous methodologies. These involve the verification of hypotheses, mainly using quantitative methods, where it is assumed that all findings are true. The hypothetico-deductive epistemology that is central to the positivist tradition is appropriate for research requirements where there is an emphasis on validation through logical inquiry (Locke, 2011).
- **Post positivism:** Post positivism recognises the ontological challenge that reality may not be fully apprehensible. It is a basis for the critical realism perspective that has grown in prominence following the work of Bhaskar (1975, 2008). Critical realism highlights three layers of reality: (a) the *real*, which cannot be seen but can only be speculated upon and therefore there are limits to what a researcher can observe e.g. gravity, (b) the *actual*, which can be observed and is caused by events in the *real* e.g. an object falling, and (c) the *empirical*, which are the observable experiences of the social scientist when making speculations about the *real* e.g. the speed of falling objects. Therefore, critical realism is a well-developed perspective on post positivist philosophy which emphasises the

distinction between an ontological perspective founded on a theory of being, and an epistemological perspective representing a theory of knowledge. That is, it holds that reality exists independently of the causal structures that are used to describe the world (Mir & Watson, 2001). Critical realism follows the post positivist assumption that hypotheses can be regarded as probable unless they are falsified. As such, a post positivist philosophy leads to methodologies that are predicated on the existence of testable hypotheses. It encourages logical and scientific approaches, although these may be qualitative or quantitative in nature.

- **Critical Theory et al:** This philosophical perspective holds that a virtual reality exists which is shaped by social, political, cultural, economic, ethnic, and gender values which crystallise over time. It assumes that reality is apprehensible, but that it consists of historically-situated structures that are, in the absence of additional insight, as limiting and confining as if they were real. The focus of critical theory is on critiquing this reality through reflective assessment, with a view to transformation and revisionism. Therefore critical theorists approach research from the perspective of moral activism, and see themselves as emancipators and liberators. They aim to expose what is wrong with current social reality, to identify the actors to change it, and to provide a thoughtful critique and achievable practical goals for societal changes (Bohman, 2015).
- **Constructivism:** Guba and Lincoln (1994) position constructivism as a subjective philosophy, at the opposite end of the spectrum to the realism-oriented perspectives of positivism and post positivism. They characterise constructivism as assuming “multiple, apprehensible, and sometimes conflicting social realities that are the products of human intellects, but that may change as their constructors become more informed and sophisticated.” (p.111) Constructivists see theory as an act of generation rather than a formalisation of underlying reality. The contrasts between realism and constructivism are summarised in Table 7, which is reproduced from Mir and Watson (2001, p.1171). In an earlier contribution the same authors (Mir & Watson, 2000) describe realism as being analogous to excavation, where “the terrain of phenomena is mined for valuable nuggets of naturally occurring insight.” (p.942) In contrast, constructivism is described as being analogous to sculpting, “where the imagination (or the theory-base) of the artist interacts with the medium of phenomena to create a model of reality which we call knowledge.” (p.942) Therefore constructivists see this philosophical

perspective as being particularly suited to social scientific research where observed reality is interpreted and developed by the researcher, recognising that organisations may have multiple and fragmented identities. It also assumes that the perspectives of the actors are significantly influenced by the contexts in which they operate.

	Realism	Constructivism
Nature of observed reality	Partial, but immutable	Socially constructed
Role of manager	Reactor, information processor	Actor, generator of contexts
Nature of strategic choice	Boundedly rational response to contingencies	Ideological actions of sub-organizational interest groups
Organizational identity	Overt, singular	Multiple, fragmented
Theories of measurement	Replication as a key to accuracy	Context as a key to perspective

Table 7: Realism and constructivism contrasted (from Mir & Watson, 2001, p.1171)

3.2. Adopting an appropriate philosophical viewpoint

The alternative philosophical perspectives that are summarised in the previous section highlight fundamental ontological and epistemological questions that require clarification if this research project is to be built on a solid foundation. That is, what is the reality that the research seeks to explore, and how can this reality be best understood? The basic unit of analysis for the project is the outsourcing relationship between a client and supplier. The project aims to understand how these relationships develop as each of the parties seeks to realise value. This begs the question as to whether the quality of the relationship exists outside of the perceptions that stakeholders form about that quality. Fundamentally this is an ontological question about whether the relationship is separate from the qualitative perceptions of actors, and if so whether these perceptions should be viewed as epistemological mechanisms

encapsulating how the underlying reality of the relationships is understood by the actors.

The literature review highlighted that there can be many constituencies of stakeholders on both the client and supplier sides of the relationship. Individual stakeholders and stakeholder groups may have varying perceptions that are subject to influence and can change over time. Given the importance of perceptions to assessments of the quality of the relationship and the value that it delivers, the philosophical viewpoint adopted in this research is that *perceptions* should be regarded as *reality* in this context. That is, where the relationship between the client and supplier is explored as the unit of analysis it is the perception of that relationship by the actors that is the focus. This is not to imply that there should not also be a desire to identify any commonly held views, and indeed these will be important to the generalisation of any findings. However, the significance of this position is that the relationship will not be regarded as a standalone reality that exists independently of how it is perceived, but will rather be regarded as a social construction that may have different characteristics from different perspectives. This allows us to consider whether the quality of the relationship at a point in time is perceived differently by different stakeholder groups (specifically the client and supplier groups), or by individuals within a stakeholder group. Although this philosophical stance allows for the consideration of underlying reasons for exceptional perceptions expressed by individual actors, it also allows for the identification of common perceptions that may be interpreted as institutional perspectives.

Based on this positioning we can consider the philosophical alternatives at the next level of detail in order to identify which offers the most appropriate standpoint for guiding this research project. The descriptions of the paradigmatic alternatives outlined by Lincoln et al. (2011) are reproduced in Table 8 on page 73. The table assesses each of the criteria with reference to the research topic and question, recognising the conclusions of the literature review, and taking account of the ontological and epistemological positioning discussed above. The degree of fit with the requirements of this project is evaluated by annotating each element in the table as High, Medium, or Low.

Issue	Positivism	Post positivism	Critical theory et al	Constructivism
Inquiry aim	Explanation: prediction and control (M)		Critique and transformation; restitution and emancipation (L)	Understanding; reconstruction (H)
Nature of knowledge	Verified hypotheses established as facts or laws (L)	Non-falsified hypotheses that are probable facts or laws (L)	Structural/historical insights (H)	Individual reconstitutions coalescing around consensus (H)
Knowledge accumulation	Accretion – “building blocks” adding “edifice or knowledge”; generalisations and cause-effect linkages (M)		Historical revisionism; generalisations by similarity (M)	More informed and sophisticated reconstructions; vicarious experience (H)
Goodness or quality criteria	Conventional benchmarks or “rigor”: internal and external validity, reliability and objectivity (L)		Historical situatedness; erosion of ignorance. Action stimulus (H)	Trustworthiness and authenticity and misapprehensions (H)
Values	Excluded – influence denied (M)		Included – formative (H)	
Ethics	Extrinsic; tilt towards deception (L)		Intrinsic; moral tilt towards revelation (M)	Intrinsic; process tilt towards revelation; special problems (H)
Voice	“disinterested scientist” as informer of decision makers, policy makers, and change agents (M)		“transformative intellectual” as advocate and activist (L)	“passionate participant” as facilitator of multi-voice reconstruction (H)
Training	Technical and quantitative; substantive theories (M)	Technical; quantitative and qualitative; substantive theories (M)	Resocialisation; qualitative and quantitative; history; values of altruism and empowerment (M)	
Accommodation	Commensurable (M)		Incommensurable (M)	
Hegemony	In control of publication, funding, promotion and tenure (M)		Seeking recognition and input (M)	

Degree of fit with the research topic and question is evaluated as being High (H), Medium (M), or Low (L).

Adapted from Guba and Lincoln (1994); Lincoln et al. (2011)

Table 8: Evaluation of appropriateness of alternative paradigms

Considered holistically, the criteria assessed in the table indicate that constructivism is the most appropriate perspective to influence the selection of the methodology and methods as discussed later in this chapter. The focus in both positivism and post positivism on verifying or falsifying hypotheses is at variance with the conclusion of the literature review that there is a lack of established theory on outsourcing relationship development (Busi & McIvor, 2008; Lacity et al., 2010; Lacity et al., 2011a; Mahnke et al., 2005). The fact that the project is not based on a distinct separation between reality and how it is experienced as discussed above is also inconsistent with the ontological and epistemological perspectives of the positivist and post positivist paradigms about reality and how it is observed. The emphasis in critical theory on human emancipation and societal transformation is also inconsistent with the essence of this research project. As the focus is not on revisionism or moral activism this perspective does not provide a suitable fit with the research objectives.

As shown in Table 6 and Table 7, constructivism on the other hand incorporates a number of characteristics that resonate strongly with the objectives of the project. It reflects the aim of the inquiry which is to improve understanding by reconstructing the development of outsourcing relationships over time. It views reality as being socially constructed, which is consistent with the conclusion that perceptions are fundamental to how relationships and value are assessed and understood. It emphasises the importance of context which reflects the multifaceted nature of these relationships and the conclusion that a variety of such relationships should be studied. Constructivism is particularly appropriate in this case given the author's experience as a practitioner and the perspectives that this brings to the project (i.e. what Lincoln et al. (2011) refer to as a 'passionate participant').

The following section includes a deeper consideration of constructivism, with the objective of assessing how this philosophical perspective should influence the choice of methodology and methods for this research project.

3.3. Developing the Constructivist perspective

Having identified constructivism as the philosophical perspective that incorporates those characteristics which resonate most strongly with the scope and objectives of this research project, a more in-depth analysis is required of related

concepts. These more granular dimensions will be drawn upon to inform the choice of methodology and methods. Specifically, the following concepts merit additional description:

- Firstly, the concept of *social constructivism* as a particular form of constructivism is briefly discussed.
- The overview of constructivism that is provided above emphasises the importance of understanding context to the development of perspectives. This merits a more thorough consideration of *contextualism* as a philosophical and methodological framework. Related to this, *structuration theory* (Giddens, 1984) also merits consideration given its emphasis on how context incorporates social structure and action which coexist and influence each other over time.
- Context is not static and therefore there is a need to incorporate temporal considerations, especially given the underlying objective of this research to understand how relationships develop over time. Therefore a *processual* dimension to the research philosophy and methodology must also be incorporated.

It is not suggested here that the concepts underpinning contextualism, structuration theory, and process-thinking have a unique application to constructivism, and it is recognised that they also apply to other philosophical traditions. However, it is envisaged that they will complement the underlying assumptions of constructivism and social constructivism that are identified above and assist in developing a more comprehensive guide to the selection of a methodology and methods.

3.3.1. Social Constructivism

Social constructivism is a form of constructivism that emphasises the role of communities of people in interpreting and understanding the climates in which they exist. Slife and Williams (1995, p.78) describe social constructivists as those who are “principally concerned with explaining how people experience and describe the world in which they live.” This reflects a view that reality is as much a manifestation of the social construction of the actors as it is of natural forces that are beyond their control and understanding (Mir & Watson, 2001). Therefore from this perspective people create a shared reality through their actions and interactions.

This dimension of the constructivism is worthy of note in the context of this research project as it acknowledges the possibility that groups of stakeholders may develop a shared perspective on the outsourcing relationship. This perspective should be regarded as important and meaningful as it is likely to influence the attitudes and actions of actors and groups of stakeholders.

3.3.2. Contextualism / Structuration

Pepper (1942) posits that the underlying justification of any truth claim cannot be based on empirical observation and therefore has to be a hypothesis. He describes contextualism as one of four *world hypotheses*, or *root metaphors* which determine how we know what we know (the others being formism, mechanism, and organicism). Each of these has its own way of corroborating evidence into knowledge (Sminia, 2009). From the contextualist's viewpoint, the world is seen as a collection of events that exist in unique settings. In this way contextualism is similar to the 'ensemble des jeux' perspective outlined by Crozier and Friedberg (1980), where actors interact with systems to form unique contexts. Context is portrayed as a factor that both enables and constrains social action, while social action is understood to both shape and be shaped by context (Quinn & Leavy, 2005). Actors use a process of qualitative confirmation to assess and corroborate truth, as influenced by the prevailing conditions at a particular point in time (Sminia, 2009).

Quinn and Leavy (2005) also highlight the synergies between contextualism and structuration theory (Giddens, 1979, 1984). Developed from a sociological perspective, structuration proposes that there is an on-going relationship between *human agency* (i.e. the capacity of a person or entity to act), and the *social structure* (i.e. the norms and patterns of behaviour that can be observed). It challenges the notion of social structure as a factor that exists apart from, and yet guides and constrains human action. Instead, it promotes the duality of structures and actions and asserts that while human actions are bound by social processes, these actions can also have the effect of reproducing and changing the patterns that are apparent in these structures over time (Sewell, 1992; Sztompka, 1991). That is, although the repetition of acts by individual agents combine to determine the social structure, the social norms that guide these actions only determine social structure for as long as they are commonly adhered to by individuals. Therefore structuration theory holds that social

life is more than a random set of individual acts and it should not be studied at a micro-level. Nor is it determined only by social forces and so it cannot be understood by assuming macro-level explanations. The theory proposes that social structure should be viewed as a dynamic phenomenon which guides human action and changes over time in response to such actions. Structuration theory has its detractors who argue that the conflation of structure and agency inhibits analytical insight (Archer, 1982; Layder, 2006; Rose, 1998). Nevertheless, in the context of this study it provides a relevant perspective on the symbiotic relationships between context of the client-supplier relationship at a point in time and observable events.

Sminia (2009) argues that contextualism does not incorporate a clear methodology that enables the development of a set of well-defined methods. Research designs tend to involve retrospective and real-time longitudinal case studies, mostly relying on qualitative data from multiple sources but also including quantitative measures when appropriate. Pettigrew (1990) emphasises that under a contextualist approach changes should be studied in the context of changes at other levels of analysis. He stresses the importance of revealing temporal interconnectedness, and he highlights the significance of the connection between context and action. Sminia (2009) also highlights a challenge associated with a contextualist approach when seeking external validity for research outputs. He argues that specific contextual factors can present difficulties for the generalisation of results, and proposes that researchers can find a middle-ground on the contextualist-generalist continuum by applying existing theoretical insights to observations on social structures in order to propose generative mechanisms.

3.3.3. Process thinking

Process thinking is a further development of contextualist research which reflects the view that social reality is a dynamic process. This perspective is most comprehensively developed in the work of Andrew Pettigrew and colleagues in the University of Warwick's Centre for Corporate Strategy and Change (Pettigrew, 1990, 1997, 2012; Pettigrew et al., 2001). Processual analysis is defined as "a sequence of individual and collective events, actions, and activities unfolding over time in context", and the aim of the process analyst is to "catch this reality in flight." (Pettigrew, 1997, p.338) Pettigrew (1997) positions processual analysis

fundamentally as a reaction against the tendency to seek holistic explanations based on assumptions about fixed entities and how they respond to changing variables. By contrast it seeks to “theorize about constellations of forces shaping the character of the process and its outcome.” (p.340)

Process theorists draw on structuration theory to explore the duality between human agency and social structures, and to explain influences on how processes develop over time (Pettigrew, 1985a, b, 1987, 1997; Sminia, 2009). Although patterns may be apparent in a process, the underlying structural norms should still be regarded as dynamic and subject to change based on actions and contexts. This helps to explain why similar processes operate differently in different contexts. In this way, process thinking highlights a cumulative relationship between agents and contexts over time, and this firmly lodges temporality within the contextualist approach. Sminia (2009) recognises that “multiple interpretations of the same course of events not only between people (analysts and participants alike), but also over time, are to be expected and can even be useful, because this variety is often associated with change, and it provides an opportunity for comparison.” (p.105) Some processes may be linear, directional and cumulative, whereas others may be non-linear, radical, and transformational. However, temporality is always a consideration in process thinking as it is assumed that “the legacy of the past is always shaping the emerging future.” (Pettigrew, 1997, p.338)

3.4. Methodology requirements

The schematic in Figure 3 on page 79 shows the linkages between the research model, the philosophical paradigms underpinning the methodology, and the components of the data collection approach deemed most suited for this project. This figure builds on the representation of the research model developed in the previous chapter (Figure 2 on page 65). The model identified the unit of analysis as the Client-Supplier Relationship. This is understood to be comprised of one or more phases which are characterised by differences in Relationship Quality Determinants and the resulting Relationship Quality Dimensions. The research model also represents how the unit of analysis can be investigated using inputs provided through secondary sources, client perspectives, and supplier perspectives (as represented by the single-headed arrows). Figure 3 builds on this to show how the dimensions of the research

model can be understood through the philosophical perspectives discussed above. These incorporate the following paradigmatic dimensions:

- Seek to understand the context as described by actors and supplemented by secondary data (Contextualism / Structuration),
- Appreciate the processual nature of relationship evolution (Process thinking), and
- View the client-supplier relationship as a social construct (Social constructivism).

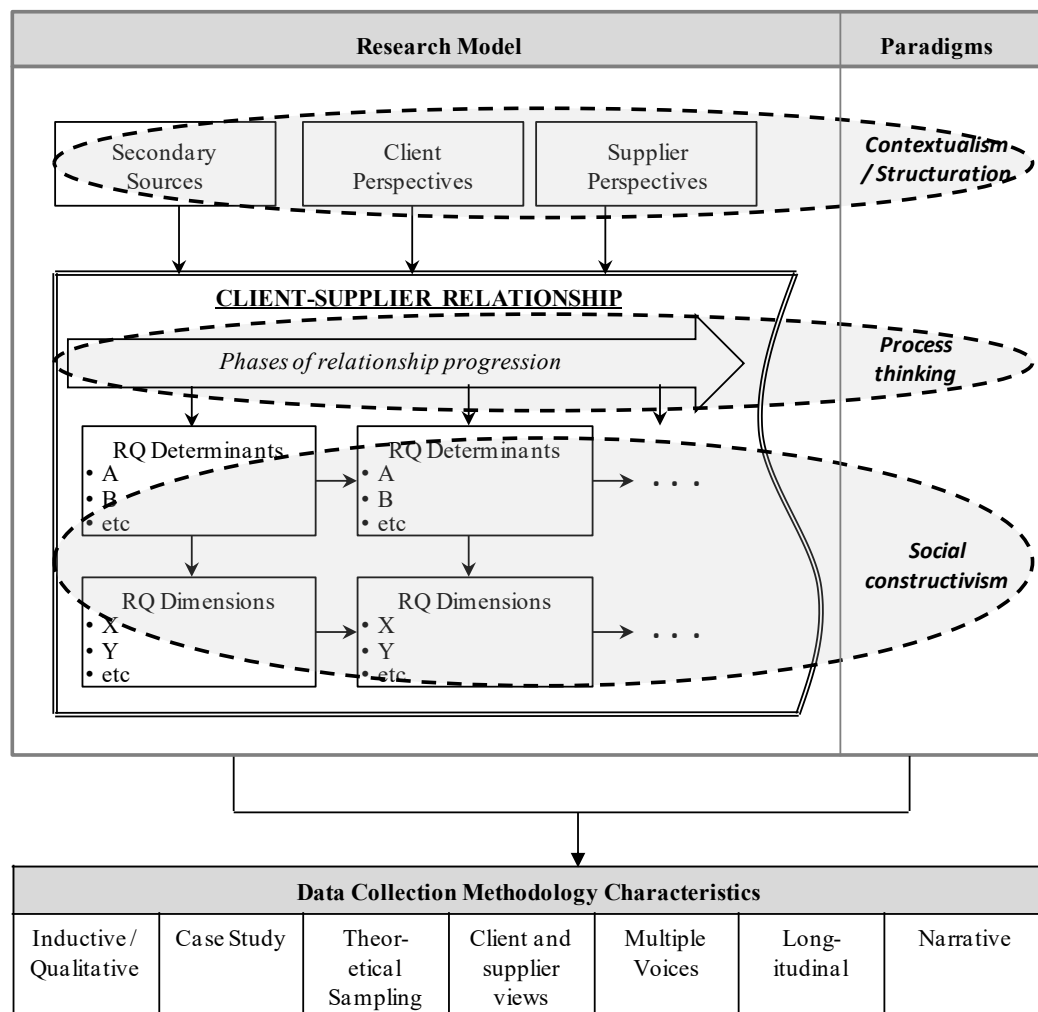


Figure 3: Data collection methodology requirements mapping

Figure 3 also illustrates how the research model and paradigmatic perspectives directly influence the choice of seven data collection methodology characteristics. The rationale for each of these choices is discussed below:

Inductive / Qualitative: An inductive and qualitative methodology is most appropriate as this will provide in-depth insights into the operation and development

of outsourcing relationships, consistent with the research philosophy. It would not be feasible to capture the nuances and contextual richness that the project should uncover if a quantitative methodology was adopted. By contrast, a qualitative approach is appropriate for a project such as this that is “explanatory or descriptive and that stresses the importance of context setting and participants' frames of reference.” (Marshall & Rossman, 2011, p.92) These authors list 11 characteristics of research projects which make them most suited to a qualitative methodology. Of these, the following resonate most strongly with the objectives and context of this project, and confirm that a qualitative methodology is most appropriate:

- Research that elicits tacit knowledge and subjective interpretations,
- Research that delves in depth into complexities and processes,
- Research on little known phenomena or innovative systems,
- Research on informal and unstructured linkages and processes in organisations,
- Research on real, as opposed to stated, organisational goals,
- Research that cannot be done experimentally for practical or ethical reasons,
- Research for which relevant variables have not yet been identified

Case Study methodology: Yin (1981) promotes the suitability of case studies for qualitative studies where research questions seek explanations. In particular, case studies are deemed most suited to research investigating contemporary phenomena in their real-life context, where “the boundaries between phenomenon and context are not clearly evident.” (p.58) This viewpoint resonates strongly with this project given the intertwining of the relationship and the contextual setting within which it operates (e.g. the outsourcing contract, the prevailing business climate, legacy perspectives within and between the organisations, and operational challenges). Similarly, Eisenhardt and Graebner (2007) describe how a case-based approach is the best option for studying a rich, real-world context, which seeks to answer *how* and *why* questions in unexplored research areas, as is the focus here. The literature review also found many studies that emphasised the inter-personal dimensions associated with client-supplier relationships. The suitability of a case-based approach for studies of social processes (Van Maanen, 1979) indicates that these dimensions of the relationship can

be effectively investigated in this way. An additional benefit of case studies that also resonates strongly with the context of this study is highlighted by Pettigrew (2012) who describes how this methodology enables the exploration of causal links between context, process, and outcomes. Such an approach should therefore prove effective in investigating the nuances of client-supplier relationships, over extended time-periods, as both parties seek to realise value.

Although the above perspectives confirm the suitability of a case-based approach to research such as this that requires a deep exploration of context, it was also important to consider other methodological options. The *Knowledge-Accrual Triangle* proposed by Bonoma (1985) proved helpful when assessing such alternatives. This framework distinguishes between scientific and non-scientific modes of enquiry and plots alternatives to represent how each achieves a balance between the internal validity and reliability of data (referred to as *data integrity*) and suitability for generalisation of results (referred to as *currency*). Assessing the options relative to these axes further highlighted that case studies based on field research are most effective in delivering results that support generalised conclusions, although additional care must be taken to ensure the integrity of the data gathered. Compared to the similar trade-offs that are inherent in other alternatives, this perspective helped to confirm that a case study methodology was more appropriate for this research than other alternatives such as surveys, tests, simulations and field experiments.

Yin (2003) explains that having decided on a case study approach, a decision is then required on the alternative types of case studies that are possible (*Exploratory*, *Descriptive*, and *Explanatory* categories, which may focus on *Single*, *Holistic* or *Multiple* cases). This study falls within the *Explanatory* category as it seeks to explain causal links between value and client-supplier relationships and to understand how these influence the progression of the relationship. It should consider *Multiple* cases for the reasons outlined below.

Theoretical sampling: A number of the outsourcing studies referenced in the literature review highlight significant differences in the nature of relationships that can be observed - from arms-length to highly integrated (Cullen, 2005; Kedia & Lahiri, 2007; Lyons & Brennan, 2014; Sanders et al., 2007). Indeed, this is consistent with findings from studies of more generic buyer-seller relationships which also recognise

that the depth of the relationship can vary significantly depending on the needs and objectives of the parties (Grandori, 2006; Ring & Van De Ven, 1992, 1994; Williamson, 2001; Zaheer & Venkatraman, 1995). Therefore it was concluded that the research methodology should consider a variety of cases across the spectrum of possibilities. This follows the concept of *theoretical sampling* (Eisenhardt, 1989b; Eisenhardt & Graebner, 2007; Miles & Huberman, 1994), where a range of cases is chosen “to fill theoretical categories and provide examples of polar types.” (Eisenhardt, 1989b, p.537) Particular insights can be anticipated from comparing and contrasting cases (Yin, 1981) and juxtaposing views (Eisenhardt, 1989b). It was expected that this would uncover further insights into the development of relationships which have different levels of depth and strategic importance to the parties.

It was concluded that three cases should be studied to represent different points on the spectrum of outsourcing relationship types (*Transactional-Strategic-Transformational*) categorised by Kedia and Lahiri (2007), and which is consistent with relationship categories identified by other authors (Cullen, 2005; Sanders et al., 2007). This is also a manageable number which allows in-depth study and enables the investigation of cases with unique characteristics. In his ‘talking pig’ example, Siggelkow (2007) makes a convincing case on how low numbers of cases can result in insightful findings when they represent extremes with unique characteristics. Pettigrew (2012) also emphasises the benefits of including higher- and lower-performing cases for contrast. This supports the decision to adopt a purposive approach (Miles et al., 2014; Narayandas & Rangan, 2004) by selecting cases for this project that meet varying criteria. The specific case selection criteria should ensure that cases represent points on the spectrum of relationship types and are discussed in more detail in section 3.5.1 below.

Client and supplier perspectives: As context is central to this project it is important to recognise that both the client and supplier may influence this context. The research model shows that stakeholders from both of these constituencies may have different perceptions about how context influences, and is influenced, during the development of the relationship. Therefore input for each case is required from actors who represented both the client and supplier organisations over the duration of the relationship. This enables aggregate perspectives to be derived representing each of these constituencies, and should provide further insights by facilitating the

consideration of similar or contrasting perspectives. Secondary data, where available, also provides insights into the contexts in which the client and supplier operate. This can be referenced to provide additional contextual background, and to validate or supplement individual actor inputs.

Multiple voices: The conclusion that there is value in assessing alternative interpretations of the same course of events by different actors (Sminia, 2009) suggests a requirement that for each case a number of individual perspectives should be sought. Given the multi-level complexity of these relationships it would not be feasible within the scope of this project to get input representing all sources involved in the outsourcing arrangement. Therefore, to focus the requirement it was decided that the core interest is in actors who form the main points of interaction in the governance of the relationship between the client and supplier. For example, stakeholder groups who do not have a primary responsibility for maintaining the relationship (such as users of services provided) are of lesser interest than those who are involved in the day-to-day management of the relationship. However, even with this more narrow perspective, the views of a number of individuals should be solicited in order to derive points of consistency and difference. The method adopted was therefore one of *qualitative sampling* (Miles & Huberman, 1994, p.27) where small samples of people nested in their context can be studied in depth, based on a purposive rather than a random selection, and which is not wholly pre-specified but can evolve once fieldwork begins. Following the recommendations of Weller and Romney (1988) when outlining requirements for systematic data collection, it was concluded that a minimum of 20-30 informants should be sought across all cases in order to enable triadic comparisons of inputs and to determine whether a consensus can be identified.

The philosophical decisions underpinning this project recognise that the phenomena being investigated are subject to individual perspectives. It was therefore important that the methodology should support the gathering of the personal viewpoints of informants. Of course these personal perspectives may have been influenced by consensus positions in the constituencies within which the individual worked. However, it is ultimately the personal interpretations by interviewees that are of interest, however these were derived. In recognition of this, it was decided that interviews with multiple participants simultaneously should be avoided, so that any interviewee would not be unduly influenced by the perspectives expressed during an

interview by a colleague. Interviewees would also not be encouraged to discuss their perspectives with their peers before the interviews.

Longitudinal: The research model shows that the emphasis of this project is on the development of the relationship over time. Therefore a longitudinal perspective should be assumed. For practical reasons this could not be done in real-time. Therefore the design of the methodology should enable the retrospective collection of longitudinal data from participants based on their recollections. This results in some challenges in identifying a range of informants from both the client and supplier organisations who can provide perspectives that will cover the full duration of the relationship being investigated. It also raises risks of data inaccuracy if there are errors of recall by informants, or post-rationalisations of situations. These challenges are recognised as potential limitations, but specific actions were also adopted in the methods that were selected to mitigate these risks. These are discussed later in section 3.5.4 which discusses the data gathering strategies adopted.

Narrative: The importance of context is a recurring theme to date. Weller and Romney (1988, p.10) argue that in qualitative studies “the domain should be defined by the informants, in their language and not by the investigator. It is easy to assume falsely that the investigator knows the domain and what items do not belong in the domain.” Therefore the methodology should provide interviewees with the freedom to describe the context within which they operated and how this changed over the period being assessed. This indicates that the approach taken should not be overly prescriptive to participants and should provide them with the space to discuss those aspects of the context that they feel are important. A narrative method was also judged to be particularly suitable to this project given its focus on how events developed over time. As emphasised by Pentland (1999, p.717), “Because narrative embodies sequence and time, it is naturally suited to the development of process theories and explanations.” The suitability of narrative for research such as this with a time dimension is highlighted by Rhodes and Brown (2005, p.170) who state that narrative “involves the unfolding of a story of events over time”, and that by invoking a narrative style “one is concomitantly employing time as a central organising concept.” Abbott (1990) also argues that narrative is suitable for capturing the processes of social reality, which he describes using the term *narrative positivism*.

3.5. Methodology formulation

This section describes how the requirements listed in the previous section were translated into a detailed design of methods, and a plan for their execution. It outlines the criteria for case selection, the process that was adopted for identifying potential cases, the approach taken to negotiating access, and how data was subsequently gathered.

The approach adopted to the implementation of the methodology was influenced by the 8-step roadmap that Eisenhardt (1989b) recommends when seeking to build theory from case study research i.e. 1) Getting Started; 2) Selecting Cases; 3) Crafting instruments and protocols; 4) Entering the field; 5). Analysing data; 6) Shaping hypotheses; 7) Enfolding literature; 8) Reaching closure. The remainder of this chapter focuses on the first five of these steps given their methodological emphasis. The remaining steps are addressed in the Chapters 7, and 8 which describe the conclusions resulting from cross-case analysis. In these later chapters, when considering the three cases together, a *case comparison* approach as described by Yin (1981) is adopted. This encourages the identification of similarities and contrasts while ignoring irrelevant deviations. The alternative would have been to adopt what Yin (1981) describes as a *case survey* approach, whereby the features of cases are isolated and compared. He highlights that this approach can be problematic when applied to a relatively small number of cases and it was therefore not adopted in this study.

3.5.1. Case selection criteria

The methodology requirements discussed above indicate that a variety of cases should be selected for study, using a *theoretical sampling* approach to represent different points across the spectrum of relationship-depths that are possible. It is therefore important to describe this spectrum by identifying the criteria that indicate its boundaries and gradient from low-level arms-length relationships, to those that are highly integrated. As noted in the literature review, a number of authors propose characteristics of different levels of outsourcing relationship (Cullen, 2005; Kedia & Lahiri, 2007; Sanders et al., 2007). Influenced by these proposals, Table 9 presents the consolidated set of criteria that were derived to identify three major points on this spectrum. The two extremes and the mid-point are described under the headings of

Tactical, Strategic, and Transformational relationships as proposed by Kedia and Lahiri (2007).

	Tactical	Strategic	Transformational
Criticality of tasks	Low	Medium-High	High
Scope of tasks	Limited / Standardised	Medium / High	High / Customised
Initial duration	Short term (2-3 years)	Medium term (3-5 years)	Long term (5-7+ years)
Primary client drivers	Cost & Quality improvement	As for Tactical relationships, plus... Access to capabilities, Organisational learning	As for Strategic relationships, plus ... Step-change at enterprise level
Nature of Client-Supplier relationship	Buyer-Seller	Long-term business partner	Agents of organisational change
Client involvement with Supplier	Arms-length (monitored relationship)	Deep (managed relationship)	Intense (co-managed relationship)

Table 9: Case selection criteria (based on Cullen, 2005; Kedia & Lahiri, 2007; Sanders et al., 2007)

It was not intended that the cases selected should exactly fit all of the criteria under any of the headings. Rather, the objective was to provide some calibration to the spectrum of alternatives that would act as a guide for ensuring that cases selected are representative of the variety of options. The *Tactical* end of the spectrum represents outsourcing arrangements that cover standalone and standardised tasks, where the focus is on cost management and the relationship tends to be transactional and arms-length in nature. The *Strategic* category is a mid-point where tasks are more customised for the client's business and where there is a strategic intent based around access to capabilities and not just cost management. At the high-end of the spectrum are *Transformational* relationships where there is a high level of integration between the client and supplier, and the outsourcing strategy is undertaken as part of a broader re-engineering of a business and as a catalyst for a step-change in business performance.

The case selection criteria discussed above recognise that *Tactical* relationships may involve a shorter initial time commitment (2-3 years) than those that

are classified as *Strategic* (3-5 years) or *Transformational* (5-7+ years). However, as the focus of this project is on relationship progression it is important that the cases selected should have sufficient duration to enable robust conclusions to be drawn. Therefore, even if a relationship that is classified as *Tactical* was initially intended to have a shorter life-span, preference should be given to cases that were subsequently extended and which will therefore provide more longitudinal insights. It was decided that ideally cases should have a minimum lifetime of 5 years, to provide a more complete terrain for study. This preferred duration of 5 years was also influenced by analysis of the outsourcing sector that indicates that this is the average term of outsourcing engagements (El-Messidi, 2012).

3.5.2. Case identification

The process of identifying suitable cases began with meetings with two industry contacts. The aim of these meetings was to seek practitioner input on the proposed approach and to solicit suggestions on appropriate cases for study. The first of these meetings was with the European Outsourcing Vice President in one of the 'Big Four' consulting companies. This individual leads the function of the company that provides advice to firms on their outsourcing strategies. A separate meeting was held with a Sales Director working for a global outsourcing services provider. In both cases these senior industry contacts confirmed that developing insights into relationship progression is of significant interest from a practitioner perspective. They were both also strong in the view that different depths of relationship exist, and that these merited separate focus.

However, both also highlighted a potential difficulty in gaining access to case information, particularly at the level of detail required to gain a rich understanding of context. The competitiveness of the sector was emphasised and it was stressed that this could cause reticence on the part of suppliers to share detailed insights. It was pointed out that even in outsourcing relationships that are performing satisfactorily there is often a healthy tension between the parties as they seek to optimise their negotiating position regarding the potential for adding new work to the arrangement, or renewing existing contracts. Overcoming these reservations and achieving the level of openness necessary would be predicated on a high level of trust between informants and the researcher. It was therefore suggested that I should focus on cases where I

had previously had a personal involvement when working as a practitioner. This would facilitate access to individual participants and it would also make best use of their time as there would be a reduced requirement for explaining background information and terminology. From a research perspective this appeared to have the added benefit that it would focus on a single supplier (my former employer) across a range of contracts, and therefore remove the potential for variance if different suppliers have different attitudes to relationship management. This approach promised attractive benefits which would enhance the depth of the research to be completed. However, it would also require safeguards to minimise the risk of bias by the researcher and to take account of recommendations in the literature on how to find a balance between practitioner insight and researcher independence (Acquinis & Vandenberg, 2014; Pettigrew et al., 2001; Van Maanen, 2011).

Recognising the high level of sensitivity that may exist, it was decided to test the feasibility of the proposed approach by discussing it with a client organisation to understand any reservations they may have. A meeting was scheduled with a third industry contact who is a vice president of a global technology company and is responsible for procuring and managing outsourcing services for key parts of their business. Again, this meeting confirmed the relevance of the topic to practitioners and the importance of considering different levels of relationship. The challenges associated with commercial sensitivities were also confirmed. However, this executive felt that these could be overcome if the organisation and the interviewees had a level of trust in the researcher, both at a personal level and in the researcher's ability to accurately interpret the information provided. Nevertheless, there would need to be assurances that no commercially sensitive information would be discussed (e.g. prices, terms and conditions), that individual participants would not be identified, and that the names of the organisations concerned would not be revealed in any published outputs. Based on this input, a one-page briefing document was created to assist in gaining access to cases by positioning the study and by providing assurances in advance on issues of commercial and individual confidentiality (see APPENDIX C: Research Overview – sent to participants).

As well as validating the approach and providing suggestions on how to negotiate access, the initial meetings with industry practitioners were successful in identifying six potential BPO relationship cases, at varying levels of relationship

intensity. Subsequent background investigation into one of these ruled it out because most of the knowledgeable contacts had subsequently moved to other organisations and would prove difficult to contact. In a second case I did not have personal contact points in the client organisation so the only option was to approach them through a contact in the supplier organisation. When this client organisation was approached via the supplier they declined to participate and therefore it was not possible to pursue this case. A third case appeared promising, and interviews were held with a representative from the client organisation and with one from the supplier. However, in spite of the commitment from the client representative that he would assist by identifying and making introductions to other prospective interviewees, this support was not forthcoming. Following a number of failed attempts over a 3-month period to encourage this individual to assist it was decided that it would not be feasible to secure involvement from a sufficient number of participants to make this a meaningful case. Therefore it was removed from the list of prospective cases.

In the three remaining cases it was possible, with some persistence, to secure a sufficient number of informants from the client and supplier sides of the relationship. These cases are summarised below in order to explain their selection and relevance to this research. A fuller description of them is provided in the subsequent chapters that describe the cases in detail.

Virgin Media (previously NTL Ltd): In 2004 NTL was the UK's largest cable network company and provided consumers with television, telephone, and broadband services. The company decided to explore outsourcing by commissioning IBM to provide technical support to broadband customers through a contract that was planned to require a total of 450 staff over a 5 years term. In this initial contract NTL was motivated by the prospect of securing cost savings for a portion of their extensive call centre infrastructure. They saw this as a tactical opportunity to save money while gaining some experience with outsourcing. NTL subsequently merged with the UK's second-largest cable network provider (Telewest Ltd). The merged organisation was later rebranded as Virgin Media under a licensing agreement with Virgin UK. For the purposes of this study it is important to categorise this relationship within the spectrum of relationship depths that is summarised in Table 9. The narrow scope (i.e. call centre activities) and limited objectives (i.e. cost saving), suggest that the

relationship between NTL (subsequently Virgin Media) and IBM was at the *Tactical* end of the spectrum.

Xerox Europe: In the mid-1990s Xerox Europe established an internal shared services centre in Dublin, with the aim of consolidating call centre and financial services work from their European business units into this organisation. The objective was to achieve cost benefits, economies of scale, and process standardisation. By the mid-2000s this new organisation already had a history of operational difficulties as it struggled to cope with the workload, retain skills, and to maintain costs at an acceptable level as the Irish economy expanded in the ‘Celtic Tiger’ years. A decision was therefore made by Xerox Europe to outsource the activity to a multinational services provider. They concluded that an outsource strategy would give them access to best-of-breed capabilities, proven operational experience, and a more sustainable cost base for future years. IBM was selected as the provider following a competitive tendering process. A five year contract was initially negotiated covering call centre services and finance and accounting services. The workload of approximately 600 people was transitioned from Dublin to five IBM delivery centres in Bulgaria, India, The Philippines, Poland, and Scotland. The business-critical nature of these services and the depth of the relationship that this necessitated merit this being considered as a *Strategic* case, towards the mid-point of the spectrum between arms-length and intense relationships.

	Virgin Media (formerly NTL UK)	Xerox Europe	Southwest One
Criticality of tasks	Medium (provider of specific call centre services)	High (provider of certain critical call centre & financial services)	High (provider of a broad range of critical back office services)
Scope of tasks	Medium->High (initially limited to broadband support, scope increased later)	High (key services for most European operating units)	High (all back office services)
Initial duration	5 years	5 years	10 years
Primary client drivers	Cost, access to capability and scalability	Cost, access to capability	Cost, transformation agent
Nature of Client-Supplier relationship	Supplier of services	Long-term business partner	JV as an agent of change
Client involvement with Supplier	Transactional (monitored relationship)	Deep (managed relationship)	Intense (co-managed JV)
OVERALL CATEGORISATION	TACTICAL	STRATEGIC	TRANS-FORMATIONAL

Table 10: Case categorisation

Southwest One: In 2007, three local government authorities in the Somerset region of the UK developed a strategy to improve their operations by consolidating their individual back-office services into a single outsourced shared-services organisation. The organisations involved were Somerset County Council (the local authority for the region), Taunton Deane Borough Council (the council for largest town in the county), and Avon and Somerset Police (the police service covering Somerset and the Bristol area). The services functions that were consolidated were in the areas of Finance, Human Resources, Information Technology, Customer Care, Procurement, and Property Services. By sharing services they aimed to save cost that could be redirected into front-line services. A central objective of the strategy was also that by standardising back-office services, and introducing new technology, this would become a catalyst for the re-engineering of front-line services and therefore the transformation of their organisations as a whole. Following an extensive public

tendering process IBM was selected as the preferred provider. Negotiations between the parties concluded that the most effective delivery mechanism would be through a joint venture between the public authorities and IBM. A 10-year contract was signed covering workload for over 1,300 people. These employees of the authorities transferred to the JV organisation which was established as Southwest One (SWO) Ltd and managed by IBM. The nature of this relationship, and the strategic intent that it reflected, merits it being considered at the *Transformational* end of the relationship spectrum.

Table 10 summarises each of the three cases relative to the case selection criteria listed in Table 9. This shows where each of these cases can be broadly positioned across the spectrum of relationship depths (*Transactional*, *Strategic* and *Transformational*) identified in the literature (Kedia & Lahiri, 2007; Sanders et al., 2007). This is consistent with the decision to adopt *theoretical sampling* and ensures that the research benefits from considering polar types (Eisenhardt, 1989b; Eisenhardt & Graebner, 2007; Miles & Huberman, 1994). It is acknowledged that as the supplier in all three cases is IBM, this may be regarded as a potential limitation. However, any such limitation is offset by the benefits that this promises in terms of access to cases, and the promise of increased depth in informant input, based on their trust in the researcher and his ability to accurately interpret their inputs. Additional research challenges would be presented if theoretical sampling included multiple suppliers. This would increase the potential for reticence on the part of individual supplier informants, in case they divulged sensitive information which could be used to compare the strengths or weaknesses of their firm relative to those of competitors also contributing to this research. If multiple supplier organisations were researched this would also present an additional source of variance which would increase the complexity of cross-case analysis and present additional issues of manageability with this research project. Therefore, while the potential limitations associated with focusing on a single supplier must be recognised when considering the conclusions of this research, these are outweighed by the benefits of this approach. Significant contextual variance across the cases still exists, as is manifested by the different strategic intents of the client organisations, the nature of the services delivered, and the significantly different sectors within which these clients operate. This therefore remains consistent with the principles of theoretical sampling, by satisfying the

requirement outlined by Eisenhardt (1989b) to fill theoretical categories (i.e. *Transactional, Strategic and Transformational*), while complying with the recommendation of Miles and Huberman (1994) that cases should be selected purposively to ensure a high degree of variation (i.e. different strategic intents, different levels of complexity in services content, different industry sectors and cultures etc).

3.5.3. Negotiating Access

The first step in negotiating access for each case was to identify a senior sponsor on both the client and supplier sides of each case. It was concluded that that it would be preferable if the initial contacts were on the client sides of the relationships, on the assumption that a supplier is more likely to agree if the client had already sanctioned cooperation. Also, my knowledge of the common supplier organisation across all cases (i.e. IBM) suggested that if agreement for cooperation was sought to cover all targeted cases, this would require approval at a very senior level. Making such a request would raise a danger that a legal or internal audit perspective would be sought and this would increase the difficulty in securing approval. Therefore it was judged that there was a better chance of success if client approval could be secured first for each case, and then supplier involvement could be sought by approaching their corresponding contacts in the supplier organisation on a case-by-case basis.

Contacts with the client sponsor (referred to from herein as the ‘principal participant’) were initiated through email contacts or through social media (primarily LinkedIn). In these initial email contacts a meeting was requested. These discussions provided the opportunity to explain the background to the study, so that any reservations arising could be quickly sensed and addressed. If the principal participant responded generally positively to the request they were then asked to name other participants in their organisation who could provide input. In one case, although the principal participant said he wanted to be supportive he felt that he would need to get approval from senior executive management and from the company legal function before confirming this. A number of follow-up requests were required before he finally confirmed agreement 6 months later.

It was noted that it was easier to get individuals to agree on behalf of their organisations when they were made aware that other organisations were participating,

and they could therefore position their involvement in the context of a larger study. Once the involvement of the client organisation was confirmed, agreement from the supplier organisation was generally forthcoming from the corresponding senior account management representative. Individual participants from these organisations could then be identified and requests for interviews could be distributed.

3.5.4. Data gathering

The methodology requirements that are discussed earlier in this chapter emphasise the need to adopt an approach that would not constrain participants in describing the development of the relationship and the context within which this development took place. When considering how this requirement should be satisfied in the research methods, it was concluded that this should be achieved by encouraging a narrative style from participants. A challenge with the narrative style is that it can tend to solicit large volumes of data, much of which may not be relevant. Yin (1981) proposes that a solution to this is to avoid trying to record everything and to only record meaningful events. A further challenge that is highlighted by Wolfe and Jackson (1987) is that errors of recall can lead to rationalisation, self-promotion, simplification, reporting events as logical and sequential even if they were not, or simple errors of memory. My personal involvement in these cases would help to mitigate this risk to some extent as interviewees would be aware that I was in a position to validate some of their recollections. However, it was recognised that this personal involvement also introduced a risk of bias, both in data gathering and how the resulting data is analysed. Note that actions taken to mitigate this risk of bias are outlined later in this chapter (see section 3.7 on page 102).

To mitigate the specific risk of errors of recall by interviewees it was decided to develop an Event History Calendar (EHC) for each case (Sayles, Belli, & Serrano, 2010; Stafford, 2009). That is, by identifying major events that occurred over the timeline being studied these could be referenced to trigger the memories of interviewees and to provide some level of triangulation with their recollections. The initial versions of the EHCs were created from secondary sources. This was supplemented through discussion in early interviews with the principal participants. If interviews with subsequent participants highlighted other notable events, these were added to the EHCs to assist later interviews. The internal nature of these outsourcing

agreements, and the commercial sensitivities involved, meant that the volume of secondary sources available was limited. However some relevant company announcements and press reports were found which provided useful contextual background. Publically reported financial statements also provided insights into the client motivations for outsourcing when the agreements were established and as they progressed. In the Southwest One case, the transparency obligations of UK public sector agencies meant that some reports describing the outsourcing relationship were publically available. These included political statements, press reports, responses to Freedom-of-Information requests, minutes of council meetings, and publically-available audit reports.

The primary sources of input to be gathered were the interviewees who had been involved in these outsourcing relationship cases over the period being studied. The objective was to identify a number of interviewees for each case, to represent the client and supplier perspectives. As the minimum duration studied retrospectively would be 5 years, it was recognised that it would be difficult to identify individuals who had been involved for this full period. Therefore a number of inputs would be required to ensure that the full period was covered. Interviewees who were involved for overlapping periods were most desirable as these would also provide some validation of inputs by confirming consistency between informants who had been involved during the same periods.

Case	Client Interviews	Supplier Interviews	Total
Virgin Media	4	6	10
Xerox	6	5	11
Somerset	8	9	17
Total	18	20	38

Table 11: Interview numbers

Although a narrative style in the interviews was encouraged, it was important that these should address the major points of interest so that a balance between open-minded and overly-restrictive instrumentation could be achieved as recommended by Miles and Huberman (1994). Therefore a set of interview guidelines were prepared as an aid to ensuring that the required points were covered in the time allowed (see APPENDIX C: Interview Guidelines). Interviews were generally scheduled for 60

minutes and with the consent of the interviewees all were recorded. A summary of the numbers interviewed is presented in Table 11. Further details of their roles and levels of involvement in these cases are provided in the following chapters that describe each case. Face-to-face interviews were possible with 66% of the participants (25 of 38) and these took place in Dublin, Bristol, Taunton, and Belfast. For the remaining 34% it was necessary to carry out the interviews by telephone or Skype due to the dispersed geographic locations of informants in various parts of England and Scotland. Table 11 shows that a relatively even split of client and supplier informants was sought throughout the data gathering phase. In total these interviews lasted 37.6 hours, with the longest interview lasting 95 minutes and the shortest 30 minutes. The transcriptions of these interviews comprised over 172k words.

3.6. Data analysis

Each interview was transcribed verbatim from the voice recordings into separate documents. When all interviews were completed and transcribed, data analysis activities commenced. It was important that these analysis activities should embrace the narrative style of the data in order to take advantage of the richness of the inputs received. However, it was also important to recognise the challenges that Langley (1999) highlights when *sensemaking* from such data. That is, although the narrative style promotes accuracy it presents challenges of simplification and generalisation. A structured approach to this analysis was therefore required.

This analysis phase of the project followed the recommendations of Miles et al. (2014) by approaching this as three “concurrent flows of activity” (p.12): 1) *Data Condensation*, 2) *Data Display*, and 3) *Conclusion Drawing / Verification*. Although in this case these three stages were largely sequential, some iteration between stages was necessary when validating data analysis and conclusions. The steps that were followed in each of these stages are described in the remainder of this section. *Data Condensation* activities involved the following steps:

1. **Documentation of cases (*Chronology*)**: The data gathering phase required the capture of individual monologues from informants in order to ensure that the research process itself did not encourage informants to influence each other’s input. When outlining the alternative approaches to case descriptions, van der Blonk (2003) identifies *Chronology* as the most effective option when seeking to

reduce complex data derived from monologues. All interview transcriptions for each case were therefore reviewed and an overall chronology of the relationship progression was documented based on these combined inputs. These provided the basis for the chronological case descriptions provided in the following chapters describing the individual cases (Chapters 4, 5, and 6).

- 2. Primary Coding – Relationship Quality influences** (*Descriptive codes and Sub-codes*): The individual interview transcripts were then uploaded to a Qualitative Data Analysis tool (i.e. MaxQDA) where they were each analysed, and a primary level of data coding was completed. Miles et al. (2014) outline the many options that are available to researchers when coding qualitative data. They describe 15 alternative approaches (p.74-75). For this project it was decided to adopt *Descriptive* coding, combined with *Sub-coding*. *Descriptive* coding is recommended for ethnographic studies of social environments as it facilitates the identification of phenomena as described by informants. In this case it enabled the categorisation of comments made by informants when describing the influences on the client-supplier relationship at any particular point in time. For the first case that was analysed (Virgin Media) this was an iterative process, where the codes were refined through a number of reviews of the transcripts to consolidate the coding categories to a set that were found to be most prevalent and influential. The decision on creating new codes was done with sensitivity to the pitfall highlighted by Yin (1981) that there can be a tendency to create codes that are so small and numerous that they inhibit data analysis. Therefore codes were repeatedly reviewed and consolidated when required during this first phase of coding. This ultimately resulted in eight categories of relationship influence that were identified through this iterative process (Client Value, Supplier Value, Inter-organisational Alignment, Intra-organisational Alignment, Leadership Support, Relational Commitment, Trust, and Partnership Ethos).

To enhance the coding of informant comments under these categories *Sub-coding* was used to classify whether an informant comment indicated that what was being described had either a negative or positive impact on the relationship from their perspective. For example, the comment from one interviewee that “*there was just a general veneer of mistrust*” implies that at the point in time being described, trust (or the lack thereof) was having a negative impact on the relationship climate.

Therefore this comment was coded under the category *Trust*, with a *negative* sub-code. In contrast, the comment that “*we trust [supplier] with our business. We know [they] get results*” indicates that at this point trust was having a positive impact on the relationship. This comment was therefore coded under *Trust* with a *positive* sub-code. It was anticipated that this categorisation of the comments under the eight major codes, and in each case identifying whether the influence was positive or negative, would prove important when assessing how these factors influenced how the quality of the relationship evolved.

This level of coding was refined and completed for the Virgin Media case before the other cases were analysed using the same codes. For the subsequent cases no additional coding categories were found to be necessary during the analysis of the transcripts. However, given the inherently subjective nature of the coding process, in each case the transcripts were reviewed a number of times to validate the accuracy of the coding that had been completed and to make adjustments if appropriate to maintain completeness and consistency across cases. To apply additional discipline to this process some statistics were also generated to confirm that the level of coding applied across the transcripts was broadly consistent and as a further action to mitigate the risk of bias (e.g. by calculating and comparing the number of codes assigned per 1,000 words in the transcript, and per hour of interview time).

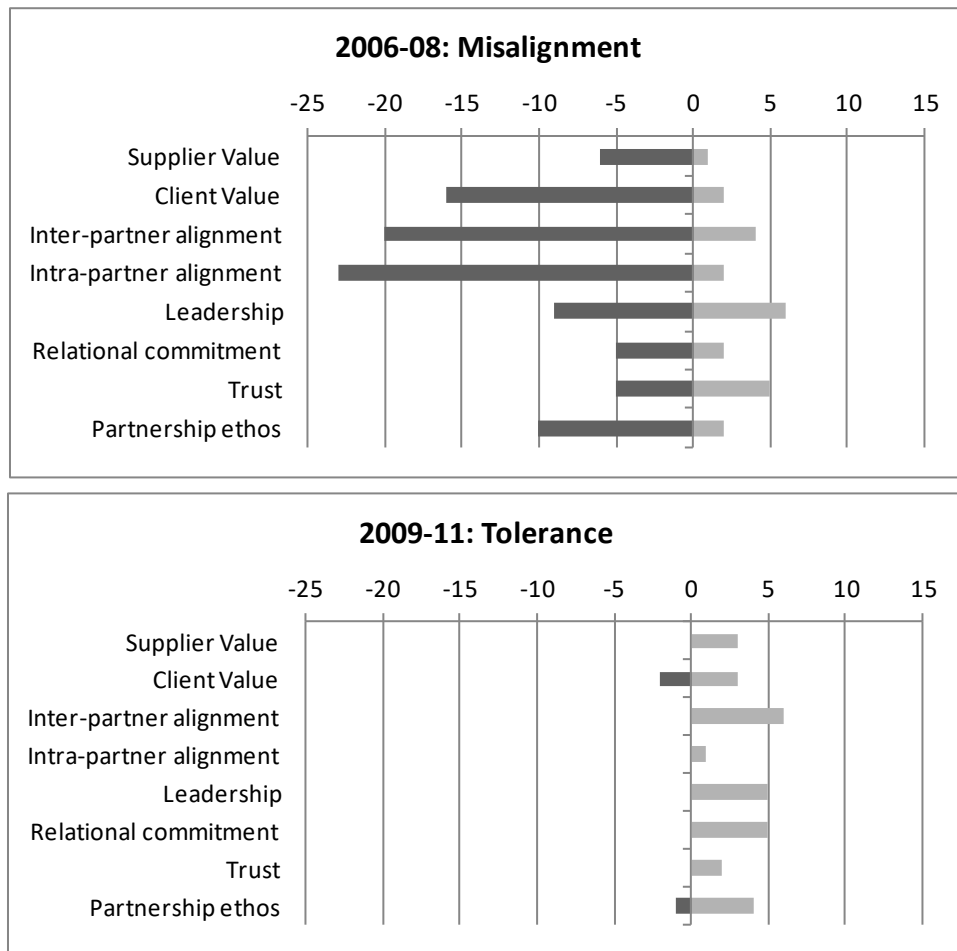


Figure 4: Illustration - Graphical representation of informant comments across two phases

- 3. Secondary coding – Relationship phases (*Simultaneous* codes):** An assessment of the case chronology, and the factors that influenced the climate of the relationship at any point in time, identified an initial finding that they each demonstrated noticeable changes in their quality over time. In all cases informants offered unsolicited opinions on the major events associated with this change. Based on these inputs high-level phases were identified for each case. A secondary level of coding was completed on each interview transcript to identify the phases being described at any point in the discussion. Miles et al. (2014) classify such an approach as *Simultaneous* coding where two or more codes are used concurrently within the same passage of descriptive data. For example, by simultaneously coding a comment about *Trust* to indicate the relationship phase being described, this would allow the volumes and nature of positive and negative comments about *Trust* in one phase to be compared to another. It was anticipated that this would prove important to the analysis of how the eight relationship factors are manifested

in different phases across each of the three cases. This aspect of the data analysis may be regarded as a form of *temporal bracketing*. Langley (2010, p. 919) describes this as a useful tool in qualitative data analysis, as “the temporal decomposition of data into time periods enables analysis of how the actions of one period lead to changes in the context that will affect action in subsequent periods.”

Miles and Huberman (1994) and Miles et al. (2014) emphasise the value that the researcher can derive by developing graphical displays of data in order to assist analysis. Therefore the following steps were followed as part of the *Data Display* stage:

4. **Within-case analysis – Influences on phases:** For each case, the phases identified were then documented in some detail. This documentation involved an analysis of the relationship factors that were apparent during that phase. This was completed using the functionality of the MaxQDA tool to identify the informant comments that highlighted the positive or negative impact of each factor during each phase. In this way an overall perspective could be derived on how these factors combined to characterise the relationship quality during any particular phase. To illustrate this point, Figure 4 reproduces the graphical representation of volumes of comments that were made relating to two phases of the Virgin Media case. The first graph shows high volumes of negative comments (indicated as negative numbers) in each coding category. This can be interpreted as meaning that the relationship climate was very negative during this phase. The second graph shows a more positive picture as shown by the relative number of positive comments under each category. Representations such as these confirmed that these were identifiable phases and facilitated an assessment of the quality of each phase as part of this within-case analysis. This enabled some initial conclusions to be drawn on how these phases manifest themselves.

It is important to emphasise that although these graphical representations show the numbers of positive and negative comments per category, they should not be interpreted as quantitative data. The numbers of comments are influenced by the numbers of informants who were involved during each phase and their varying abilities to recall and describe how the relationship progressed. These graphical representations of the numbers of comments provide a useful visual description of

how the relationship was generally perceived during each phase, but they cannot be regarded as a source of robust quantitative data.

The approach taken to cross-case analysis is described in detail in Chapter 7 and Chapter 8. However, its four major steps warrant some higher-level introduction here.

5. **Cross-case analysis – Dynamics within phases:** As an initial step aimed at identifying similarities and patterns across cases, an analysis was completed of the dependencies between the eight variables that were found to characterise a relationship phase. This analysis considered each of these factors as an independent variable. This required a detailed assessment of the informant comments that described the existence of this factor, identifying any of the other variables on which it was dependent. For example, if an informant comment indicated that there was trust in the relationship because the relationship leaders demonstrated commitment to the arrangement, it was concluded that the independent variable *Trust* is dependent on *Leadership Support*. The tools used to assist this analysis was adaptations of the *Exploratory Effects Matrix* proposed by Miles and Huberman (1994) and Miles et al. (2014). These dependencies were then integrated into a *Causal Network Display* as proposed by the same authors. Following their recommendation, this project did not develop an initial version of this network and then go back and test it in later phases. This complied with their advice to researchers to “save full causal network drawing and analysis for later in the project, making it perhaps the last analytic exercise.” (Miles et al., 2014, p.238)
6. **Cross-case analysis – Dynamics between phases:** This step involved an analysis of all of the phases that were identified across all cases. Particular attention was given to the transition points between any phase and the next. An adaptation of the *Time-Ordered Meta-Matrix* (Miles & Huberman, 1994) facilitated this analysis and enabled the identification of common factors across the three cases that were found to be triggers for migration from one phase to the next.
7. **Cross-case analysis – Reflections on linkages between value and relationship progression:** As investigations into any links between value and relationship

progression are a key focus of this research project, this step in the cross-case analysis reflects on findings in relation to value. It develops propositions about what constitutes value, how it is assessed, when it is assessed, and by whom. These propositions complement the outputs from the analysis of dynamics within and between phases, and together contribute to the development of a theoretical framework of relationship progression in the subsequent step.

When all of the above steps had been followed for all cases the *Conclusion Drawing / Verification* stage was then completed as follows:

8. **Cross-case analysis – Patterns of phases:** A final step in the analysis of the data involved an assessment of broad patterns that were apparent in how each case progressed through a sequence of phases. The in-depth analysis of each case that preceded this final step ensured that it was completed with extreme sensitivity to the uniqueness of each case and the varying contexts in which they operated. Nevertheless, some clear patterns were noted between cases. The depth of understanding that had been developed through each of the previous steps into the dynamics within and between phases confirmed the plausibility of these patterns. A theoretical framework was developed as part of this step to describe and explain the patterns that were observed.

3.7. Maintaining data integrity and minimising bias

My historical involvement in these cases brought advantages in terms of access, interpretation, and efficient use of interviewee time. However, it also raised the risk of bias being subconsciously introduced to the research process. A further risk was that it may influence the interviewees in some way. Therefore, it was important throughout the research process that I remained sensitive to these risks. To some extent these risks must be regarded as unavoidable realities that need to be recognised as limitations to this kind of research. As summarised by van de Ven and Huber (1990, p.216), “If you are sensed by a social system, then you are part of it. If you are part of it, you affect it. If you affect it, you cannot observe the system in its natural state and can report only the processes of a disturbed system.” While recognising this limitation, some specific mediation was also incorporated into the research design to minimise the impact.

Firstly, the narrative style that was encouraged provided interviewees with the opportunity to discuss whatever they felt was important to the topic, albeit that some general direction was provided in the interviews through the instruments reproduced in Appendices C and D. As a specific tactic, Weller and Romney (1988) recommend the adoption of the *free-listing* technique whereby open questions are asked (e.g. “list all of the factors that influenced x”), rather than asking questions that may prescribe a particular response (e.g. “to what extent was x a factor?.”) This tactic was adopted during the interviews when the interviewee’s narrative had stalled or was veering off-track. As well as being important to the integrity of the narrative method, these actions mitigated the introduction of bias because they required limited contribution to the dialogue from the interviewer and they promoted freedom of expression from the interviewee.

It was also important that the project should take a position on the risk of interviewee bias. From one perspective the focus is on perceptions, so whatever viewpoint the interviewee chooses to impart should be regarded as valid. However, where these viewpoints represent inaccurate recollections or are driven by some current agenda, they could distort the generalisation of the research findings. The main mitigation against this risk was the triangulation that was achieved by comparing interviewee responses to those of actors who were involved for an overlapping period. Secondary data when available also assisted data validation. During the data collection phase, if highly contrasting and unexplained variances were noted, access to additional interviewees was sought in order to improve the triangulation of findings. Where a consensus emerged from the interviewees it could be concluded that a sufficient number of inputs had been received. If there was no consensus or where there was conflicting input, either additional interviewees were sought, or the data in question was excluded from the analysis.

The data collection approach also took account of the recommendations of Huber and Power (1985) on how to improve informant accuracy by using multiple informants or choosing the most qualified informants. They state that if this is not possible the researcher should recognise the emotional involvement of the informants, and consider how any questions are framed. However, in general in this research there was a high degree of consensus between informants, irrespective of whether they represented client or supplier perspectives. Although perceptions varied in some

instances, the recollections of participants on the sequences of events were found to be generally highly consistent.

To minimise the risk of introducing my own bias in interpreting data from interviews a number of disciplines were incorporated into the data gathering and analysis processes. Firstly all recorded interviews were transcribed verbatim. These were typed into Word documents by me, which had the effect of requiring me to listen carefully to what was being said and to mediate against inaccurate interpretation. Formal coding of the inputs in MaxQDA also ensured discipline in collating the data and identifying common themes. During the coding process, codes were applied directly to the verbatim interview transcripts and not to summaries or interpretations. This avoided the introduction of additional bias. Statistics on the level of coding relative to the length of each interview were maintained as an additional check that coding was implemented consistently and that all input was valued equally. In the chapters that follow there is a significant emphasis on presenting the informant comments verbatim as an additional action to avoid misinterpretation of the input and to provide readers with direct evidence to support the conclusions that are proposed.

3.8. Summary

This chapter described the research paradigm that influenced this project and explained how this was supported in the selection of appropriate methodologies and methods. The instruments that were developed to support these methods are provided in related appendices (C & D). The links between the paradigm, the research model, and the selected methods are also illustrated (Figure 3 on page 79) and described.

The research paradigm and its underlying philosophy promote an inductive approach that encourages informants to give input on the factors that they felt to be most important to the progression of the relationship in a relatively free-flowing manner. This exacerbates the challenge that is typical of qualitative research methods in producing large volumes of unstructured data. The analysis methods that are described in this chapter are designed to overcome these challenges while maintaining the valuable contextual richness of the input that was provided by participants. This is achieved by treating their comments as the primary source of input, and remaining sensitive throughout to the nuances reflected in the language used. Marshall and Rossman (2011) argue that a well-formulated qualitative research approach can

deliver contributions such as the elicitation of tacit knowledge and subjective understandings and interpretations. It can also delve in depth into complex processes by exploring little known phenomena and unstructured organisational linkages for which relevant variables have not yet been identified. These objectives resonate strongly with the topic and question that are under investigation here. The chapters that follow describe how these objectives were addressed, and specifically the findings that resulted from pursuing the research approach that was outlined in this chapter.

4. Case 1: Virgin Media UK

The call centre outsourcing contract between Virgin Media UK Ltd and IBM UK Ltd is the first of the three cases that were investigated in this research project. Virgin Media UK was formed in 2006 following the merger of NTL Ltd and Telewest Ltd. Prior to the merger these companies were the two largest UK providers of telephone, television, and broadband services delivered through the medium of cable into homes and businesses. NTL and Telewest were not direct competitors as they operated in different regions of the UK. However, both competed with satellite providers (e.g. British Sky Broadcasting), specialist telephone landline and broadband providers (e.g. British Telecom), and the dwindling free-to-air services that could be accessed using rooftop or TV set-top aerials.

Two years prior to the merger with Telewest, NTL signed a five-year call centre outsourcing contract with IBM UK. This contract was for the provision of support to customers who telephoned NTL's helpline seeking technical assistance in getting their broadband service operational, or in resolving subsequent problems with email or other internet-based services. This case covers the period from when this original contract was signed in 2004, through its expansion to include the provision of additional services for the increased number of customers following the merger with Telewest in 2006, and the subsequent re-negotiation of this agreement to meet the new requirements of the merged organisation. The merged firm was re-launched in 2007 as Virgin Media UK Ltd under a licensing agreement with the Virgin Group. At the time of writing this dissertation, the legacy of this original agreement in 2004 continues to operate. However, in the intervening 12 years the way in which the outsourced services are provided has changed significantly, and IBM subsequently sold the operating division that provides these services to a third party (Concentrix Ltd).

The chapter begins by describing the environment in which NTL operated at the time of the initial contract agreement. This contextual background is derived from secondary sources such as newspaper articles, trade web sites, and technical journal articles. This information was verified and expanded upon where required in the interviews that comprised the major part of this research. This provides important insights into the motivations that encouraged NTL to enter this agreement. The informants who were interviewed from both the client and supplier organisations are

then summarised by listing their roles and the duration of their involvement in the outsourcing relationship. These interviews provided the input to the chronological summary of how the outsourcing relationship developed, as described in the next part of the chapter. This chronology of events is then classified into the major phases through which the relationship progressed, where each phase is characterised by a different RQ and climate of cooperation between the parties. The chapter ends with an initial analysis of the data drawn from these interviews in relation to the thesis topic and question.

4.1. Background to the outsourcing agreement

In 1983 the UK Government established the Cable Authority to oversee the awarding of regional franchises for the delivery of cable-based television services to UK households (Fox, 1990). This move was a response to the on-going growth of cable TV as new channels continued to emerge and consumers demanded a wider choice of programming and a higher-quality TV reception than could be received through traditional aerial-based TV receivers. Throughout the 1980s and early 1990s, customer appetite for new sports, news, and film channels continued to grow. In response with this, satellite and cable competed as the two most popular delivery systems for these channels.

In the late-1990s and early-2000s, National Transcommunications Ltd (NTL) grew its business to become the largest cable company in the UK. The company went through a period of rapid growth and consolidation as it acquired many regional franchises, particularly in the southern half of the UK. In 1999, NTL acquired the UK Cable Business Unit from Cable and Wireless (DigitalSpy, 2015), making it the largest company in this sector. As well as delivering TV services, investments in fibre-optic cable infrastructure put NTL in a position where it could also offer telephone and broadband services, further adding to the attractiveness of its offerings and its ability to acquire new customers. However, this range of offerings also added to the complexity of delivering services to customers. This was further complicated by the fact that the franchises that were acquired tended to deliver services using different technical platforms and billing systems. These proved extremely difficult to integrate within a single firm.

The cost of acquiring the franchises, managing their incompatible processes, and investing to continue to deploy fibre-optic infrastructure in order to remain competitive with satellite operators, placed a huge financial burden on the company. In 2002 this caused NTL to default on its commitments to bondholders and to file for Chapter 11 bankruptcy protection in the US (Vaughan-Adams, 2002). A rescue package was announced under which bondholders swapped their \$10.6b in debt for a controlling stake in the company. They also committed to inject a further \$500m in NTL UK, and signalled plans to divest of units in Ireland and the rest of Europe to raise more cash. Existing bank debt of over £5b remained in the business.

Against this backdrop, IBM UK undertook a campaign from 2002 onwards to convince NTL to select IBM as an outsourcing partner for the delivery of some or all of its call centres requirements. IBM promised that this would lead to service improvements and significant financial savings. IBM already provided ITO services to NTL under an existing outsourcing agreement. They targeted the outsourcing of the NTL call centres as a significant opportunity which would provide a boost to IBM's recently-announced move into the BPO market. The call centre functions that were targeted as outsourcing prospects included technical support groups for TV, telephone, and broadband, and those handling customer enquiries relating to billing and service upgrades across all services. NTL actively engaged with IBM at a senior management level, although the Board was not immediately supportive of outsourcing. They opted to first go through a process of consolidating the widely-dispersed call centre operations that were inherited from acquired franchises, into a fewer number of national call centres in Swansea, Manchester, Glasgow, and Newcastle. Having gone through this initial call centre consolidation, in 2004 the NTL Board then gave approval to their Managing Director of Customer Services to negotiate with IBM with a view to reducing costs by creating an outsourced dimension to their call centre infrastructure.

4.2. Scope of the outsourcing agreement

The initial function chosen for outsourcing was that which provided technical support to broadband customers. This was referred to within the company as the Technical Support Bureau (TSB). This service was delivered by 450 NTL employees who operated from a purpose-built call centre facility in Swansea, Wales. Under the

five-year agreement signed in June 2004, these 450 NTL TSB employees were transferred to IBM who then assumed responsibility for the management of the broadband technical support helpline service. NTL remained responsible for the provision of the physical call centre facility in Swansea, and for all of the telephone and IT systems infrastructure that was used in the delivery of the service. They also retained responsibility for providing estimates of the volumes of customer calls that were expected to be received each month, through a rolling 3-month forecast that would allow IBM to plan resource requirements accordingly. Under this outsourcing contract IBM charged NTL a rate per minute for every minute spent on the phone by call centre agents when providing support to NTL's broadband customers. The contract permitted IBM to transition up to 70% of this workload to facilities in India. There was no provision in the agreement for making UK staff redundant as work was transferred offshore. IBM's plan was to avoid hiring replacements for Swansea staff as they resigned from the organisation. Given the historically high attrition rates, their estimate was that this level of workload transfer to India could happen over a period of 18 months.

This transition of work to a much lower-cost location enabled IBM to offer significant savings to NTL, while projecting an acceptable level of profit from the contract over the five-year term. Given the significant financial pressures on NTL at the time following their exit from US Chapter 11 protection, they negotiated a pricing structure that offered very low rates in the initial years of the contract. This ensured immediate savings when compared to their running costs for the Swansea centre prior to outsourcing. IBM was able to offer these up-front savings because they accepted that their fledgling BPO business could initially be loss-making, and this was financially manageable in the context of their wider portfolio of businesses. Accounting rules also allowed them to amortise their initial investments in the service over the five-year term of the deal, thus softening the impact on profit and loss accounts in the early years of the contract.

IBM planned to deliver the offshore element of the services using a subsidiary in India that had been acquired in April 2004 as a vehicle for providing low-cost call centre services to the new BPO business unit (Ribeiro, 2004). This previously independent organisation (Daksh eServices Pvt Ltd) had limited experience in working with UK customers. However, its track record in managing large transitions

of workload from US firms gave IBM UK management confidence that it could handle the aggressive build-up of staff that would be required in order to grow the offshore element to 70% of the total staffing within the planned 18 month timeframe.

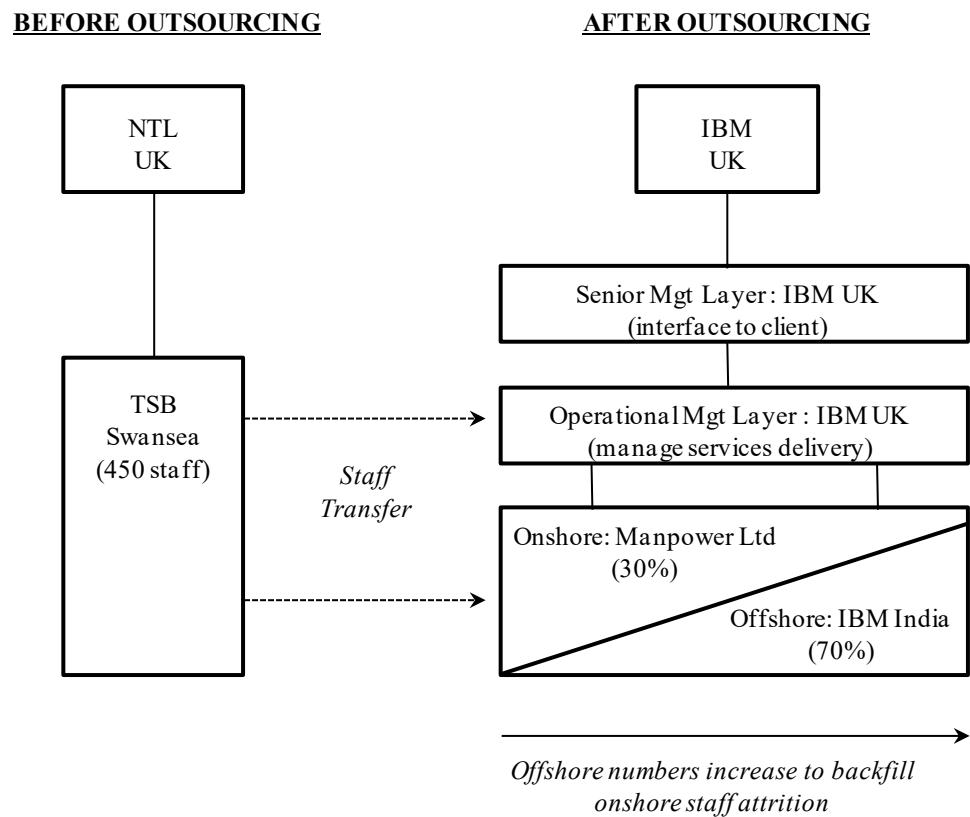


Figure 5: Staff Transfer from NTL to IBM and Manpower Ltd

The remaining 30% of the call volume that was to be handled onshore would be serviced by the former NTL staff who continued to operate from the Swansea call centre. Although these UK-based employees transferred out of NTL as part of the contract, IBM did not want to absorb them into IBM UK as permanent staff-members. This would contravene corporate headcount guidelines which were designed to re-balance employees across the globe by reducing employee numbers in expensive countries such as the UK. It was also felt that the majority of these call centre workers did not have a profile that matched IBM's desired skill-sets and terms and conditions of employment. To solve this issue, only the management layer - comprising managers, team leaders and support staff - were transferred as permanent IBM employees. The call centre agents – representing over 90% of the headcount who

were moved from NTL - were transferred to a third party provider (Manpower Ltd), who acted as their employer, in return for a management fee paid by IBM. An Account Management Team in IBM UK interfaced to the client and coordinated the operational delivery of the service across the onshore and offshore groups by liaising with Manpower and the IBM India subsidiary (formerly Daksh Pvt Ltd). Figure 5 provides a graphical description of the staffing structure that IBM implemented for the NTL contract.

4.3. Informants

Before listing the informants from both the client and supplier organisations who provided input to this research project, it is important to first explain the major roles involved in the outsourcing relationship from both sides. Figure 6 provides a simplified graphical description of the organisational structure and roles. It also shows how the levels of management in the respective organisations broadly related to each other.

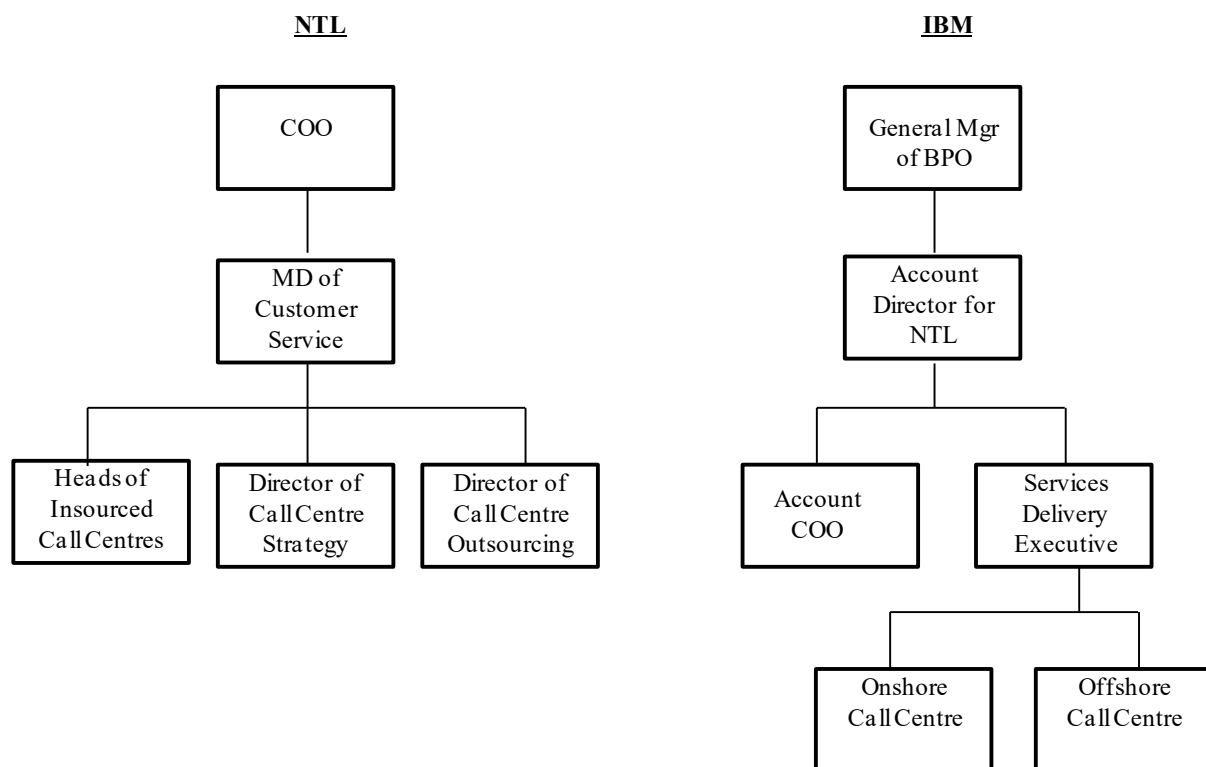


Figure 6: Organisational roles in Virgin Media and IBM UK

In NTL (and subsequently in Virgin Media), the Managing Director of Customer Services reported to the company Chief Operations Officer (COO) and had

overall responsibility for the customer service strategy of the organisation, and for the channels through which support was provided to customers (primarily call centres and web pages). When outsourcing was first being considered, the NTL Director of Call Centre Strategy played an important role in determining the functions to be outsourced, in leading the commercial negotiations, and in overseeing the implementation of the strategy in the initial years. This role was discontinued when the company was rebranded as Virgin Media. The Director of Call Centre Outsourcing had day-to-day responsibility for ensuring that the outsourced service delivered to requirements. This included the provision of direction and workload forecasts to the supplier, and negotiating additional workload when required.

The IBM organisational approach to managing outsourcing was to appoint an Account Director who had overall responsibility for the contract and acted as the primary liaison point with the client to satisfy their requirements and negotiate changes. This individual also had overall responsibility within IBM for the profitability of the contract. The Account COO reported to the Account Director and was responsible for financial planning, business controls, and for processing requests from the client for additional workload or contract changes. The Services Delivery Executive managed the day-to-day operations and ensured that the services were delivered to standards that met contractual obligations. Note that IBM operated to a matrix organisational structure, so each of these individuals also had reporting lines into executives who held responsibility for such functions across a portfolio of accounts. For example, the Services Delivery Executive also reported to a Vice-President of Call Centre Services Delivery who was responsible for ensuring best practices and consistency globally across all customers who had outsourced call centre services to IBM.

Table 12 below lists the informants interviewed during the investigation into this case. These 10 interviews lasted a total of 9 hours and 40 minutes and the transcriptions of the interviews totalled over 42,000 words. For both the client and supplier organisations the informants each held senior roles in their respective organisations and held specific responsibilities in relation to this outsourcing agreement. The shaded cells indicate the years during which the individual was assigned to this contract. For Virgin Media, the list includes the NTL Director of Call Centre Strategy who was instrumental in negotiating the original outsourcing contract

Category	Organisation	Current or Former employee	Role(s) during period being studied	Interview location	Years of involvement											
					'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15
Researcher	IBM	Former	Account Director		■	■	■									
Client	NTL/Virgin Media	Former	Director of Call Centre Strategy	Phone	■	■	■									
	Telewest/Virgin Media	Former	Managing Director of Customer Service	Phone												
	NTL/Virgin Media	Former	Director of Call Centre Outsourcing	Phone	■	■	■	■	■	■	■	■	■	■	■	■
	Virgin Media	Former	Director of Call Centre Outsourcing	Phone								■	■	■	■	
Supplier	IBM	Current	Account COO / Account Director	Belfast	■	■	■				■	■	■	■	■	
	IBM/Concentrix	Current	Delivery Exec / Account Dir. / Head of Delivery	Phone				■	■	■	■	■	■	■	■	■
	IBM	Former	Account Director	Phone												
	IBM/Concentrix	Current	Account Director	Phone									■	■	■	■
	IBM	Current	Delivery Executive	Phone	■	■	■	■	■	■	■	■	■	■	■	■
	IBM	Former	Account Chief Operations Officer	Belfast												

Table 12: Informants for the Virgin Media Case

with IBM. This executive had responsibility for leading the initial stages of the outsourcing agreement from the client’s perspective, and remained involved through the merger with Telewest and the re-branding of the company as Virgin Media. The holder of the role of Managing Director of Customer Services following the merger was also interviewed. This individual had previously held that role for Telewest, and therefore had not been party to the outsourcing agreement with IBM. Two executives who held the role of Director of Call Centre Outsourcing also provided significant input to this research. These individuals had responsibility for the commercial management of the agreement with IBM, and subsequently with other service providers. They therefore had deep insights into the operation of the relationship and the extent to which this met their organisational objectives.

From the supplier perspective the list includes a number of individuals who held the role of Account Director at various points during the lifetime of the contract. These individuals had overall responsibility for liaising with the client at a senior level and directing operations so that these met the client’s needs while also achieving IBM’s commercial objectives for the contract. Note that this researcher held this role for the initial three years of the contract. Some of the subsequent holders of this role also held previous roles on the account. One was the Account COO before taking a role on a different contract and later returning as the Account Director. Another was the Services Delivery Executive before being promoted to the Account Director Role and subsequently having a Vice President level role in IBM with responsibility for call centre services delivery across all clients. Therefore these individuals were able to provide excellent insights based on their different levels of involvement with this client over many years, and the multiple perspectives that this provided.

The following section provides a chronological description of how this outsourcing agreement progressed. This description is presented as a blend of the input from all of these interviews in order to allow the story to be recounted in a seamless manner. To respect confidentiality commitments that were made when informants were invited to participate, specific points of input are not associated with individual informants.

4.4. Chronology of the Relationship

The call centre outsourcing contract between NTL and IBM was signed in June 2004. Therefore, in the interviews that took place in 2015 informants were asked to recall events that happened throughout the previous 11 years. Clearly this raised the challenge of ensuring the accuracy of this recall. To assist in resolving this challenge, for this case and for the others included in this research project, Event History Calendars (EHC) were created as recommended by Stafford (2009), and Sayles et al. (2010). An EHC is a tool for facilitating the recall of historical information by providing a list of key events over the period that will help to trigger memories and anchor recollections within the prevailing historical context.

For the Virgin Media case, an outline EHC was created prior to the first interview based on publically available information. This was supplemented in the early interviews by noting additional significant events that would facilitate recollection by subsequent informants. The EHC was typically referenced at the start of the interviews in order to remind informants of the context, or during the interviews if the interviewees appeared to require a reminder of a sequence of events to assist their personal recollections. The EHC for the Virgin Media case is reproduced in Table 13 below. The remainder of this section is a synopsis of the inputs received from informants on the client and supplier sides of the relationship, and provides a broader description of how the relationship developed against the backdrop of these events.

Date	Event
June 2004	NTL UK signs contract with IBM for broadband technical support services
Sept 2004	IBM begins service provision using Swansea call centre transferred from NTL and off-shore IBM centre in Delhi, India.
Oct 2005	Merger of NTL and Telewest announced. http://www.theguardian.com/media/2005/oct/03/broadcasting.citynews
Mar 2006	Merger of NTL and Telewest finalised.
Mar 2006	Extended IBM contract signed. Covering expanded scope for former NTL and Telewest organisations. The deal is publicly announced in May 2006. http://www.computerweekly.com/news/2240077284/NTL-axes-4500-staff-outsourced-call-centres-to-IBM
July 2006	Extended IBM contract becomes effective. Services delivered from former client sites in Swansea & Liverpool, and IBM offshore centres in Pune & Delhi, India.
Feb 2007	Merged NTL:Telewest organisation rebranded as Virgin Media. http://news.bbc.co.uk/2/hi/business/6343341.stm
Late 2007	Decision by Virgin Media to award some incremental outsourced call centre work to Accenture, meaning IBM was no longer the exclusive partner for outsourced/offshore work.
Oct 2011	Decision by Virgin Media to take back the Swansea call centre from IBM and to close the Liverpool centre. IBM retains offshore workload delivered from India.
June 2013	Liberty Global acquires Virgin Media UK
Mid-2014	Virgin Media contracts with IBM for additional offshore call centre work to be delivered from Manila.

Table 13: Virgin Media Event History Calendar

2004: On June 30th 2004, NTL and IBM signed a five-year contract to cover the provision of call centre services to customers of NTL's broadband service who required technical support. Under the agreement, the existing NTL Technical Support Bureau (TSB) staff transferred to IBM and their subcontractor Manpower on September 1st, 2004. The initial handling of NTL calls from IBM's newly acquired Delhi call centre also commenced on that date. NTL management were motivated by the cost savings that this deal promised, but also by the expectation that IBM would provide a more stable operational service. They hoped that this would reduce the significant volume of complaints being received from customers who could not get

through to the broadband helpline due to resource budget constraints in their Swansea call centre. As an illustration of these resource challenges, in the months leading up to the signing of the contract it was not uncommon for there to be long queues and for over 10% of calls to go unanswered as the limited numbers of staff served other customers. IBM regarded the signing of the contract as a significant impetus to their emerging BPO business. There was speculation in the media (White, 2004) that a merger between NTL and Telewest was imminent, as both were controlled by the same New York based investors (Huff Asset Management and Fidelity Investments). Therefore IBM executives were attracted by the opportunity to gain a foothold in NTL, by using the TSB contract as an entry-point through which they could win additional call centre outsourcing business in the wider NTL organisation. There was also the prospect of even further growth for the relationship if a merger with Telewest was confirmed.

Throughout July and August 2004 the Account Management Team that was appointed by IBM went through a very busy period as they prepared for the operational commencement of the service on September 1st. This involved communication with Swansea staff, finalising negotiations with Manpower, agreeing recruitment and training processes with India, and planning the technical infrastructure that was required in order to allow NTL telephone calls to be handled offshore. From March 2004, when the signing of the contract was growing imminent, NTL stopped hiring replacements for staff attrition in Swansea. From that time call volumes also continued to rise. By August, queuing times increased to a level where on a daily basis, almost 30% of customers grew tired of waiting and hung-up before their calls were answered. Although some additional capacity was provided from India when service responsibility transferred to IBM, operational performance did not significantly improve in the short-term. Problems were compounded by technical issues with the NTL cable network at the time, leading to even more incoming calls as frustrated customers sought to have their technical issues resolved. In October 2004 the volume of unanswered calls peaked at 35%. Over the remainder of the first year of operation IBM continually increased capacity in India to address this demand.

2005: By April 2005 the operational requirements appeared to be under control and for the following three months only 5% of calls went unanswered. However, further increases in customer demand, coupled with some planning failures,

caused this to increase to 10% by September 2005. Therefore although the severity of the situation had reduced it was not yet considered by the client or the supplier to be fully stable after one year of operation. NTL management who were most closely involved with the relationship were generally satisfied with how IBM had coped with the challenging first 12 months after the outsource arrangement became operational. They recognised that IBM's difficulties had been compounded by other issues with the cable network which had increased the volumes of incoming customer calls. Even though the numbers of calls being answered had increased, the cost per call answered had reduced under the pricing structure reflected in the contract with IBM. Therefore NTL management were satisfied that attractive cost savings were being realised. Nevertheless, NTL executives who were working most closely with IBM had to deal with a lot of internal pressure from senior management and other internal stakeholders who were frustrated that the service was not yet considered to be operationally stable.

Although the percentage of customer calls that went unanswered significantly decreased, customer reaction to being serviced by the increasing numbers of Indian call centre staff was mixed. Although the new staff in India went through extensive training they had not yet acquired all of the technical skills to resolve problems as quickly as their experienced Swansea counterparts. Also, there were particular communication problems between India staff and customers who had strong UK regional accents (e.g. Scotland, Northern Ireland).

IBM management worked hard to maintain a good relationship with all levels of NTL management during this difficult first year. Overall, IBM was pleased with the transition of service. In September 2005 over 320,000 calls were answered, compared to 220,000 in September 2004. As IBM charged for every minute spent by their staff supporting customers this meant that the revenue received from the NTL contract was significantly higher than had been planned. Hiring in India had been accelerated to cope with the increases in demand. By September 2005 over 65% of calls were already being handled offshore, meaning that IBM's average cost for handling each call was significantly lower than planned for that point in the transition. As a result, profitability levels for the contract were very encouraging for IBM.

When the intention to merge NTL and Telewest was finally confirmed in October 2005, IBM executive management and their sales team redoubled their efforts

to build on the early success of the TSB contract and to convince NTL management of the benefits of expanding the contract to cover the merged entity. As NTL was the larger of the two organisations, it was assumed that when the merger was finalised it would be executed as a takeover by NTL of Telewest, and that the key leadership roles would be filled by NTL executives. Historically Telewest had resisted outsourcing, and the small amount that they did commission was placed with competitors of IBM who delivered services from UK-based call centres. As IBM did not have any existing connections with Telewest, their executives planned to take advantage of their close relationships with NTL counterparts to agree an expanded contract to support the merged entity.

Executives in Telewest had a different perspective on how support to customers of the merged entity should be provided. They were proud of their reputation in the marketplace for providing good quality customer service at an acceptable level of cost. They saw this as a significant differentiator compared to NTL, who they regarded as a low-cost provider who traditionally delivered a very poor standard of customer service. They viewed the outsource contract between NTL and IBM as an abdication of customer service responsibilities by NTL in return for cost savings. At a senior level, Telewest executives were also aware of the confidential longer-term plan for the merged entity to be re-branded as a Virgin company. Under this plan the merged entity would acquire the Virgin Mobile telephone business and commit to a licensing agreement which would allow it to trade under the Virgin brand name. In doing so, the company planned to position itself uniquely in the market by offering four services as a so-called “quad-play” – digital TV, landline telephone, broadband, and mobile phone services. Telewest executives believed that the customer service strategy for this new company should be based on a more thoughtful mix of insourcing and outsourcing, which would achieve an appropriate balance of cost and quality by using onshore and offshore capabilities more selectively for different types of customer service functions. NTL management accepted that Telewest provided better customer service, but they attributed this to the fact that Telewest was formed by integrating fewer regional franchises. They argued that NTL was three times bigger than Telewest and therefore faced the challenges of managing a significantly more complex and less stable network. They believed that it was important to use a single large supplier such as IBM for their call centre needs to

help in addressing this complexity, especially with the added complications associated with the merger.

2006: The merger of the two organisations was finalised as planned in March 2006. The re-branding of the company was still being confidentially negotiated with the Virgin Group and in the interim it was announced that the merged entity would operate under the name NTL:Telewest. Contrary to what was hoped for by Telewest management, IBM's campaign at the Board-level to be appointed as the provider of additional outsourced call centre services was successful. Concurrent with the finalisation of the merger in March 2006, the NTL:Telewest Board approved a new five-year contract to replace the original agreement signed in 2004. Under this larger contract IBM would provide significantly expanded call centre services for the merged entity. These included technical support to Telewest broadband customers (the equivalent to the already-outsourced NTL TSB), as well as technical support and billing enquiry support to digital TV and landline telephone customers for both sets of customers. This represented a six-fold increase in the size of the contract, with staff numbers in IBM directly supporting NTL:Telewest expected to be in the region of 3,000 people, and annual revenue from the contract planned to exceed £60m. As a result of this extension IBM now assumed responsibility for the former Telewest call centre in Liverpool, and also for the remainder of the NTL Swansea centre that had not been outsourced in the previous agreement. This signalled a plan to reduce staff numbers in Liverpool and Swansea. IBM planned to replace this capacity by establishing a second offshore location in Pune, India, to complement the existing centre in Delhi.

One unexpected outcome for IBM was that the Telewest incumbent was appointed as the MD of Customer Services for NTL:Telewest. A number of the informants highlighted that this represented a misalignment between the financial objectives that were important to the Board members when they sanctioned the expanded contract with IBM, and the customer service orientation that was championed by the new MD of Customer Services and the managers who reported to him. This led to a period of significant tension in the relationship between the client and supplier organisations leading up to and following the transfer of these additional call centre management functions to IBM in July 2006.

Operationally, the IBM Account Team was under pressure to maintain the profitability that the corporation had come to expect from this contract, while implementing a second major transition of services to India. They were conscious that revised financial targets would now be more difficult to achieve as some major cost concessions had been made to the client in order to quickly negotiate the expanded contract in time for the finalisation of the merger. The expanded scale of the contract increased its importance to IBM UK and the IBM Corporation as a whole, and meant that it attracted significant additional attention. The transfer of services management from the client was further complicated in this case by the number of call centres involved and the range of service functions being outsourced.

2007: The re-branding of NTL:Telewest as Virgin Media was confirmed in February 2007 in a high-profile promotion by Sir Richard Branson at Covent Garden, London. This followed the negotiation of a licensing agreement that allowed the organisation to trade under the Virgin brand. In return, the Virgin Group became the largest shareholder in the company. The MD of Customer Services (formerly from Telewest) saw the re-branding as an endorsement of his views on the importance of customer service relative to cost. In particular he believed that to achieve the higher levels of service that customers of a Virgin-branded service would expect, it would be necessary to be more selective about what functions were provided from offshore locations. He expressed particular dissatisfaction with the high percentage of offshoring that had been contracted, and how IBM were merely required to retain 30% of all activities onshore, without being prescriptive about which activities should remain serviced from the UK. He also emphasised that to comply with the terms of the licensing agreement between Virgin Media and the Virgin group, higher standards of customer service had to be achieved (e.g. the speed at which calls were answered, results from customer satisfaction surveys etc). He sought to use this as a lever in seeking changes to the performance criteria reflected in the contract. However no additional funds were made available in Virgin Media to fund service enhancements. Therefore the MD of Customer Services recognised the challenge he faced in negotiating investments in service level improvements when IBM was already absorbing so much of the cost savings delivered to Virgin Media through aggressive pricing in the early years of the contract.

There followed a period of significant tension at all levels in the relationship between Virgin Media and IBM. At an operational level, those managing the contract from Virgin Media were largely drawn from the former Telewest organisation and they were aware of the new performance standards desired by the MD of Customer Services. Their IBM counterparts noted that client representatives became much more rigid in applying the terms of the existing contract, and much less tolerant of service performance issues, even though they were still in the midst of a significant transfer of services to India. At management levels above the MD of Customer Services, the COO and CEO were sympathetic to the agenda that he was pursuing and they put pressure on their senior IBM peers. To further erode the goodwill on which the relationship had been based, the ITO contract which NTL had agreed some years previously with IBM was no longer perceived by the Board as being fit for purpose following the merger. IBM at a corporate level resisted attempts by Virgin Media to exit that contract without paying significant termination charges.

This tension in the relationship continued throughout 2007 and the MD of Customer Services grew increasingly frustrated with the perceived lack of flexibility from IBM to his new requirements. The investments required to implement the aggressive transition of additional workload to India, while attempting to appease an ever more demanding client, caused IBM's profitability levels on the account to decline. This inevitably attracted a lot of criticism and attention from IBM corporate management. To compound the problems there was also awareness in the marketplace that the relationship had become troubled. Accenture, who were IBM's main competitor for BPO call centre services, continued to make proposals to Virgin Media on how they could assist. To apply further pressure to IBM, in October 2007 the MD of Customer Services agreed to a project under which Accenture would provide 100 headcount offshore to deliver additional call centre capacity. This challenge to the exclusivity which IBM had previously enjoyed was seen by both parties as an indication of how much the relationship had deteriorated. Although this introduced a new element of competition, IBM recognised that contractually they were still in a strong position. They therefore remained unwilling to make significant changes to their performance obligations or their offshore activities without financial recompense. Recognising that his options were limited, the MD of Customer Services left Virgin Media late in 2007.

2008: A new Virgin Media MD of Customer Services was appointed from Virgin Atlantic early in 2008. During this year IBM also appointed a new Account Director for the contract. However this proved to be a relatively temporary appointment when this individual was moved by IBM to a larger customer within 12 months. The Services Delivery Executive from within the IBM Account Team was then promoted to the role of IBM Account Director. The two new leaders of the respective organisations agreed that the fractious relationship that had developed over the previous two years needed to be repaired for the benefit of both companies. The new Virgin Media MD of Customer Services promised a different management style, whereby his team would be informed that they should work with IBM to make outsourcing a success, and to share responsibility for failures. The IBM Account Director agreed to promote flexibility where possible. There followed a period of rebuilding and relative success in the relationship over the next two years. It took approximately 9 months to get the teams to trust each other again and to redeploy individuals on both sides who were not seen to be complying with the new management approach. Team events and days away from the office together were planned to encourage cross-company teamwork. The relationship stabilised and operational performance improved. IBM used this operational stability and the improving relationship as a foundation for reducing costs and improving profitability. Although Accenture continued to make some in-roads into the account, the growth in Virgin Media's business meant that IBM revenue also continued to grow. By 2009 the contract also had the best profitability in IBM's BPO portfolio.

In spite of this stability and financial success, the relationship remained fundamentally tense, and levels of mutual support and cooperation were still limited. During 2009, another new MD of Customer Services was appointed by Virgin Media. Coming from outside the company, this individual took a fresh perspective on the outsourcing arrangement with IBM. While he recognised that this was now a more effective relationship that was delivering some value, he questioned why onshore staff in Swansea and Liverpool were employed by IBM through a third-party subcontract company (i.e. Manpower Ltd). He saw this as adding margin for the subcontracting company on top of margin for IBM, which was ultimately increasing costs to Virgin Media. He felt that the relationship between Virgin Media and IBM was still overly combative and that a more collaborative style of working was required. He also

believed that Virgin Media needed to be more involved in managing the activities carried out in offshore call centres in order to assist in the resolution of issues and to promote a customer service oriented culture.

2010: By this time the five-year expanded contract that was signed in 2006 was coming close to the end of its term. As they hoped for a renewal of the contract, IBM executives grew increasingly sensitive to the need to demonstrate flexibility in light of the increasing threat from Accenture and others. During 2010, Virgin Media initiated negotiations with IBM with a view to forming a new agreement whereby any remaining onshore staff would transfer back from Manpower to become full-time employees of Virgin Media. To enable critical mass in the UK, Virgin Media recommended that the former-Telewest centre in Liverpool should be closed and staff now employed directly by them should be consolidated in Swansea. As part of this re-shaping of the services delivery model, IBM negotiated commitments to a significant volume of workload for their offshore call centres. This secured IBM's support for the transfer of UK staff back to Virgin Media and the consolidation of these services in Swansea. It also avoided the need for Virgin Media to find replacement capacity and to incur the risks associated with a transition of service to a new provider. Although IBM's annual revenue from Virgin Media significantly reduced as a result of this change, they retained the low-cost/high-profit offshore element. Therefore this was seen by IBM at a corporate level as an acceptable outcome.

2011: The transition to the new service model took place in 2011. Virgin Media and IBM worked closely together on the closure of the Liverpool centre and the transfer of Swansea staff back to Virgin Media from Manpower. A new governance system was put in place whereby Virgin Media staff members would spend significant amounts of time on-site in India to provide guidance to offshore staff and to facilitate smooth communication and compliance with directions from the UK. IBM supported this and the relationship was perceived to be productive and delivering benefits to both parties. Virgin Media adopted a similar management model with Accenture who had by now grown their numbers of offshore staff servicing this client. By this time Virgin Media also had a third supplier (Teleperformance Ltd) who largely provided supplementary UK-based call centre staff.

2012: Once the BPO contract was renegotiated and extended, the relationship between Virgin Media and IBM grew increasingly stable and productive. Immediately prior to the signing of the revised agreement IBM appointed a new Account Director for the contract. She was tasked with encouraging better partnership with Virgin Media. This was successful in leading to a significant further improvement in the relationship between the two organisations. The MD of Customer Services promoted a much more collaborative style of working and encouraged high levels of partnership in managing workload and resolving issues. Where members of his management team were perceived to be unsupportive in their dealings with suppliers they were quickly moved to other duties. IBM welcomed this change of approach and also re-deployed staff members who were perceived to be unable to change from the combative style that had characterised the relationship in the preceding years. Virgin Media continued to promote the spirit of partnership and invested heavily in the relationship. They invited members of the outsourced offshore teams to the UK to visit their centres and integrate with their in-house teams. They solicited the views of offshore staff on opportunities for improvement. As a result of this they invested heavily in additional training, and in technologies which would allow the offshore centres to have access to the same problem diagnosis tools as their onshore counterparts. They also invested in financial awards and recognition events for staff members, and they were diligent in ensuring that good performance by employees in supplier organisations was publicly recognised within the firm.

2013: Levels of trust between the Virgin Media and IBM continued to grow significantly and the relationship deepened. Operational performance levels also increased. By 2013, surveys of Virgin Media customers revealed that customer satisfaction with the offshore centres was now just 0.1% lower than their onshore counterparts, compared to 2011 when this gap was in the region of 4%. In September 2013 IBM Corporation made the unanticipated announcement that it would sell its call centre outsourcing business unit to Concentrix (Jackson, 2013). Virgin Media executives were informed that the call centre outsourcing contract with IBM would transfer to Concentrix as part of this divestment.

2014-15: All IBM staff in the UK and India who were involved in the Virgin Media call centre outsource contract transferred to Concentrix in May 2014. The relationship between the client and supplier has not suffered as a result of this.

Although Virgin Media had some initial concerns that Concentrix would not be as well-positioned as IBM to draw on corporate resources to fix any major operational issues as they occurred, this has not proved to be a problem. They welcome the higher levels of responsiveness and flexibility that they have experienced from Concentrix when compared to a larger corporation such as IBM.

Virgin Media was acquired by Liberty Global in 2013 (Wolf, 2013). By 2014 this resulted in a renewed emphasis within the company on the need for cost reduction to achieve the returns expected by their new owner. This led to further outsourcing opportunities for Concentrix. Liberty Global also owns Virgin Media Ireland and its customer service call centres were considered for outsourcing. With the endorsement of Virgin Media MD of Customer Services, Concentrix was successful in winning the Virgin Media Ireland contract, requiring 300 new positions located in Manila. Additional growth opportunities have also emerged and by 2015 the Concentrix offshore teams servicing Virgin Media from India and the Philippines had grown to over 2,000 people. Concentrix foresees further growth opportunities in the coming years.

4.5. Identification of phases

Reflecting on the case at a general level it is notable that in spite of the significant volatility that it went through, this client-supplier outsourcing relationship has still survived for over 12 years at the time of writing. Informants who have been most recently involved from both sides indicated that they expect it to continue for the foreseeable future. This is particularly interesting when one considers that both organisations have gone through changes in ownership during this time. It is also clear from the case that there were periods of significant strain in the relationship, and that these may have led to termination by the client had it not been for the structural bonds that would have made exiting the contract very costly. In spite of these significant low-points, the relationship ultimately survived and significantly strengthened. It was also notable that there was a very high-level of consistency across client and supplier informants in their descriptions of the quality of the relationship at any given point in time. It is also clear from these descriptions that the relationship went through a number of distinct phases, which are characterised by the different levels of relationship strength, or conflict.

To enable a deeper understanding of how the relationship was sustained, and how it developed through these phases, a coding and analysis process was undertaken. Transcripts of informant interviews were uploaded to a QDA tool (MaxQDA), and codes were assigned to relationship factors that were repeatedly mentioned by informants. For each such statement, the coding indicates whether this was regarded by the informant as contributing to a positive relationship, or detracting from the RQ at that time. The recurring relationship factors that were identified in the analysis of the transcripts are as follows:

- *Supplier Value*: Statements that indicate whether the Supplier was achieving value (contributor to RQ), or losing value (detractor from RQ) at any point in time.
- *Client Value*: Statements that indicate whether the Client was achieving value (contributor), or losing value (detractor) at any point in time.
- *Inter-partner Alignment*: Statements indicating that the client and supplier were aligned in their objectives and behaviours (contributor), or misaligned (detractor).
- *Intra-partner Alignment*: Statements indicating that the client or supplier organisations were internally aligned (contributor) or misaligned (detractor) in their attitudes to the relationship.
- *Leadership Support*: Statements indicating that executives managing the relationship from the client and supplier organisations were demonstrating behaviours that were supportive of the relationship (contributor) or unsupportive (detractor).
- *Relational Commitment*: Statements indicating that the client and supplier organisations were investing effort to encourage the relationship (contributor) or not investing (detractor).
- *Trust*: Statements indicating that there was trust and respect between the partners at a point in time (contributor), or a lack of trust and respect (detractor).
- *Partnership Ethos*: Statements indicating that there was a pervasive spirit of collaboration and partnership (contributor), or a lack of collaboration and partnership (detractor).

After each transcript was coded to classify statements in each of the above categories, the case chronology was reviewed once more and four distinct phases were identified. A further level of coding was then completed (as referred to in the methodology chapter as *simultaneous* coding) to identify the phase of the relationship that each informant was referring to when making a particular comment. Where it was unclear which phase was being referenced, or where the informant was interpreted as making a general comment that was not applicable to any particular phase, these sections of the transcripts were excluded from this next level of coding. By analysing the comments made about each relationship factor during each phase we can develop insights into the factors that were most influential during each phase.

The four phases that were identified are discussed in detail in the following sections with reference to the factors – in both their positive and negative manifestations – that were most prevalent during the phase in question. These four phases were:

- **2004-06: *Invention***: In this first phase there was a spirit of optimism and mutual-support as both sides were motivated by the challenging and innovative nature of the NTL TSB outsourcing project.
- **2006-08: *Misalignment***: In the second phase gaps emerged between the parties following the merger with Telewest and the re-branding of the client organisation as Virgin Media. There was a strong sense that the client and supplier had different objectives during this phase.
- **2009-11: *Tolerance***: In this phase the parties recognised the futility of the combative and dysfunctional atmosphere that characterised the previous phase. New relationship leaders on both sides agreed to make the relationship work better.
- **2011-15: *Partnership***: In this final phase contractual changes and new leaders created a platform for a more cooperative and fruitful relationship. Both sides benefitted from this revised approach.

In the subsections that follow, the numbers of comments associated with each relationship factor (positive or negative) are graphically summarised. These graphs provide us with a visual representation of the factors with most influence on the

quality of the relationship during each phase. The different relationship profiles that are captured in these graphs confirm that the phases were distinctly different in nature. Considering the positive and negative factors for each phase in this way enables discussion of the most prevalent relationship characteristics during the phase in question. The descriptions of these phases include samples of direct quotations from the interviews in order to illustrate the characteristics being described. These quotations are shown in italics and parenthesis. To protect the anonymity of informants, quotations are not attributed to any individual, although it is indicated whether they came from a client or supplier source.

4.5.1. 2004-06: Invention

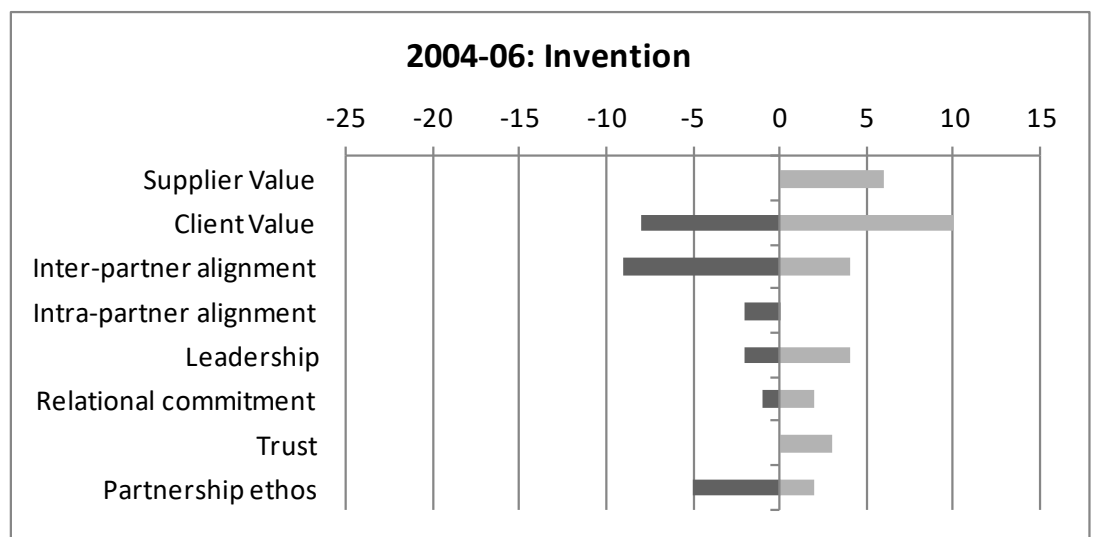


Figure 7: Virgin Media relationship "Invention" phase

In the initial stages of the contract between NTL and IBM there was a recognition on both sides that this was a new venture that needed time and support in order to develop (Supplier: *“what I remember from those early days was we were trailblazing really in that nobody really knew what needed to be done and we were making it up as we went along.”*) The atmosphere was generally positive and there was an overall spirit of goodwill (Client: *“I think TSB was kind of a positive thing.... I think had it not been we would not have gone further”*; Supplier: *“I don’t remember many occasions when we walked out and said that we will never do anything for them again, or when they walked out and said that’s the end of IBM..”*) Therefore, in this phase both sides were getting more familiar with other while they created this new operational environment.

Figure 7 shows that informants made a number of positive comments about the value being earned by the supplier during this phase. A significant element of the value that was sought by IBM in this first phase of the relationship was the winning of this contract as a cornerstone of their emerging BPO business. IBM was attracted by the prospect of using this contract as foothold for expanding into other areas of NTL and later Telewest, and as a reference for opportunities being pursued in other parts of the market. This intangible source of value to IBM was also recognised by NTL during the contract negotiation process (Client: “*IBM were hungry to give us what we wanted in that deal, because their practice had gone to such a scale in BPO that they needed to fill the bus.*”) The increased volumes of calls that IBM handled, and the accelerated growth of the offshore operation in response to NTL network issues, meant that the profitability of the contract for IBM was much better than expected in these early years.

Comments relating to the client’s experience during this phase suggest that there was a mix of the positive and negative impacts to value. The value anticipated was primarily around cost reduction as part of their need to improve their financial position having exited bankruptcy protection in the US (Client: “*Fundamentally everything in those days was driven by cost, and so that was a major major -probably the one factor in the whole decision - it was around cost.*”) They were prepared to trade future sacrifices in return for short-term benefits (Client: “*we were willing to trade time for that differential [i.e. short-term price reductions in return for higher prices later].*”) IBM therefore offered very low prices in the early years in order to attract NTL to sign the contract. NTL were also pleased with the cost savings and they were generally satisfied with operational performance. Although there was an initial negative reaction from customers to being handled from India, this was not a major concern for NTL (Client: “*People did not really give a [expletive removed] about our customers.*”) However, as the volatility in performance subsided, there is an implication from client informants that expectations of the supplier began to increase. Specifically, they realised that while IBM was doing a good job in handling the unrelenting volumes of calls from their customers, this translated into extra revenue for IBM. The client began to feel that they would get more value if IBM made recommendations on how call volumes could be reduced, even if this objective was not reflected in the commercial constructs of the contract (Client: “*that was the only*

point where I thought that there could have been an opportunity for IBM to think more laterally about how things get done.”)

The level of alignment, both between and within the two organisations during this phase, was mixed. Some NTL executives who worked most closely with IBM felt that the supplier understood the pressures under which they were operating and were committed to helping to relieve these pressures (Client: *“it did feel like with IBM there was something of a savyness [sic] about our situation.”* Client: *“I did not feel that IBM did anything but enhance us.”*) This positivity is offset by a misalignment between NTL’s continuing need to save cost and IBM’s need to grow revenue by handling as many calls as possible (Client: *“We had a need to fix the call centre and for example stop broadband customers ringing in at all, whereas IBM were into ‘we need 150 seats or it does not make money’.”*) Because this was NTL’s first foray into BPO, their executives had to deal with some minor misalignment within their organisation from people who did not support the concept of outsourcing (Client: *“There was genuinely technical questioning from people who did not really understand what it was all about.”*) IBM had its own issues of internal alignment to resolve, particularly in relation building an open and trusting working relationship with the newly acquired subsidiary in India (Supplier: *“anybody that went from the UK team [was treated] a little bit as royalty rather than these are the colleagues that you work with.”*)

There were signs of strong levels of leadership, trust, and commitment in this early stage of the relationship, even if this had not yet resulted in a strong culture of partnership. Strong executive leadership on both sides helped to overcome initial operational difficulties (Client: *“It was very much [MD of Customer Services – name removed]’s strong character driving these things through.”*) Continuity of leadership from the contract negotiation through to the first phases of delivery was also highlighted as a contributor (Client: *“We kept a lot of continuity... The sponsor of the commercial deal did not run away... People were around for the longer term.”*) Levels of trust and respect were increasing (Client: *“What IBM sold they delivered on.”* Client: *“Their guys knew their stuff better than we did.”* Supplier: *“A very intelligent customer... I did not experience too many dummies in that organisation.”*)

NTL were committed to a long-term relationship and felt that IBM had displayed a similar commitment by deploying experienced senior managers to the contract (Client: “*We were looking for a 5 to 10 year commitment.*” Client: “*In the early days it felt good and top of the pyramid... We felt we had good senior, upgraded individuals, who were at the top of the tree.*”) However, a sense of partnership was not fully developed and some in IBM felt that the client emphasised partnership when it was to their own benefit, but resorted to the terms of the contract when they needed to exert power over the supplier (Supplier: “*It was very much, you need to deliver what I want and I don’t really want much of an argument about it even if you have something reasonable to say.*”) Therefore, although there was general satisfaction at the senior levels in both organisations with how the first years of the contract had progressed, a true partnership culture had not yet become embedded before the second phase of the relationship emerged.

4.5.2. 2006-08: Misalignment

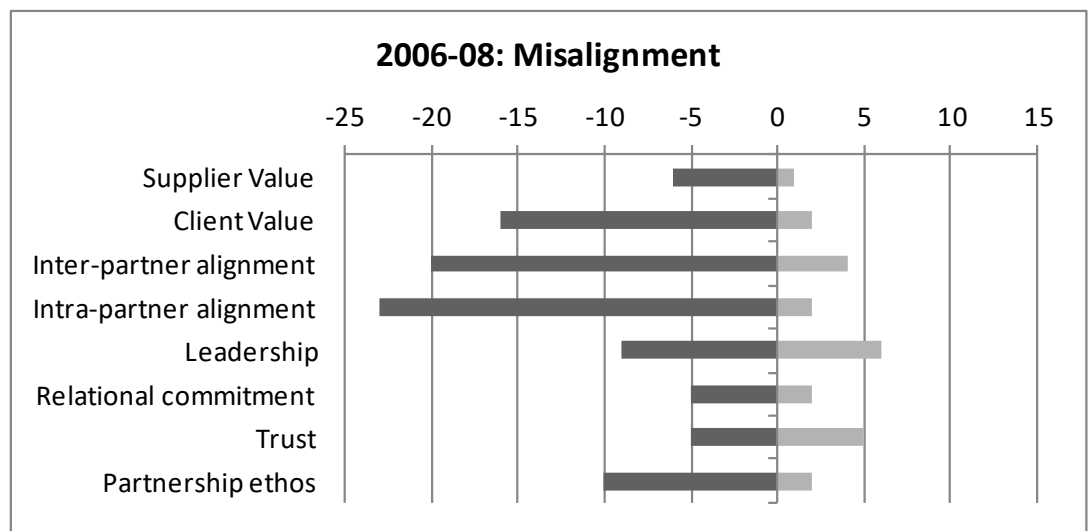


Figure 8: Virgin Media relationship "Misalignment" phase

The relationship became unstable following the merger of NTL and Telewest, and the addition of significant additional scope and complexity to the contract. The volume of negative comments in all categories as shown in Figure 8 demonstrates how the mood of the relationship was very different during this phase when compared to the initial phase. This is reflected in changes to how the value accruing from the contract was perceived on both sides. New senior client managers felt that the contract did not offer the kind of value that was required for the merged organisation

now that it would trade as a Virgin-branded service (Client: *“What I saw was a lot of things that were going to be very difficult to achieve under the deal that had just been forged with IBM, unless I could get IBM to really be like we wanted them to be... that just felt a huge challenge.”*) IBM internal stakeholders continued to expect good financial returns from this larger contract, and they were unsympathetic to the challenges inherent in transitioning to this expanded service (Supplier *“We were under massive internal pressure to get the profitability right while at the same time the customer was kicking the living daylights out of us because of poor service. Environmentally it was a horrible place to work.”*; Supplier: *“There is a phrase ‘changing a tyre while travelling at 70 mph’ that springs to mind.”*) There was a general feeling in the IBM Account Team that expectations of returns from the new contract were overly-aggressive given the challenges that they now faced (Supplier: *“The internal objectives of IBM were very aggressive and I would say probably designed by spreadsheet instead of what was realistic in terms of the transition offshore.”*)

New client managers from Telewest who were not supportive of the outsource strategy. A misalignment of business objectives at this time was highlighted by both client and supplier informants (Client: *“we were never going to be able to deliver what we had to deliver or it would be a continual struggle because the two companies just did not come together with aligned objectives.”* Supplier: *“At the same time what became abundantly clear was that we had a huge misalignment between what the customer wanted, what was sold and bought, and what was [now] expected.”*; Supplier: *“You have two different frustrations on two fundamentally different things. You have one saying we need to improve our losses, the other saying that they needed more service.”*) These issues also highlighted a significant lack of alignment between the cultures of the respective organisations (Supplier: *“To be honest, you can’t think of two brands that are further apart than Virgin Media and IBM.”*)

The misalignment between the client and supplier was also reflected in misalignments within each of these organisations. Specifically, client executives recognised the conflict between the financial benefits that had encouraged their Board to approve the contract, and the service standards that they now needed to achieve (Client: *“There were aligned objectives in the boardroom, but as it got closer to the customer the objectives moved apart to a certain degree.”*) The differences in

infrastructure and culture between the NTL and Telewest organisations contributed to the disjointed nature of the environment within which the relationship now operated (Supplier: *“There was a massive gulf between NTL and Telewest in terms of process, product, service expectation, maturity of process. It was cavernous.”*) Internal political agendas also came into play as executives from the former NTL and Telewest organisations jockeyed for position, and the contract with IBM became a focus for their differences (Client: *“there was a constant ‘mine is better than yours’ battle.”*) Managers within the client organisation who were sympathetic to the situation in which IBM now found itself were treated with disdain when they attempted to defend IBM’s performance internally (Client: *“[They made me feel like] a Nazi-sympathiser.”*) Similarly within IBM, the more difficult environment within which the contract now operated impacted the financial results. This exposed cracks within the organisation as those closest to it struggled to manage competing stakeholder demands (Supplier: *“The Sales and Account Management teams understood it and had more of an affinity for it. The Delivery and Financial part didn’t give two hoots.”* Supplier: *“More than half of your time was spent fighting internally.”* Supplier: *“even if the senior guys are fully bought in, then trying to get all of the different layers lined up is a bit like herding cats sometimes.”*)

The lack of alignment between and within the parties was reflected in the erosion in support for the contract by those tasked with leading it on behalf of the client (Client: *“It felt like I had been dealt a hand where the company had structured a deal, very front loaded on cost as well, and this meant that that overtook the whole cultural brand thing, which just made the job impossible for me... I could not even select what was going out and what wasn’t.”*) Some informants concluded that this deterioration in the partnership caused IBM to reduce their commitment and to move some of their better managers to other contracts (Client: *“The senior [client] team failed to give you confidence...therefore there was an erosion and a self-fulfilling prophecy, so you [supplier] don’t put your best guys on the deal, and they don’t give you confidence that you will get a renewal, so it is chicken and egg.”*)

Levels of trust, openness, and partnership continued to deteriorate during this phase (Supplier: *“There were only one or two glimmers where I felt that [MD of Customer Services] opened up a bit in terms of what were his pressure points.”* Supplier: *“The feeling was from an IBM standpoint that Virgin Media very quickly*

forgot what we did for them in 2006 and spent all of its time trying to get out of it. That mistrust was there. And from the Virgin side [they thought that] all IBM is interested in is profit.”) The deterioration in the relationship was also reflected in increased levels of personal animosity and distrust (Supplier: “He was a sneaky little rat and count your fingers if you shook his hand.” Supplier: “Some of them were just louts.” Supplier: “[Client executive - name removed] showed a disrespect.”) Both sides resorted to the contract for protection, at the expense of a fruitful relationship (Supplier: “the client probably out-contract managed us and we tried to out-contract management them back, and you know where that goes.”)

The spirit of collaboration that had characterised the previous phase was by now fully eroded, and replaced by a “blame-culture” (Supplier: “*because it was not working they were blaming us, and we were blaming them, and again because you have people on both sides above you looking down, you have to say I am blaming the other guy because I don’t want to take the blame.*”) The situation only improved when new leadership was introduced on the client side of the relationship, followed soon afterwards by a new Account Director from IBM. This changed the tone of the relationship as characterised in the next phase.

4.5.3. 2009-11: Tolerance

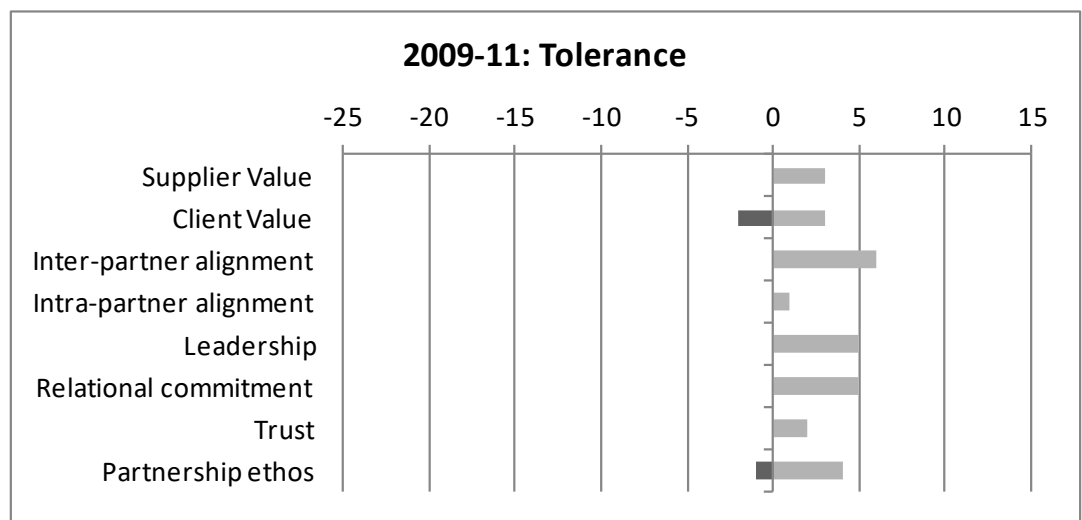


Figure 9: Virgin Media relationship "Tolerance" phase

The numbers of positive and negative comments that are summarised in Figure 9 contrasts with the negative relationship profile of the previous phase as graphically represented in Figure 8 on page 131. This shows that during this phase there was a re-

setting of expectations and a re-building of trust and partnership. Both organisations were fatigued by the confrontational nature of the relationship in the previous years and were anxious to find a way positive forward (Client: *“It was all in the past anyway, we need to be focusing on the future and what we are doing in the future.”*) Supplier: *“I think that because there had been so much pain in the first two years [after the contract extension in 2006] people just wanted it done and to make some money.”*) Therefore they both eventually appointed new leaders with more compromising styles. This heralded a phase during which both sides recognised that they needed to find new ways of tolerating each other, and optimising the unsatisfactory situation in which they found themselves.

The new leadership appointments established a foundation for operational performance improvements (Supplier: *“Every week you look at it and it is getting a bit better, a bit faster, a bit more confident and the pressure started to subside a little bit.”*) This in turn enabled IBM to focus on improving its efficiency, and the financial returns from the contract significantly increased (Supplier: *“I think that in 2009 it was from the BPO side the fastest growing and most profitable contract we had.”*) Confidence slowly improved and the client became more supportive of the IBM service delivery teams and felt that they were now making a valuable contribution to their business (Client: *“Because my firm belief is that every single one of those people wanted to do a great job. Everybody from management down wanted to do it right.”*)

This was also reflected in greater feeling of alignment between the parties (Client: *“People were very pleased to be carrying the Virgin name and they wanted to feel a real part of the team.”*) IBM attributed its improvement in financial performance to the increased level of alignment between what it needed to achieve from the contract and what the client needed (Supplier: *“[Improved financial performance followed] because actually we had alignment.”*)

Informants highlighted the higher levels of leadership commitment as a major contributor to the increasingly effective relationship that developed during this phase (Supplier: *“[New MD of Customer Services] was a breath of fresh air... he was very clear and he made his whole team understand that the success of that group was whether outsourcing worked.”*) Supplier: *“He definitely brought positive change to the relationship.”*)

There were visible investments that demonstrated a renewed commitment to making the relationship work (Client: “I said to [MD of Customer Services] ... everybody, every Director should go and spend some time out there [in India] and see how committed these people are... and he took that on board and make all of the Directors in turn go out.” Supplier: “What I saw as a big difference between how engaged people were with the supplier relationship at that stage was very different to what I had experienced in the previous NTL days.”) Levels of trust were building and the outlook for the contract appeared more optimistic (Supplier: “Actually we were in a position where we were trusted by the client, we had good relationships, great delivery, good price points and we were able to grow.”)

Although all of the above comments from informants indicate an increased level of partnership during this phase, it still took some time to reverse the legacy of distrust and animosity that had permeated both organisations during the previous phase. The relationship remained tense and the remnants of a “blame culture” still existed (Supplier: “*walking out of some of the meetings [we were saying] ‘what are they going to do to us now, and we will get the first punch in’.*” Supplier: “*It took us probably collectively six to nine months to get the teams to trust each other, because they had been fighting and had been sparring partners for so long*”; Supplier: “*It felt as if the Virgin Media people were walking into meetings with their baseball bat and the contract in hand, and we were walking in with our baseball bat and the contract in our hands.*”)

Although expectations had changed and the parties had found ways of working more effectively together, they were still operating under the 2006 contract which did not fully reflect the revised needs of the client. It was only when this agreement was renegotiated that a higher level of partnership was embedded, as outlined in the description of the next phase.

4.5.4. 2011-15: Partnership

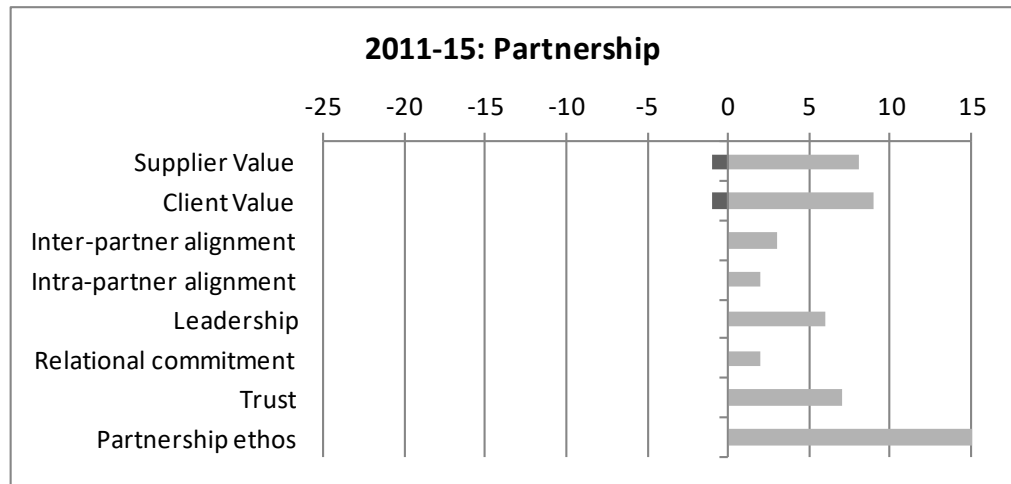


Figure 10: Virgin Media relationship "Partnership" phase

As illustrated in Figure 10, the comments from client and supplier informants about this phase are almost exclusively positive. The MD of Customer Services for Virgin Media who was appointed in 2009 promoted a more collaborative approach and established a new management team who embraced this ethos. However, informants implied that this sense of partnership did not really become effective until the contract was renegotiated when the original term expired in 2011. Under this new management approach, outsource suppliers were put on an equal footing with internal call centres in terms of their ability to input to the management process and the recognition given to their employees for good work (Client: *"I banned the word 'outsource' from any meetings we went into and I made it 'partners'."*) A climate of cooperation and transparency was encouraged (Client: *"In my relationship with all of them I was very open, frank and honest. They could tell me exactly how they felt and I listened and took that on board and where I could help I did."*)

By now the services provided by IBM were delivered exclusively from offshore locations, as the UK employees had transferred back into the employment of Virgin Media. This decreased the value in revenue terms that IBM achieved from the contract, although it retained the more profitable offshore element (Supplier: *"We went down in revenue but were better in profitability."*) The supplier used this improved relationship as a foundation for improving efficiency and winning additional

business with this client. Following their acquisition by Liberty Global, Virgin Media needed to outsource more work to achieve cost savings and the new spirit of partnership, coupled with the terms of the revised contract, made it attractive to award this to IBM (Supplier: *“We now have an opportunity to setup in Manila and start to challenge Accenture... We have got an opportunity to go and win some new business across Europe, all under the Liberty Global”*; Client: *“there has been a lot more stuff outsourced since then.”*) For their part, Virgin Media continued to benefit from improved performance, cost effectiveness, and flexibility by IBM (Client: *“Everything went up on the scale. Second time [repeat] calls were vastly diminished. Compensation payments [to customers] were vastly diminished.”*)

Informant comments indicate that this phase is characterised by strong alignment between the organisations (Supplier: *“They know exactly how we operate.”*) There is also a high level of consistency within the respective organisations (Supplier: *“His whole management team all sing from the same hymn sheet.”*) This appears to be helped by strong leadership, and particularly by the respect that the two relationship leaders have earned within their organisations based on the improved business results. This gives them significant levels of authority when managing internal stakeholders (Supplier: *“[Speaking about peers of the MD of Customer Services within the client’s executive team] They do not even attempt to come into his area and try to influence how he runs his teams.”*) They also use this authority within their organisations to seek the support that they require to ensure continued success (Client: *“sometimes you have to be bold enough to go back to the company, and say ‘we are paying peanuts so this is what is going to happen’.”*)

Levels of trust and openness remain high (Supplier: *“They are open and they are transparent ... you don’t feel as if you are getting managed through them making cuts and changes without telling you and you are trying to second guess what is going to happen in the next six months.”* Supplier: *“What I have learned is that if I see a fundamental risk in what we are going to deliver I will let them know up-front even though it means that I know we will get a lot of heat for that period of time, but it has ended up being the right approach because they start to build-out the trust.”*) The spirit of partnership and teamwork continues (Client: *“It is about working side-by-side. It is not down to one individual, it is down to a group of people wanting it to happen.”* Client: *“You get out of it what you put into it.”* Supplier: *“By that stage we*

were partners. We were at the table, we were involved in strategy discussions, we were asked our opinions and how we could achieve things.”)

This partnership is reflected in a more mature attitude to the contract, where it is seen as a support to the relationship, rather than something that the parties rely upon to control each others’ actions (Supplier: “*So it was far more that the contract was a vehicle to help us achieve what we needed to be achieved rather than a thick document to be beaten about the head with... If we need to look at the contract we are all in a bad place around performance management.*”) In summary, the relationship is now perceived by both organisations to be constructive and fruitful (Supplier: “*the relationship I would say is good and it is strong*”). This has therefore proved to be a highly effective phase for the relationship.

4.6. Summary

This case offers important insights to this study because it relates to an outsourcing relationship that has lasted for over 12 years and has experienced extremes of volatility and stability during this period. The close levels of involvement that informants had in the relationship and with each other, and the significant openness that they exhibited during the interviews, contributed to a very rich body of input that provides deep insights into the context within which they were operating.

The distinct phases of the relationship that have been identified reflect changes in the objectives of the partners and the sources of value that they were seeking to derive from the arrangement at particular points in time. It is notable that even when relations between the client and supplier were at their lowest ebb, they continued to persist with this contract. The analysis in this chapter implies that this was because the fundamental value objectives being sought by the stakeholder organisations remained critical to their respective businesses (i.e. the cost savings that benefitted the client, and the revenue contribution that benefitted the supplier). It is apparent that these benefits were weighed against sacrifices in the form of structural bonds which made it unattractive for either party to exit the relationship, even if at times it was an uncomfortable marriage. These structural bonds included the terms of the contract which would have made early termination expensive for the client. Even if contract termination charges were deemed financially affordable, the client would face the significant switching costs and risks associated with commissioning another supplier

for this volume of services. Hence, structural bonds ensured that the contract continued, and was ultimately renegotiated for a further period.

This case demonstrates that these client-supplier relationships can persist in spite of significant difficulties, and that they can progress through multiple phases which operate in highly differing climates. Of specific interest to this project is the question of what causes the relationship to move from one phase to another as part of a progression. The evidence from this case suggests that as perceptions and expectations of value change over the course of a relationship, the attitude of the participants to the relationship also changes. Significant changes in value assessments can trigger a new phase in the relationship. For example, the new executive leadership that was appointed by the client following the merger of NTL and Telewest had a different set of expectations about what was required, and different perceptions of the quality of service being delivered. These considerations influenced the value judgements that in turn were manifested by the lack of alignment, deterioration in leadership support for the contract, and erosion of partnership that characterised the second phase of this relationship. This only changed when new leaders were appointed who had re-set their expectations about what value could be achieved given the limitations of the contract. The further improvement that was evident in the final phase also followed a change in the value expectations of stakeholders, in this case supported by a contractual framework that was more appropriate to the revised needs of the client and the business objectives of the supplier.

The other cases in this study, as outlined in the subsequent chapters, will provide additional evidence to infer whether these conclusions derived from this case can be observed in other contexts. To this end, the evidence from the three cases will be analysed in Chapters 7 and 8.

5. Case 2: Xerox

Xerox is a multinational technology company that is best known as a leading provider of photocopiers and printers. In 2007, Xerox Europe signed a five-year contract with IBM for the provision BPO services covering a range of financial and customer support functions. The planned duration of this contract was renegotiated in 2009 and Xerox agreed to extend it for a further two years in return for some price reductions. This meant that it was then intended to terminate in 2014, rather than 2012. In 2014 the contract was extended for a further three years, until 2017. At the time of writing, the services delivered by the contract are provided by approximately 1,000 IBM staff located in five Global Delivery Centres: Greenock (Scotland), Sofia (Bulgaria), Krakow (Poland), Bangalore (India), and Manila (Philippines). Xerox manages the contract with IBM through a team based in Blanchardstown, Dublin. This is because prior to outsourcing many of the services were delivered from a European shared services centre that had been established there in 1998. IBM has assigned a management team working from Ireland and the UK to manage the relationship with Xerox and to direct the delivery of the outsourced services across these five Global Delivery Centres.

This chapter describes the background to this outsourcing agreement and the roles of the informants from Xerox and IBM who were interviewed during the exploration of this case. This background information was derived through the informant interviews and secondary sources. A chronology of how the outsourcing relationship progressed between 2007 and 2015 is summarised. Consistent with the approach taken in the previous chapter, the phases of the relationship that are apparent from this chronology are then described, including an analysis based on informant comments of the characteristics of the relationship during each of these phases. This chapter concludes with a discussion of more general lessons that can be derived from this case, and which are relevant to the cross-case analysis that follows in Chapters 7 and 8.

5.1. Background to the outsourcing agreement

In June 1998 the Industrial Development Authority (IDA) Ireland announced that Xerox had committed to an investment which would lead to an increase of its Irish workforce by 2,200 people. Approximately 1,200 of these jobs were to be

created in a new manufacturing facility near Dundalk, with the remainder planned for a new European Shared Services Centre to be established in Blanchardstown, Dublin. This investment was seen as a major coup for IDA Ireland. The Xerox Corporation was a well-regarded multinational, but it had suffered in recent years as it struggled to regain the dominance that it had once enjoyed in the market for printing and copying products. The corporation had recently announced a plan to cut 9,000 from its worldwide workforce, of which half would be in Europe (Anonymous, 1998). The new jobs in Ireland were positioned as part of this restructuring plan, whereby they would replace roles currently fulfilled in higher-cost European countries. The new shared services centre was also intended to enforce standardised back-office processes across these markets, therefore improving efficiency and control.

Between 1998 and 2005 the shared services centre in Blanchardstown was established and it assumed responsibility for activities that were consolidated from Xerox operations across Europe. It operated three major functions: 1) a multi-lingual facility that provided call centre support to European customers, 2) some back-office accounting and financial reporting functions, and 3) debt collection services on behalf of the Xerox country business units. This was a challenging project as it required multi-lingual skills to be hired and retained within what was becoming a very challenging employment market in Dublin. As the Irish economy continued to grow during this period, the demand for skills increased. There was a particularly high-level of demand in the market for prospective employees with fluency in European languages, as the call centre sector had been a particularly fruitful area for the IDA when seeking foreign direct investment. The Xerox Dublin Shared Services Centre competed for employees to meet its growth targets, while struggling against the high-levels of staff attrition that were a characteristic of the young and mobile workforce that it sought to recruit and retain. Costs came under pressure as salary inflation increased in this market. With its new and inexperienced workforce, the Dublin operation also found it challenging to match the levels of operational performance that were previously achieved by the more experienced employees in the country-based Xerox units.

The Dublin shared services centre received strong support from Xerox at a corporate level in the USA, who were impressed by its achievements in spite of the obvious environmental difficulties. However, the reaction from its European business

units was less supportive. The transfer of roles from European countries was resisted by the country organisation as it involved standardisation of back-office services and this was seen as limiting their flexibility to respond to local needs. Xerox management in these countries raised many complaints about the quality of work being carried out by the new workforce in Dublin. Support from Xerox European Headquarters in the UK was mixed, as there was some resentment that the Dublin shared services centre was assigned centralised responsibilities which were previously reserved for the headquarters function. This caused Dublin management to privately quip that they were loved by their grandparents (USA), but hated by their parents (UK).

By 2006 some significant questions were being raised about the sustainability of the Dublin centre as salary and staff attrition levels continued to rise. Some operational difficulties caused certain work activities that had been transferred to Dublin to be re-assigned back into the country units. Xerox Europe considered moving some of the work to more affordable Eastern European countries, or to India. However, it was concluded that the company did not have the capability to establish operations in these locations. Therefore a proposal emerged to move away from the in-sourced 'captive' model that it had implemented in Dublin and to consider outsourcing to a specialist BPO supplier with global scale and capabilities. It was envisaged that such a supplier could potentially offer cost benefits while reducing the burden of managing these operations within Xerox. A taskforce was commissioned, which was comprised of Xerox Dublin managers and headquarters colleagues. Members of this taskforce visited suppliers in remote country locations and ultimately agreed that it was feasible to outsource the activity in a manner that would deliver savings. A confidential tendering process was initiated late in 2006, and major BPO suppliers were invited to bid for this work.

Early in 2007 initial proposals from BPO providers were evaluated by Xerox management, and the potential providers were reduced to a shortlist of three firms, namely: Accenture, IBM, and an Indian BPO provider. Each of these suppliers proposed the transfer of the workload from Dublin to their facilities in lower-cost locations elsewhere in Europe and in Asia. A high-level of confidentiality was maintained while Xerox implemented a very structured process to share further operational information with the short-listed suppliers, and to evaluate their more detailed proposals. As this process progressed, IBM executive management grew

increasingly concerned about rumours from Xerox that Accenture was emerging as the strong favourite to be selected as the preferred supplier. As well as being a promising source of annuity revenue, the broad scope of work involved made this a very attractive strategic opportunity for IBM. It would also add a very significant brand name to their emerging portfolio of BPO clients. At a more pragmatic level there were few other BPO opportunities in the pipeline that year, meaning that IBM was prepared to make significant concessions to meet sales targets. Fearing that the opportunity was lost, IBM took advantage of other business linkages with Xerox and sought a meeting with the President of Xerox Europe to investigate what could be done to retrieve the situation. In this meeting it was confirmed that Accenture was most likely to be selected, but it was also learned that there was a deep concern in Xerox about the operational impacts that a decision to outsource would have on their European business. There were fears that this would instigate an exodus of employees from the Dublin centre which would have severe impacts in the short-term. There was also a concern about the affordability of the redundancy payments that would be required when the contracts of Dublin employees were terminated.

IBM responded with a proposal that they would absorb the Dublin employees into the IBM Ireland organisation and ensure a slower transfer of the work to offshore locations. They also offered to fund a portion of any subsequent redundancy payments. Based on the initial response from Xerox, IBM sensed that these proposals were sufficiently attractive to re-invigorate their chances of success. To maintain momentum it was decided that IBM senior corporate executives in the USA should lobby the Xerox Corporate CFO (who was formerly a CFO of IBM). In these discussions it was agreed that if the proposed price was reduced by a further \$5m IBM would be selected as the supplier. The Xerox Dublin management team made a final attempt to convince Xerox Europe that retaining the activity within the company remained the best option. However, this could not compete with the saving of 20-30% that was reflected in the prices now offered by IBM. Therefore the decision to outsource was confirmed and after a period of contract finalisation a five-year contract was signed in June 2007. It was announced that the activities of the Xerox Dublin centre would be outsourced to IBM from September of that year.

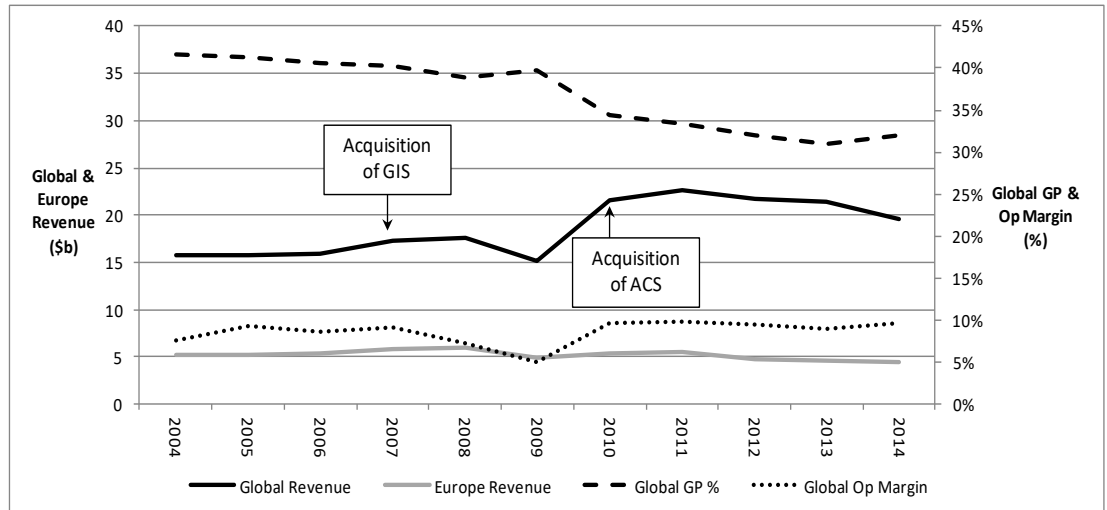


Figure 11: Xerox Revenue and Profitability Trends: 2004-14 (source: www.xerox.com annual reports)

The Xerox corporation financial results (2004-14) that are graphically represented in Figure 11 provide some context for this outsourcing decision and for the climate in which it subsequently operated. The graph shows that revenue at both a global and European level was relatively static up to 2007. This only marginally improved when the acquisition of Global Imaging Systems (GIS) brought additional income of over \$1b from 2007 onwards. The revenue growth triggered by the GIS acquisition was short-lived as traditional income streams from photo-copiers and printers continued to decline with the advent of the global financial crisis. In 2009 Xerox announced the acquisition of Affiliated Computer Services (ACS) - a BPO provider operating mainly in the USA. This acquisition increased corporate revenue from 2010 onwards, although it had no impact in Europe where ACS had very little presence. Throughout this period Gross Profit levels were falling, although corporate restructuring actions were successful in maintaining and increasing net operating margin levels during this time. The acquisition of ACS signalled a significant strategic move by Xerox into the BPO market. However, this also led to an even sharper decrease in Gross Profit levels because the profit margins from outsourcing services are significantly less than those from technology product sales. After the ACS acquisition, Xerox continued to reduce overheads in order to maintain Net Operating Margins as the mix of its business changed to include more revenue contribution from services. ACS was re-branded as “Xerox Services” and by 2014 outsourcing (including outsourcing of printing services which was a traditional Xerox

business) represented over 50% of the company's revenue. This acquisition is also significant to this case because it meant that from 2010 onwards Xerox was now itself a BPO provider and this raised questions internally about whether the company should continue to procure services from IBM who was now a competitor. This added a dimension to the relationship between Xerox and IBM which will be discussed later in this chapter as the chronology of the case is outlined.

5.2. Scope of the outsourcing agreement

The services that were initially included in this BPO contract reflected the major functions that were operated in the Xerox Dublin Shared Services Centre prior to outsourcing. It was planned that these would be distributed across a number of IBM Global Delivery Centres. The majority of these were existing centres that would absorb the additional workload (i.e. Greenock, Bangalore, and Manila). However, specifically for the Xerox contract, IBM planned to establish a new centre in Sofia. During the first year of the contract it was recognised by IBM and Xerox that the new Sofia centre would struggle to cope with all of the planned workload and it was agreed that some of that work would instead be handled by the established IBM centre in Krakow. The result of all of these agreements was that the services included in this contract were delivered as follows:

1. **Call Centre services:** These call centre activities covered two separate functions, both of which involved multi-lingual support to Xerox customers across Europe. The first of these functions involved providing support to users of Xerox printers and photocopiers who were having technical difficulties with their products. The task involved assisting the customer in resolving these technical issues by phone. If a solution could not be found through phone-based support, an on-site visit by an engineer could be scheduled. As such on-site visits by engineers were very costly to Xerox, the objective was to resolve as many issues as possible by dealing with the customer over the phone and asking them to try sequences of actions to resolve the problem.

The second call centre function involved the handling of requests from customers who called Xerox looking for additional supplies of 'consumables' such as toner and ink cartridges. Most customers paid Xerox based on the number of pages that they printed per month. As part of these agreements they were entitled to ongoing

supplies of ink for no extra charge. However, these consumables were expensive to Xerox and so this call centre group was required to verify that the customer really needed these items before agreeing to have them dispatched.

These two call centre functions required IBM to deploy approximately 450 call centre agents. Support for English-speaking countries was provided from Manila, Scandinavian countries and the Netherlands were supported from Greenock, and all other European countries were supported from Sofia.

2. **Accounting services:** These functions included a number of back-office finance responsibilities that could be performed remotely from the Xerox country business units. They included activities such as accounts payable processing and financial reporting responsibilities that were required to be performed at the end of each financial reporting period. Of particular concern to Xerox was that these activities should be performed in a way that satisfied audit and regulatory requirements, while meeting strict reporting timelines at the end of each quarter.

This element of the outsourced service required staffing levels of approximately 130 people. Support for France and Germany was provided from Sofia. As these activities did not require fluency in the language of the country being serviced, the remaining European countries were serviced from Bangalore.

3. **Debt Collection services:** This activity was of critical importance to Xerox as it involved collecting overdue debt from customers in order to optimise the cash-flow position of the company. The associated tasks required agents to deal directly with customers and to resolve any issues that they may have with their invoice which was giving them reason not to pay within their credit terms. Customers who had not raised any issues but were still late in paying were contacted in order to agree a payment plan, or to threaten the removal of service if payment was not forthcoming. The task involved a delicate balance of relationship-building and assertiveness skills, working within a structured management process to target late payers and track overdue debt levels each month.

These services were provided by IBM using a staff of approximately 420 people. Debt collection for English-speaking countries was carried out from Bangalore,

France was supported from Sofia, and all other countries were supported from Krakow.

	OUTSOURCED FUNCTION		
	Call Centre Services	Accounting Services	Debt Collection Services
Bangalore		Austria, Belgium, Ireland, Italy, Netherlands, Portugal, Scandinavian countries, Spain, Switzerland, UK	Ireland, UK
Greenock	Netherlands, Scandinavian countries		
Krakow			Austria, Belgium, Germany, Italy, Netherlands, Portugal, Scandinavian countries, Spain, Switzerland
Manila	UK, Ireland		
Sofia	Austria, Belgium, France, Germany, Italy, Portugal, Spain, Switzerland	France, Germany	France
Employees numbers	450	130	430
	1,010		

Table 14: IBM delivery locations for Xerox and countries supported

The distribution of the functions that were in the scope of this outsourcing agreement across IBM Global Delivery Centres is summarised in Table 14.

The charging structure that was agreed between Xerox in IBM was largely based around fixed quarterly prices for each service irrespective of the volumes of transactions being processed. The exception to this was the Call Centre Services element for which minor positive or negative adjustments were made to the quarterly price according to a specified formula if the volumes of incoming calls materially exceeded or fell below levels specified in the contract. This charging structure allowed Xerox to plan for costs from the contract without having to make significant

allowances for changes in levels of workload experienced by IBM. Under this structure, IBM bore the risk of growth in Xerox's business that would increase the volumes of transactions to be processed, but it also offered the opportunity of cost savings if transaction volumes declined.

The terms of the contract also included very significant financial penalties which could be imposed by Xerox if IBM failed to achieve service level targets each quarter. For example, for the Call Centre services these Service Level Agreements (SLAs) included the requirement to have sufficient staff available to answer a very high percentage of incoming calls with very low wait times. For Accounting services they included requirements to comply with audit obligations. For the Debt Collection services the performance objectives specified the percentage of overdue debt that should remain for each country at the end of each quarter.

5.3. Informants

The research of this case was carried out through interviews with the 11 informants listed in Table 15. Six of these came from Xerox, and five from IBM. These interviews lasted a total of over 10 hours and the transcripts of the interviews comprised over 48,000 words.

Category	Organisation	Current or Former	Role(s) during period being studied	Interview location	Years of involvement											
					'07	'08	'09	'10	'11	'12	'13	'14	'15			
Researcher	IBM	Former	Account Director													
Client	Xerox Europe	Current	Vice President of European Shared Services	Dublin												
	Xerox Europe	Former	CFO of Xerox Europe Shared Services	Dublin												
	Xerox Europe	Former	Company Secretary Xerox Europe Shared Services	Dublin												
	Xerox Europe	Current	Head of Shared Services - Collections Services	Dublin												
	Xerox Europe	Current	Head of Shared Services - Accounting Services	Dublin												
	Xerox Europe	Current	Head of Shared Services - Customer Services	Dublin												
Supplier	IBM	Current	Head of Services Delivery - Financial Services	Phone												
	IBM/Concentrix	Current	Head of Services Delivery - Customer Services	Phone												
	IBM	Current	Head of Services Delivery Centres	Phone												
	IBM	Current	Account Chief Operations Officer	Dublin												
	IBM	Former	VP of BPO	Dublin												

Table 15: Informants for the Xerox Case

From Xerox, these informants included the Vice President of Shared Services who acted as the senior stakeholder for the relationship since 2010. Input for the period before this was provided by two executives who have subsequently left the company. One of these was the Company Secretary who was closely involved in the establishment of the Xerox Dublin Shared Services Centre and in the subsequent decision to outsource. He acted as the primary support to the executive who held the position of Vice President of Shared Services at that time. The CFO of Xerox Europe Shared Services was involved with the contract between 2008 and 2014, and managed all of the reporting and governance processes with IBM. The other three Xerox informants each had responsibility for leading the major functions that were outsourced. In two of these cases the individuals had previously held management roles within the shared services organisation before it was outsourced. For all three, their subsequent responsibilities required them to give direction to IBM, monitor performance, and to resolve any operational issues that emerged between the IBM Global Delivery Centres and the Xerox country units.

The IBM informants included the Vice President of the European BPO division who led the BPO Sales function from 2006, and who negotiated with Xerox senior executives in 2007 to secure the contract. Until he left IBM in 2013, this individual remained closely involved in this contract by liaising with senior Xerox counterparts via formal quarterly reviews and frequent informal contacts. IBM executives who had responsibility for leading the delivery of each of the individual service components were also interviewed. One of these oversaw the design of the service delivery model for the Accounting and Debt Collection elements prior to

contracting. He then led the delivery of these services and subsequently was promoted to a more senior role overseeing Finance services delivery across a number of European BPO contracts, including Xerox. His replacement on the Xerox contract was appointed in 2009, and was able to describe the progress of the relationship between then and when these interviews were completed in 2015. The current leader of the Call Centre services element also provided valuable input. This individual worked for IBM until 2013 when he transferred to Concentrix as part of the divestiture of this element of IBM's BPO business. This individual remained as the executive responsible for the service from the supplier perspective following the transfer of this part of the Xerox contract to Concentrix. An interview was also held with the IBM COO who was assigned to the Xerox account between 2009 and 2013. This role included responsibility for activities such as the reporting of service levels, overseeing billing, managing contract changes, and monitoring profitability.

Whether they worked for Xerox, IBM, or Concentrix, these informants provided a very consistent perspective on how the client-supplier relationship developed between 2007 and 2015. Their inputs are blended into the chronology of this relationship that is outlined in the next section.

5.4. Chronology of the Relationship

To guide interviews with the informants an Event History Calendar (Sayles et al., 2010; Stafford, 2009) was developed. This listed major developments relating to this relationship and it was referenced during the interviews if required to assist participants in recalling sequences of events. An initial version of this was created based on secondary sources (e.g. press reports about the contract, the announcement by Xerox of the ACS acquisition). However, the nature of this contract meant that there was a limited supply of such public information. To compensate for this, one of the first interviews was held with the Xerox Vice President of European Shared Services and he was encouraged to provide input to the Event History Calendar by listing significant events before and during his tenure on the contract. The result is presented in Table 16 below. The remainder of this section summarises the chronology of events that were described in the interviews.

2007: The contract between Xerox and IBM was signed at the end of June 2007. It specified that service delivery responsibility would be transferred to IBM

Date	Event
June 2007	Five Year Contract signed between Xerox Europe and IBM (to June 2012) http://www.irishtimes.com/business/xerox-to-outsourcing-900-dublin-staff-to-ibm-1.948574
Sept 2008	Transition of services to IBM completed
April 2008	Xerox experiences problematic implementation of SAP. Extensive additional support from IBM required in order to maintain services at an acceptable level.
June 2009	Some contract terms renegotiated and contract extended for three years beyond original end date (to June 2015).
Aug 2009	IBM appoints new contract leader for the Xerox/IBM contract.
Sept 2009	Xerox signals plans to enter BPO market with acquisition of Affiliated Computer Services (ACS) http://www.cnet.com/uk/news/xerox-buys-acis-for-6-4-billion/
Mar 2010	Xerox appoints new contract leader for the Xerox/IBM contract.
Dec 2010	Renegotiation of performance criteria and gain-share mechanism for financial services completed.
Mar 2011	Contract enhancement signed to include analytics of collections data as a value-added service.
Sept 2013	Announcement of sale of BPO Contact Centre business unit by IBM to Concentrix. Call centre services provided by IBM to Xerox will transfer as part of the sale. https://www-03.ibm.com/press/us/en/pressrelease/41908.wss
Sept 2014	Full contract extended for a further three years (to Sept 2017)

Table 16: Xerox Event History Calendar

from September of that year. This included the transfer of employees from the Xerox Dublin Shared Services Centre who currently provided the services. A core of managers from that organisation remained as Xerox employees. These managers would initially assist in the transfer of responsibilities to IBM, and later act as the function that would monitor IBM's performance on behalf of the client. Both firms recognised the challenging nature of this transition given the broad scope and scale of the services being transferred. They both assigned very experienced implementation teams, including staff members who had been involved throughout the sales process

and who therefore already had working relationships with their counterparts. A joint project plan was designed and it was agreed that the Xerox Vice President of Shared Services would provide overall executive leadership for this project. This individual was renowned for his work-ethic and attention to detail. He oversaw an extremely rigorous and robust project management process with daily meetings to monitor progress and identify issues requiring resolution. Xerox nominated managers from within their ranks who would temporarily re-locate to Sofia and Manila to work with the IBM executives who were establishing the new service delivery teams in these locations. A set of 'toll-gates' were agreed, specifying the requirements that needed to be fulfilled before the IBM Global Delivery Centres would be permitted to replace the Dublin centre in providing service to each country and for each service, on a case-by-case basis. The workload required from the implementation teams in both organisations at this time was significant and the pressure was intense. However, the rigour of the project management process enabled solutions to be found when required.

2008: The transition of services from Dublin to the IBM Global Delivery Centres continued on a country-by-country basis. Each such transfer required agreement from Xerox management that the 'toll-gate' requirements had been met. In a number of cases this caused delays to the transition plan. This led to additional costs for IBM as it was required to retain staff in Dublin while it had duplicate teams already in place in their Global Delivery Centres. A small number of the operational staff who had transferred from Xerox to IBM agreed to move from Dublin to Sofia to provide a core of experience in this new IBM delivery centre. The remainder were made redundant as the workload finally transferred. As IBM had agreed to pay a portion of these redundancy costs to secure the deal, this presented an additional financial burden which had not been in the original business case. Within IBM senior executive circles the Xerox contract became known as one that was significantly loss-making. Also during this year, the two parties reviewed their latest understanding of the workload that would be transferred, based on the experiences in the early months following the transition of services. Some adjustments to the pricing were amicably agreed to reflect unanticipated changes. It was also agreed at this time that some work that had been planned for Sofia would instead be handled in the established IBM

centre in Krakow. This reduced operational risk but it was a more expensive option. Following a negotiation the parties agreed to share the increased cost.

Operational performance by the new IBM teams was mixed, but generally acceptable in the first 12 months of operation. However, in response to corporate pressure about the profitability of the contract, IBM Global Delivery Centre management in the remote locations tried to improve the situation by reducing staff numbers in some of the operational teams. This added to the difficulties in meeting the service level targets that were stipulated in the contract. Following a failure in one of these areas the Xerox Vice President of Shared Services informed IBM that he intended to apply the financial penalties in the contract. Within the Xerox teams this was seen as a signal to IBM that they were prepared to draw on the penalty regime as a lever to ensure that performance was in line with expectations. At an executive level in IBM this move was perceived to be at variance with the spirit of partnership that they had hoped to establish. Apart from the significant financial impact, they resented the way that this threat was articulated, and felt that it failed to acknowledge their flexibility in agreeing to a low-risk approach in transferring responsibilities from Dublin. Approaches were made to Xerox executive management at a more senior level and an agreement was reached whereby the penalty would be applied, but it would be reversed later if performance improved. Although this was an acceptable compromise this incident was interpreted by both sides as an indication that Xerox would apply a very hierarchical management approach to this contract.

2009: By the end of 2008, operational responsibility for all services had been transferred from Xerox Dublin to the five IBM Global Delivery Centres. At a corporate level in Xerox and IBM there was satisfaction with how the arrangement was progressing. This led to an agreement that the contract would be extended by a further two years and would now terminate in 2014 instead of 2012. However, at an operational level some challenges remained and services were slow to stabilise. There were particular challenges with the Call Centre and Debt Collection services. One reason for these problems was that the levels of staff attrition in the IBM centres increased as management applied further pressure on the achievement of operational targets in order to avoid the risk of financial penalties. The Xerox contract management team in Dublin were also subjected to pressure from their colleagues in the Xerox country business units. Some of the larger countries (UK, France, and

Germany) were particularly vocal in their complaints to Xerox Europe executive management. The Xerox Dublin team supported IBM through this difficult phase by sending staff to the delivery locations to assist in training replacement staff. However by this time, the implementation teams on both sides were showing signs of fatigue. These teams also noticed a growing tension that was emerging between the Xerox Europe Vice President of Shared Services and his counterpart who held the role of IBM Account Director for the contract. Although it did not significantly influence how the respective teams worked together, there was an increasing awareness that these two individuals were growing increasingly intolerant of each other. The IBM Account Director felt that her counterpart continued to focus on operational performance at a very detailed level, without giving credit for what had been achieved to date.

By mid-2009 IBM executives were confident that operational stabilisation was within reach. However, this prospect was thwarted when Xerox Europe implemented the SAP Enterprise Resource Planning software application across a number of their country units. This caused problems for customers and led to significant increases in workload for the Xerox call centre activities now managed by IBM. The SAP implementation also caused invoicing issues that made it very difficult to collect overdue debt. A crisis management process was put in place. It was agreed that the regime whereby penalties were applied for failure to achieve contractual service level targets should be suspended because systems issues made these unreasonable. Xerox agreed to pay for additional staff in IBM to help in managing the additional workload pending resolution of the SAP issues. These additional payments helped the profitability of the contract from IBM's perspective, but this did not change the outlook that the contract would continue to be loss-making for some time. Although Xerox appreciated the supportive, flexible, and responsive stance taken by IBM to the SAP issues, the tension between the contract leaders on both sides continued to escalate. By June of 2009 the Xerox Vice President of Shared Services indicated that he could no longer work with his IBM counterpart and he formally requested that her manager should now also attend regular governance meetings. At a more senior level in both organisations it was agreed that this situation could not be allowed to continue. They rationalised the situation by concluding that the management skills that are needed to stabilise a service are different to those that had been required during the

transition period. Therefore it was privately agreed at a senior level that over the following 12 months the leaders on both sides of the contract would be replaced.

In September 2009 IBM announced a new Account Director for the Xerox contract (this researcher was the appointee). This allowed the relationship to recover as both sides adopted a fresh perspective on how the issues caused by the SAP implementation could be resolved and how operational performance could then be stabilised. A further complexity to the outlook for the relationship then emerged when Xerox announced plans to acquire ACS. As this signalled the entry of Xerox into the BPO market, it raised questions about how it would continue to manage the contract with IBM, and whether this contract may even be prematurely terminated.

2010: As more information emerged about the acquisition of ACS both sides reflected on the impacts that this might have on the contract. It was recognised that it would take Xerox some time to integrate this acquisition, and therefore it would be impossible in the short-term for this new business unit to absorb the broad range of services included in the contract with IBM. In any case, ACS did not have a significant presence in Europe and therefore did not have the capability to take over these services. At this time the global financial crisis was also having an impact on Xerox financial results so it seemed unlikely that the company could afford the fees that would be charged if they sought to prematurely terminate the contract with IBM.

Based on this assessment IBM grew less concerned about the threat that the ACS acquisition posed to the Xerox. In fact, they began to realise that they could use the Xerox contract as a vehicle for restricting expansion into Europe by ACS (now called Xerox Services). In competitive situations IBM sales teams could raise doubts with customers about the capabilities of Xerox Services because their parent corporation relied on a competitor such as IBM to provide critical services in support of their business. Also, as IBM retained responsibility for these functions, Xerox Services would find it more difficult to establish a critical mass in Europe by using internal service provision as a foundation for their operations. These factors added a new strategic attractiveness to the Xerox contract, although it also caused IBM corporate management to view Xerox more as a competitor than a customer or partner.

In March 2010 Xerox announced the appointment of a new Vice President of Shared Services in line with the private agreement reached between senior stakeholder executives in 2009. The new appointee was tasked with ensuring that operational performance was stabilised. In fact, increasing demands within Xerox's business required that the performance levels needed improve beyond the standards specified in the contract. In particular, the need to further improve cash flow required Debt Collection performance above the levels that IBM was committed to in the contract. Also, cost pressures in the country units could be eased if more customer problems were resolved over the phone by the Call Centre service, and meaning that on-site visits by engineers could be reduced. The SAP issues continued to have an effect on services. This presented the further challenge of getting staff costs back to contractual levels and securing agreement from IBM that contractual service standards could be re-instated.

The new Xerox appointee realised that achievement of these objectives would require an improved relationship with IBM. He recognised that following the ACS acquisition, this could prove more difficult as he could not credibly entice IBM with the prospect of growth for the contract in return for performance improvements. He concluded that to improve the relationship he would need to replace a number of the Dublin contract management team that he had inherited. As some of these managers had been in place since the services were part of the Dublin Shared Services Centre, they still adopted a supplier-management approach and continually emphasised their view that the quality of the services was not as good as when they were performed internally. During 2010 the new incumbent began to replace some of these managers with appointees who were tasked with improving the relationship while supporting IBM to improve operational performance.

From IBM's perspective the Account Director that had been appointed in 2009 also realised that a new level of cooperation in the relationship would be mutually beneficial. Although the suspension of service level requirements temporarily removed the risk of paying penalties for under-performance, this would not continue indefinitely. The IBM service delivery teams in the global delivery centres had become accustomed to under-performance and needed to improve. As Xerox management continued to closely monitor and direct operational performance this had encouraged an abdication of responsibility by IBM management. That is, it was

apparent that IBM management in the Global Delivery Centres were not sufficiently innovative in considering how performance could be fundamentally improved. Also, the contract continued to be supported by an expensive IBM Account Management team in the UK and Ireland, who spent much of their time arguing with their Xerox counterparts about performance and reporting obligations. To address these issues a strategy was developed which would concentrate on improving operational performance and using this as a foundation for reducing the IBM management overhead in the UK/Ireland. However, in order to get the financial performance of the contract into a break-even, and then a profitable position, it would also be necessary to find new sources of revenue. One possibility was to focus on the requirement that Xerox had for performance improvements, and to find ways of sharing the benefits of this between the two companies. With this objective in mind, a programme of negotiations was initiated towards the end of 2010 aimed at offering higher Debt Collection performance targets as required by Xerox, but in return for 'gainshare' bonus payments to IBM if these higher levels were achieved and exceeded. This was a protracted negotiation that did not complete until late in 2011.

2011: The relationship between the two organisations continued to improve during 2011. The Xerox service leaders facilitated more effective contacts between the Xerox country units and the service delivery teams in IBM. In this regard the IBM and Xerox teams were seen to present single face to the country units in representing and defending the services. Operational performance continued to improve across all service lines and this allowed IBM to reduce some of the more expensive Ireland/UK Account Management employees who oversaw delivery centre performance. The 'gainshare' agreement for Debt Collection services was finally agreed and came into effect for the final quarter of 2011. It was immediately effective in encouraging the IBM Global Delivery Centres to find creative ways of improving performance.

2012: During 2012 the Debt Collection 'gainshare' initiative continued to result in improved operational performance to Xerox. The revised targets were exceeded each quarter without the need for significant additional investment by IBM. This new stream of highly profitable 'gainshare' revenue to IBM ensured that the contract moved into a break-even and then a profitable position. The improved performance also led to the agreement to move some additional functions from the Xerox in-country units to IBM, despite the reservations expressed by Xerox Services

(formerly ACS). During this year the two financial services elements of the contract (Accounting and Debt Collection services) provided profitability levels that were in the top quadrant when compared to other services provided by IBM globally. Xerox was also very satisfied with the results as the additional cash collected represented a significant benefit during the global financial crisis.

The Call Centre services element of the contract continued to be loss-making and operationally problematic for IBM. A new leader was appointed to oversee this element of the portfolio and this individual highlighted that the level of involvement by Xerox in directing these services was still over-bearing and inefficient. He undertook a set of activities aimed at gaining trust and seeking more autonomy so that he could make the changes that he saw as necessary. This proved effective in improving performance and reducing costs to enable this element of the service to reach a break-even position by the end of 2012. However, as for the financial services, it was recognised that new streams of revenue would be needed to make this service profitable. Two possibilities were identified: 1) To find ways of improving issue-resolution by the call centres beyond the contractual levels, thus reducing the costs that Xerox incurred from engineer visits, and 2) To find more ways of restricting the amounts of unnecessary consumables (i.e. ink and toner) that customers requested. A programme of meetings was scheduled with Xerox to explore both of these areas and these resulted in agreement on a pilot-project aimed at improving technical support resolution rates in the first half of 2013.

2013: The pilot project in the call centres aimed at increasing remote resolution rates proved very successful. IBM's profitability for the Call Centre services element of the contract improved when it received a share of the engineer costs that were saved. Discussions commenced on how this initiative could be extended. However, this possibility was stalled in September 2013 when IBM announced the sale of its BPO call centre business unit to Concentrix. A period of confusion followed as both parties tried to assess how this element of the contract would be managed in the future. The proposal emerged that Concentrix should act as a subcontractor to IBM for this contract. Therefore it was agreed that the existing contractual structures would remain in place, and revenue for the call centre element of the Xerox contract would simply be passed from IBM to Concentrix when the divestment was finalised in early 2014. A more flexible and effective relationship

between the organisations continued to develop. Attention was already turning to what would follow when the Xerox-IBM contract reached its planned termination date in June 2014.

2014-15: The divestiture of the call centre business unit to Concentrix was completed in March 2014 as planned. All IBM staff that supported this element of the contract transferred to Concentrix at that time. This had no negative impact on operational performance, or on the relationship. In fact Xerox informants reported that they found their counterparts even easier to work with when they were not constrained by the controls that they had operated under in IBM. The Accounting and Debt Collection services remained part of IBM and continued to perform well. Detailed negotiations took place on what would happen on termination of the current contract. Xerox Services continued to object to this contract, but they were still not in a position to offer a service that could compete with the levels of performance that IBM/Concentrix were now achieving. Xerox executive management in Europe were very nervous about the operational impacts of a change of service provider. IBM and Concentrix worked together to make this an even more difficult dilemma for Xerox by offering prices which represented a saving of over 20% if Xerox agreed to extend the contract by a further three years until 2017. This was ultimately successful in spite of very vocal objections from Xerox Services. As part of the contract extension Xerox secured agreement from Concentrix to an even more aggressive set of targets for reductions in engineer call-outs, with bonuses for over-achievement. A further significant aspect of the new agreement from the perspective of Xerox was that pricing for Call Centre services would now be based purely on transaction levels rather than the largely fixed-price regime that had previously existed. This more accurately reflected the reductions in Xerox's business and also protected them in the likelihood that call volumes would continue to decrease as the reliability of printing and photocopier hardware improved.

By 2015 operational performance levels were stronger than ever for all services. However, under the new agreement, IBM and Concentrix were prevented from discussing the contract or its performance publicly. Visits from prospective customers to the floors of the delivery centres from where these services were delivered were also not permitted. This addressed one concern of Xerox Services that IBM and Concentrix could continue to embarrass them in competitive situations by

discussing the services that they provided to Xerox. IBM's profit levels for the Accounting and Debt Collection services were reduced under the revised pricing, but these were still considered acceptable. The Call Centre services element continued to struggle to achieve an acceptable level of profitability. Although the numbers of engineer call-outs required continued to improve, these are not yet to the levels where Concentrix earned bonuses. Xerox acknowledged that the call centre element of the revised agreement was significantly in their favour, and they realised that they needed to remain sensitive to the risk that this could encourage dysfunctional behaviour.

When these interviews were completed informants felt that there was no realistic prospect of the agreement being extended beyond 2017, even though from an operational perspective many in Xerox would have preferred this option. In fact, Xerox Services continued to object and some informants speculated that the service would be terminated even sooner than this. Approaches by Xerox to IBM with a view to purchasing the Sofia delivery centre to ease the transition were rejected. Relationships at a corporate level between the firms were strained after IBM was successful in a significant financial claim against Xerox Services relating to the transfer of a contract from another client in the USA. However, the relationship between those involved in the contract being analysed here remained cooperative and effective as they progressed towards dissolution.

5.5. Identification of phases

An analysis of the chronology described above concluded that the outsourcing relationship between Xerox and IBM progressed through the following four phases over this nine-year period:

- **2007-10: Foundation:** In the initial three years the focus of both parties was on the transition of the service delivery responsibility from Xerox to the five IBM Global Delivery Centres. This was a generally cooperative phase, although significant operational challenges were a source of tension. These tensions escalated towards the end of this phase as the relationship between the leaders on both sides deteriorated.

- **2010-12: Stabilisation:** Following the appointment of new relationship leaders a more supportive relationship was re-established and service performance stabilised over a period of 2-3 years.
- **2012-2014: Optimisation:** During this phase the organisations jointly pursued new initiatives to optimise the returns from the contract. These were founded on reliable services delivery and new contract terms that delivered shared rewards in return for improved operational results.
- **2014-15: Dissolution:** In spite of the transfer to Concentrix of the call centre element of the contract, the relationship has remained effective. However, corporate pressures dictate that the contract will not be allowed to continue beyond 2017 as it has become untenable for Xerox to continue to outsource internal services to a competitor of Xerox Services.

The following sections discuss each of these phases in more detail and highlight the influences that were most prominent in each case.

5.5.1. 2007-10: Foundation

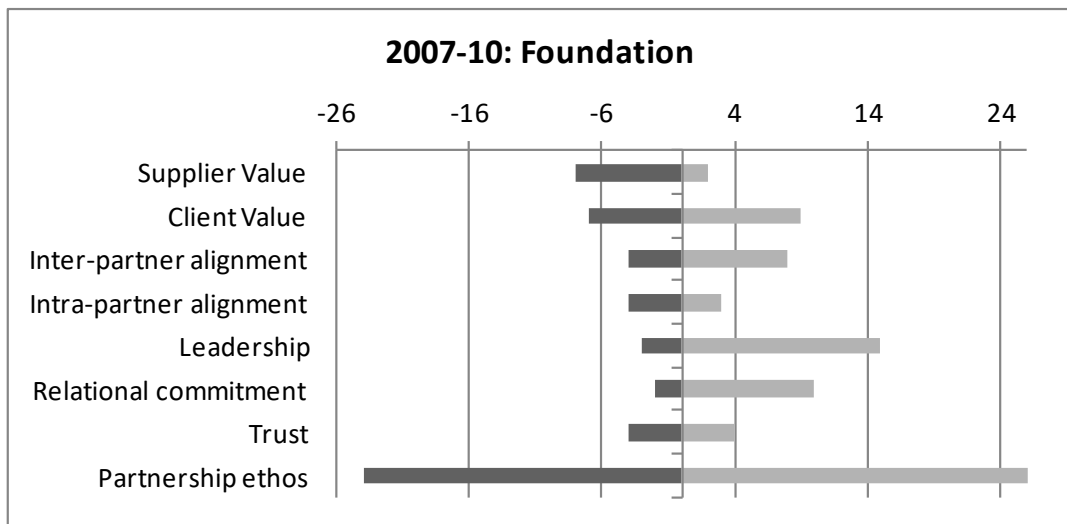


Figure 12: Xerox relationship "Foundation" phase

The graphic in Figure 12 provides a visual representation of the numbers of positive and negative comments made by informants about relationship influences during this time period. This shows that this was a volatile phase. Although the

respective teams generally worked well together, the importance and complexity of the task inevitably led to periods of tension.

Comments about the levels of value being realised by both organisations indicate that returns were mixed during this early stage. Towards the end of the sales process, when it had appeared that Accenture were about to win the deal, IBM had offered to absorb the Xerox Dublin Shared Services Centre staff and share the redundancy costs. This provided Xerox with savings above what they had originally anticipated (Supplier: *“It was a brilliant deal for them. They got less cost in the first 18 months than they expected.”*) Although the financial benefits to Xerox were appreciated, these benefits were offset by some problems with IBM’s operational performance, particularly immediately after services were transferred (Client: *“It was mixed.”* Client: *“It was ropey.”*) However, by the end of this phase Xerox was generally happy with the levels of service being achieved, especially when compared to the difficulties that they had experienced in their Dublin Shared Services Centre prior to outsourcing (Client: *“Overall I felt the delivery by IBM was good.”* Client: *“Probably more consistent performance than we had when the operation was here.”*) For IBM, the returns from the contract were quite problematic in this initial phase (Supplier: *“It was a troubled contract.”* Supplier: *“It was a tough deal early on.”*) Apart from the financial burden of having to fund portions of the staff redundancy costs, IBM found it challenging to reach the productivity levels that had been projected in their business case for the contract (Supplier: *“we were unable to deliver the headcount savings in line with the original business case projections.”*)

In spite of these difficulties the two organisations remained reasonably well-aligned in their focus on ensuring a successful transition of the services, and ongoing improvements in operational performance. There were strong connections between the firms at multiple levels, and these were relied-upon to keep these objectives in-focus (Supplier: *“There were connections right up the corporations at Board level at the time.”*) A number of the informants emphasised that this alignment between the organisations was helped by the fact that they were both US multinationals who understood each other and who shared a common perspective on how services should be delivered in line with corporate and regulatory requirements (Client: *“We were similar corporations and we were very much of the same mindset.”* Client: *“A lot of*

similarities, to a point of being almost inter-changeable ... US mindset, US structures ... you cannot under-estimate ... The vocabulary is the same to a large extent.”)

Nevertheless, those closest to the contract from both sides had to work hard within their own organisations to continue to maintain support for the contract. Within Xerox there was ongoing resistance from certain country units who had never fully accepted the loss of control that resulted from a shared services strategy (Client: *“There was the politics that goes on ... Within the fiefdoms they were knocking it down.”*) For their part the IBM Account Team was under pressure from internal stakeholders who were dissatisfied with the financial performance of the contract in these early years (Supplier: *“Constant reviews with worldwide and stuff like that to try and improve things.”*)

During this phase, committed leadership from the executives who were directly responsible for the contract, and their immediate superiors, was very effective in overcoming issues that emerged during this challenging first phase (Client: *“That level of attention to detail, driven by him with his energy levels...totally committed to the business. We had a good base and a very good team.”*) It was perceived to be particularly helpful that there was continuity of leadership between the sales process and the operational phase of the contract (Client: *“They stayed on the contract when it was signed.”* Supplier: *“The stability of the Xerox team and their knowledge was very helpful to us in terms of developing the relationship and ironing out the issues.”*)

However, the deteriorating relationship between the IBM Account Director and the Xerox Vice President of Shared Services towards the end of this phase cast a shadow over the cohesive leadership that the contract had benefitted from in its first 18 months (Supplier: *“There was a locking of horns”*; Supplier: *“He was focusing on doing her job better than she was doing. That’s ok to start with, when you are trying to get on with people, but after a while it gets really grating.”*) This was generally interpreted as a clash of management styles rather than a fundamental issue with the inter-firm relationship (Supplier: *“It was two people who could not operate at each other’s wavelength.”* Client: *“It was down to two individuals, both of which were very strong characters... it didn’t impact relationships with the rest of the teams.”*) The appointment of a new IBM Account Director relieved this tension, although it did not trigger a substantive change to the relationship until his Xerox counterpart was also

replaced (Supplier: *“Once that was resolved, then I always felt that it was a lightening on both sides and we started to move forwards on a more proactive and productive way; Client: “Bringing a new manager in - like football - things start changing”*)

Both sides were seen to be investing in making the relationship a success (Client: *“We had to work together, and that was both of us investing time making sure that where there were problems they got resolved.”* Supplier: *“We brought in quite a large senior team of transition people with expertise in the different processes.”*) Levels of trust between the organisations were increasing (Client: *“There was a lot of respect for each other... I would have to say that at no one time did you feel that stuff was being hidden from you by IBM.”* Supplier: *“The more trust you can get between the two sides, by getting teaming right, to give the environment where that trust can develop, is really important.”*)

A striking feature of Figure 12 is the number of comments that the informants chose to make about the level of partnership that was evident during this phase. This can be interpreted as a reflection of the level of importance that they associated with partnership-working. The figure shows that there were an equal number of negative and positive comments about the strength of the partnership at this time. This indicates that the relationship was still developing, and it had to cope with the particular pressures being experienced after such a major transition. There is recognition that executive management on both sides were sensitive to building an open and collaborative relationship during this phase (Client: *“My approach to it was that it had to be a partnership. That I was not there to beat the drum.”* Client: *“You get to know each other and you get to know how IBM do business, how Xerox does business and both parties learn from each other.”* Supplier: *“It was a carefully managed development of the relationship.”* Supplier: *“The communication was very good, and that characteristic carried on all the way through the project engagement. It was at that senior level a very close working relationship with regular touch points.”*) Nevertheless, the comments indicate that it can be challenging to maintain a collaborative climate as key actors begin to suffer from fatigue, and as the expectations of stakeholders begin to change as they look for stabilisation (Supplier: *“As things settle down a bit they become a little more commercial...and I think that naturally there is a shift and that starts to sour a relationship a little bit if it is not properly put in context.”*) From the client’s perspective it appears that some

individuals continued to feel that the outsource decision was a negative reflection on their performance when the service was fulfilled internally. As a result, some continued to try to prove that the supplier is not performing to previous levels (Client: *“I had accepted the fact that it was gone and therefore it was more important to make it work. As for the team I had with me, I would say that one of the individuals was probably more on the track of ...we have to prove that things are not so good.”*)

In summary, during this phase the relationship was developing, but it had not yet reached maturity and it needed a new impetus. Towards the end of this phase there was a realisation by senior executive management in both organisations that in spite of all that had been achieved, a new type of leadership was needed to help the relationship in progressing beyond this initial phase.

5.5.2. 2010-12: Stabilisation

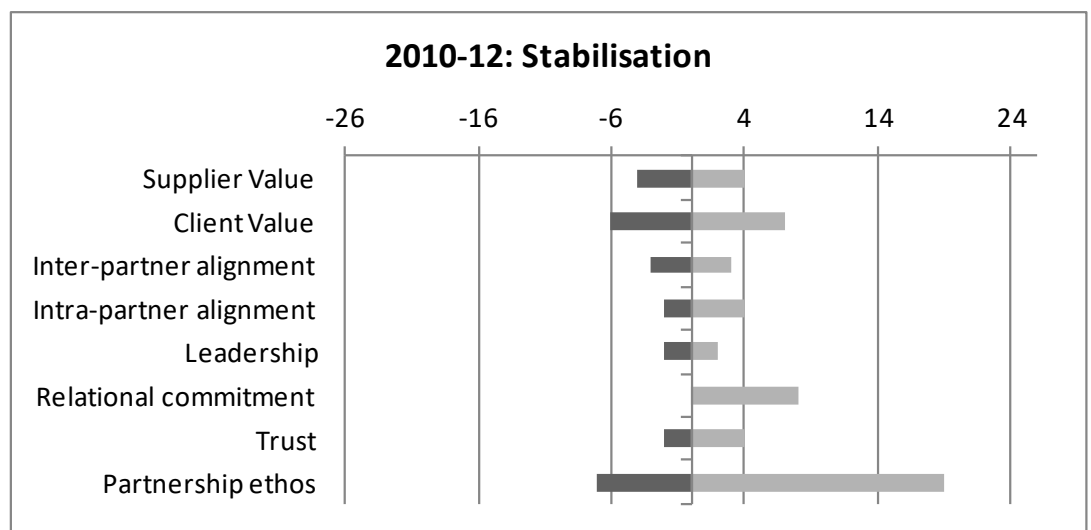


Figure 13: Xerox relationship "Stabilisation" phase

The newly-appointed Xerox Vice President of Shared Services was given a brief to improve the relationship and to use this as a foundation for stabilising and improving operational performance in line with the changing needs of the business (Client: *“In order to have a relationship that was going to last for the next five years and was going to be able to have a predictable set of operational results it needed a much more partnership approach from both sides.”*) This phase was successful in improving the operational performance of the services and also in improving its profitability for IBM.

Xerox was achieving the financial benefits that it had anticipated from the contract in terms of predictable and lower costs. However, operational results from the services were not yet achieving the required levels (Client: *“We had a business case that had been committed to and was being delivered. We had a fixed price contract. We knew what we were going to pay. The only issue we had was that a number of areas in all of the towers across the operation were operationally challenged.”*) IBM recognised that there were opportunities to improve and that the delivery teams were not performing as well as those on other contracts (Supplier: *“It was a pretty poor service [that] I saw having come off a contract that was being driven in a totally different way by IBM.”*) Apart from the operational challenges, the wider pressures on Xerox’s business at a corporate level (see Figure 11 on page 145) created a need to identify cost savings above the levels committed in the contract. Xerox executives were generally satisfied with how IBM entertained discussions on the need to cut costs (Client: *“We needed to go back to IBM and say that we needed to do cost cutting. And IBM played ball, even though they could have said “no, it’s in the contract”, but there was quite a lot of good discussion that happened.”*) Therefore, from the client’s perspective the effectiveness of the contract began to improve during this time, as operational issues began to get resolved and further cost savings were agreed (Client: *“It was a functioning commercial contract.”*)

From IBM’s perspective, the initial desire during this phase was to make the contract profitable and to then establish a foundation from which this profitability could be improved (Supplier: *“Break-even was what it was largely about in the early days.”*) There was now a more realistic perspective from IBM stakeholders about what the contract could be expected to deliver. New members of the IBM Account Team felt that they could take advantage of these revised expectations to invest in building a more stable service before internal expectations increased again (Supplier: *“Doing it quickly, during the honeymoon period after you have been asked to come in.”*) Although it remained a challenging contract from a financial perspective during this time, the situation began to improve for IBM and thoughts turned to how the situation could be further improved to deliver a satisfactory level of profit (Supplier: *“Within a year I think we had got ourselves back on track and things started to improve from there.”* Supplier: *“The margin was pretty small and the question was how could we make some money?”*)

Figure 13 shows that informants made equal numbers of positive and negative comments about the level of alignment that existed between the client and supplier during this phase. Xerox representatives felt an increased sense of ownership for the operation, and were defensive when it was criticised by the Xerox country units (Client: *“I did care very dearly and was very disappointed that [IBM] Sofia had been [identified as] the problem, because I knew deep down that this was not the case and we had facts, but they were not listened to”*; Client: *“Although we came from two different companies, [the Call Centre service] came with a single view based on facts.”*) In spite of this there were still constituencies within the Xerox team managing the contract who continued to resist the outsourcing strategy and saw it as their role to highlight where IBM was under-performing (Client: *“We had an institutional memory of the way we used to do it in the past and that became a benchmark to how we expected IBM to do it.”*) Although levels of inter-personal cooperation were increasing, it was recognised that there was an issue of misalignment because the service level standards which the IBM teams aimed to achieve no longer matched what Xerox needed to meet their current business needs (Client: *“I don’t think all of the IBM people all of the time were aligned with our goals, which makes sense because they work for a different organisation.”*)

The change of IBM Account Director was seen by Xerox as a positive move that removed some of the emotion that had built-up during the previous phase. It was felt that this helped to re-focus the IBM teams on what the client needed (Client: *“It seemed that we had the focus and the gravitas of the contract, instead of electrons going around all over the place.”*) The new Xerox Vice President of Shared Services changed much of his management team and appointed people who he regarded as more partnership-focused and less likely to be influenced by the legacy of the previous phase (Client: *“Let’s make a fist of this thing and make it work.”*) Both organisations continued to invest in building the relationship and improving levels of trust (Client: *“[IBM Name removed] made a tremendous effort to really work and build on the relationship.”* Supplier: *“Because that stabilises delivery, it demonstrates to the client that you are in control and you know what you are doing. That encourages them to give you some extra bits of work.”* Supplier: *“We needed to fix things and we needed to build their trust.”*)

Informants made a number of negative comments indicating that at the start of this phase the level of collaboration and partnership was poor (Client: *“From a relationship point of view there seemed to be a bit more of an ‘us and them’ attitude – ‘IBM aren’t doing this or Xerox aren’t doing that’... much more combative, not collegiate”*; Supplier: *“Overall the relationship was pretty poor between the client and the [IBM] operation.”*) This steadily improved as operational performance stabilised and this helped to establish more solid relationships between client and supplier representatives. Both sides grew in confidence that service levels could be further improved. It also facilitated a more open discussion about how the benefits from service improvements could be shared. There was increased trust that neither party would be opportunistic in taking unfair advantage of any change in performance standards that would be agreed (Client: *“So for me it became evident that the best thing we could do was to look at this as being a long-term relationship and work together to hit the SLAs, drive the cost where we can, and make sure that neither side is too financially exposed”*; Supplier: *“[Xerox name removed] had an attitude that it should work for both parties, and that was a strong contribution.”*)

Although this improved partnership ethos was important, it is also clear from the informants that Xerox still retained significant power in the relationship due to the severity of the financial penalties that could be enforced if there were shortfalls in performance. Xerox used this power sensitively to encourage the required level of service (Client: *“The leverage of having, sitting on one side you have big penalties due and making sure the way that other side is performing is good, and the other caution from my perspective is that if you penalise one side too hard and it hurts the overall contract, the good performance on the other side is going to come down as well.”*)

The level of trust and cooperation that had been established, coupled with the need that both sides had to improve the returns that they were getting from the contract, created a climate in which a revision of contractual service standards and the ‘gainshare’ agreement for over-performance could be agreed. Although this agreement only related to the Debt Collections service, it was sufficiently rewarding for both parties that it enabled a new and very fruitful phase in the relationship.

5.5.3. 2012-14: Optimisation

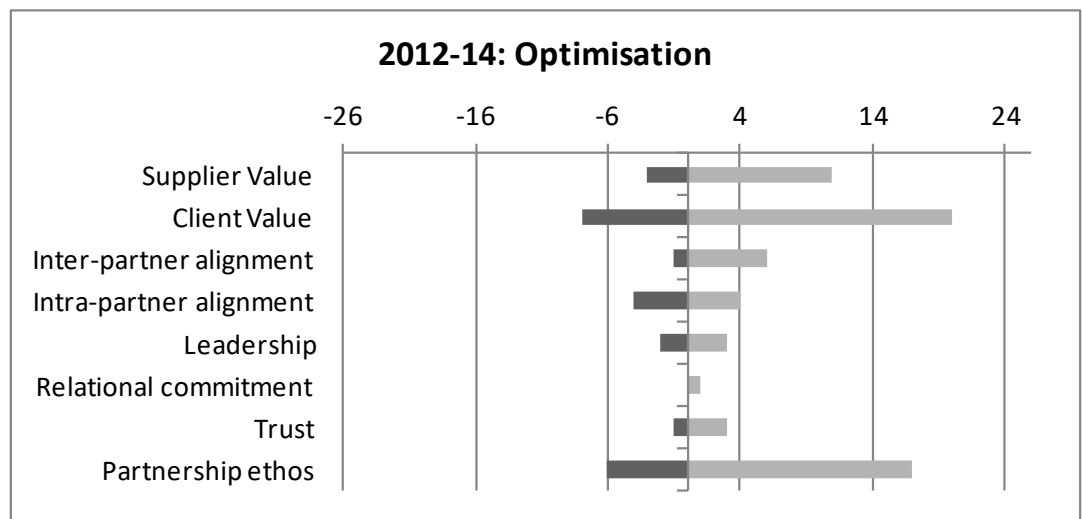


Figure 14: Xerox relationship "Optimisation" phase

Figure 14 shows the predominance of positive comments made by informants when discussing this time period when stabilised delivery of services created a platform for further optimisation (Supplier: “*We came out of the stabilisation of delivery, we got into stable delivery, we then focused on innovation.*”) Of particular note is the number of positive comments about the value being achieved after the Debt Collection service level standards were renegotiated and the ‘gainshare’ mechanism was implemented. IBM benefitted from lump-sum payments for overachievement of objectives each quarter, and Xerox did not have difficulty in justifying these internally as operational results were so strong (Client: “*We had to pay IBM to get more of what we wanted, but it has become the norm now*”; Supplier: “*They did not have an issue in paying us nice lump sums on gainshare ... Aligning to their operational targets and demonstrating that we are willing to go beyond the SLAs I think has been important to Xerox.*”) IBM’s profitability on the Call Centre service remained challenging, although it began to improve (Supplier: “*We then started to make 6-7% [Call Centre] profit.*”) Of particular concern was that the volumes of calls being received continuously exceeded expectations and as the pricing mechanism only allowed for minor adjustments for unexpected volumes, IBM had to handle these calls without sufficient additional payment. However, the gains made from the financial services elements compensated for this at the overall contract level (Supplier: “*We were making huge money on Debt Collection gainshare at the time, and that obviously took the pressure off the Call Centre tower*”; Supplier: “*We went through the extreme of*”

moving to a contract which is delivering probably the healthiest GP [Gross Profit] in the portfolio.”)

Although Xerox paid more to IBM during this period, they were satisfied with the service that was being provided and that cost-saving initiatives were also having an effect (Client: *“It still felt like we were getting reasonable value for money for the amount we were paying.”* Client: *“I think it was by 2014 it had begun to turn around and you could actually see that the cost had come down relatively, savings were flowing through on all lines, and you could see it, because IBM had delivered reductions.”*) As well as the cash flow gains that Xerox achieved from improved Debt Collection performance, the bonus payments to IBM were justified on the basis that they also brought a longer-term benefit. This was because under the mechanism that had been negotiated, ‘gainshare’ amounts were only paid in subsequent years if the achievement for the previous year was exceeded. Therefore Xerox had the added advantage that IBM was committed to year-on-year improvements if they wanted to continue to earn bonuses (Client: *“We pay for extra performance above the SLAs, that’s a double-edge sword, because in the early days Xerox has to pay for extra performance, but over time the better performance becomes the norm and Xerox gets the benefit over the longer term. But the outsourcer gets less because there is less to gain as their performance improved.”*)

Call Centre performance also began to improve. New initiatives were agreed which were effective in increasing the numbers of calls resolved over the phone, thus reducing the costs associated with on-site engineer visits. A programme of encouraging customers to use web services to order ink suppliers also reduced the cost of processing such orders through the call centres. The improved profitability that was enjoyed by IBM encouraged a more flexible attitude which was appreciated by Xerox (Client: *“At times we needed some different things that were in the contract and it is about the supplier understanding those things and moving the business to adapt to them.”*) In spite of this general level of satisfaction, Xerox continued to expect more value from IBM. One of the main criticisms voiced about this period is that the supplier did not propose a sufficient number of new ideas which would bring innovations to the service being provided (Client: *“I would have expected more in terms of innovation - more proactive engagement around innovation.”*)

Comments about other relationship influences during this phase are largely positive. There were strong levels of alignment between the organisations and in the support that they each received from their internal stakeholders. Personal relationships between representatives from both sides flourished (Supplier: *“Looking back on it I thought I sometimes got on better with people in Xerox than some of the people in IBM.”* Supplier: *“He sends me recipes. He took me out to dinner in Dublin at his own expense.”* Client: *“You build personal relationships, we get invited to weddings, we get pictures of the kids sent over, we are involved in some of their personal lives in terms of what is going on.”*) Generally, the levels of partnership, collaboration and respect are seen as highly positive from both sides (Client: *“It has been a collaborative working relationship with [IBM name removed]. I feel that we get on well together and at the same time we have a good business relationship.”* Supplier: *“I think it was a good relationship and speaking to people who were on other contracts, I think generally Xerox were quite a reasonable customer.”*)

The effectiveness of the relationship was ultimately a major influence in encouraging those closest to it in Xerox to lobby for the contract to be extended. This was a difficult argument to make as Xerox Services were growing increasingly unhappy with IBM’s ability to use this against them in competitive situations (Client: *“Part of the problem that we had internally was that it has been publically used against us, when we have been in bids with the same companies. I can understand that, but that gave us a bit more leverage with IBM as well, because IBM wanted to keep us as a customer for a longer period of time.”*) Although an extension was agreed, it is accepted by both parties that this will be the final phase of this relationship.

5.5.4. 2014-15: Dissolution

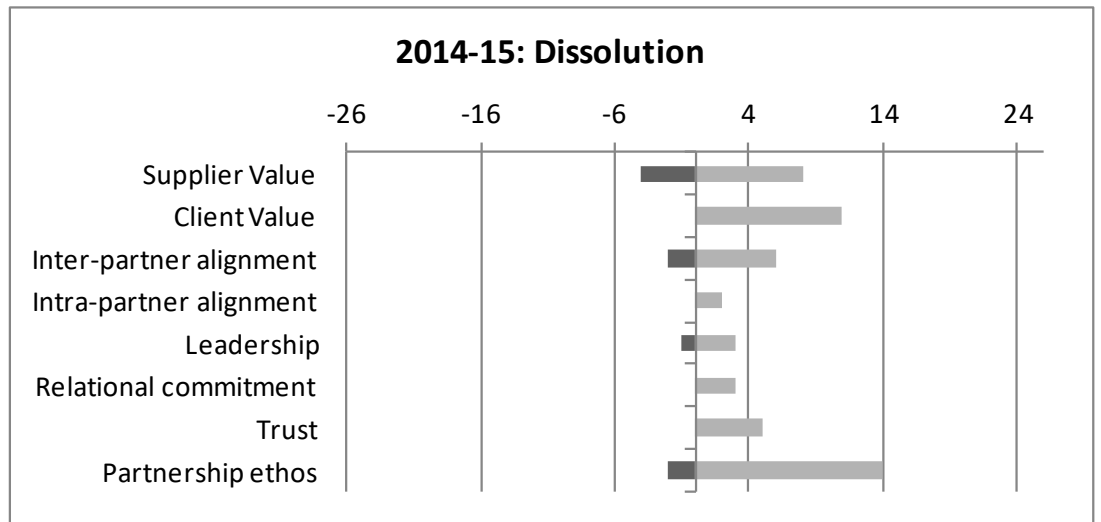


Figure 15: Xerox relationship "Dissolution" phase

As shown in Figure 15, the largely positive profile of the comments made about this phase is very similar to that of the previous phase. Nevertheless this period warrants being categorised as a separate phase because it operated under a revised contractual agreement and it is clearly understood by both parties that there would be no further renewal of the relationship. This is despite the fact that those closest to it on both the client and supplier sides would be content if it were to continue indefinitely (Client: *"Had it been my money, and was I not a good corporate citizen, I would have continued the relationship with IBM and Concentrix forever."*)

High levels of value were still being achieved by both client and supplier. Xerox benefited from price reductions and a transaction-based pricing structure that linked costs to the variances in the scale of their business, and the quality of service being delivered (Client: *"IBM come in with a [percentage removed] reduction, Concentrix came in with a [percentage removed] reduction from the middle of this year and something to tide us over between the last quarter of last year and now, and that was too good for us to walk away from."* Client: *"It is a varying transaction price depending on how well the job is being done. For me that is priceless."*) The reduced level of profitability is acceptable for IBM and Concentrix, although there are debates about whether they conceded too much in order to secure this extension (Supplier: *"We may have been over-generous with our price reductions in the contract extension."*)

The numbers of positive comments about all of the other influences confirm that level of partnership remains high (Client: “It is not about the contract. It is not that we are paying a huge amount more money. It is because we have worked well together.” Client: “I would characterise it as a very positive working relationship, it is professional, there are also personal aspects, we have some fun together when we meet them.”) The client and supplier teams present a single face to the user organisations in Xerox and are recognised as having a very collaborative relationship (Client: “[Vice President of Xerox Customer Services] was on the CSO [conference] call the other day and he said he was amazed with the relationship we have on our contract because it is almost like being part of one company. When he is talking to me or [IBM name removed] on those calls he is talking to one company and he is getting one delivery out of it.” Client: “I think there is a lot of pride by the IBM guys in what they have done for Xerox and there is a very strong affinity, and sometimes people wonder, do they work for IBM or Xerox, there is sometimes a line that we cross between each other where we are not always sure who we work for.”)

Xerox representatives have confidence that the transfer of service delivery responsibility to Xerox Services will be handled professionally by IBM when the contract finally terminates (Client: “*There will be a de-transition from IBM back into Xerox. It will be planned together, it will be worked together.*”) It is expected that it will be wound-down in a professional manner as responsibilities are smoothly transitioned to Xerox Services over the following two years (Client: “*I don’t doubt we will leave in a very professional way. IBM would not do anything other than be very professional.*”)

5.6. Summary

This case provides a significant contribution to the research objective because it relates to an outsourcing relationship that has progressed through a number of phases over the nine-year period that was investigated. The informants all held senior positions with their respective organisations and had a very close involvement with the relationship over periods ranging from five to nine years. They were therefore extremely well-positioned to describe how the relationship developed. Whether they represented the client or the supplier perspective, they provided very consistent reports on how the relationship progressed over this period.

It is interesting that a contract that was originally planned to last five years will ultimately continue for 11 years, despite the fact that the organisations became direct competitors during this time, and the supplier divested of part of the portfolio. The basis of the relationship was the challenging operational task of moving over 1,000 roles from the Xerox Dublin Shared Services Centre to five IBM global delivery centres. The supplier also faced the additional challenge of making this a profitable contract when significant concessions had been made to the client in order to win the business. The client's business significantly declined during this time, leading to added pressures on costs and performance targets. Tensions between the organisations – and not least at a leadership level in the early stages - presented an additional danger to its sustainability and effectiveness. In spite of all of these challenges it is regarded in retrospect by all of the informants as a highly-effective relationship that has delivered anticipated and supplementary forms of value to both organisations.

Some particular features of this relationship are notable and may contribute to more general insights into how successful outsourcing relationships progress:

- It is clear that a strong governance process was maintained throughout this period, with oversight by senior executives in both firms who developed an understanding of each others' requirements and were prepared to intervene in the operational relationship contract when required (Client: *"Having the meetings, keeping the minutes, go through the whole process, and that was very important. It was not just about doing the business, that there is a structure behind it."*)
- These executives recognised when management changes were needed to improve the relationship or move it to a next phase. This was not necessarily seen as a negative reflection on incumbent managers, but rather as a philosophy that different phases in the relationship require different leadership skills and a need to move-on from previous conflicts (Supplier: *"[Xerox senior sponsor] said you are going to have to move [IBM name removed], and I said we are going to have to move both."*)
- The cultural affinity between these two organisations was remarked-upon by informants as a factor that contributed to mutual understanding of the pressures under which each was operating (Client: *"We can look at IBM and Xerox policies,*

they are both big American companies, not too different, and that probably helps us.”)

- Although personal relationships and inter-organisational relational considerations were important, the use of power was also influential. Specifically, the high financial penalties that were stipulated in the contract gave leverage to Xerox and they used this sensitively to encourage the desired behaviour by IBM (Client: “*I do not think that the full commercial penalties or multipliers were ever applied. Although it was always there as a stick that you could carry, which was always a useful thing.*”)
- Fundamentally, the value being delivered to both organisations was the major factor in its sustainability. The structural bonds of the contract and the difficulty of integrating the service delivery back into Xerox made termination challenging. However, even when the term expired, an extension to the contract was agreed. This was in spite of the corporate pressure about the need to support Xerox Services, and also some wider conflict between the two corporations when IBM enforced charges on Xerox relating to a separate customer contract in the USA. This suggests that as long as value is sufficient, environmental challenges can be overcome.

The primary focus of this research project is how these relationships progress and how the search for value influences this progression. In this case, senior executive management in both organisations recognised that increased value could be achieved if the relationship moved from the *foundation* to a *stabilisation* phase. This triggered the appointment of new leaders who encouraged a deeper level of trust and collaboration between the teams. Having stabilised the service it was recognised that a fair appropriation of the benefits would be required to reach the next level of value. Building on the stronger relationship that had by then been established, a mechanism for sharing the new value that was sought were formalised and this led to the *optimisation* phase. The mutual success being achieved served to deepen the relationship and to promote joint-working on further value-generating initiatives. The contract extension in 2014 provided a new construct that determined how value was subsequently shared. Xerox benefited from reduced prices and a transaction-based pricing structure that more closely matched their latest business requirements. The

returns received by IBM were smaller, but this was a valued contribution to their business.

Therefore this case suggests that changes in value objectives can trigger a new phase in a relationship. However, the experience in this case also indicates that an effective relationship is required in order to deliver these value opportunities. This symbiotic link between value and the strength of the relationship is further explored as part of the cross-case analysis described later in Chapter 7 and Chapter 8.

6. Case 3: Southwest One

Southwest One Ltd (SWO) was established as a joint venture between IBM UK Ltd and three local government authorities located in the southwest of the UK. These local government organisations (hereafter referred to collectively as “the authorities”) were Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police. The objective of SWO was to consolidate a range of back-office services functions from these authorities and to establish cohesive shared services units to support their respective day-to-day operational activities. The services functions provided were in the areas of Finance, Human Resources, Procurement, Information Technology, Property Management, and a number of other more minor and specialist back-office services. An additional objective of the SWO joint venture was to provide innovative consultancy and technology solutions that promoted the transformation and modernisation of the core functions of the authorities.

This chapter follows a similar approach to the previous two case descriptions. It begins by outlining the motivations that encouraged these three authorities to seek a partner for this venture, and why IBM was selected. The construct of the joint venture is also described. This is followed by a chronology of the arrangement between 2007, when the strategy was initially conceived, and when interviews with informants were carried out in 2015. This is then summarised into the major phases of the relationship that were apparent from these interviews. The influences on the development of the relationship are then summarised based on the coding of the interview transcripts that was completed, and the subsequent analysis of this data.

6.1. Background to the outsourcing agreement

Somerset County Council (hereafter SCC) is the local government authority for the county of Somerset in the UK. SCC is headquartered in Taunton, which is the largest town in Somerset. The council provides three main categories of services to citizens of this region: *Environment* services include refuse collection and the maintenance of roads and other local infrastructure; *Children and Young People* services oversees government supported crèches, primary and secondary schools, and also provides social services to children with special needs; *Community* services include the support that the council provides to adults with special needs, including

day-care centres, transportation, and other forms of support to adults with mental and physical disabilities. Somerset has a population in the region of 0.5m people. The council is overseen by an elected body of 55 councillors, and between 1993 and 2009 the Liberal Democrat party had a sufficient number of elected members to retain control over council decision-making. Prior to the establishment of the SWO joint venture, SCC employed in the region of 17,000 staff. Senior management at SCC were proud of the services that they delivered to citizens of the region and they were particularly proud of the fact that independent assessments of council effectiveness now rated SCC as a 4-star organisation (classified as *improving strongly*). This was emphasised as a significant improvement on the 2-star (classified as *fair*) rating that had been achieved three years previously, and before the incumbent SCC CEO was appointed.

Local government structures in Somerset distinguish between the responsibilities of the county council (SCC), and five district councils that provide local services for designated areas within the county. There are also 14 town councils and 343 parish councils in the county. In some regions of UK, county and district councils have been merged into so-called *unitary* authorities on the assumption that these integrated organisations will be more efficient. In 2005 and 2006, SCC proposed to UK central government that a unitary approach should be adopted for Somerset. However, this attracted strong resistance from the district councils who argued that this would undermine local democracy. As a result, this bid was unsuccessful, although it left a legacy of resentment at both a political- and officer-level between some of the district councils and SCC.

One of the five district councils in Somerset is Taunton Deane Borough Council (TDBC) which provides services to the approximately 62,000 residents of the town of Taunton and the surrounding hinterland. These services include local waste collection, public parking management, cremation services, the maintenance of local swimming pools, public housing provision, the collection of local taxes, and the administration of payments to certain social welfare recipients. As was also the case for SCC, in 2006 political control of TDBC was also held by the Liberal Democrat party. The independent assessment of its services also rated the organisation as a 4-star council. The fact that they were both located in Taunton and they were both

controlled by the same political party meant that TDBC retained a close relationship with SCC, even in the aftermath of the failed unitary proposal.

Avon and Somerset Police (ASP) is responsible for the policing of Somerset and surrounding areas such as Bristol, Bath and South Gloucestershire. Prior to the establishment of SWO, ASP comprised of 4,200 police officers and 2,500 support staff. ASP is headquartered in Portishead, near Bristol. For simplicity, the organisation is referred to here as ASP, although it was actually comprised of an overseeing body (Avon and Somerset Police Authority), and the operational police force itself (Avon and Somerset Constabulary). The head of the Police Authority was an elected representative who chaired the board that provided oversight to the Constabulary and approved operating budgets. The Chief Constable had responsibility for managing the Constabulary, and was supported by Assistant Chief Constables and Regional Commanders.

The senior leaders of SCC, TDBC and ASP had regular interaction with each other about operational matters and common objectives. They shared a view that each of their organisations was operating effectively, but that they should continue to find ways of improving the services that they provided to citizens of the region. In 2004-05 the UK economy was strong, although central government was beginning to signal some curbs on local government spending. The leaders of the three authorities recognised that there was some duplication between the back-office services that each of them funded within their respective organisations. In 2005 the CEO of SCC invited his peers from TDBC and ASP to join him in a visit to Suffolk to review a partnership that had been established in that county between local authorities and BT Ltd for the provision of certain back-office services. The visiting executives were highly impressed by the public-private cooperation that they witnessed during that visit. On their return they conceived a plan to partner with a private-sector organisation to create shared services functions from their disparate back-office activities, and by doing so to release savings which they could invest into additional services for citizens. A central objective of this strategy was that it should be executed through a partnership with a highly innovative private sector organisation who could also act as a catalyst for the transformation of front-office operations of all three authorities. They each expressed a desire to be challenged by such a partner. One of the executives described his expectation of how a partnership with an organisation from a

different cultural background should be considered metaphorically as the grit within an oyster from which a pearl will develop.

A joint project team was established by the three authorities to manage the process of tendering for the work in question and selecting a supplier. It was critical to follow a very formal process in order to demonstrate compliance with EU legislation for the tendering of public sector services. Other public authorities in the southwest of the UK were invited to have their names included as potential clients for the services that would eventually be contracted. Although the other authorities would not be part of any initial contract with a provider, by participating in the early stages of the procurement process this would mean that they could contract for the services with the selected supplier at some point in the future without the need to go through a separate formal procurement process. Over 30 authorities took advantage of this opportunity and had their names included on the tendering documentation. These included councils in other counties in the southwest of the UK (i.e. Devon, Dorset, and Cornwall), the other district councils in Somerset, and other police, ambulance and fire services. This increased the attractiveness of the opportunity for suppliers because it meant that the scale of the contract could be increased beyond the initial three councils at a later stage, without incurring the cost of engaging with additional public sector procurement processes.

A number of suppliers responded to the tender requests and were invited to make presentations to representatives of the three authorities. The strong consensus from the clients was that the proposal made by IBM was the strongest in the level of understanding that it displayed of what they were expecting to achieve from this arrangement, and the spirit of partnership that they sensed from the senior IBM representatives at these meetings. In early 2007 IBM was confirmed as the preferred supplier for this contract and the project team from the authorities was instructed to proceed to detailed negotiations and contracting with a view to signing a contract by September of that year.

Within IBM this was viewed as a highly strategic opportunity. Although the company had a significant track record in winning business with central government, it had historically struggled to make in-roads into the huge local government sector in the UK. The projected term of the initial contract with the initial three clients was 10

years, making it a significant contract in its own right. It was also anticipated that it would be very difficult to unravel this arrangement after such an extended period. The prospect of subsequently expanding this contract beyond the initial three authorities and into the other entities that were part of the tendering process made this even more attractive. These factors combined to ensure that this opportunity received a high-level of focus from IBM executive management outside of the UK, and increased the pressure on the IBM sales team to close this deal by September of 2007 as planned.

6.2. Scope of the outsourcing agreement

The contracts that established the SWO joint venture were signed between IBM, SCC, and TDBC in September 2007. During 2007, ASP were forced to remove themselves temporarily from the contract negotiation process because of a dictate from the UK Central Government Home Office that police forces should look for opportunities to share services with neighbouring forces as part of an efficiency drive. ASP complied by partaking in a task force with other constabularies in the region. This was ultimately unsuccessful in identifying opportunities for synergy, but by the time that it reached this conclusion negotiations between IBM and the two councils were at an advanced stage. Therefore it was agreed that separate negotiations would be initiated with ASP after the initial contract was signed with SCC and TDBC. The aim was to then formalise the contract with ASP by March 2008. For ease of discussion, the remainder of this section describes all of the services that were included for all three authorities after the ASP element was finalised as planned.

The services that were part of these agreements included the following across all three authorities: Finance, Human Resources, Procurement, Information Technology, Property Management, and Printing. Call centre services were included for the two councils, although these were excluded for ASP in anticipation that there would be public concern if the handling of emergency services calls were outsourced. However, the ASP contract did include the outsourcing of uniformed civilians who handled public enquiries in police stations, and the security staff who controlled access to police headquarters. The services covered in the ASP contract also incorporated the management of police equipment stores, including tailors who customised and altered police uniforms. The TDBC contract also included the

outsourcing of some specialist elements, and specifically the staff responsible for the collection of local taxes and the payment of social welfare benefits.

The broad range of the services included in these contracts made it unique for IBM, who traditionally had limited their outsource services offerings to Finance, Human Resources, Procurement, Call Centre, and Information Technology. Some strong concerns were expressed within the company about the ability to add value in services areas such as Property Management and Printing where the company did not have historical experience or assets. During the negotiations IBM was successful in encouraging the clients to remove some services from scope because these were deemed to involve too much reputational risk. The most notable of these was the storage facilities for evidence to be used in criminal prosecutions. However, the authorities were firm in their position that did not want the expense of retaining management for minor back office functions and therefore the scope of services should be broad. They also warned that reducing the scope of services from that which was included in the original tender documents could risk accusations that the process had not been fully compliant with EU public sector procurement legislation. Therefore despite reservations in some parts of IBM, this broad range of services was accepted on the basis that it was a prerequisite to ensuring that this contract could be secured.

As well as the provision of these back office services, the contracts with the authorities included a number of *transformation* projects aimed at modernising their operations. Two of these are merit some description here because they had an impact on how the relationships developed. The first of these covered the implementation of the SAP Enterprise Resource Planning software application that was aimed at integrating data and processes across the operations of the three clients. The expectation was that this would help to modernise IT infrastructures utilised by the authorities. It was also expected to allow them to promote process consistency across their organisations and in so-doing to deliver additional savings and controls. The SAP implement project was defined in the contract as a separate fixed-price deliverable. The second major transformation project related to procurement of goods and services. Under the contract, IBM committed to provide analysis and consultancy which would assess how each authority spent their budgets with external providers. Significant savings were promised by using an IBM specialist procurement function to

analyse and recommend where spending in certain categories could be aggregated to secure savings from suppliers, or where needs could be satisfied in different ways by reducing or removing requirements. The improved procurement processes that would be enforced through the new SAP system were expected to provide additional controls on spending. The levels of savings anticipated from this procurement efficiency were significant. Business cases assumed that these would fund the SAP implementation and still provide additional returns to the clients to make the overall deal attractive over its 10-year term. As a further encouragement to the clients, the contract referenced some non-binding aspirations by IBM to contribute to employment in the region, to build an iconic building in Taunton, and to support the case to have a new university established in the area.

Although IBM presented a single face to the clients, three separate divisions of IBM UK negotiated internally to agree how they would deliver this contract. The Business Consulting division had been involved from the outset and assumed overall leadership for the arrangement. Their main contributions to the services were through the transformation projects. Through these projects they would receive revenue for the SAP implementation, and the prospect of sizable bonuses for over-achievement of planned procurement savings relative to targets. The delivery of the back office services transferred from the clients would be managed by IBM's ITO division (for IT services) and the BPO division (for all other services). Effectively these latter two divisions operated as internal sub-contractors to the Business Consulting division, and in return they received the revenue directly attributable to these services in the contracts. Formal internal agreements were demanded by these two divisions to specify the limits of their responsibilities, and also to agree that the Business Consulting division would subsidise them in the event that delays in the SAP implementation project caused these other divisions to incur unanticipated costs.

At the time, the services outsourced by the authorities through this agreement were delivered by over 1,300 employees across their organisations. Senior management in the authorities, and their political stakeholders, were anxious that these employees should be protected as part of any contract. As well as having operational concerns about continuity of services, they were sensitive to the potential for a public outcry if jobs were seen to be moving out of the region. They were also aware that the unions representing these staff members could instigate unrest across

their wider organisations. A solution to these concerns was proposed by IBM whereby the staff in question would remain employed by the three authorities, and would retain their existing terms and conditions. Rather than transferring their employment to the supplier as was typical in outsourcing arrangements, it was proposed that these staff members should agree to work on secondment to the new joint venture company for the duration of the agreement. Therefore they would receive management direction from their new management within SWO, and their costs would be fully borne by SWO. However, they would remain as employees of the authorities, although seconded to SWO with an assurance that they would return to their former status at the end of the contract. This also avoided the need for IBM to attempt to replicate the terms and conditions of these employees, and particularly their generous pension entitlements. As a further concession, IBM committed that there would be no involuntary redundancies in this workforce over the course of the agreement, meaning that they would rely on natural attrition as the driver for workforce efficiencies. This effectively gave employees a guarantee of full-employment which they did not currently enjoy.

This offer was successful in securing the support of the 1,300 back-office employees across the three authorities to work under the direction of SWO for the 10-year term of the contract. The implementation of this employment model required a circular transfer of funds between SWO and the authorities. That is, the authorities paid the employee salaries and invoiced SWO for the cost of these salaries on a monthly basis. SWO invoiced the authorities for the cost of the services and in parallel paid their invoice for the cost of the salaries. Because the charges-out to the authorities were matched by charges-in this was regarded as “round-tripping” under accounting rules. This meant that this portion of the revenue could not be recognised in IBM’s publicly-quoted accounts because these funds were perceived to be simply flowing-through SWO, and therefore not a meaningful financial transaction. From the IBM Corporate perspective this had the effect that the revenue from the contract was reported as being only approximately 20% of the fees paid by the authorities, representing a significant disparity in their perspectives between the supplier and client on the scale of the contract. A simplified representation of the financial transfers involved in this contractual arrangement is presented in Figure 16.

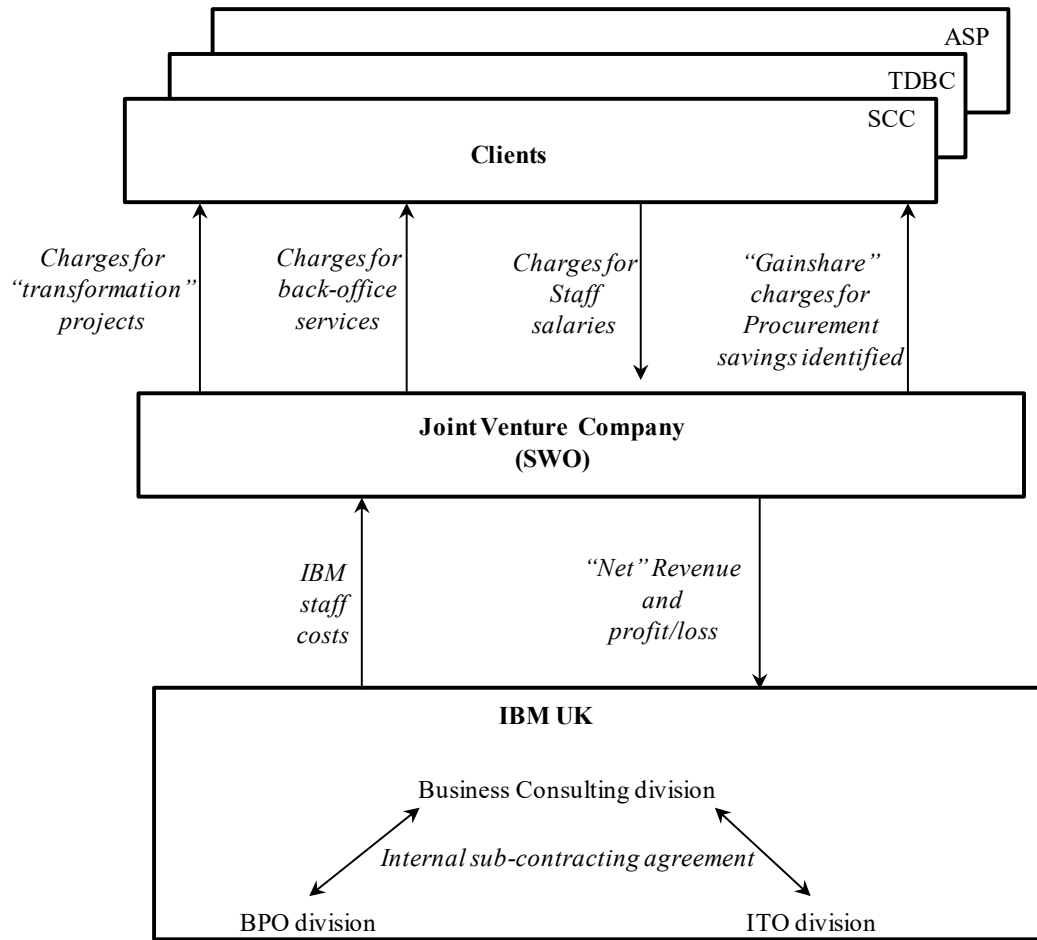


Figure 16: Financial Transfers between IBM, Southwest One and Clients

The agreement between IBM and the three authorities resulted in the establishment of the SWO joint venture company as the entity that would deliver the specified services. It was agreed that SWO would be 75% owned by IBM, with the remaining 25% shared between SCC, TDBC, and ASP. If additional local government entities joined the venture at some later point it was agreed that the 25% owned by the initial authorities may be diluted. Future profits credited to SWO would be shared between the parties based on their levels of ownership. However, all losses would be borne by IBM UK who provided a parental company guarantee to mitigate any risk of bankruptcy for the venture. The SWO Board was comprised of six members and an independent chairperson to be mutually agreed by the parties. SCC and TDBC each nominated an elected councillor to the board, and ASP nominated the Chairperson of the Avon and Somerset Police Authority. IBM nominated the three remaining Board members, two of whom came from the Business Consulting division, and one from the BPO division. The IBM-nominated Board members held preference positions

which meant that their votes would carry any decisions where there was a difference between the IBM and authority Board members.

At an operational level the authorities also negotiated some representation from their seconded staff in the senior management team that oversaw the JV company. Specifically, it was agreed that senior management secondees from the authorities would fill the roles of Director of HR, Director of Strategy, and Director of Strategic Relationships, all of whom would report to the IBM-appointed CEO of SWO. IBM would also appoint the other senior roles from within their ranks, including the Director of Service Operations / Deputy CEO (note that this role was held by this researcher for the first 2.5 years of the contract), the Director of Transformation Projects, and the Director of Finance.

6.3. Informants

Category	Organisation	Current or Former	Role(s) during period being studied	Interview location	Years of involvement									
					'07	'08	'09	'10	'11	'12	'13	'14	'15	
Researcher	IBM/SWO	Former	Director of Service Operations / Deputy CEO		■	■	■							
Client	ASP	Current	Strategic Alliances Leader	Bristol										
	ASP	Current	CEO of Police and Crime Commission	Bristol										
	ASP	Current	COO and CFO for Constabulary	Bristol										
	ASP	Current	CFO for Police and Crime Commission	Bristol										
	TDBC	Current	Director of Operations	Taunton				■						
	TDBC	Current	Senior Responsible Officer for Alliances	Taunton										
	TDBC	Current	Head of Client	Taunton					■	■				
	SCC	Current	Director of HR / Director of Group Operations	Taunton										
Supplier	IBM/SWO	Former	Deal Leader / CEO of SWOne	Somerset										
	IBM/SWO	Current	CEO of SWOne	Phone										
	IBM/SWO	Current	Services Delivery Executive	Bristol										
	IBM/SWO	Former	Services Delivery Executive	Phone										
	IBM/SWO	Former	VP of BPO Division and SWO Board Member	Dublin										
	ASC/SWO	Former	Director of HR	Bristol										
	TDBC/SWO	Current	Director of Strategic Relationships	Taunton										
	SCC/SWO	Current	Head of HR Services	Taunton										
	SWO	Current	Director of Service Operations	Bristol										

Table 17: Informants for the Southwest One (SWO) Case

The research of this case was fulfilled primarily through interviews with the 17 informants listed in Table 17. Given the public sector orientation of this contract many of the events were reported in local media and referenced in council papers. These additional sources were useful in developing the Event History Calendar that was used to guide informant interviews.

As is evident from Table 17, it proved very difficult to get agreement from SCC to participate in this research process, and only one interview was possible. This was in spite of some others being agreed in principle but later cancelled when I visited Taunton on two separate occasions as part of this project. As will become clear when

the chronology of the contract is described later in this chapter, the relationship between SCC and IBM/SWO significantly deteriorated in the early years of the agreement. Legal proceedings were initiated and an out-of-court settlement was subsequently reached. It is likely that this legal process caused SCC officers to be very reluctant to contribute to this research project. Therefore, the SCC dimensions of the relationship that are discussed in later sections are largely based on the interview with the one senior SCC officer who agreed to contribute. As this individual had been involved in the contract since the outset and now held the role of Deputy CEO of SCC, his insights were very valuable. Other informants from TDBC, ASP, and SWO referred extensively to SCC during their interviews. Their input therefore contributed to the analysis of the SCC-SWO dimension of the relationship. Important additional inputs were found in two publicly-available audit reports that were prepared by the SCC CFO and presented to council meetings in February and September of 2014 (Nacey, 2014a, b). These reports provide a perspective on the issues that SCC experienced with the SWO contract, and their assessment of how such issues can be avoided in the future. They therefore proved very relevant to the analysis of the relationship that was the focus of this project.

An encouraging level of very senior participation was secured from TDBC, ASP, and IBM/SWO. The SWO representatives included individuals who had previously worked for SCC, TDBC, and ASP when the contract was conceived, and who later seconded to SWO. They therefore provided a particularly interesting perspective. The other SWO participants included the incumbent CEO and a retired IBM executive who was the first holder of that role. This latter individual had also led contract negotiations with the authorities and was credited by a number of other informants as the creative influence behind many aspects of the joint venture construct. A former IBM executive who was a member of the SWO Board for the first six years of its existence was also interviewed. In total these interviews lasted over 17.5 hours and the transcriptions of the interviews ran to over 80,000 words.

6.4. Chronology of the Relationship

Date	Event
Sept 2007	Contract signed between IBM, SCC & TDBC to establish SWO. http://www.somersetcountygazette.co.uk/news/1738786.Union_anger_as_council_services_go_private/
Dec 2007	SWO services “go-live” for SCC & TDBC
Mar 2008	Contract signed between IBM, SWO, & ASC
May 2008	SWO initiative criticised in parliament http://www.somersetcountygazette.co.uk/news/2299181.MP_lashes_out_in_Commons/
July 2008	SWO services “go-live” for ASC
July 2008	ITV documentary titled “Public Money, Private Gain” broadcast in the south-west region of the UK, and promoted as an exposé of the SWO contract. https://www.youtube.com/watch?v=rmW99D-r2MQ
Apr 2009	Initial deployment of the SAP system for financial functions across the three authorities
June 2009	Conservatives win local elections in Somerset. Change of administration after 16 years of Liberal Democrat control of council. http://www.somersetcountygazette.co.uk/news/4421448.Somerset_County_Council_election_results_Conservatives_take_control/
Apr 2010	IBM appoints new CEO for SWO
Oct 2010	SWO financial results reported showing losses of £16.5m http://www.somersetcountygazette.co.uk/news/8431998.Southwest_One_announces_16_5m_losses/
Feb 2011	SCC announces plan to renegotiate deal with SWO http://www.somersetcountygazette.co.uk/news/8878520.Southwest_One_deal_to_be_renegotiated/
June 2012	IBM appoints new CEO for SWO
Sept 2012	Legal dispute between SCC and SWOne confirmed http://www.somersetcountygazette.co.uk/news/9912056.Somerset_County_Council_statement_on_legal_dispute_with_Southwest_One/
Nov 2012	New Police and Crime Commissioner for ASP announced. Resignation of Chief Constable http://www.somersetcountygazette.co.uk/news/10063792.Police_chief_constable_steps_down_just_days_after_PCC_election/
Apr 2013	Out of court settlement reached between SCC and SWO. http://www.somersetcountygazette.co.uk/news/10330194.Southwest_One_dispute_with_Somerset_County_Council_resolved/

Table 18: SWO Event History Calendar

Table 18 presents the Event History Calendar that was developed based on publically available information and initial informant interviews. This was referenced when required to assist later informants in recalling developments over the lifetime of

this arrangement. The remainder of this section summarises the chronology of events that were described in these interviews.

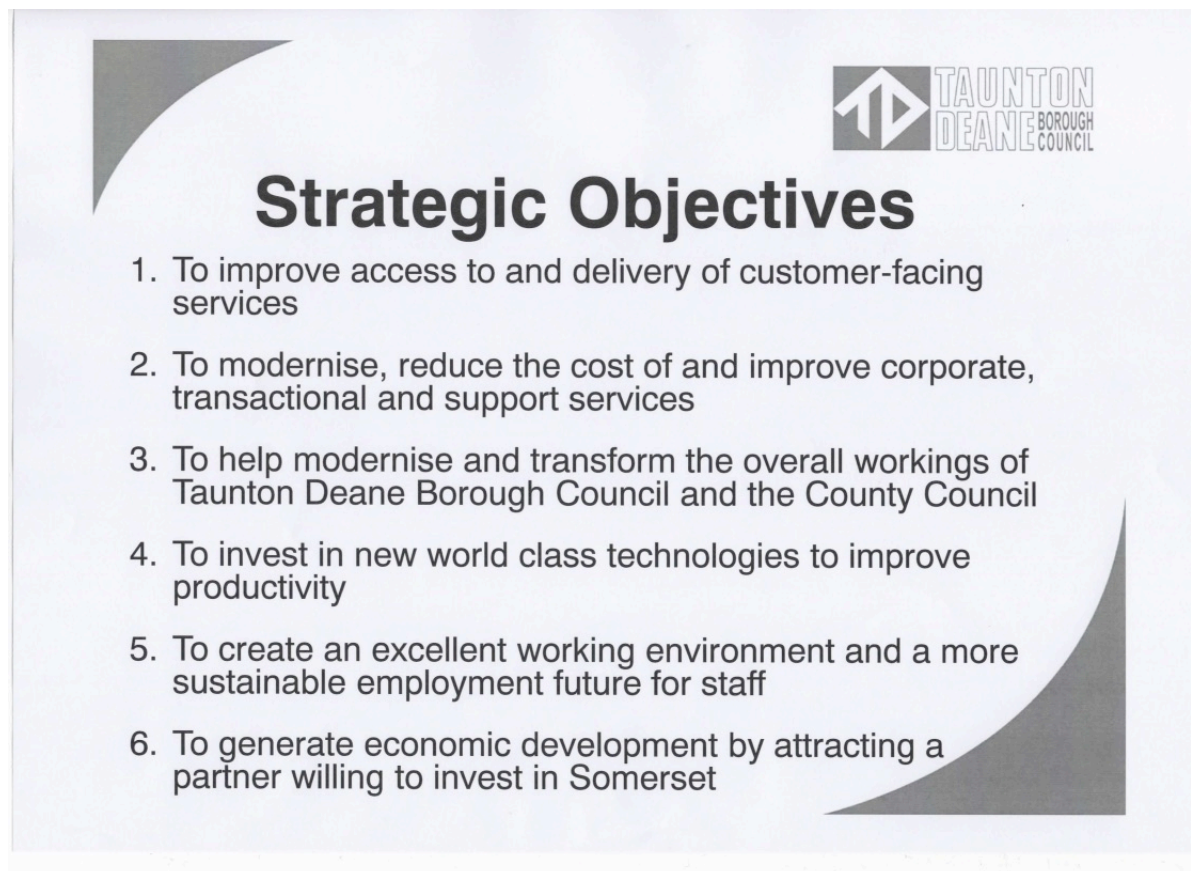


Figure 17: Strategic objectives for the three local government authorities

2007-08: The contracts between IBM, SCC, and TDBC were signed at the end of September 2007 and were reported to be valued at £400m over the 10 year life of the contract (Finkle, 2007). The contracts stipulated that SWO should assume responsibility for the running of the in-scope services for SCC and TDBC from the start of December of that year. The establishment of SWO was viewed by the authorities as a response to the strategic objectives that they had jointly agreed prior to the tendering process in 2006. A copy of these objectives was provided by one of the TDBC informants and is reproduced in Figure 17. While the contracts with SCC and TDBC were being finalised, negotiations with ASP were on-going following their temporary abstention from the process during 2007 to comply with a UK Home Office directive. When ASP's discussions with other constabularies in the region concluded that opportunities for cooperation did not exist, they re-entered discussions with IBM. Their contract to join the SWO joint venture was signed in March 2008, and agreed

that staff should be transferred in the following July and that services to ASP should commence from that date.

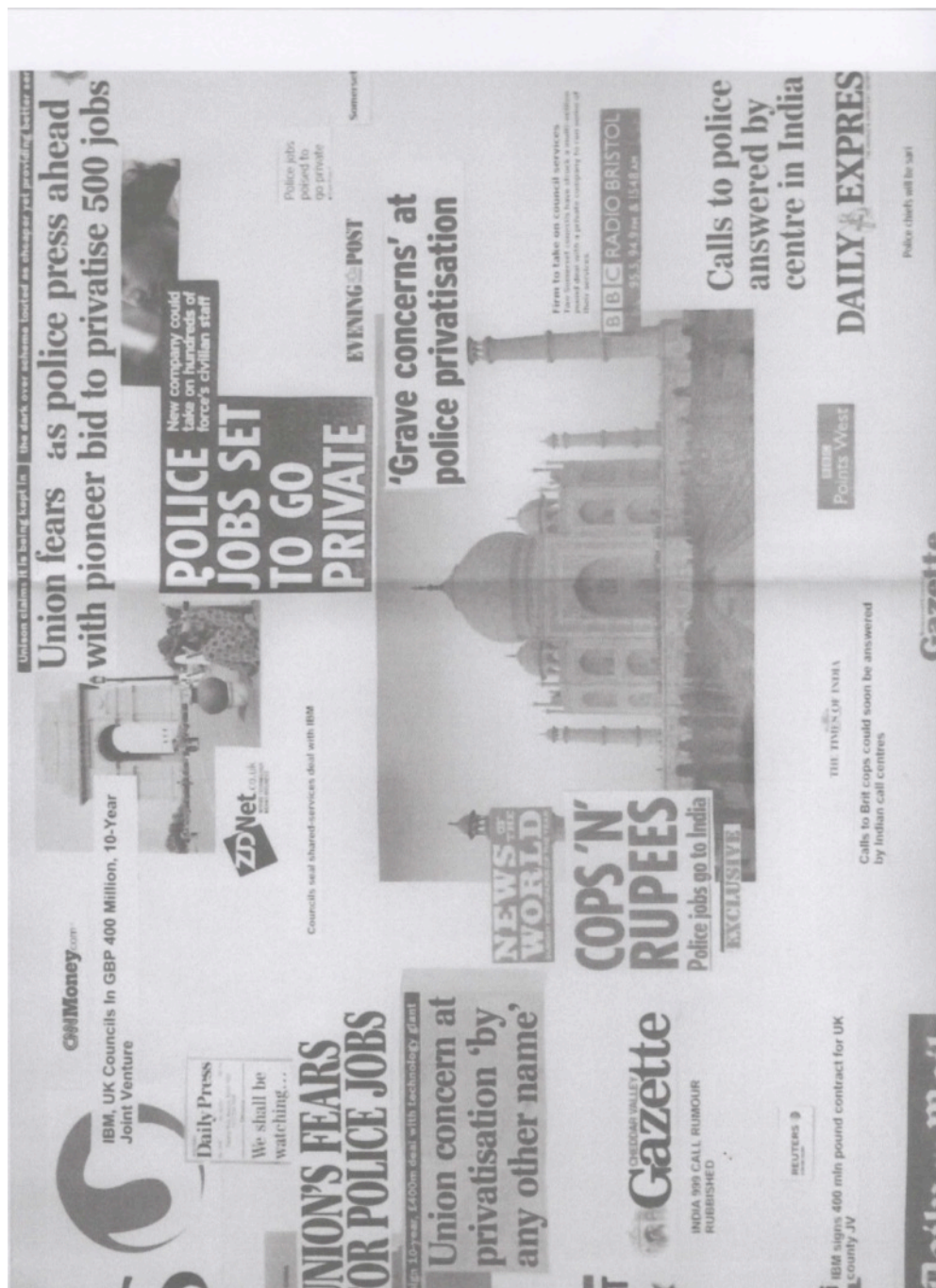


Figure 18: Collage of press clippings provided by ASP

The decision that was made by the three authorities to partner with a US multinational for the provision of publicly-funded services caused some controversy in the region. Figure 18 is a reproduction of a collage of press-clippings from 2007 and 2008 that was created by one of the ASP informants. This was provided during an interview as an illustration of the level of concern and inaccurate information that

the authorities had to manage at that time (for example, there was never a plan to have emergency calls to the police handled in India as implied in some of the reports). Approximately 30% of the staff who were due to transfer to SWO on secondment were members of public sector trade unions. At a national level these unions were opposed to the SWO venture, arguing that it represented the privatisation of certain public services. However, the relatively low union representation, coupled with the guarantee of full employment that had been secured in the contract, encouraged all affected staff to agree to secondment to SWO. Nevertheless, an on-going process of consultation between SWO and the unions was still required. A Conservative party politician who was the elected member of the UK national parliament representing one of the local constituencies was a particularly vocal critic of the SWO contract. Although the initiative had received cross-party support in both councils, this MP argued that the agreement of the deal had been secretive and not in the public interest. Through his website, he made frequent personal attacks on senior officers in the authorities, and on the Liberal Democrat party in SCC and TDBC that had sanctioned the agreement. He repeated these accusations in the Houses of Parliament (House of Commons, 2008) and submitted a series of Freedom of Information requests seeking details of the commercial arrangements on which the venture was based. This resulted in a level of negative profile for the venture in the region that culminated in the broadcast of a documentary by ITV Southwest highlighting concerns about the commitments that the authorities had made to IBM/SWO (Scott, 2008, www.youtube.com/watch?v=rmW99D-r2MQ).

In spite of these criticisms and distractions, the authorities, IBM, and SWO worked closely together during the first 18 months of the contract to ensure the smooth transfer and stabilisation of the services. Staff transferred to SWO on secondment without any industrial unrest or employee relations issues. SWO established an operational management structure and appointed leaders of the new integrated shared services units from the senior management teams that had transferred on secondment. Service performance did not suffer as a result of the transfer and there was general acceptance that the focus that SWO managers placed on performance metrics resulted in services that were as good as, or better than, they had been before the start of the contract. In parallel with operational activities IBM consultants working within SWO commenced work on the ‘transformation’ projects,

and particularly on those concerned with the identification of procurement savings and the planning for the implementation of the SAP system. The SAP project was already gaining a reputation for being more problematic than expected, and required a high degree of cooperation from the authorities. It was proving difficult to secure agreements to standardise processes given the differences in business requirements between the authorities that were now becoming apparent. SAP implementation workload increased and costs exceeded the budget that IBM had allocated. Skill deficiencies were evident in the SAP implementation team that had been assigned by IBM to SWO. The planned 'go-live' date for the SAP system was repeatedly postponed, leading to concerns within IBM UK that costs were escalating and revenues relating to the SAP project were delayed. Local government elections were planned in Somerset and Taunton in June of 2009 and the councils grew increasingly concerned that on-going delays to the SAP implementation would be highlighted as evidence that the SWO initiative was not working. It was feared that this could become a political issue in the election campaign. Under mounting pressure a decision was made to deploy SAP as a replacement for certain existing systems and processes in April 2009.

2009: The Finance and Procurement functions of SAP were deployed across all three authorities in April 2009, and these replaced the existing systems and processes that had supported these functions to date. This deployment proved very problematic and the resulting issues persisted for many months. For example, major problems arose in paying suppliers and collecting income. As many suppliers to the councils were local businesses, there was strong concern that this could escalate into a significant issue in the forthcoming local government elections. Some suppliers indicated that they would refuse services to the councils, including a threat by some volunteer drivers that they would not bring disabled people to daily care centres as they had not been paid because of issues with the SAP system. There were also reports that the Police helicopter was in danger of being grounded because fuel bills had not been paid. An analysis of the issues by IBM concluded that these could take a number of months to resolve. It was not feasible to re-instate the former systems and processes and so a period of significant difficulty was envisaged. Joint task forces were established by SWO separately with each of the authorities to agree action plans to mitigate the issues. During this time, IBM deployed additional managers to SWO to

assist in resolving the SAP issues and to manage the concerns being raised by the clients. As financial losses in SWO were escalating there was also a focus on identifying opportunities for cost savings.

Until 2009 the three founding authorities actively worked with SWO to encourage other local government entities in the southwest of the UK to join the partnership. Although a number of other authorities entertained these advances, there was a widespread reluctance to commit to any firm plans. Other county councils realised that if they were to use SWO services, these would be provided by the newly established shared services functions that were largely based in Taunton. As the UK economy was beginning to contract, it became apparent that any decision to move local government jobs to another county would be unpalatable to these other councils. Although TDBC encouraged other district councils in Somerset to embrace the concept, it became clear that they were still suspicious of SCC following the failed proposal on forming a unitary council. They were therefore reluctant to engage in any partnership involving SCC, for fear that this could prove to be a ‘backdoor’ to eroding their control over local services. Other police forces appeared similarly reticent, either because they did not want to follow the lead of a neighbouring police force, or simply on points of principle. There was a growing realisation by IBM executive management that although over 30 other authorities had signed the original tendering documentation, the prospect of growing the venture by attracting others to join looked increasingly remote. The public concerns excited by the local MP, and the increasingly worrying reports about the impacts of the SAP implementation, meant that additional authorities would be reluctant to embrace the partnership for the foreseeable future.

In June 2009 the local government elections were held and the Liberal Democrat administration lost control of SCC and TDBC councils to the Conservative party. In the case of SCC, this ended a 16-year period of Liberal Democrat political administration of the council. There was extensive concern within SCC at an executive level about how the new administration would regard SWO. Senior officers were specifically concerned about how their performance in managing SWO through the difficult SAP implementation would be assessed by their new political leaders. There was widespread speculation that the current CEO and senior management team

at SCC would be replaced as they were perceived to be too closely aligned with the previous political administration.

The SCC CEO responded to the early pressure from the new administration by escalating his concerns about the SAP implementation to a very senior level in the IBM Corporation. In response, IBM concluded that specialist operational management was needed to oversee the ‘get-well plan’ for SAP. The Director of Service Operations (i.e. this researcher) left the account in mid-2009 and was replaced by an executive with extensive SAP experience. There were also significant changes in management on the client side. As had been predicted, the new Conservative administration soon replaced the SCC CEO, and in the following 12 months the executives reporting to him were all replaced as part of a re-organisation of the council’s senior management team.

Figures in £m	2008	2009	2010	2011	2012	2013	2014
Revenue	57.6	35.0	22.5	21.0	22.6	28.4	27.5
Operating (loss)/profit	(2.8)	(16.2)	(29.2)	(8.7)	(2.8)	0.1	(1.7)

Table 19: Summary of SWO financial reports 2008-14 (source: Companies House, UK)

2010: In April 2010, the SWO CEO who was widely recognised as the visionary behind the contract retired from IBM and was replaced by a new CEO from the IBM Business Consulting division. Throughout 2010 IBM continued to deploy staff to SWO to resolve the SAP issues. Although the system was improving, it became clear that it could still take years to fix the full list of issues, and some of the promised functions were unlikely ever to be delivered. Nevertheless, a subsequent deployment of SAP, including HR functionality, was implemented relatively painlessly during 2010. Table 19 presents a summary of the financial reports filed by SWO for 2008-14. It demonstrates that the losses incurred by the company peaked in 2010 as it continued to invest to resolve the SAP issues. Because IBM charged its people to SWO at commercial rates, these losses are an inflated representation of the actual burden that SWO placed on IBM. However, even allowing for this, it is evident that SWO represented a significant financial burden for IBM since its inception. The

chronology for the following years describes the events that were taking place as these losses subsided.

2011: Against the backdrop of continuing efforts to resolve issues with SAP, IBM executives accepted that there was little prospect of growing SWO as had been a central plank of its strategy for the local government sector. As illustrated in Table 19, the losses from SWO were extensive. On a more positive note, operational performance of the services transferred from the authorities remained stable or improving.

The authorities had the benefit of the cost reductions that were committed in the contract. However, as this was negotiated before the current recession had taken hold, the prices committed to by SWO only represented relatively modest savings of between 2.5% and 5% compared to previous budgets. Under the austerity measures implemented by the new national UK Conservative/Liberal Democrat coalition government that had been elected in 2010, local government authorities were being challenged with budget cuts that represented reductions averaging 30% between 2008 and 2015 (Hastings et al., 2013). Therefore the three SWO clients had to identify other sources of savings. While other public sector organisations were able to reduce back-office services, this was not a possibility for SCC, TDBC and ASP as the costs for these were contractually committed to SWO. They had limited options other than to target front-line services for savings.

The burden of the on-going losses in SWO continued to be a source of frustration for IBM. During 2011, one of the IBM-appointed Board members wrote to the other Board members stressing that action was needed to reduce these losses or SWO may have to cease trading. Following legal advice, the general conclusion of the authorities was that this threat could be ignored as IBM was contractually committed to a parental guarantee that secured the on-going operation of SWO. One of the informants contributing to this research dismissed this as an example of gamesmanship on the part of IBM, and said that they had stored all such correspondence in a binder labelled 'Shenanigans.' However, some of the other Board members felt that this highlighted a conflict of interest between their duties to their stakeholder organisations and their fiduciary responsibilities to the SWO company.

The ASP Chief Constable who had consistently been a strong ally in defending SWO resigned from the Board shortly thereafter, citing a concern about conflicts of interest.

2012: While these tensions were being experienced, the procurement transformation project that SWO had undertaken on behalf of the authorities was gathering pace during 2011 and 2012. The contractual arrangements underpinning the procurement project differed between the authorities. ASP had contracted SWO to identify a relatively modest saving of £15m over the life of the contract. Although their contract with SWO did not include bonuses for over-performance, the procurement savings identified were running ahead of this plan and there was confidence within ASP that savings of between £20m and £30m would be ultimately achieved as a result of this project. The TDBC procurement project originally aimed to identify £10m of savings, although this was later judged to be over-ambitious and was re-negotiated to £5m for a reduced fee.

The construct of the procurement element of the contract with SCC was much more ambitious than those for the other authorities. It involved significant bonus payments to SWO if the targeted procurement saving of £190m was exceeded. The obligation on SWO was to identify opportunities for saving and to have these agreed in principle by SCC departments. If SCC failed to take action to execute on these opportunities this did not remove SWO's entitlement to bonus payments. This process proved to be a source of significant tension between SCC and SWO. SCC argued that some of the savings identified were the result of changes in the market (e.g. reducing utility prices), and were not influenced by SWO actions. SWO rejected claims that they were including savings that they had not driven, and criticised SCC for being slow to approve real savings opportunities that had been identified. The situation was made even more difficult because SCC budgets had been reduced as a result of austerity cuts by Central Government and therefore there was less opportunity for SWO to identify savings opportunities within these allocated budgets. The disputes ultimately escalated to the point where SCC withheld payment from SWO. At a meeting of the SWO Board, the IBM-appointed directors sought agreement that the company should initiate legal action against SCC. The elected councillor who was the SCC representative on the Board refused to support this, although other Board members argued that it was his fiduciary duty as a Board member to do so in the interest of the company. All other Board members voted in

support of legal action. A protracted legal process commenced before an out-of-court settlement in 2013 in which SCC agreed to pay £5.5m to SWO (White & Belgrave, 2013). As part of this settlement, it was agreed that SWO would transfer certain services back to SCC. This presented issues of critical mass for SWO for certain services and so parallel agreements were reached with ASP and TDBC to transfer the corresponding services back to their management. As all of these services had remained loss-making, this move was welcomed in IBM.

2013: Leading into 2013, IBM appointed a new CEO to SWO. This individual had extensive procurement experience and was tasked with negotiating the settlement with SCC for the procurement dispute, and agreeing any associated de-scoping of services. It was apparent to TDBC and ASP that that this individual was sufficiently skilled to manage this difficult negotiation while re-building relationships with them. The previous SWO CEO was perceived as being very task-focused and solely concerned with resolving the SAP issues at minimum cost and without any deep concern for the on-going relationship. The new appointee oversaw the resolution of the remaining list of 90 SAP issues, but also appeared keen to demonstrate flexibility and rebuild trust. This style of management was successful in keeping the TDBC and ASP organisations satisfied while the difficult financial negotiation with SCC was finalised. The SWO CEO was successful in reaching agreement with all of the authorities regarding which services should remain in SWO, and which should return to the management of the three authorities. Although this renegotiated agreement initially resulted in a thawing of the difficult relationship between SWO and SCC, any improvement was short-lived. When IBM announced the sale of its call centre outsourcing business to Concentrix in 2013 it was proposed that this should include the transfer of elements of the SWO contract. The authorities interpreted this as an attempt by IBM to offload this troublesome business. They emphasised that this was not acceptable under the terms of the joint venture agreement. A period of acrimonious debate followed, before IBM acknowledged that it was not possible to dilute SWO operations in this way. However, the two councils in particular perceived this as opportunism by IBM. Any rebuilding of trust that had been initiated following the renegotiation of the contract was quickly dampened.

2014-15: By this time the three authorities had varying levels of satisfaction with the SWO relationship and what it was delivering to their organisations. ASP

informants indicated that they were now broadly content with the current services being provided. They acknowledge that some savings have been achieved which allowed them to protect their numbers of front-line police officers. They are particularly satisfied with the procurement savings that have been realised, and the back-office services that have remained in the SWO contract are generally being delivered to a high standard. The exception to this is IT services, which they regard as highly disappointing, particularly as IBM is a technology company. Now that the SAP system is stable they recognise that it is providing operational benefits, although on reflection they conclude that it was overly-ambitious to plan a single shared system for operations that are as diverse as councils and the police. As an example, they pointed out that under animal cruelty guidelines ASP needs to track the hours worked by police dogs, and this unique requirement could not be delivered with a standardised configuration of SAP.

TDBC are generally disappointed with the SWO experience. On reflection they feel that this shared services operation and the accompanying SAP technology is overly sophisticated for their needs. They find the arrangement with SWO inflexible and unable to cope with the changes they have had to make to their business with the impact of austerity cuts. They have now merged certain services with another district council, although this organisation has not engaged with SWO. Their general expectation is that the SWO contract will be seen through to the end of its life because it is too expensive to exit or de-scope any further.

The relationship between SCC and SWO remains very strained. Although individual representatives from both sides maintain polite working relationships, there is little inter-organisational partnership. SCC has also had to deal with extensive budget cuts that have reduced their budgets by 25% over 5 years. This has placed extreme pressure on their services and employees. They feel let-down by the SWO joint venture, not least because of the procurement dispute and SAP issues. They are also unhappy that the additional deliverables that IBM aspired to as part of the contract never materialised (e.g. the provision of employment through growth, an iconic building in Taunton, and support for a university in the area). The expectation is that the contract with SWO will be steered quietly through to termination when the 10-year term ends in 2017.

6.5. Identification of phases

The above chronology derived from informant inputs implies that this relationship progressed through three major phases which can be summarised as follows:

- **2007-09: Goodwill:** In the early years of the contract there were great hopes within the authorities and in IBM that the relationship would be successful and fruitful for all sides. Those closest to the initiative in the client and supplier organisations were marshalled around the common goal of proving that opponents of the initiative were wrong.
- **2009-12: Acrimony:** Following the highly problematic SAP implementation and the change of political leadership in SCC, the relationship deteriorated significantly. The financial challenges that the authorities were now subject to as a result of central government austerity measures added to the tensions between the clients and supplier.
- **2013-15: Resignation:** The final phase can be characterised as one where two of the parties (SCC and TDBC) became resigned to the fact that the relationship has largely failed and has little future. It will nevertheless be seen through to the end of the contract term as the costs involved in premature termination are significant. The third client (ASP) is more satisfied, although they are realistic about the limitations of the arrangement. They remain open to the prospect that some elements of it may be retained after 2017.

The following sections discuss each of these phases in more detail and the influences that were most prominent in each case.

6.5.1. 2007-09: Goodwill

When considering how the relationship progressed through these phases it is important to consider the contrast in perspectives that was evident from the informant inputs relating to the councils (SCC and TDBC), when compared to that relating to ASP. Therefore to aggregate these results together could be deceptive, and deeper insights can be derived through the comparison of how their journeys through the relationship had similar starting points but have arrived at different destinations.

Informant inputs were therefore further coded to identify where individual comments were referring to ASP, or to the two councils. The graphical representation of influences in the first phase that is presented in Figure 19 shows the proportions of the comments that relate to ASP only (i.e. the segments shaded in black). Although there does not appear to be a wide variation between ASP and Council feedback relating to this first phase, the differences will become more apparent in the later sections that describe the subsequent phases.

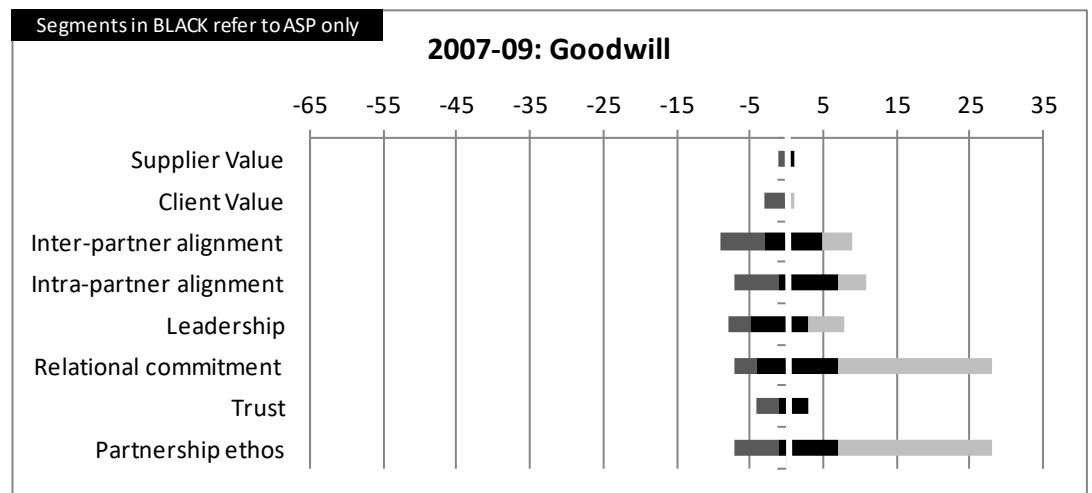


Figure 19: SWO relationship “Goodwill” phase

During this first phase the client and supplier organisations were all highly enthusiastic about the initiative and committed to its success (Client: “*There was a real enthusiasm between all of the parties that we were creating something unique and that it was exciting.*” Supplier: “*We started with quite a feeling of goodwill - at least that is what we were getting the impression of.*”) There were some very vocal critics of the arrangement, not least of whom was one of the local MPs (Client: “*Politics began to overshadow what we were doing, with a whole load of rubbish being publicised by politicians and affecting the reputation of SWO. That exacerbated something that was already by then a challenging landscape for us.*”) However, these criticisms served to make those closest to the SWO partnership even more determined to make it work (Client: “*We are always up for a fight [against those in opposition].*”)

When describing this initial period the informants did not make a significant number of positive or negative comments about the value that was being achieved, or eroded, as a result of the relationship. It is clear from their comments that they were conscious of their respective strategic objectives which had been a primary driver for

entering the agreement (Client: *“The authorities always said ‘we don’t want the comfy cardigan fit’, we want you to come along and shake us up and really scrutinise what we do.”* Supplier: *“It was a ‘jam tomorrow’ deal.”*) All sides strongly believed in the concepts underpinning the arrangement and were confident that it would grow (Client: *“There was a shared vision that it would grow and grow.”*) Even the choice of name for the JV (i.e. Southwest One) implied that this was expected to be the first of multiple possible iterations of this concept. Nonetheless, some challenges in alignment of cultures and objectives were recognised (Client: *“There was a lack of understanding of the openness and the way we work in the public sector.”*) However, in general this was viewed as a constructive element of the arrangement and one that added to its uniqueness (Client: *“We really enjoyed working with IBM colleagues. For us it was a breath of fresh air. We were public sector, they were very private sector, brought lots of great and novel ideas to the table.”*) As well as the differences between public and private sector cultures, some informants highlighted the challenges in achieving alignment between the public sector partners given the different environments in which they operated (Client: *“It was a relationship between a council, a district council (a minnow) and a police force - three very different organisations - and also a private sector partner.”*)

In spite of these challenges the relationship was strong during this first phase, helped by the fact that the leaders of each of the organisations demonstrated high-levels of commitment to the partnership (Supplier: *“There was good leadership on both sides - but I shouldn’t say ‘sides’ as it was genuinely trying to be a partnership.”*) However, the clients also had some reservations about the leadership provided by IBM when a number of the people with whom they had developed a rapport during the sales process moved on to new opportunities when the contract was signed (Client: *“A lot of the people involved in those discussions and negotiations before the contract was signed, disappeared as soon as the contract was signed.”* Client: *“We wanted in as far as it was possible for the Bid team to also be the Delivery team. Now that happened in one or two instances, but in the majority of cases it was a new Delivery team that effectively came in.”*)

Despite this, during this first phase there was a high level of commitment to the arrangement (Client: *“There was kind of a honeymoon period I think.”*) The relationship had a level of energy associated with it, and participants had a sense of

excitement about what they were trying to achieve (Client: *“We just loved the process of engaging with people who didn’t think like we did, didn’t know very much about our job but could bring a whole load of knowledge and experience to the table.”* Client: *“We were a bit dazzled.”*) However this was tempered with a sense of caution as both sides continued to build trust in each other (Client: *“We built up quite a good relationship with IBM. And from that ... trust is not the right word, but an understanding really. An understanding of not what it says in the contract but an understanding of what each partner was trying to achieve.”*) These factors contributed to an overall challenging, but healthy relationship. This was underpinned by a strong spirit of partnership (Client: *“There was a good working relationship. There was trust”* Client: *“Those first few years were the best time when it was working as well as it could.”* Supplier: *“It was a relationship which was ok, it was not perfect by any means but it was working and we were bumping along.”* Supplier: *“I think there were much more closer [sic] working relationships at the beginning.”*) It is also notable that informants did not highlight any significant difference in attitude to the relationship between ASP and the two councils during this first phase.

6.5.2. 2009-12: Acrimony

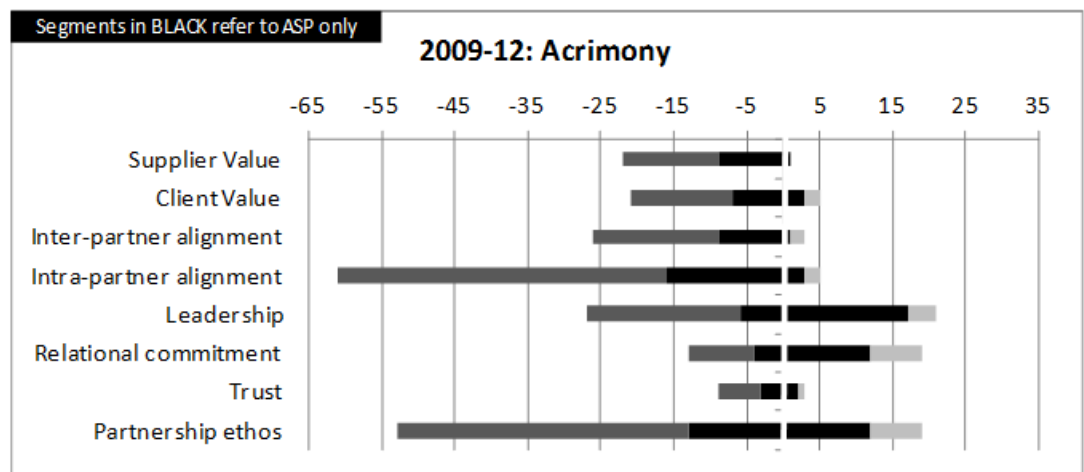


Figure 20: SWO relationship "Acrimony" phase

The challenges leading up to the SAP implementation, and the significant operational issues that this deployment caused, were identified by a number of informants as the trigger that changed the tone of the relationship from mid-2009 onwards (Client: *“And if you think of it in terms of that flow, SAP was the main cause. The problems around SAP started to significantly sour the relationship from the*

authorities perspective.” Supplier: “In my view it was the disastrous implementation of SAP that ruined it ... That blew up and that blew us up.”) The impacts on all parties to the relationship during the subsequent 2.5 years can be seen from the numbers of negative comments relating to client and supplier value that are represented in Figure 20 (Client: “The cost and time of just getting SAP up and running was higher and longer than had ever been anticipated, which of course involved SWO pushing in extra resources to get that fixed”; Client: “We had two years of massive rows.”) These issues were compounded by the changes in political leadership in SCC which led to the replacement of the SCC CEO who had been a vocal supporter of the arrangement (Client: “It all started to crumble when [SCC CEO] left.”) Although the leaders of the other authorities continued to display strong support for the arrangement, SCC was the largest of the authorities and this change in support from them as a partner was a deep concern for IBM. It had the effect of diverting SWO management attention away from working with the three authorities as a cohesive group of clients (Supplier: “[SWO CEO] could only focus on SCC when the elections went the other way, and ignored the other two clients.” Client: “The amount of time that IBM management was having to use fighting a big partner over here, meant that we were not getting the time and investment that we felt we were due.”)

A combination of pressure from the clients, the escalating financial losses in SWO, and the realisation that the strategic growth objectives were unlikely to be achieved continued to be a source of deep concern for IBM. (Supplier: “It got very very difficult – lots of scrutiny and being shouted at by IBM [headquarters].”) This ultimately led to IBM’s decision to replace the SWO CEO and Director of Operations by early 2010. This change in leadership was perceived by the authorities to represent a further erosion in the relationships that they had established with their IBM/SWO counterparts (Client: “I’m not sure, in terms of relationships in the partnership that we have ever recovered from that.”) SWO and the authorities grew increasingly misaligned in their objectives and actions. The dispute about the procurement savings in SCC further increased tension in the relationship. By being perceived to be issuing ultimatums about what needed to be done to minimise losses, IBM was judged to be handling the situation aggressively and inappropriately (Client: “Threatening letters from somewhere on Mount Olympus within IBM - well that does not wash in public

authorities.” Client: “*Their frustrations were intransigence with IBM and IBM’s frustrations were intransigence from SCC, so I think it gradually got worse and worse and ended up in swearing matches and all sorts*”; Supplier: “*[SCC CEO] stormed out of the room and all that sort of stuff.*”)

The lack of alignment between SWO and the authorities is mirrored by the alignment issues within the partners themselves. The three authorities struggled to maintain cohesion as a client group given the changes in leadership, the operational impacts of SAP, and the new financial pressures that they were subject to following the austerity measures imposed by Central Government (Client: “*The three public sector partners didn’t agree among themselves what they wanted and did not communicate well.*” Supplier: “*They all had to internally focus on what they needed to do and that had an impact as well, because there seemed to be less joined-up working with them. That’s when the three clients started to go in different directions.*”) The three clients began to deal with SWO in different ways, some with a highly contractual approach and others more relationship-oriented (Client: “*We were also clienting [sic] the contract in different ways. Behaviours had started to play-out that were not aligned.*”) Reflecting on these difficulties in maintaining alignment between the authorities, a number of the client informants concluded that the contract had been overtaken by events and was no longer appropriate for the environment in which they now operated (Client: “*There was a bigger issue that the contract was not fit for purpose anymore.*”) A particular example of this was the difficult position in which the authorities’ nominees to the SWO Board found themselves. As Board members they had a fiduciary duty to protect the interests of SWO, but this created conflicts with their responsibilities to their own organisations (Supplier: “*You had Board members saying ‘you have to understand that I am the customer’, and I would say ‘not at this Board meeting, you have a responsibility to the company.’*”) The SWO Board therefore became the focal point of the misalignment between client and supplier objectives.

Within IBM there were also strong differences in opinion and approach between the divisions that were involved in SWO. This led to increasing pressures on SWO management to respond to these differing directions while attempting to maintain a relationship with the clients (Supplier: “*The gaps were exposed in the relationships within IBM.*” Supplier: “*IBMers [in SWO] were in a difficult situation,*

unable to explain why they were behaving as they did.”) The pressures coming from different parts of IBM also became apparent to the clients. They began to realise that the first SWO CEO had been successful in shielding them from IBM’s complex organisational structures and internal politics (Client: *“It only became obvious after he left that there are different pipes within IBM, and [SWO CEO] had masked that very well”*; Client: *“I don’t think we should ever see the puppet strings.”*) However, they now felt that they were dealing with a multifaceted partner who appeared to be pulling SWO in different directions (Client: *“The trouble with SWO and a company like IBM is that there wasn’t within IBM really true single ownership of the SWO entity, because it sat in at least 1-2 if not more profit centres within IBM UK.”*)

As can be seen from the number of negative comments represented in Figure 20, in this phase of the relationship the levels of trust and partnership were very low. It is worth noting however that the comments indicate that ASP adopted a more positive perspective than the Councils. This is understandable given the changes in leadership that dominated SCC’s approach during this time, and their dispute with SWO about the procurement savings. The severe impact of austerity measures on their budgets was also highlighted as a factor by a number of informants. The key differences in influences that are apparent from Figure 20 are the higher portions of positive comments in the areas of Leadership, Relational Commitment, and Partnership Ethos that relate to ASP. The ASP Chief Constable strongly promoted a partnership mentality until he retired in 2012 (Supplier: *“[ASP Chief Constable] showed exceptional leadership ... He said ‘I am going to say this very strongly, I think this is a true partnership that has had its difficulties and will continue to have difficulties, but we have to remain as a partnership in order to succeed.’”*) His successor as Chief Constable also publicly endorsed the partnership. ASP also maintained continuity throughout this period in the management that they assigned to liaising with SWO and the other authorities. Their culture of discipline and control was highlighted by some informants as ensuring that they remained strongly internally-aligned throughout (Supplier: *“It always strikes me that in the police it felt like we had one customer ... [whereas in SCC] we ended up with lots of other people we needed to go and talk to as well.”*)

A further factor that was highlighted by informants from ASP relates to the way in which SWO was incentivised to achieve procurement savings. In the contract

with SCC a considerable bonus was available to SWO if procurement savings targets were exceeded. As achievement of these targets would trigger the payment of millions of pounds to SWO, this led to divisive arguments about whether or not they had been achieved. Given the other issues, SCC found it unpalatable to pay bonuses from taxpayer money to SWO against a backdrop of austerity, and where there was some dispute about whether any savings had been a direct result of SWO actions. For ASP a more modest savings target was set and this did not drive bonuses. Therefore the ASP contract did not create the same climate for dispute that proved so contentious with the SCC contract (Client: “*There is a tension between declared procurement savings and real cash, and that potential tension has been exacerbated by the fact that SCC went from a relative time of plenty to almost immediately having pressure on their budgets.*” Client: “*We [ASP] advised from the start that a gainshare-type arrangement was unlikely to drive the right types of behaviours and get the right kinds of solution.*”) In the case of SCC, although a settlement was eventually reached, it left a legacy in the relationship that proved impossible to overcome in the next phase.

6.5.3. 2013-15: Resignation

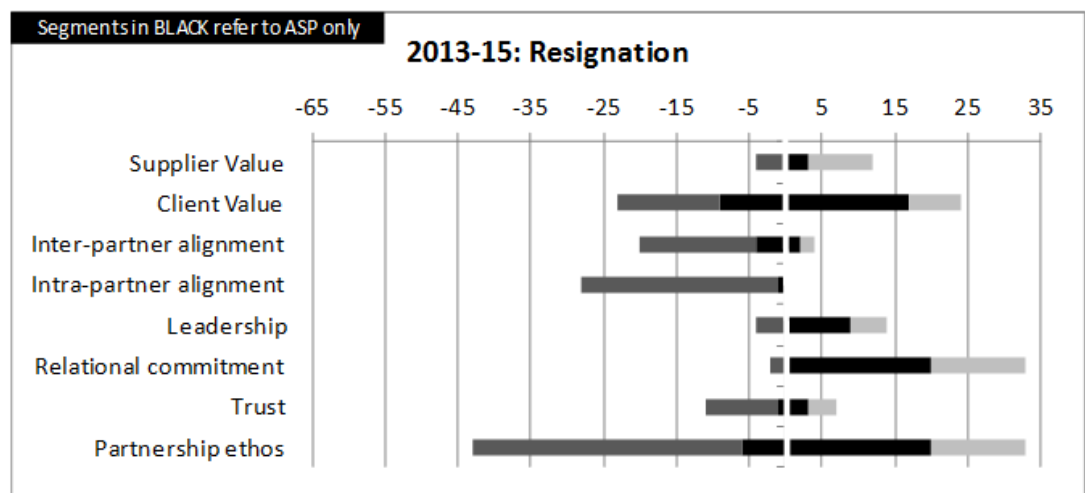


Figure 21: SWO relationship "Resignation" phase

The comments that are graphically summarised in Figure 21 reflect the stable, but largely unsatisfactory relationship that SWO now has with the authorities following the settlement of the procurement dispute with SCC and the return of some services to the authorities. Informants characterised the relationship as one which is in the final stages of its life (Client: “*It just needs to be put out of its misery.*” Client:

“They decided to put it down and let it limp along to the end.” Supplier: “It is a gentle jog to the finish now.”)

From the supplier perspective, expectations have been reset about what value the contract can deliver. There is some contentment that the SAP issues have been resolved, that the services are being delivered to higher standards, and that the clients (particularly SCC) are not as vocal in raising disputes. The contract allowed for some increases in charges in the final years. This has enabled SWO to almost get to a break-even position, helped by the fact that some loss-making services have been returned to the authorities. This is generally seen as satisfactory by IBM Corporate given the volatility in earlier years (Supplier: *“They are relieved, I think, that we have finally got to a position where we manage just about to stay positive in each quarter.”*) SWO has built on the effective working relationship with ASP to win some additional business and to position itself as a potential supplier to other police forces (Supplier: *“Now we have a lot of good projects.”*) ASP have learned that by offering SWO the prospect of winning some additional opportunities they get more flexibility and support from IBM (Client: *“The minute you start paying money you can get lots of other things out of IBM because they can see that you are in it for mutual benefit, rather than public sector expecting to be treated like a charity case.”*) This contrasts with a view in some parts of the councils that IBM is now merely seeking to minimise its losses without any real ambition to have a longer-term relationship (Client: *“One part of IBM are doing very nicely out of it I would say... Obviously the company is racking up a huge debt, but it’s all internal money and somewhere in some part of IBM is obviously charging SWO for consultants and doing very nicely out of it.”*)

ASP informants recognised that most services are being delivered to a high standard, and they are now getting some value from the venture (Client: *Now that we have SAP running, configured for a police environment, stable, pretty reliable. There are benefits in that.”*) TDBC informants were generally dissatisfied with the value currently being delivered, feeling that SAP is overly-sophisticated for their needs and that some of the services (particularly IT) have stagnated (Client: *“So the reputational damage has been in the case of IT. It is useless. We have gone backwards in terms of our service and lost 10 years.”* Client: *“I’m not convinced that we got very much from that. And as it has gone on further I think we are just getting the outsource delivery,*

and probably seeing them squeezing out more profit from other avenues wherever they can.”) There is also a general sense of disillusionment in the councils that the additional aspirations that were referenced in the contract (i.e. additional employment, an iconic building etc) were not delivered, although they recognise that the lack of growth into SWO from other public authorities made these infeasible.

There remains strong misalignment between SWO and the councils in particular, and also between the three authorities (Client: “What we have ended up with is something that has not helped IBM nor us in that the contract is so rigid that it is predicated on growth. If there is no growth then it is damaging to IBM, damaging to Southwest One and damaging to the council.”) Differences between IBM divisions in their approach to SWO remain, to the extent that the clients have now learned to exploit these differences (Supplier: “IBM has still not integrated.” Supplier: “There is no doubt that they know that there are three lines of business and how to drive a wedge between them.”)

In spite of these issues there is some commitment on all sides to seeing the contract through to the end of its term, even if relationships remain strained in some cases (Supplier: “*You end up with very unpleasant meetings with ostensibly pleasant people who ask after your family and then write very unpleasant letters.*” Supplier: “*It is almost like a crappy marriage.*”) The relationship between SWO and ASP is more positive as can be seen from the proportions of comments in black presented in Figure 21 above. Although it would be misleading to characterise it as a highly positive relationship, there is a spirit of cooperation and partnership, especially when contrasted with the relationship with the councils, and with SCC in particular (Client: “*We have working relationships [with the police].*” Supplier: “*You have the police relationship where people talk like adults and the contract is rarely opened, which to me is a mature outsourced relationship, it is outcomes based and a conversation between equals.*”) The current SWO CEO has been successful in rebuilding the relationships with ASP and TDBC to a reasonable level, but it appears that the legacy of damage resulting from previous disputes with SCC has proved impossible to overcome (Supplier: “*too much institutional memory of distrust.*”)

6.6. Summary

This case offers valuable insights to the research topic and question given the ambitious nature of the joint venture arrangement through which it was established. The differences that emerged between the parties as the relationship progressed highlight how changes in value expectations and experiences can influence the attitudes and behaviours of the actors.

This case was selected as an example of the more intense and transformational types of outsourcing relationships that are represented at the pinnacle of the pyramids proposed by Kedia and Lahiri (2007) and Sanders et al. (2007). Although it was conceived as a joint venture, it is clear from the case that the levels of partnership and joint control that should characterise such a construct quickly dissipated when difficulties emerged. When one considers that 75% of SWO was owned by IBM and that losses were subject to a parental guarantee by IBM, it is clear that this was a joint venture in name-only. On reflection it was acknowledged that although this JV structure was of some emotional value to the public sector authorities, it did not offer operational value to the arrangement (Client: *“I think more and more it has become just an outsource, and we should have realised on the authorities side that that is what it was.”* Supplier: *“It did not matter that we had a JV. There was no part of the JV that helped you. The fact that they owned the thing that was making this mess did not help at all.”*)

This case re-confirms that these relationships progress through distinct phases, and it suggests that these phases can have varying characteristics for different partners involved in a multi-dimensional relationship (i.e. SWO and SCC; SWO and ASP). However, the evidence from this case indicates that in such a complex network of relationships the actions of one party can have impacts on the others. For example, ASP may have adopted a different approach to the problems being experienced in the second phase, but the preoccupation of SWO in trying to resolve issues with SCC caused them to divert attention away from the other partners.

Across all clients it was recognised that the problematic SAP implementation changed the nature of the relationship and moved it out of the initial *Goodwill* phase. Some informants argued that ASP could have progressed more effectively through this stage had it not been for their association with SCC, and the added tensions that

this caused with SWO. Specifically, a number of informants observed that ASP's internal governance procedures gave it the advantage by having an institutional capability to deal with crisis situations such as the SAP implementation (Supplier: *"When the police have a major issue they have levels of escalation... At all levels from the junior police officer to the CC, they deal with problems."*)

Changes in leadership and the erosion in trust made it very difficult to move beyond this difficult second phase in the relationship. From the clients' perspectives, there was a realisation that the financial value that the contract offered was no longer sufficient given the impact of austerity cuts on budgets. There was also disillusionment that SAP was not the source of strategic transformation that had been envisaged. From the supplier perspective, all financial value was eroded as a result of the extra costs required to resolve SAP issues, and SWO became a significant financial burden to IBM. As expansion into other councils looked increasingly unfeasible, the value expected from SWO as a strategic growth engine also evaporated.

The situation only improved when there was a reshaping of the contract and a resetting of expectations on all sides about what could be achieved. However, this did not raise the prospect of increasing sources of value and appears to be largely driven by a desire to limit the damage. The advent of this more stable period has been clearly assisted by the appointment of the current SWO CEO who is viewed by the authorities as being more partnership-oriented than his predecessor. However, this has not helped the relationship to progress beyond the current status where the parties appear to tolerate each other but do not envisage major opportunities for additional value creation from the arrangement.

7. Cross-Case Analysis of RQ and Phase Transitions

The aim of this research project is to explore the dynamics of BPO relationships as the client and supplier seek to derive value from the arrangement. When considered individually, the three cases that are described in the preceding chapters each reveals insights into how such relationships develop between clients and suppliers. Some common characteristics are apparent from these cases:

1. **Relationship phases:** They each progressed through a number of identifiable phases, which were recognised by the informants as being characterised by distinct differences in the quality of the relationship at the time. These phases differed in the levels of tension and cohesion between the parties, with significant extremes of negative and positive climates being experienced in some cases over their long life-times (particularly in the Virgin Media and Southwest One cases). The transition from one phase to the next was not always clinical, and some blurring of these transitions is apparent.
2. **RQ and its determinants:** Although the data gathered for each of the cases were analysed independently, the comments made by informants could be categorised under a common set of headings. That is, in each case, and for each phase through which it progressed, the factors that were described by informants when they discussed the quality of the relationship remained consistent. Eight factors were identified: *Client Value*; *Supplier Value*; *Inter-organisational Alignment*; *Intra-organisational Alignment*; *Leadership Support*; *Relational Commitment*; *Trust*; and *Partnership Ethos*. As reflected in the research model (Figure 2, page 65) some prior studies of RQ (e.g. Fynes et al., 2008; Swar et al., 2012; Vieira et al., 2008) distinguish between the dimensions that characterise the quality of the relationship (as evidenced by the levels of satisfaction, trust etc exhibited by participants), and the factors that determine these quality indicators (such as the existence of mutual goals, benefits and good communication). Analysis later in this chapter assesses the extent to which the factors identified in this study can be categorised as dimensions or determinants of RQ in a BPO context. Pending this analysis, the term *factor* will continue to be used as a generic descriptor of the eight elements that contribute to RQ, whether these are attributes or antecedents of the concept.

3. **Relationship tiers:** All three cases demonstrate that the client-supplier relationship operates at a number of levels between the partners. The executives who are assigned the responsibility for leading the relationship from both sides play a key role in influencing its operation. However, peer-to-peer relationships also exist above and below these leaders, and these dimensions contribute to the overall quality and progression of the relationship.
4. **Influence of internal stakeholder pressure:** The behaviour of individuals charged with managing the relationship on behalf of both the client and supplier organisations is also influenced by levels of pressure from internal stakeholders in their respective firms. The literature on pressure in organisations (e.g. Cavanaugh, Boswell, Roehling, & Boudreau, 2000; Chong, van Eerde, Rutte, & Chai, 2012) distinguishes between pressure that results in positive outcomes (referred to as *Challenge-related*), and that which ultimately has negative effects (*Hindrance-related*). Data from the cases studied in this project confirm that challenge-related pressure can have the desired effect when it makes life so uncomfortable for those involved that they find ways of improving the value perceptions of internal stakeholders in order to relieve this pressure (Virgin Media Supplier: “*it is getting a bit better, a bit faster, a bit more confident and the pressure started to subside a little bit.*”; Xerox Supplier: “*The internal pressure was less and less as the financials improved*”). However, such pressure can also be hindrance-related by causing behaviours which negatively impact the underlying client-supplier relationship (Xerox Supplier: “*that put a lot of pressure on everyone within IBM and it probably put pressure on the relationship*”; Virgin Media Client: “*the pressure internally that IBM felt to deliver made all of that difficult and made everybody else’s lives difficult*”). The evidence also suggests that Relationship Leaders can use their power to mediate stakeholder pressure. However, if their power is eroded (as happened when the first Southwest One Relationship Leader recognised that his influence within IBM was significantly reduced due to operational failures and financial difficulties), pressure can be amplified. In relation to the core focus of this present study, such stakeholder pressures may be regarded as a characteristic of the context within which relationships evolve. Pressure is a symptom of how value is perceived within the wider client or supplier organisations. This causes changes of context and which can in turn drive changes in attitudes and behaviours of the actors closest to the relationship. The

application of pressure can have the desired performance results, but it can also have consequences that influence the quality of the relationship.

5. **Relationship versus contract:** Across the cases, the informants regularly made reference to the importance of distinguishing between the formal obligations that are incorporated in the contract, and the need for a more flexible attitude to maintaining RQ. The contract is often positioned as a set of safeguards for the parties that can be drawn-upon to discourage opportunistic behaviour. In some cases the contract is also used to justify opportunistic behaviour if either party feels that they are within their rights to act to the detriment of the other party as long as such actions comply with contractual stipulations. The key point here is that in all cases informants were sensitive to the distinctions between contractual and relationship-oriented actions, and were conscious of the consequences of sacrificing one of these agendas in favour of the other at particular points in the relationship. This finding is consistent with evidence from other studies on the importance of social dimensions to supply chain effectiveness (Carey & Lawson, 2011; Gligor & Autry, 2012; Roden & Lawson, 2014).
6. **Alignment of relationship objectives and culture:** For each of the cases informants emphasised the importance of ensuring alignment in the objectives of the client and supplier, and endeavouring to achieve a win-win from the relationship. When an acceptable level of value was not being achieved by either party, or when they became significantly misaligned in terms of the value that they were each pursuing, tension and dysfunctional behaviour typically ensued. Of particular note was the unsolicited emphasis that informants gave to the question of cultural alignment. In the Xerox case, a number of informants made the point that the similarities in corporate culture between the client and supplier organisations improved mutual understanding and collaboration. In contrast, the cultural differences between IBM and Virgin Media, and between IBM and the Somerset public sector authorities, were perceived to have made it more difficult to achieve alignment. These differences also put an added pressure on the respective leadership teams to act as a filter which mollified the cultural distances between the organisations.
7. **Relationship sustainability:** It is notable that all three of these cases have survived for between nine and eleven years in spite of the significant turmoil that they went through at times. Clearly, structural bonds such as contractual

commitments and the difficulties in making alternative service delivery arrangements were a major factor in ensuring this continuity. However, in the cases of Virgin Media and Xerox, when these contracts came to the end of their planned term, contract renewals were agreed. Therefore it appears that even when the restrictions imposed through structural bonds were removed, the prospect of continuing to realise value was a sufficient incentive to sustain and renew the outsourcing arrangement. The anticipated value was sufficient to overcome some significant environmental impacts which may otherwise have caused the demise of the relationship. These impacts included major changes in the client's business environment (e.g. following the rebranding of NTL to Virgin Media), changes in client strategy (e.g. the decision by Xerox to enter the BPO market as a competitor to IBM), and changes in supplier ownership (e.g. the decision by IBM to divest of its interest in the call centre sector of the BPO market by selling this business unit to Concentrix). Therefore a common theme across the cases is that the strength of structural bonds can sustain the relationship through significant tensions, and when these bonds no longer exist the prospect of continuing value can be sufficient to negate threats to the relationship posed by environmental factors.

Although these similarities between the cases provide some initial insights into the dynamics of BPO relationships, further analysis is required to fully address the question of how the search for value by the parties influences the progression of a relationship. These individual cases confirm that BPO relationships move through phases. In order to understand how phases evolve we must first understand the composition of a phase and specifically the relationships between the factors that characterise the RQ of a phase (i.e. the inter-dependencies between RQ factors *within* any phase). As this project is concerned with how phases progress over time, it is then important to analyse how the RQ of a phase may transform to such an extent that it is recognised by the actors as a shift that represents the emergence of a new phase (i.e. the progression *between* successive phases).

The body of this chapter describes these two stages in the cross-case analysis. Generic graphical representations are developed to describe the dependencies between factors that are common across cases. The case data is further investigated to examine the transition points between relationship phases and to determine what instigates phase transitions. The chapter concludes by reflecting on the linkage between value

and RQ that is revealed by this analysis. The findings that emerge from this cross-case analysis provide important input to the analysis that follows in Chapter 8 on whether there are observable and plausible patterns of progression over the lifetime of a BPO arrangement.

7.1. Cross-case analysis approach

The two stages of this cross-case analysis are aimed at ensuring that any subsequent conclusions derived about relationship progression are founded on a deep understanding of the factors that characterise a relationship phase, and the influences that cause this phase to subsequently transform into one with a noticeably different RQ. The stages are summarised as follows:

1. **Analysis of dynamics within relationship phases:** The individual case descriptions found that they were each comprised of phases that were characterised by a confluence of eight identifiable factors. However a deeper understanding of the constitution of these phases requires an analysis of the dependencies between these factors. Therefore this first stage involves an analysis of each factor, in each case, with a specific focus on identifying how it is influenced by any of the other factors. This analysis is completed separately for each of the three cases in order to allow for the possibility that inter-dependencies between RQ factors may vary with context. The dependencies identified between factors in each case are then compared to highlight areas of consistency and variance. Based on these comparisons a more general framework of the interdependencies between the factors that constitute any relationship phase is developed. This depth of insight into the relationships between the factors that determine the RQ of a phase provides an important foundation for the subsequent analysis of how migrations between phases are triggered.
2. **Analysis of shifts between relationship phases:** This stage builds upon the analysis of the dynamics within relationship phases and investigates what instigates movement to a new phase in the relationship. The concept of *punctuated equilibrium* (Gersick, 1991; Tushman, Newman, & Romanelli, 1986) is drawn-upon as a paradigm for exploring how a phase that appears well-established and continuous may subsequently be disrupted. This stage in the cross-case analysis specifically considers the periods of transition between the

phases that were observed in each of the cases. By analysing these phase transitions with reference to the conclusions from the first stage above, a more comprehensive understanding is derived into how changes in the confluence of relationship factors instigates a shift to a new phase. This understanding enables subsequent consideration of whether patterns of relationship phases may be observed, and if so whether these are predictable.

In executing these stages we should seek to uncover robust general insights, while benefiting from the richness that each case offers through its unique features and differences in context, actors, and priorities. As articulated by Miles and Huberman (1994, p.207), we need an approach which recognises that each case is in some sense unique, and which “does not forcibly smooth the diversity in front of us, but rather uses it to develop and test a well-grounded set of explanations.” These authors recommend a set of working principles to assist such explanatory analysis. For this project the principles that these authors recommend are interpreted as follows:

1. *Understand the case* by exploring the dynamics of each case before proceeding to cross-case explanations. This has been addressed through the case descriptions in the preceding chapters.
2. *Avoid aggregation* by being cautious in combining results from disparate cases together to derive conclusions. Although distinct phase progressions were noted in each of the cases studied here, cross-case analysis resists aggregating these progressions across cases without first achieving a deeper understanding of their composition. This is achieved through more detailed analysis of the factors that influence the relationship phases in each of the cases, and the dependencies between these factors. An analysis of how these phases may subsequently be disrupted to a level where they evolve to a new phase is also completed. This provides a deeper frame of reference for aggregating phenomena observed across cases.
3. *Preserve case configurations* by protecting the network of causes, effects and outcomes within each case. Therefore the approach taken here analyses relationships between factors within the phases separately for each case, and only then considers whether there are patterns in these relationships across cases.
4. *Combine variable-oriented and case-oriented strategies* by cycling back and forth to achieve a better understanding of case dynamics and the effects of key

variables. The authors recommend a range of tools to assist this analysis and these were assessed, selected, and adapted to meet the needs of this research.

5. *Inquire into deviant cases* that represent surprises that do not fit with emerging trends. The analysis in this chapter specifically considers variances noted in the relationships between the factors that determine the constitution of phases across different cases.
6. *Look for typologies or case families* that share certain scenarios. This working principle is more applicable to studies that consider high volumes of cases and is less likely to be applicable to this research project.
7. *Avoid forcing* which will push cases too quickly into explanations. This requires an on-going discipline and constant questioning to avoid the temptation to derive simple conclusions or to support preconceptions.

As described in the following sections, the tools used to assist this exploration were selected from the many options proposed by Miles and Huberman (1994). Those selected from these alternatives were also adapted as required to meet the needs of this study. To aid the analysis of dynamics within relationship phases *Explanatory Effects Matrices* (Miles & Huberman, 1994, p.148) were used to identify the relationships between RQ factors. *Causal Network Displays* (Miles & Huberman, 1994, p.153) were developed to provide a visual representation of these relationships. The use of these two tools provides clarity on the linkages between the factors that were observed to comprise RQ. They also enable conclusions on which of these factors may be regarded as *determinants* of RQ, and which are its *dimensions*, as described in the research model. Subsequently, to enable the analysis of migrations between relationship phases a *Time-Ordered Meta-Matrix* (Miles & Huberman, 1994, p.200) approach was adopted. The use of these tools is described in the following sections which provide fuller explanations of both steps that comprise this cross-case analysis.

7.2. Stage 1: Analysis of dynamics within relationship phases

To achieve a deeper understanding of relationship phases and how they evolve it is important to first analyse the network of dependencies between the eight factors that were found to characterise RQ in any phase. Effectively, this requires us to consider each of these factors as a dependent variable and to analyse which of the other factors (if any) can be identified as independent variables that positively or negatively influence the factor being analysed. The dependencies that are identified

can then be represented visually to assist our understanding of how relationship factors influence each other.

This stage in the analysis is described over the following three sub-sections. The first two of these analyse the dependencies and then develop the visual mapping of these relationships between variables within any relationship phase. The third sub-section draws conclusions from this mapping to elucidate the dimensions and determinants of RQ in a BPO context.

7.2.1. Identifying dependencies between variables

The analysis of dependencies between the variables that characterise a relationship phase was completed using an adaptation of the *Explanatory Effects Matrix* as proposed by Miles and Huberman (1994). Using this approach, the comments from informants that described each of the eight relationship factors, in each case, were analysed. From these comments the factors that can be regarded as independent variables were identified. For example, when describing issues of *Trust* during a phase of the Virgin Media relationship, a Client informant commented: “*The new management team did not have the same trust and confidence levels because they did not understand the paradigm like we did.*” An implication of this comment is that the lack of *Leadership Support* impacted *Trust*. If comments such as this are pervasive it can be concluded that *Leadership Support* is an independent variable that influenced the dependent variable *Trust* in this case.

The *Explanatory Effects Matrices* that were derived for each relationship factor for each case are presented in APPENDIX E (i.e. eight matrices for each of three cases, resulting in 24 matrices). As is evident from these matrices, this analysis not only uncovered the dependencies between factors that are endogenous to either of the parties (e.g. in order to display *Trust* it is necessary to have *Leadership Support* within an organisation), but it also highlighted dependencies between the partners for some of the factors that determine RQ. For example, *Relational Commitment* by either of the parties was found to be dependent on [*Endogenous*] *Leadership Support* within their own organisation, and [*Partner*] *Relational Commitment* from the other organisation. In other words, an organisation is unlikely to display commitment to the relationship unless there is support for the relationship from its own leadership, and

also unless it sees evidence of commitment to the relationship from the partner organisation.

Dependent Variable	Independent Variables	
	Evidenced within own organisation [Endogenous]	Evidenced from other organisation [Partner]
Client Value	Experiences; Expectations; Partnership Ethos.	Partnership Ethos.
Supplier Value	Experiences; Expectations; Partnership Ethos.	Partnership Ethos.
Inter-partner Alignment	Value; Intra-partner Alignment.	Value.
Intra-partner Alignment	Value; Leadership Support.	
Leadership Support	Value.	Leadership Support.
Relational Commitment	Value; Intra-partner Alignment; Leadership Support.	Leadership Support; Relational Commitment.
Trust	Value; Inter-partner Alignment; Leadership Support; Relational Commitment.	Trust.
Partnership Ethos	Value; Inter-partner Alignment; Leadership Support; Relational Commitment; Trust.	Partnership Ethos.

Table 20: Summary of dependencies between relationship factors (variables) as analysed in APPENDIX E

Table 20 summarises the dependencies between RQ factors that are detailed in the analysis provided in APPENDIX E. The tables in that appendix confirm a high-level of consistency in the dependencies between the factors across the cases. A total of 31 dependencies between variables were identified. Of these, the analysis identified only four instances where a dependency was not consistently observed in all three cases studied. As recommended by Miles and Huberman (1994), these four variations merit separate consideration to determine whether they represent unique phenomena. APPENDIX E includes an assessment of these variations by revisiting the prevailing context in those cases where the dependency was not highlighted from the data. This analysis concludes that although these four specific dependencies were not observed in all cases, this does not indicate that they are unreliable or contextually unique. Rather, it is concluded that the conditions in the variant cases were such that

these dependencies did not arise, although they remain plausible as a more general phenomenon. For example, unlike the other two cases *Relational Commitment* was not identified as an independent variable influencing *Trust* in the Xerox case. However, although it was not specifically mentioned by the informants it is clear that there was a high degree of *Trust* between the parties, enabled by their cultural affinities and the investments in multi-tiered governance processes. The informants did not appear to find it necessary to specifically mention *Relational Commitment* because this was implicit. Therefore it was concluded that this inter-dependency may be regarded as generic, even if it did not emerge strongly from the analysis of the Xerox data. Based on similar analysis for the other three dependencies which were not observed in all cases, APPENDIX E concludes that these may also be regarded as generally applicable.

The summary of dependencies between factors provided in Table 20 shows that the value appropriated by the client and supplier was found to be an independent variable influencing each of the other six factors. This pervasive influence of value on every other factor is illustrated in the list of sample comments in Table 21 below. Mutual value expectation influences the extent to which the partners remain aligned towards common relationship objectives (*Inter-organisational alignment*). If value is not being realised there can be an erosion of internal organisational support for the relationship (*Intra-organisational alignment*). The attitude of relationship leaders has a direct impact on how value is perceived and realised (*Leadership Support*). Ongoing relational commitment is encouraged only if there is a value dividend (*Relational Commitment*). Trust and partnership are also dependent on the appropriation of value (*Trust; Partnership Ethos*). Given this pervasive influence of value, it was important to further analyse the data to seek additional insights into how actors perceive and interpret value.

Dependent Variable	Sample comment illustrating Value as an independent variable	Source
Inter-partner Alignment	Additional value created because <i>“there is a very strong affinity, and sometimes people wonder, do they work for IBM or Xerox”</i>	Xerox Client
Intra-partner Alignment	Value was eroded because <i>“more than half of your time was spent fighting internally”</i>	Virgin Media Supplier
Leadership Support	A climate for value creation was created because <i>“he made his whole team understand that the success of that group was whether outsourcing worked”</i>	Virgin Media Client
Relational Commitment	Ongoing commitment is dependent on ongoing value because <i>“If you have something that is losing that amount of money it becomes a problem rather than something you want to invest more in”</i>	Southwest One Client
Trust	Trust is earned when value is delivered: <i>“we needed to fix things and we needed to build their trust”</i>	Xerox Supplier
Partnership Ethos	A partnership climate becomes challenging when value is not forthcoming: <i>“I guess that [unsatisfactory results] put a lot of pressure on everyone within IBM and it probably put pressure on the relationship”</i>	Xerox Client

Table 21: Sample comments illustrating impact of value on all other RQ factors

This further analysis of the comments made by informants concluded that value was generally interpreted and expressed in terms of *Experiences* and *Expectations*. This contrasts with the conceptualisations in the literature that typically position value as a trade-off between *Benefits* and *Sacrifices* (Porter, 1985; Ravald & Gronroos, 1996; Woodruff, 1997; Zeithaml et al., 1990). However, although it is clear that both client and supplier informants sought benefits from their BPO arrangements, there were few references to the sacrifices made in return for these benefits. It was much more common for informants to refer to what they expected, and their interpretations of value were in terms of the extent to which the service that they experienced matched these expectations (Xerox Client: *“we have got significant year-on-year improvements and we never thought we would get to the levels we are today”*; Southwest One Client: *“all around the organisation there was a huge gap between what was promised and what was given.”*)

This emphasis on expectations and experiences when interpreting value resonates with the analysis of service quality proposed initially by Parasuraman et al. (1985) and developed in widely-cited subsequent contributions by the same authors (Zeithaml, 1988; Zeithaml et al., 1990; Zeithaml et al., 1993). They describe service

quality as the difference between *Expected Service* and *Perceived Service*, where both of these components are derived from subjective assessments. The linkage between service quality and value in a services context is explored by other authors, and Macdonald, Kleinaltenkamp, and Wilson (2016) summarise these contributions by concluding that service quality should be understood as an antecedent to value from a service user's perspective. The service applications on which Parasuraman and colleagues base their analysis are consumer-oriented (e.g. banking, equipment repair), and do not include B2B contexts. Nevertheless, the body of contributions offered by these authors provides useful input to the analysis here, and will be drawn-upon in Chapter 8 when considering how perceptions of value (as incorporated in service quality) influence relationship progression.

7.2.2. Mapping the dependencies between variables

Miles and Huberman (1994) recommend the development of a *Causal Network Display* to visually describe the relationships that are observed between variables in qualitative research. Based on the dependencies between variables as summarised in Table 20, Figure 22 below presents such a Causal Network to visually map the relationships between the factors, both within either of the parties, and across the parties. This representation emphasises the conclusion that there is a high level of correspondence for a number of the factors across both parties to the relationship. For example, *Leadership Support* for the relationship within one of the parties is dependent on a corresponding level of *Leadership Support* from the partner. *Relational Commitment*, *Trust*, and *Partnership Ethos* are also shown to have mutual dependencies between the parties.

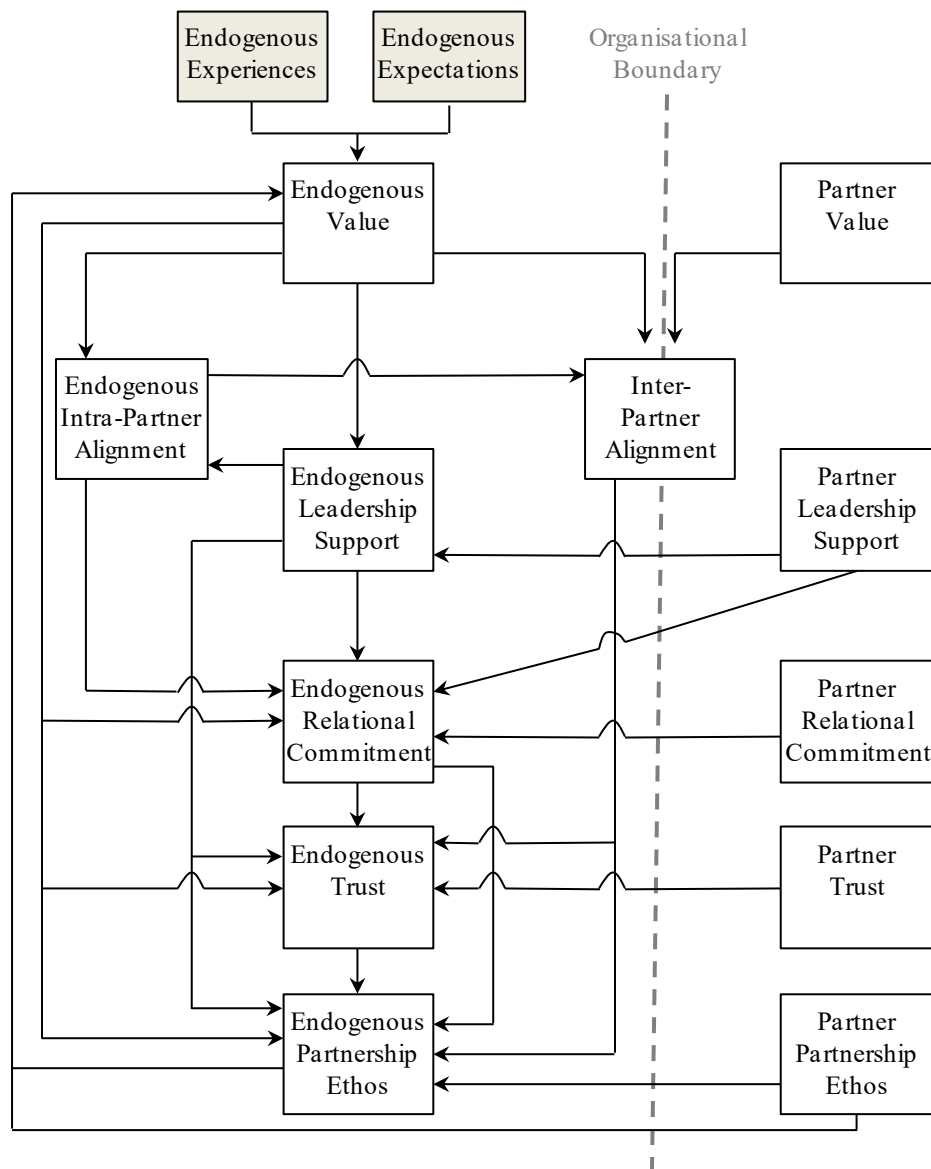


Figure 22: Causal Network of dependencies between variables

Figure 22 represents a complex set of relationships between variables, and for ease of presentation it expands the dependencies for just one side of the relationship. A further development of this causal network is presented in Figure 23. This representation simplifies the relationships between variables by removing any arrows describing relationships that may be regarded as redundant because they are already reflected at a higher-point in the hierarchy of relationships between variables. For example, Figure 22 shows that *Endogenous Partnership Ethos* is dependent on six factors: *Endogenous Value*, *Endogenous Leadership Support*, *Endogenous Trust*, *Endogenous Relational Commitment*, *Inter-partner Alignment*, and *Partner Partnership Ethos*. However, *Endogenous Trust* is already shown to be dependent on

Endogenous Value, Endogenous Leadership Support, Endogenous Relationship Commitment, and Inter-partner Alignment. Therefore the dependency that *Endogenous Partnership Ethos* has on these four factors can be removed as this is already covered by the dependency on *Endogenous Trust*. As well as collapsing these relationships, Figure 23 also shows the dependencies within both the Client and Supplier organisations, and also between them. It therefore acts as a more tractable and complete representation of the relationships that are uncovered in the matrices reproduced in APPENDIX E and summarised in Table 20.

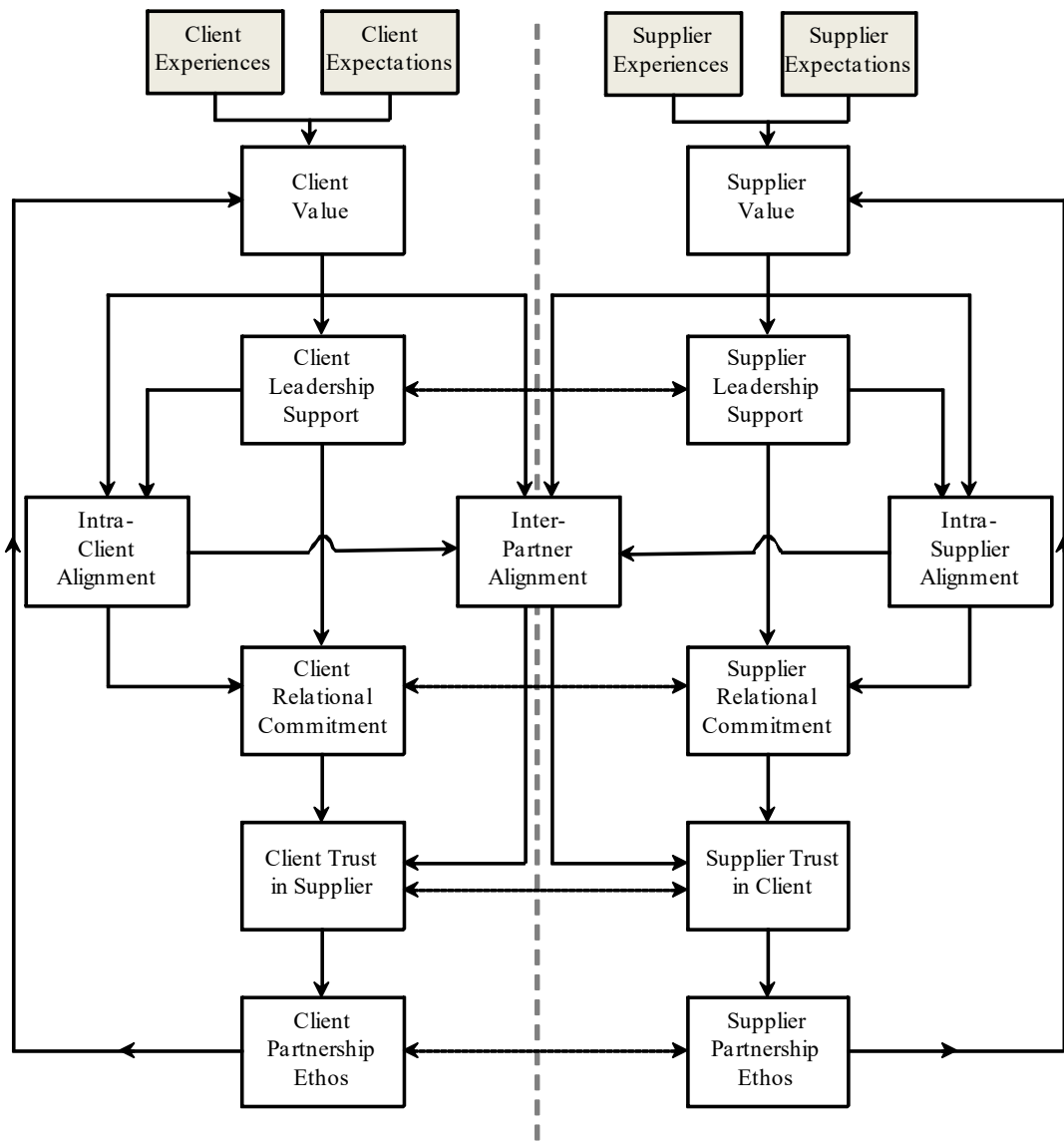


Figure 23: Simplified Causal Network of dependencies between variables

7.2.3. Categorisation of RQ Dimensions and Determinants

Vieira et al. (2008) explain that many studies of RQ use the terms *Dimensions* and *Determinants* to distinguish between the factors that characterise how participants view the quality of the relationship, and the factors that influence this quality. They aggregate the findings of prior studies into RQ in different contexts, and conclude that at a generic level the dimensions of RQ are trust, commitment, and customer satisfaction. That is, if actors perceive that there is trust and commitment between the parties, and that the relationship is delivering satisfactory results, they will be positively disposed to it. Otherwise the RQ will be regarded as poor. These authors identify mutual goals, domain expertise, communication, and relational value as the

drivers that have been identified in many studies as RQ determinants. Their analysis of these prior studies shows that dimensions and determinants may vary significantly by context. The research model developed for this project seeks to analyse these elements in a BPO setting. The inter-dependencies between factors that are represented in Figure 23 provide a basis for this analysis.

In common with the studies aggregated by Vieira et al. (2008), this present study shows that actors in a BPO setting view *Trust* and *Relational Commitment* as fundamental indicators of the health of the relationship. These should therefore be recognised as dimensions of RQ in this context. *Partnership Ethos* also emerges as a key factor that participants highlighted when they discussed the quality of the relationship. In other settings, *Partnership Ethos* could perhaps be considered part of *Relational Commitment*, if the level of partnership is interpreted as an indication of how committed participants are to the relationship. However, in the data from this study, *Partnership Ethos* emerged sufficiently strongly to merit its identification as a separate factor. This suggests that in a BPO setting the commitment that firms demonstrate through relational investments (governance processes, dedicated skills, specific assets etc) is separate to their mindset in relation to partnership, and the openness and flexibility that this implies. For example, in the Southwest One case even though investments in governance processes and other relational investments were maintained throughout, the level of partnership was volatile and ultimately deteriorated. *Partnership Ethos* should be considered as a separate dimension of RQ in a BPO context because the parties have high levels of dependency on each other when striving to achieve their objectives. The extended durations of these arrangements requires flexibility in response to changing environmental conditions. Both parties are therefore extremely sensitive to perceptions of partnership as an indicator of the quality of the relationship.

The analysis above shows that these RQ dimensions (*Trust*, *Relationship Commitment*, and *Partnership Ethos*) are dependent on a confluence of *Inter-organisational Alignment*, *Intra-organisational Alignment*, and *Leadership Support*. These latter factors are more structural in nature and can therefore be considered as RQ determinants. Figure 23 also shows the dependencies between these RQ determinants (e.g. *Leadership Support* encourages *Intra-organisational Alignment*). This level of inter-dependency between RQ determinants is not identified by Vieira et

al. (2008) as a contribution from prior studies. The analysis completed here also shows dependencies between the two parties in a dyad, which has not been emphasised in previous RQ studies. These dependencies are apparent in the determinants of RQ on both sides. For example, the determinant *Endogenous Leadership Support* is dependent on (and therefore determined by) *Partner Leadership Support*. This also shows that the dimensions of RQ from the perspective of one party in the dyad may be considered as determinants of RQ for the other party. For example, *Trust* in the other party is a dimension of RQ. However, the *Trust* that the partner is perceived to display determines whether this will be reciprocated, and it is therefore a determinant of RQ from this perspective.

Vieira et al. (2008) classify customer satisfaction as a dimension of RQ. They describe customer satisfaction as a blend between assurances of future performance and assessments of past performance. Therefore satisfaction can be interpreted from this perspective as an indicator of value, and this suggests that value perception is a dimension of RQ. However, in the analysis completed here, value (as a function of experiences and expectations) was found to be a driver for all of the other factors that comprise RQ. Therefore it could also be considered as a determinant of RQ. This draws attention to the relatively static and linear nature of the construct proposed by Vieira et al. (2008), whereby it is assumed that certain factors determine the resulting RQ of a relationship. The linkages between factors that are shown in Figure 23 represent a more cyclical and dynamic perspective. A strong relationship facilitates value creation, but perceptions of partnership working are recognised by actors as sources of value in themselves. These represent opportunities for future value creation, and the anticipation of such future prospects plays a key role in sustaining the relationship through difficult times. Thus, past, present, and future value is sustenance for as well as an output from the relationship. The level of value realised can be perceived both as a dimension of the RQ (i.e. an indicator of a healthy relationship), and also as a determinant of RQ (i.e. a driver of increased levels of trust and partnership).

Therefore, perceptions of value are fundamental in influencing the dynamic and cyclical aspect of RQ progression. The following section builds on the analysis completed above and focuses on the points of transition between relationship phases. In so doing it considers how changes in the network of dependencies between factors

dynamically trigger these phase transitions. The fundamental influence of value perceptions on these cycles is explored.

7.3. Stage 2: Analysis of shifts between relationship phases

The case descriptions demonstrate that each relationship went through sustained periods that were characterised by a particular level of RQ, before certain events caused them to shift to a different phase that represented a perceptible difference in the quality of the relationship. Across the three cases that were explored in this research project, 11 different phases were identified (four for Virgin Media, four for Xerox, and three for Southwest One). Therefore, eight phase-to-phase transitions were observed (three for Virgin Media, three for Xerox, two for Southwest One). The phases vary in length from less than two years to over four years. The purpose of this section is to consider why a relationship phase may continue for a variable length of time and what then causes a shift to a new phase.

Gersick (1991) describes the *Punctuated Equilibrium Paradigm* as a phenomenon whereby “systems evolve through the alternation of periods of equilibrium, in which persistent underlying structures permit only incremental change, and periods of revolution, in which these underlying structures are fundamentally altered.” (p.13) Periods of equilibrium may still be turbulent, but they are governed by the deep structures that are in place, and which only allow for incremental change. Changes to these deep structures may be regarded as revolutionary change, and are required in order to disrupt the equilibrium. Tushman et al. (1986) argue that such “frame-breaking” change involves shifts in strategy, power, structure, and controls. They propose that “incremental change is compatible with the existing structure of a company and is reinforced over a period of years. In contrast, frame-breaking change is abrupt, painful to participants, and often resisted by the old guard.” (p.32)

Virgin Media		
Phase	Equilibrium Disruption	Structural Change
Invention	Merger of NTL and Telewest and re-branding as Virgin Media led to new client requirements and expectations	Leadership change: Client
↓	Recognition that the antagonistic relationship that had emerged was dysfunctional for both parties	Leadership change: Client Leadership change: Supplier
↓	Recognition that optimising the relationship requires contractual changes	<i>Contract change:</i> Renewal and de-scoping
↓	N/A	N/A
Xerox		
Phase	Equilibrium Disruption	Structural Change
Foundation	Need to stabilise operational performance and resolve emerging tensions between respective contract leaders.	Leadership change: Client Leadership change: Supplier
↓	New client performance requirements and recognition that these could only be achieved if there is incentive for the supplier.	<i>Contract change:</i> 'gainshare' agreement
↓	Corporate pressure within client to discontinue IBM relationship as Xerox was now itself a BPO provider.	<i>Contract change:</i> "Final" extension to contract term
↓	N/A	N/A
Southwest One		
Phase	Equilibrium Disruption	Structural Change
Goodwill	Supplier performance issues (SAP implementation) and changes in political leadership in Somerset County Council.	Leadership change: Client Leadership change: Supplier
↓	Significant financial losses for Supplier. Client needs to "de-scope" to achieve additional savings.	<i>Contract change:</i> Renegotiation and de-scoping
↓	N/A	N/A

Table 22: Time-Ordered Meta Matrix of phase transitions

This paradigm is helpful to our consideration of how to interpret the relationship phases that were observed in this study. Each phase can be considered to

have operated within a certain structure, manifested in the leadership, contractual stipulations, and governance procedures of the arrangement. If the Causal Network presented above (Figure 23) is regarded as a representation of the equilibrium that exists within a phase, we can consider what changes to its structural foundations cause it to shift. We can also assess how this caused a chain of reactions within the factors that determine RQ, to a level where a new relationship phase emerges.

To explore the question of what punctuated the equilibrium of each phase, we need to analyse the transition points between each phase and the next. An adaptation of a *Time-Ordered Meta Matrix* as proposed by Miles and Huberman (1994) is presented in Table 22 to facilitate this analysis. These authors recommend such an approach when analysing “events that have occurred over a period of time, especially those events that are indicators of some underlying process or flow.” (p.200) In Table 22 the phases that were identified in each case are listed. Based on the case descriptions in the preceding chapters, the factors that initiated the change from one phase to the next are summarised (referred to in the table as the *Equilibrium Disruption*). An analysis of the case descriptions also confirms that these triggers coincided with decisions by the parties to implement structural changes, which heralded the transition to the next phase. These changes are pivotal in determining the quality of the relationship in the subsequent phase, and they are therefore listed in the table under the heading *Structural Changes*.

The summaries of phase transitions that are provided in Table 22 show that each equilibrium disruption of a phase can be directly related to a change in value expectations or experiences. These triggered the structural changes that were a response to the need to initiate a significant change to how the relationship was operating. These structural changes took one of two forms:

1. Changes to *Leadership* of the relationship, either on the Client-side, the Supplier-side, or both.
2. Changes to *Contract* conditions, either through renegotiation and renewal, or through the adoption of a major new contractual initiative such as a ‘gainshare’ agreement.

These findings imply that when the limitations of existing structural bonds prevent the parties from negotiating a mutually-agreeable change to the contractual

terms that govern the relationship, they are inclined to change the leadership. This is apparently because new leaders can interpret and operate the contract in a revised manner and are unburdened by the precedents of previous management behaviours. Of course, it is possible to move to a new phase without a leadership change. However, the evidence from these cases suggests that changing the individual or individuals who are charged with representing the client or the supplier is often seen as being particularly effective in challenging the status quo and accelerating the pace of change.

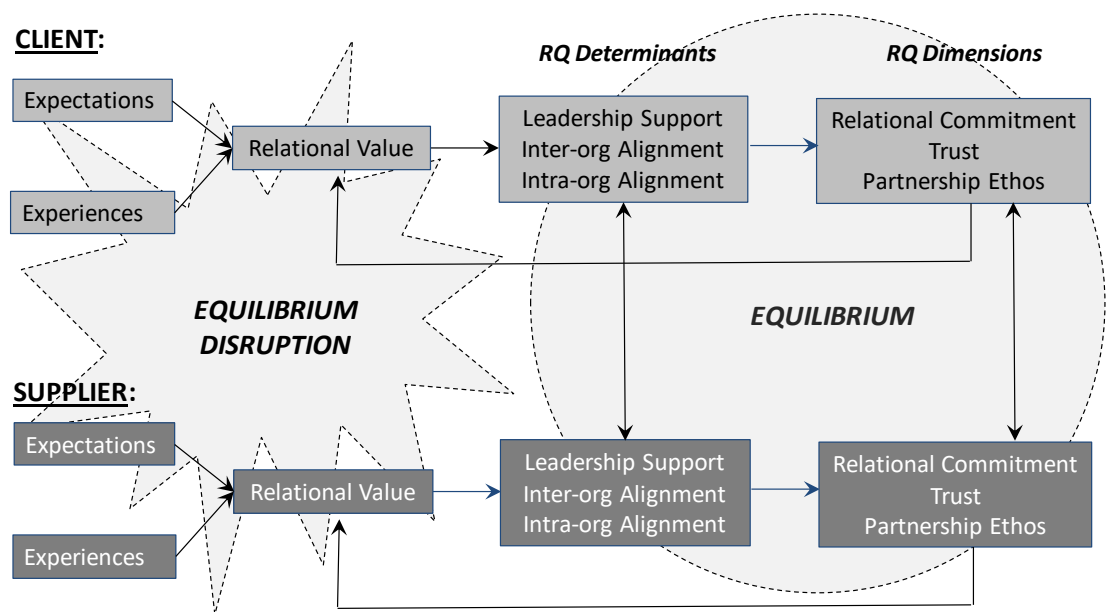


Figure 24: Equilibrium disruption

The changes in contracts or leadership that are associated with these transition points between phases may also be viewed as changes in how the expectations and experiences that determine value perceptions manifest themselves within the relationship. That is, a contract change can represent a revised set of expectations, and it establishes a new context within which experiences will be assessed. Similarly, new leadership will have revised expectations and will interpret experiences from a fresh perspective. Therefore the transitions between phases can be directly associated with revisions in how value is perceived through comparison to contracts and as interpreted by leadership. However, it is clear from the cases that were investigated in this study that these points of transition are not clear-cut, and in some cases they can extend over a period of months.

Figure 24 presents a graphical summarisation of the above analysis. It shows that for both the client and supplier, the quality of the relationship is viewed as a combination of *Relational Commitment*, *Trust*, and *Partnership Ethos*. This is influenced by levels of *Leadership Support*, *Inter-organisational Alignment*, and *Intra-organisational Alignment*. These in turn are influenced by the *Value* from the relationship, interpreted in terms of *Experiences* and *Expectation*. Actor assessments of the RQ itself also contribute to perceptions of *Value*. During any relationship phase, the determinants and dimensions of RQ display a state of equilibrium within prevailing structures and operating norms. Significant changes to perceptions of value disrupt this equilibrium and cause a different profile of determinants and dimensions, which represent a new phase with a different RQ, and an alternative equilibrium.

7.4. Interim reflections and propositions

The next chapter will investigate the existence of any patterns in how the phases observed in these cases progressed. It then develops a generalised theoretical perspective on the progression of BPO relationships through such phases. In preparation, this section reflects on the analysis completed above and develops propositions that can contribute to this theoretical development. In his seminal paper on “What Constitutes a Theoretical Contribution?”, Whetten (1989) emphasises the value of propositions for “specifying the logically deduced implications for research of a theoretical argument.” (p.492) He also encourages theorists to focus on the building blocks for theoretical constructs by considering who/what/when/how questions in order to elucidate these constructs (e.g. when they are observed, how they are influenced etc.) Therefore this section reflects on the analysis to date and develops propositions relating to the constructs of relationships and value. These may then be considered as the building blocks of a theoretical development aimed at explaining how value influences the development of a BPO relationship, as articulated in the research question. The propositions that are developed emerge from reflections on the following questions about the constructs of relationships and value that underpin the research question (a) *How* are changes in RQ influenced by changes in value perceptions? (b) *When* are value dividends assessed as influences on RQ? (c) *What* are the prime indicators of perceived value from the relationship? (d) *Who* determines perceptions of value resulting from the relationship? In the paragraphs that follow these questions are considered with reference to the preceding analysis.

How are changes in RQ influenced by changes in value perceptions?: This research project was founded on a premise that BPO relationships are highly integrated and that both parties influence RQ. However, reflecting on the phases observed in the three cases it is apparent that the primary indicator of RQ during a phase was the level of satisfaction that the client organisation had with value perceptions. Of course, this is influenced by the clients' perceptions about the behaviour of the supplier, which in turn is influenced by the supplier's assessment of their own value dividends. However, ultimately this results in a level of satisfaction for the client that has a fundamental influence on the perceived quality of a relationship phase. This is confirmed when we consider that the positive, negative, or neutral tone of each relationship phase across all three cases is directly aligned with the positive, negative or neutral assessment by the client organisation at that time of value resulting from the relationship. This is because there is a high-level of interdependence between the client and supplier, meaning that the value perceptions of the client will ultimately impact the behaviours of both parties as manifested through the RQ. This simplifies the task of conceptualising phase progressions because it allows us to view these from the perspective of the client, rather than needing to represent the client and supplier perspectives concurrently. This leads to the following proposition:

Proposition 1:

The RQ of a phase is fundamentally influenced by perceptions of value in the client organisation.

When are value dividends assessed as influences on RQ?: The causal network of relationships between variables (Figure 23 on page 226) does not establish any direct or immediate link between the expectations and experiences that determine value for one partner, and those that determine it for the other. In other words, there was no evidence that the value realised by one partner at any point in time was reflected in an equivalent level of value at that time for the other. An example of this absence of a constant connection between the value appropriated to each party is evident in the Xerox case. When discussing the early phase of this relationship, supplier informants described how the client benefitted from up-front savings in these initial stages (Xerox Supplier: "*It was a brilliant deal for them.*") However, because

they initially had to bear the cost of making employees redundant, these early phases proved to be financially very difficult for the supplier (Xerox Supplier: “*[Financially] It was a tough deal early on.*”) Although this placed pressure on the supplier’s business, the client did not notice an impact on services (Xerox Client: “*There were times I know when there was pressure on [IBM’s] side ... but there was never a diminution in any of the services.*”) This may also appear to conflict with assertions that win-lose relationships will become dysfunctional (Kern & Willcocks, 2001b; McCarthy et al., 2013; Momme, 2002). However, these cases suggest that there may be periods of win-lose, but as long as both parties are confident that the arrangement will deliver value in the longer term, these challenging periods can be endured (Xerox Supplier: “*[Initially] the margin went down because of the redundancy costs, and we had to put more people in [to fix operational issues]. So the first year or two was a bit tough, but over the life the deal was almost identical to the business.*”)

There may be times when the equitable sharing of new sources of value may represent a direct and immediate link between the value dividends to both parties (e.g. the ‘gainshare’ agreement in the Xerox case whereby improved performance by IBM resulted in cash benefits for the client, and from these rewards additional payments were made to supplier). However, more generally the relationship between the levels of value appropriated to each partner appears to be discontinuous, meaning that they may each realise value at different times and to different degrees. Each may be prepared to endure periods of value erosion if these are bearable within their broader business portfolios, or if they can rationalise this against value delivered earlier in the relationship, or anticipated later. In colloquial terms, the parties appear to be prepared to ‘play the long game’ in the search for value, and can resist reacting to temporary shortfalls as long as these are not indicative of an irreversible trend. Value appropriated to the parties at any point in time is therefore not a reliable predictor of how they will behave at that point in the relationship. When value is understood as a function of expectations and experiences it can be seen to have more longer-term and time-independent dimensions. This leads to the following proposition:

Proposition 2:

The influence of value on behaviours and attitudes during any phase will be based on a longer-term perspective, considering perceptions of past, present, and future value.

What are the prime indicators of perceived value from the relationship?:

On a day-to-day basis, the primary connection between the two partners centres on the delivery of the service. These services are the fundamental source of value for the client, and the primary driver of costs and revenues for the supplier. They also provide a means of developing capabilities and reputation which represent additional intangible sources of value for the supplier. Although the link between services and all forms of value appropriated to the partners may be discontinuous, the cases studied here indicate that service quality for the client, and service costs for the supplier, are fundamental to how value is interpreted and therefore to how the relationship develops. This is illustrated by an analysis of all comments made by informants when discussing value (including expectations and experiences). Within this set of comments (n=172), 61% related to aspects of service delivery, 24% related to financial factors, and 15% to value derived from the effectiveness of the relationship.

Therefore service inputs and outputs are drivers of the on-going and fluid assessments of value made by both parties. Their respective attitudes to the relationship directly impact, and are impacted by such service delivery. Fundamentally, services, and particularly the client perceptions of these services, are the fulcrum through which value exchanges are made, even if this value is assessed discontinuously over a longer time horizon. This indicates that our understanding of how the relationship progresses will be enhanced by analysing how expectations and experiences of services develop, as this is effectively an indicator of how the parties will perceive the creation or erosion of value.

Proposition 3:

In a BPO arrangement, value is directly related to the quality of services delivered to the client, and the cost of such delivery to the supplier.

Who determines perceptions of value resulting from the relationship?:

Given the myriad of actors, management-tiers, and stakeholders that are involved in the relationship, it is unrealistic to assume that all constituencies across both the client and supplier firms will have shared perceptions of expectations and experiences at all times. However, this study found that the relationship leaders and their relationship-management teams from both sides played the central role in representing the expectations of their respective organisations and in interpreting experiences on their behalf. The fundamental importance of those individuals charged with leading the relationship from both sides has also been noted in other outsourcing studies which refer to them using terms such as *Boundary Gatekeepers* (Mathrani & Mathrani, 2016) and the *Leadership Pair* (Lacity & Willcocks, 2013). This present study reconfirms the centrality of these individuals to the relationship, and in particular the influence of the most senior relationship-management executives on both sides. They may be considered as representative of their respective organisational perspectives to the partner, and the point of interpretation of the relationship within their own organisations. Therefore, the perceptions of these individuals from both sides are linked to a level whereby they have common interpretations of the RQ at any point in time. Their expectations are communicated to each other and these contribute to their perceptions of alignment (or misalignment) throughout the duration of the relationship.

Proposition 4:

Relationship leaders on both sides act as the focal points for perceptions of value by their respective organisations. In this role they influence, and are influenced by other organisational stakeholders as value assessments are formed.

Table 23 summarises the propositions that are developed above. Taken together, these propositions provide important input to the analysis of patterns and the development of the theoretical framework of relationship progression in the following chapter.

RESEARCH QUESTION:	
<i>How does the search for value by each of the parties to a Business Process Outsourcing arrangement influence the development of the relationship?</i>	
DIMENSIONS:	RESULTING PROPOSITIONS:
<i>How</i> are changes in RQ influenced by changes in value perceptions?	Proposition 1: The RQ of a phase is fundamentally influenced by perceptions of value in the client organisation.
<i>When</i> are value dividends assessed as influences on RQ?	Proposition 2: The influence of value on behaviours and attitudes during any phase will be based on a longer-term perspective, considering perceptions of past, present, and future value.
<i>What</i> are the prime indicators of perceived value from the relationship?	Proposition 3: In a BPO arrangement, value is directly related to the quality of services delivered to the client, and the cost of such delivery to the supplier.
<i>Who</i> determines perceptions of value resulting from the relationship?	Proposition 4: Relationship leaders on both sides act as the focal points for perceptions of value by their respective organisations. In this role they influence, and are influenced by the value perceptions of organisational stakeholders.

Table 23: Propositions contributing to the development of a theoretical framework

7.5. Summary

This chapter established the linkages between the factors that contribute to the RQ of a BPO relationship phase. The factors were also identified as either dimensions or determinants of RQ. It was recognised that *Value* is a more fundamental influence that deserves separate consideration because of its impact on the progression of the relationship. The analysis completed here exposed the cyclical dependencies between RQ factors, and also the connections within and between RQ determinants and dimensions across both parties in a dyad. This level of insight has not been contributed by prior RQ studies, particularly as applied to a BPO context. The concept of equilibrium within a relationship phase was introduced and expanded upon with reference to the confluence of RQ factors that obtains when such equilibrium

emerges. Associated with this is the concept of equilibrium disruption, which is drawn upon to explain why phases evolve, and the triggers for transition from one phase to the next.

This chapter concluded by reflecting on the research question. Propositions are developed based on the preceding analysis. The next chapter assesses whether any patterns in relationship progression are apparent from the analysis of these cases, and if so whether the findings above provide a plausible explanation for such patterns.

8. Theoretical Framework of Relationship Progression

Informed by the depth of understanding into RQ composition and phase transition that is developed in Chapter 7, this chapter adopts a higher-level perspective with the objective of identifying and explaining similarities in phase progression. Searching for patterns in this way is a central objective of an inductive approach as was deemed most appropriate for this study (Acquinis & Vandenberg, 2014). It is particularly appropriate when process contexts are under investigation (Langley, 1999; Pentland, 1999). Pettigrew (1997) also discusses how additional pattern recognition is appropriate in the later stages of processual analysis across multiple cases.

By way of introduction to the sections that follow, it is worthwhile to highlight the opinion offered by one senior interviewee whose career has involved extensive exposure to multiple outsourcing engagements. His experience was gained while working in IBM, in other large BPO providers, and in third-party consultancy firms. When describing how the Southwest One case developed, he proposes the following as a more general observation on how BPO relationships develop:

“I think in a 5 year deal there is normally 3 or 4 cycles. So the first cycle is the start-up phase. There is then a stabilise phase because you get to the end of the first cycle and go ‘why are we not making the money, we have service issues, the transition ... whatever’. It happens in every deal, right? There is a sort of stabilise [phase], and let’s get this thing under control. There is normally then a fix phase ... it could be fix and then grow, or just fix, or just grow..... and then there is a fourth phase which is renew or extend. And the [leadership] roles needed in those four phases are completely different.”

This is a valuable opinion expressed by an expert practitioner. However, it is based on perception and was not derived through any scientific method. The remainder of this chapter focuses on ascertaining whether such patterns indeed exist, and if they may be explained through a robust theoretical framework. Building on the analysis in the previous sub-sections, this is approached in three steps:

Review of relationship phases across cases: The progression of phases displayed in each of the three cases is reviewed and similarities are identified.

Development of a theoretical framework of relationship progression: The cases are analysed with reference to the findings in the previous chapter, and relevant theoretical traditions to develop a generic theoretical framework of relationship progression. This proposes how relationship phases evolve as value expectations and experiences inevitably change.

Mapping of the cases studied to the generic relationship phases: The generic phases that are proposed in the theoretical framework are then mapped to the phases that were identified in the three cases to assess how this framework may improve understanding of BPO relationship progression.

These steps are developed in the following sections.

8.1. Review of relationship phases across cases

	CONTRACT YEAR										
	1	2	3	4	5	6	7	8	9	10	11
Virgin Media Latest Assessment Duration: 11 Years RQ: Healthy Outlook: Continuing											
	Invention (2004-06)			Misalignment (2006-08)		Tolerance (2009-11)		Partnership (2011-date)			
Xerox Latest Assessment Duration: 9.5 Years RQ: Healthy Outlook: Terminating											
	Formation (2007-10)			Stabilisation (2010-12)		Optimisation (2012-14)		Dissolution (2014-date)			
Southwest One Latest Assessment Duration: 9 Years RQ: Weak Outlook: Terminating											
	Goodwill (2007-09)		Acrimony (2009-12)			Resignation (2013-date)					

Figure 25: Summary of phases observed in each case

Figure 25 summarises the phases that were observed in each case by mapping them against the contract years in which they occurred. Although all three cases were still active at the time of the interviews, they varied in their outlook. The Virgin Media relationship appears destined to continue indefinitely. The Xerox relationship will be terminated for strategic reasons even if it is considered to be currently very effective.

The Southwest One relationship is likely to be dissolved at the end of its current 10-year term, although the ASP client may negotiate a smaller contract in its place.

Considering all three cases, Figure 25 highlights that the initial stage of each of these arrangements was characterised by a high-level of commitment in both the client and supplier organisations to making the relationship work. This is not surprising as outsourcing of key business functions is a critical initiative involving significant risks for both parties. It is therefore understandable that those closest to the arrangement on both sides will invest significant effort in the early stages to make it successful. As the senior actors involved in this initial phase are likely to also have been involved in the decision-making process, they will feel a strong sense of ownership for the outsourcing initiative and they will be sympathetic to the early challenges. They will also be very conscious that success depends on the cooperation of the other party. This is reflected in the generally positive and constructive tone that characterises each of the initial phases (Virgin Media: *Invention*, Xerox: *Foundation*, Southwest One: *Goodwill*).

If we accept that it is likely that an outsourcing relationship will begin with such a supportive phase (at least between those charged with making it work), it is equally inevitable that the business climate will change and that this will challenge the equilibrium of this initial phase. This is because unforeseen events eventually occur, and expectations evolve. This is logical as each business planning cycle will anticipate improvements on the preceding one. Therefore any initial benefits resulting from an outsourcing agreement are prone to being taken for granted in subsequent planning periods. This is particularly reflected in a number of comments from supplier informants suggesting that clients typically forgot about any front-loading of the benefits delivered in a contract. The adage “eaten bread is soon forgotten” comes to mind. The cases indicate that it is also common for stakeholders to change and new stakeholders may not have the same understanding or sense of ownership for the decisions that led to the outsourcing arrangement. Even if there is continuity of management, the cases show that fatigue with the inherent difficulty of sustaining these relationships can cause irritation and frustration.

Therefore changes may arise for a number of reasons, and the evidence from the cases studied here suggests that this can lead to a tension in the relationship that

challenges the initial ‘honeymoon’ period. In the Virgin Media and Southwest One cases, changing expectations or disappointing experiences meant that the initial supportive phase was followed by a period in which there was a ‘war of attrition’ where both parties sacrificed collaboration and sought selfish advantage as they tested how far they could push the other partner (Virgin Media: *Misalignment*, Southwest One: *Acrimony*). Even in the Xerox case there was tension towards the end of this first phase between the relationship leaders from both sides. This was never permitted to extend to a pervasive level as there was recognition of this emerging conflict by more senior executives in Xerox and IBM. They proactively implemented leadership changes on both sides which ensured that this inter-personal tension did not escalate to a level where it had a lasting impact on the wider relationship. However this still indicates that in each of the cases the initial phase was followed by a period of friction during which the initial supportive momentum was replaced by irritation, disillusionment and dispute.

The recognition that conflict was dysfunctional eventually led to phases where there were renewed attempts to make the relationship work. Typically, these required changes of leadership to overcome the legacy of past conflicts, leading to a more constructive phase (Virgin Media: *Tolerance*, Xerox: *Stabilisation*, Southwest One: *Resignation*). Although these phases were more positive, the arrangements were still not fully optimised during these phases. In the case of Southwest One, it is questionable whether such optimisation could ever be achieved. For SCC in particular the relationship with IBM/SWO appeared beyond repair by that stage. For all three authorities and for IBM/SWO the prospect of generating the kinds of value originally envisaged from the agreement now appeared unrealistic.

In the Virgin Media and Xerox cases the parties maintained some confidence that new sources of value could be realised. This required some structural change via updated agreements which built on the experiences to date and recognised that business conditions had changed. Therefore these cases went through phases where performance was stabilised and expectations were re-set. This laid the foundation for revised agreements which enabled a more fruitful phase for all parties (Virgin Media: *Partnership*, Xerox: *Optimisation*). This phase continues in the case of Virgin Media. The Xerox case has entered its *Dissolution* phase because strategically it became

unpalatable for the company to continue to procure services from IBM when it had itself entered the market as a BPO provider.

The above review of the relationship phases suggests that the evolution of the relationships followed a broadly similar pattern across all of the cases. This raises a question as to whether this is coincidental or inevitable. To address this question we can draw on the insights from the analysis in the earlier sections of the dynamics within and between phases. Extant theory and further analysis of the data uncovered through this research can complement these conclusions. Together these offer a rationale for proposing a generalised sequence of phases. The following sub-section develops a theoretical framework to identify and explain the pattern of relationship progression that is indicated.

8.2. Development of a theoretical framework of relationship progression

Reviews of extant IOR theory in Chapter 2 concluded that these do not provide comprehensive explanations of how inter-organisational relationships evolve in a BPO context. Because BPO relationships are dominated by structural bonds and the highly-integrated nature of the services provided, they are subject to influences that differ from typical transaction-oriented buyer-seller relationships. This project confirmed the existence of phases in BPO relationships, and identified the nature of disruptions that triggered the transition from one phase to the next. These transitions were found to be related to perceptions of value, and this value was found to be directly related to the quality of the services delivered. We can therefore look to theories exploring services quality for further insights to assist our conceptualisation of relationship progression.

Reviews of the literature identified Zone of Tolerance (ZoT) theory as a dominant and maturing perspective on how service quality may be conceptualised (Gwynne et al., 2000; Johnston, 1995; Liljander & Tore, 1993; Stodnick & Marley, 2013; Ziethaml et al., 1993). As this theory emphasises the importance of experiences (referred to as *perceived service*) relative to expectations when forming assessments of service quality, it resonates strongly with the findings of this research. An early contribution to this work by Parasuraman et al. (1985) found that expectations of services are subjective and the authors propose how these expectations are derived. This is further developed into a framework of the determinants of customer expectations of service by Ziethaml et al. (1993). They find that expectations are

influenced by customer needs, promises made or implied by suppliers, word-of-mouth, past experiences, and the availability of alternatives. They also find that expectations may be lowered when customers recognise their own responsibilities in contributing to service delivery, and when they accept that unforeseen events may impact service quality (e.g. weather, emergencies, over-demand etc). This further study finds that customer expectations may be imprecise and broad-ranging. Customers will accept levels of service that fall within their range of high and low expectations. Specifically, although a high level of service may be desired, customers will countenance a lower standard as long as it is above a threshold of what is considered to be adequate. Service performance that is between *desired* and *adequate* service expectations is acceptable to customers, and this is referred to as the *Zone of Tolerance* (Zeithaml et al., 1993)².

ZoT theory was developed by studying attitudes to individual consumer services and it does not consider the additional complexity when multiple actors have expectations and experiences in a B2B context. The theory is solely focused on customer expectations of service quality and it does not seek to enlighten on how suppliers may perceive the exchange, or how the broader concept of value is evaluated. Nevertheless, the fundamental principle of ZoT theory that customer expectations are heterogeneous is consistent with the indications from the cases studied here that there can be a lack of precision in the level of service that will be regarded as acceptable, and delivering satisfactory levels of value. Furthermore, the theory recognises that past experiences with a service can influence the level of service that is subsequently desired and the level that will be accepted as adequate. This resonates with the focus of this research project, through its recognition that service engagements are processual and that experiences and changing expectations influence how attitudes evolve.

ZoT theory therefore provides some useful input to the development of a theoretical framework which builds on the analysis from this study to explain the progression of BPO relationships. However, the development of such a framework also required some additional conceptualising. This is consistent with the constructivist nature of the qualitative methodology that was selected for this research

² The framework developed by Zeithaml et al. (1993) to outline the components of the ZoT is reproduced in APPENDIX F.

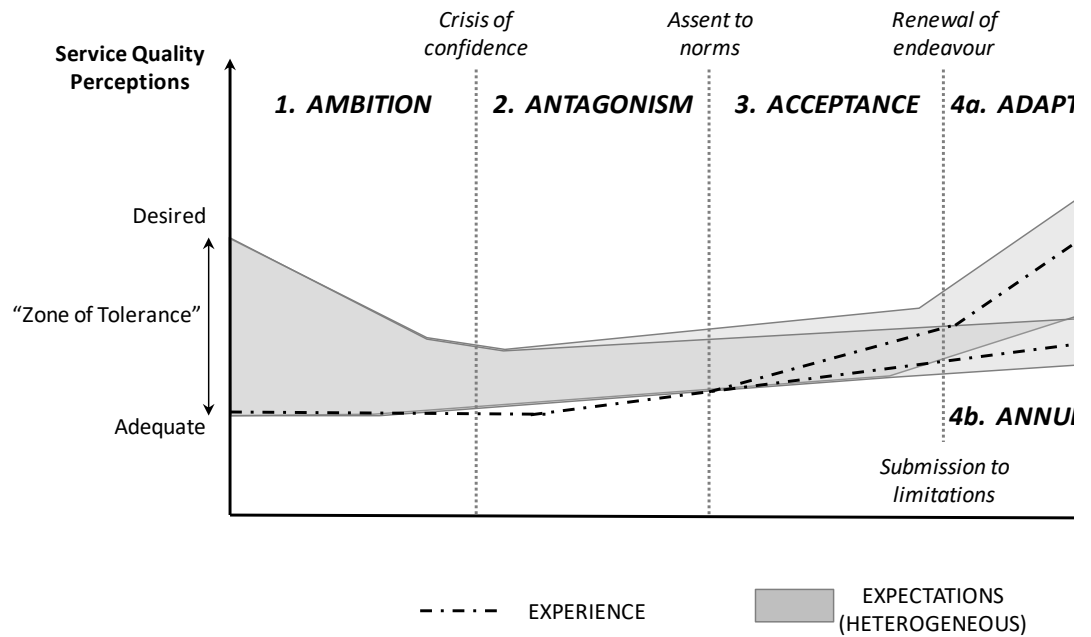


Figure 26: Theoretical framework of relationship progression

project (Sminia, 2009). Mir and Watson (2001, p.1171) highlight that constructivists see theory as “an act of generation, rather than a formalization of underlying reality.” The approach taken to develop the framework was not at the extreme of what Van Maanen (2011, p.223) refers to as “the rabbits that we pull out of our hats” when drawing conclusions from ethnographic fieldwork. However, it does include elements of what Klag and Langley (2013, p.161) characterise as “conceptual leaping.” That is, it is informed by the analysis of the case data, but it also seeks to derive plausible explanations for the phenomena observed, as is required of process theories (Carter, 2011; Langley, 1999).

Figure 26 presents the theoretical framework that was developed through this process. The X-axis in the framework represents the passage of time. The Y-axis represents perceptions of service quality at any point in time. Following ZoT theory, these perceptions are influenced by expectations, ranging from what is considered adequate to what is desired. Such expectations are compared to experiences of service quality to influence levels of satisfaction. The shaded areas between the extremes of desired and adequate service expectations represent the ZoT. The dashed line represents customer experience with the service quality as the relationship progresses. The Y-axis in the framework is not calibrated to show degrees of graduation. This is because the framework is conceptual, and not quantitative. It is also because the focus

of the framework is on the relative comparisons of adequate and desired service expectations, and associated experiences.

Drawing on the propositions developed in the previous chapter (from page 238 onwards), the framework considers value assessment from the perspective of the client, as this has a fundamental impact on RQ (Proposition 1). It acknowledges that these perspectives consider past, present, and future assessments of value, by recognising that expectations are time-independent (Proposition 2). It recognises the equivalence between service quality and value in this context (Proposition 3), and it assumes that an organisational perspective on value and the RQ that it drives is derived through the respective relationship leaders (Proposition 4).

The framework represents the observed phenomenon whereby, as perceptions of value change (in terms of experiences relative to a range of expectations), the RQ that characterises a phase also changes. Disruption to the equilibrium of a phase is driven by significant changes to expectations and/or experiences, and therefore perceptions of value. This disruption triggers the transition to the next phase. The following five generic phases of BPO relationship progression are represented in the framework:

- **Ambition:** An initial phase characterised by enthusiasm and optimism on both sides.
- **Antagonism:** A difficult phase that is typically triggered by disappointment and/or changing requirements.
- **Acceptance:** A period during which expectations are re-set and attempts are made to make the relationship work more effectively.
- **Adaptation or Annulment:** A point of bifurcation for the relationship whereby it may either become increasingly productive, or remain unsatisfactory.

The sub-sections below describe the phases represented in this framework, including how they form and evolve. The transition points between phases as identified in Figure 26 are also discussed.

8.2.1. Phase 1: Ambition

Characteristics: Heterogeneous Expectations; Low/Variable Experiences

In this first phase a supportive climate generally exists between the parties to the relationship. Desired service levels are high as clients are likely to have ambitious, and potentially unrealistic expectations based on promises made during the sales process (Southwest One Supplier “*You could argue that expectations were set wrong*”; Southwest One Client: “*There was a disconnect between the sales team who signed the contract and the delivery team, and a lot of verbal promises just evaporated.*”) Very high expectations by some individuals are balanced against more realistic expectations from others, coupled with an understanding that it may take some time to achieve desired levels of service (Southwest One Client: “*I did not expect a ‘wow!’ on the first day of the contract ... we don’t expect change to be sudden – it will take time.*”) Therefore as represented in the framework, during this first phase those involved in leading the relationship are influenced by a wide range of expectations between what is desired what is considered acceptable.

When describing the early parts of this first phase clients are generally patient and understanding of initial challenges. The supplier generally makes great efforts to ensure a strong start and clients are generally satisfied as long as they can see this commitment (Xerox Client: “*I had a great impression of their operational drive from the start*”; Southwest One Client: “*It started off really well... any speed bumps [were] just accepted that this was part of the transfer.*”) Service delivery continues at a reasonably constant level but with some periods of good and bad performance (Xerox Client: “*I didn’t expect some of the rocky road that we had initially*”; Southwest One Supplier: “*We bumped along, we put the service together ... we were delivering pretty good services.*”) However, as expectations increase, and if improvements in service performance are slow to materialise, tensions emerge in the relationships (Xerox Supplier: “*Transition took longer than expected*”; Xerox Supplier: “*It was a tough deal in the first year because there were all sorts of additional things that we did not expect*”; Southwest One Supplier: “*[after a period of time] we were not delivering against their expectations and everything got a bit fractious.*”)

As shown most visibly in the Virgin Media case, changes in business requirements and the arrival of new contract leaders signals the emergence of new

expectations and a level of frustration with what has been delivered to date (Virgin Media Supplier: “[Client management adopted an attitude of...] ‘you need to deliver what I want and I don’t really want any argument’.”) Within the supplier organisation additional pressures may emerge if it proves difficult to achieve the financial objectives which were set when the arrangement was conceived (Virgin Media Supplier: “The internal objectives of IBM were very aggressive and I would say probably designed by spreadsheet instead of what was realistic”; Xerox Supplier: “We could not deliver the business case benefits which meant that we were constantly on the back-foot”; Southwest One Supplier: “the numbers were all going wrong so there was huge pressure on us.”) At the most extreme level, on-going financial pressures may cause the contract leader to lose influence within the parent company, and corporate executives may even consider replacing the individual charged with leading the contract (Southwest One Supplier: “I had gone for a position where I could ask for any job and they would have thought about it to one where I was tainted with something that wasn’t working properly, and was going to carry on not working - giving a bit of an odour.”)

8.2.2. Phase 1 to 2 Transition: Crisis of confidence

Changes in expectations, unfulfilled promises, and service failures during Phase 1 culminate in a crisis of confidence. This is predictable given the wide range of expectations that are typical in the first phase, and the difficulties caused by unforeseen events while capabilities are still under development (Virgin Media Supplier: “I don’t think we ever realised or expected it to be as bad as it was.”) Relationships grow more fraught as business requirements evolve and inevitably cause operational challenges (Virgin Media Supplier: “Virgin were expecting one set of things to miraculously happen and we were trying to manipulate to what they wanted.”) Although clients may have initially accepted heterogeneity in service performance, ultimately patience wears thin (Southwest One Client: “We got so far down the road that what was being built was not quite what we expected ... It definitely shook confidence.”) Stakeholder management also becomes increasingly challenging if performance continues to disappoint or is slow to improve (Southwest One Client: “we had a huge expectation crash from the top to the bottom of the organisation.”) This coincides with the transition to the second phase.

8.2.3. Phase 2: Antagonism

Characteristics: Increasing & Homogenous Expectations; Lagging Experiences

Relationship tensions arise because of on-going service performance issues, or if the rigidity of the arrangement presents difficulties in adjusting to revised business needs (Virgin Media Supplier: “*because it was not working they were blaming us and we were blaming them.*”) This reflects an erosion in inter-organisational alignment between the parties (Virgin Media Client: “*it felt to me like we were never going to be able to deliver what we had to deliver ... because the two companies had not come together with aligned objectives*”; Virgin Media Supplier: “*We had a huge misalignment between what was sold and bought and what was [now] expected.*”) The resulting tension causes the client organisation to be more demanding about the minimum levels of service that are considered acceptable (Virgin Media Supplier: “*the customer was kicking the living daylights out of us because of poor service*”; Southwest One Supplier: “*We were expected to deliver.*”)

The data also shows that the focus on achieving acceptable levels of service performance also leads to a reduction in expectations of the higher levels of service that may be desired (Southwest One Client: “*our expectations were suddenly being reduced from what we thought we had signed up to*”; Southwest One Client: “*huge disappointment personally because I expected so much more.*”) This indicates a significant narrowing in the gap between adequate and desired expectations of service as illustrated in the theoretical framework on page 246. In practice, this was manifested in a tendency to revert to the contract and to be limited by its descriptions of the level of service required (Southwest One Client: “*it became a case of challenging everything in the contract, and so [the client says] the contract says x, but we don't think you have delivered it, versus 'we [the supplier] think we have delivered x'.*”) Much effort is expended in disputes about whether the levels of service were in line with the required and contracted levels (Virgin Media Supplier: “*They used all sorts of things about how we were not getting the quality – but we were*”; Southwest One Client: “*Even if there was an acceptance [of service performance] it was not treated as acceptance, it was treated as a 'you have not delivered everything you have contracted for' ... everything became a spat.*”)

8.2.4. Phase 2 to 3 Transition: Assent to norms

Having sought to optimise their own positions and tested each others' resolve during Phase 2, the parties ultimately realise that an on-going fractious relationship is counter-productive (Southwest One Client: "*undoubtedly service suffered because of the turmoil.*") Ambitions are reset, and coupled with improvements in service levels these encourage a new and less-combative phase (Virgin Media Supplier: "*We had to focus a lot on making sure people understood what we were achieving and really being able to prove that the service we were offering was acceptable*"; Southwest One Client: "*[The climate improved] once we were able to explain why it was not working ... reset expectations ... so it's going to be [expletive removed] for a while, bear with us.*") In order to move on from residual tensions that may remain from Phase 2 it is likely that new leadership may be required in both organisations (Virgin Media Supplier: "*[New client leader] was a breath of fresh air*"; Southwest One Client: "*[New Southwest One CEO] started, and he was like a breath of fresh air.*")

8.2.5. Phase 3: Acceptance

Characteristics: Revised Expectations; Improving Experiences

This phase establishes a revised baseline of expectations and experiences. Levels of service should by now have achieved some level of stability. Expectations that were influenced by 'rose-tinted' memories of the nature of services prior to outsourcing become faded and replaced by more recent experiences (Xerox Client: "*We had institutional memory of the way we used to do it in the past and that became a benchmark of how we expected IBM to do it.*") Services stabilise and become more closely aligned with revised expectations (Xerox Client: "*It was more about making sure that operationally we were delivering consistency and predictable results*"; Southwest One Client: "*the issues were getting the delivery ... to a state where it was steady and stable and producing what was promised.*") The abrasive nature of the previous phase requires some rebuilding of relationship linkages (Southwest One Supplier: "*both sides had been bruised by it all.*") The partners are faced with either accepting failure and living with the consequences, or regarding prior experiences as an investment that may still deliver rewards (Southwest One Client: "*Over time what you find is that expectation of service reduces... peoples' expectations change and they find different routes [to satisfy their needs]*"; Southwest One Client: "*[Service*

quality was still] not homogenous ... but there was more stability and we moved to say 'actually it is in our interest to run it for a bit'.") Therefore this phase represents a point of bifurcation, where the relationship may transition either to Phase 4a (Adaptation), or 4b (Annulment). These two alternative pathways are described in sequence below.

8.2.6. Phase 3 to 4a Transition: Renewal of endeavour

During Phase 3 confidence may be somewhat restored through a painstaking process of rebuilding trust (Southwest One Supplier: *"build-up credibility by delivering small things."*) Every aspect of service may still not be as required, but clients are once again willing to accept some level of heterogeneity in service quality (Xerox Client: *"There were issues with service levels – absolutely – but we had them when we ran Dublin [prior to outsourcing]."*) Persistent focus can result in improvements that may be regarded as a source of pride for both parties (Southwest One Client: *"we stuck with it and waded the contract at each other, but we made it work really well."*) A more positive and optimistic attitude emerges, and prior tensions and arguments are overlooked in a renewed spirit of collaboration (Southwest One Supplier: *"people are very good at forgetting."*) Having achieved stability a foundation is established for discussions about how the relationship may transition to a phase during which additional value may be created (Xerox Supplier: *"[Encouraging further collaboration] was a combination of stable delivery, no surprises, demonstrating our capabilities, working alongside [Xerox managers]."*) If such a positive attitude emerges the parties will develop revised ambitions for the arrangement, and potentially may form new contractual agreements to target the achievement of these ambitions in Phase 4a.

8.2.7. Phase 4a – Adaptation

Characteristics: Increasing Expectations; Improving Experiences

During this phase the parties work more effectively together to build on what has been learned to date. This is enabled by substantial structural change, which in the cases studied here resulted from a significant change to contract terms and/or a change of leadership style. These changes encourage renewed optimism about what the arrangement is capable of achieving. Expectations about adequate service levels

anticipated under these new conditions increase. However, these increases are moderated by more realistic assessments of what is possible that are informed by past difficulties (Xerox Client: *“you know what you are doing, you know what to expect...we don't expect things to go wrong.”*) Client expectations of desired levels of performance are likely to increase again. Although a spirit of optimism and endeavour emerges, it remains difficult for the supplier to fulfil all client expectations (Xerox Client: *“I would have expected more in terms of innovation”*; Xerox Supplier: *“We signed up for some [new] agreements more in hope than expectation”*; Southwest One Supplier: *“Sometimes their expectations are unreasonable.”*) Nevertheless, levels of trust and partnership are high, leading to greater flexibility by both parties and tolerance of heterogeneous service levels (Xerox Client: *“We were looking for a more nuanced delivery than was specified in the contract. At times we needed some different things [than specified in the contract] and it is about the supplier understanding those things and moving the business to adapt to them ... this has been giving us more value”*; Xerox Client: *“IBM has delivered most of the time and that's as good as it gets in our business.”*)

This phase is characterised by partnership-working rather than contract management (Xerox Client: *“My role is helping to fix the issue in the delivery centre so that we can continue to deliver good service.”*) The new spirit of collaboration and a sharing of the rewards that result from this are effective in delivering very satisfactory results for both parties (Xerox Supplier: *“The contract is delivering probably the highest gross profit in the portfolio and at that point you are left alone quite a lot [by corporate managers]”*; Southwest One Client: *“[Describing one service element] It is a professional service delivering over and above what we agreed.”*) As long as experiences continue to be in line with expectations and show signs of continuing improvement, there is optimism that the productive relationship that is enjoyed during this phase will continue (Virgin Media Supplier: *“If you deliver then there are no issues”*; Xerox Client: *“We got there on every single point ... now hitting targets quarter after quarter ... [the service is] a shining beacon”*; Southwest One Client: *“There are still things that are undelivered ... but what I do know is that [overall] it is delivering.”*)

8.2.8. Phase 3 to 4b Transition: Submission to limitations

It is also possible that during Phase 3 experiences may continue to disappoint and this will promote pessimism about the future potential for the arrangement. Some contract changes aimed at improving the situation may be agreed (as with SCC in the Southwest One case). Although these may limit the damage, they may not be sufficient to reinvigorate the relationship. If so, the actors may conclude that there is limited potential to improve (Southwest One Client: *“It is just the basic level of service which is keeping going, whereas actually what we needed to do is fundamentally change – but the contract is not flexible enough to accommodate that.”*) The termination conditions stipulated in the contract may make early exit unaffordable, meaning that both organisations become resigned to having to tolerate each other (Southwest One Supplier: *“a horrendous marriage of convenience.”*) In this case the only option is to steer the agreement towards conclusion at the end of the contract term (Southwest One Client: *“it just needs to be put out of its misery.”*)

8.2.9. Phase 4b – Annulment

Characteristics: Limited Expectations; Adequate Experiences

The general mood during this phase is one of seeing it through to completion with as little pain as possible (Southwest One Supplier: *“It is a gentle jog to the finish now.”*) The climate is likely to remain tense and characterised by contract-management, rather than relationship-management. Expectations will be tightly managed with limited collaboration and a low level of tolerance for under-performance (Southwest One Supplier: *“[Client was] asking for something that they knew you could not deliver”*; Southwest One Supplier: *“My expectation was that it would not improve very much.”*) Over-performance of services is unlikely as the supplier has limited incentive to invest further in the service. Therefore during this phase the gap between adequate and desired levels of service remains narrow.

	Virgin Media	Xerox	Southwest One
Phase 1: Ambition	<u><i>Invention Phase (2004-06)</i></u> <ul style="list-style-type: none"> Inexperienced client and supplier Rapid implementation and expansion 	<u><i>Formation Phase (2007-10)</i></u> <ul style="list-style-type: none"> Extensive cooperation on start-up Initial service successes 	<u><i>Goodwill Phase (2007-09)</i></u> <ul style="list-style-type: none"> High levels of cooperation External resistance binds parties together
Phase 1 to 2 Transition: Crisis of Confidence	<ul style="list-style-type: none"> Rebranding of client firm New client leadership Dissatisfaction with current contract 	N/A	<ul style="list-style-type: none"> Service significantly disappoints New political leaders in SCC Changes in SWO leadership
Phase 2: Antagonism	<u><i>Misalignment Phase (2006-08)</i></u> <ul style="list-style-type: none"> New client requirements (not in contract) Supplier struggles with rapid growth Extreme friction in the relationship 	<ul style="list-style-type: none"> Inter-personal dispute between leaders Replacement of leaders prevents contagion to wider IOR 	<u><i>Acrimony Phase (2009-12)</i></u> <ul style="list-style-type: none"> Service issues continue (SAP-related) Clients manage crisis in different ways SCC disputes “Procurement” savings
Phase 2 to 3 Transition: Assent to norms	<ul style="list-style-type: none"> New leadership in client and supplier Tacit agreement to cooperate 	<ul style="list-style-type: none"> Increasing competency of supplier New leaders in client and supplier 	<ul style="list-style-type: none"> New leadership in SWO Resolution of “Procurement” dispute De-scoping of some services
Phase 3: Acceptance	<u><i>Tolerance Phase (2009-11)</i></u> <ul style="list-style-type: none"> More constructive relationship Improvements in value for both sides Legacy of previous conflicts remains 	<u><i>Stabilisation Phase (2011-12)</i></u> <ul style="list-style-type: none"> Steady improvements in services Stabilisation of relationship following initial transition phase 	<u><i>Resignation Phase (2013-15)</i></u> <ul style="list-style-type: none"> Tacit cooperation Lack of growth potential accepted
Phase 3 to 4a Transition: Renewal of endeavour	<ul style="list-style-type: none"> Negotiation of contract extension New performance criteria 	<ul style="list-style-type: none"> New contract measures agreed, with ‘gainshare’ payments to supplier 	ASP client: <ul style="list-style-type: none"> Renewed determination to make it work
Phase 4a: Adaptation	<u><i>Partnership Phase (2011-15)</i></u> <ul style="list-style-type: none"> More constructive relationship Improvements in value for both sides 	<u><i>Optimisation Phase (2012-14)</i></u> <ul style="list-style-type: none"> Improvements in supplier performance New benefits for client and supplier 	ASP client: <ul style="list-style-type: none"> Some successes Possible limited renewal of contract
Phase 3 to 4b Transition: Submission to Limitations	N/A	<ul style="list-style-type: none"> Short-term extension of contract Acceptance that contract will then terminate 	SCC/TDBC client: <ul style="list-style-type: none"> Disappointment and disillusionment

<p>Phase 4b: <i>Annulment</i></p>	<p>N/A</p>	<p><u><i>Dissolution Phase (2014-15)</i></u></p> <ul style="list-style-type: none"> • Winding down of contract • Good collaboration continues 	<p>SCC/TDBC client:</p> <ul style="list-style-type: none"> • Ongoing dissatisfaction • Steering towards end of contract
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Table 24: Mapping of generic theoretical framework phases to cases

8.3. Mapping of cases studied to generic relationship phases

The methodology employed in this study emphasises the importance of contexts which will differ across BPO relationships. Although significant similarities were observed, the findings confirm that contexts matter significantly. The prevailing business conditions and personal agendas that are embedded in the context influence assessments of value and RQ by individuals and stakeholder groups at any point in time. The most visible example of this is in the Southwest One case, where, in spite of similar issues (e.g. the SAP system issues) the relationships between the supplier and two clients (SCC and ASP) responded differently based on their contextual influences. Therefore, it should not be expected that any similarities or patterns that are observed across cases will be so strong that they over-ride the influence of specific influences in each individual case. The theoretical framework that is described above is proposed as a lens through which we can observe BPO relationships, but it should not be regarded as a template that applies rigidly in every case. To do so would ignore the importance of context. Instead, it should be regarded as a benchmarking aid to assist in explaining the status of a relationship, and its potential future direction. That is, the value of the framework is as a comparator which helps us to understand the contextual factors that cause a given relationship to follow, or divert from, this generic pathway.

Table 24 on page 256 maps each of the three cases studied here against the generic relationship phases. By considering the progression of each case relative to these phases and points of transition we can further understand why they progressed the way that they did.

The phases that were observed in the Virgin Media case can be mapped directly to the generic relationship phases (i.e. *Invention* maps to *Ambition*, *Misalignment* to *Antagonism*, *Tolerance* to *Acceptance*, and *Partnership* to *Adaptation*). In the initial phase, expectations were largely based around financial objectives while establishing this new initiative (*Ambition*). Stabilisation of call centre service performance was also desired. However, as cost improvements were a priority, the client demonstrated a high level of tolerance when issues which were outside the supplier's control challenged operational performance. Strong social connections helped the supplier to manage the expectations of those closest to the

relationship on the client side. These client relationship leaders in turn managed expectations with internal stakeholders. This level of expectation management proved unsustainable when the scale of the contract increased, and when new client leadership was appointed following the merger and re-branding of the company. Experience lagged increased levels of expectation, leading to a fraught relationship (*Antagonism*). Performance slowly improved as supplier competence with the new services increased. Expectations were also tempered and reset by the new client relationship leader who was appointed following recognition by more senior management that the increasingly dysfunctional relationship could not be allowed to continue (*Acceptance*). This change of leadership was effective in stabilising the relationship. However, it was not until further new leaders were appointed on both sides, and the structure of the contract was changed, that realistic expectations were more clearly established and the supplier was capable of achieving and exceeding these (*Adaptation*). Reflecting on this, we could conclude that had these revised contractual terms been agreed sooner, the abrasive nature of the intervening period could have been avoided. However, this would have required a very mature governance process, built on strong social connections and mutual understanding. This did not exist between the leadership teams in the two organisations at that time as they had limited experience in working together, and limited understanding of, or sympathy for, each others' positions.

The immaturity of the governance process in the early stages of the Virgin Media case contrasts with that of the Xerox case. There, the characteristics of the *Antagonism* phase were only briefly observed. Although tensions between the two relationship leaders were visible towards the end of the *Ambition* phase, by preemptively changing these executives this was prevented from escalating to a level where it defined an extensive phase. This case proceeded directly from the initial phase to one of stabilisation within the recognised constraints of the existing contractual terms (*Acceptance*). The relationship further matured to a level where it was possible to agree new contract terms enabling a sharing of the value resulting from improved operational performance (*Adaptation*). The Xerox case is also unusual because although both parties expressed strong satisfaction with the value now being delivered, plans are nevertheless underway to terminate the agreement. Therefore, in this case *Adaptation* will lead to *Annulment*, even if some of the actors would prefer it

to be otherwise (Xerox Client: “*Had it been my money, and was I not a good corporate citizen I would have continued the relationship with IBM and Concentrix forever.*”) It is clear that the move by Xerox into the BPO market made it untenable for this client to continue to maintain and expand the relationship with IBM (Xerox Client: “*it became politically difficult to put new scope into IBM.*”) Therefore, progression from the *Adaptation* phase to the *Annulment* phase in this case is a feature of the specific contextual factors at play and should not be interpreted as a more general trend.

The Southwest One case is most effective in highlighting that the *Acceptance* phase is a point of bifurcation between the alternatives of establishing a foundation for a re-shaped relationship (*Adaptation*), or becoming resigned to the limitations of the arrangement and steering it towards termination (*Annulment*). The data in this case reveals a significant divergence between clients during this phase. That is, the two councils (SCC & TDBC) no longer saw potential for the relationship and were disillusioned that the original ambitions could no longer be achieved. Although they grew to accept the limitations of the arrangement, they saw this as a precursor to inevitably exiting the agreement when the contract term ended (*Annulment*). In contrast, the police organisation (ASP) also accepted the difficulties but they adapted their expectations and were more successful in adjusting to find ways of achieving value under these revised circumstances. Some informants attributed this divergence to cultural differences and organisational competence in dealing with crisis situations (i.e. the implication is that police forces have more competence in dealing with crises than councils). However, it must also be recognised that ASP operated in a significantly different business environment to the councils and therefore they were not as dependent on some of the services which the councils believed were being delivered unsatisfactorily by Southwest One. Although ASP informants were generally positive about the level of value that was finally being delivered, they realised that it would soon move to an *Annulment* phase, even if this involved some discussion about agreeing a re-constructed arrangement based on the best elements that can be salvaged from the embers of the existing arrangement.

The data analysis upon which this framework is founded does not extend sufficiently to indicate whether there is another phase beyond the *Adaptation* phase, other than one of *Annulment* if the arrangement has run its course. We can assume

that expectations will continue to increase and further revisions of the terms of the agreement may be necessary in response to this. Ultimately, if potential for incremental value is exhausted this may lead to *Annulment*. It is also feasible that a substantially revised agreement may signal a new level of *Ambition* and the cycle of phases may be repeated. However, at this point this must be regarded as speculative. Further research, beyond the scope of this project, is required to explore this possibility. A question also arises as to whether a relationship may ‘fall-back’ into a previous phase in any circumstances. This appears conceptually possible if conditions or stakeholders change significantly. However, there was no evidence of this in the cases studied here so this must also remain an opportunity for further study.

8.4. Summary

This chapter reflected on the three cases studied. It complemented this reflection with inputs from ZoT theory and other conceptual deductions to develop of a theoretical framework offering an explanation of how BPO relationships progress. This shows that in the initial supportive phase expectations are high but judgments are largely sympathetic as experience develops (*Ambition*). Experiences and changing expectations may lead to a crisis of confidence which can ultimately instigate a fractious period in the relationship (*Antagonism*). As service performance stabilises and expectations are influenced by norms the quality of the following phase is characterised by an acceptance of what can be delivered (*Acceptance*). If the relationship is successful in progressing beyond this phase it is possible to renew the endeavour and adjust the arrangement in pursuit of higher goals (*Adaptation*). If it is not successful the agreement will ultimately terminate (*Annulment*).

The framework that was developed reflects the broadly consistent pattern in relationship development that was identified through this analysis. However, it is not proposed as a prescriptive outline of how BPO relationships will inevitably progress. It should instead be regarded as a reference against which BPO relationship may be compared to understand their current status and to project how they may evolve, and how this evolution may be influenced.

In the final chapter that follows, the conclusions that may be drawn from this research are outlined. These propose how this research contributes to a deeper understanding of BPO relationship progression. The broader theoretical implications

of this analysis and the theoretical framework which was developed above are also discussed. Implications for practitioners are proposed.

9. Conclusions

This final chapter consolidates the conclusions that are drawn from the preceding case descriptions and analysis. These conclusions are discussed under the three headings within which this research project aims to make a contribution, namely: contributions to *Understanding*, contributions to *Theory*, and contributions to *Practice* (recognising that there may be some overlap between categories, as for example a conclusion representing a contribution to understanding may also be relevant to practice). Having discussed the conclusions, this chapter reflects on these by considering any counter-intuitive inclusions or omissions. The avenues for further scholarship are also proposed. The chapter concludes by reviewing the effectiveness of the methodology that was adopted and by summarising limitations and mitigations.

9.1. Conclusions contributing to Understanding

The narrative style that was encouraged from research informants was effective in realising a rich source of insights into the dynamics of BPO relationships over their lifetimes. These insights can be consolidated into the following conclusions which contribute to understanding of Services Supply Chains, and specifically the evolution of BPO relationships.

9.1.1. Relationship Quality: A dynamic blend of inter- and intra-organisational factors

By identifying the eight factors that represent the determinants and dimensions of RQ in these cases, this study deepens our understanding of the nature and operation of BPO relationships. It complements other studies that have explored RQ in various contexts such as supply chain networks (Fynes et al., 2008), public sector (Swar et al., 2012), and consumer services (Roy & Eshghi, 2013). The richness of the descriptions provided by the informants who supported this study also enabled a detailed analysis of the dependencies between various RQ influences. This found a reciprocal and cyclical relationship between value and other relationship factors, whereby the value realised both influences, and is influenced by the other determinants and dimensions of RQ. Other studies have recognised that value realisation is an antecedent for RQ (Ulaga & Eggert, 2006). However, this study highlights the additional insight that the

prevailing RQ also influences perceptions of value, as determined by experiences relative to expectations.

The methodology ensured an equal focus on client and supplier perspectives and therefore it responds to calls made in extant RQ literature reviews for more studies that explore both perspectives in dyadic relationships (Athanasopoulou, 2009; Vieira et al., 2008). This broad and inclusive scope enabled dependencies between variables to be identified, not just within either partner, but also between the partners in the relationship. Such inter-dependencies between the determinants and dimensions of RQ across the dyad were not highlighted in any of the other studies identified in the literature. This therefore provides an additional contribution to understanding. It may be that the highly integrated nature of BPO relationships serves to emphasise these inter-dependencies more than is observable in other settings. Their identification and exploration in this study improves insight into highly integrated supply chain relationships that are developed through shared objectives, mutually-supportive leadership, joint relational commitments, mutual trust, and working partnerships.

The longitudinal and qualitative characteristics of this study were also effective in revealing the dynamic nature of RQ. Prior studies have largely adopted a static or point-in-time perspective which provides limited understanding of how attitudes to on-going relationships may change. The clear evidence from all of the cases studied here is that such attitudes do indeed evolve, and the analysis provides a deep understanding of the triggers that encourage this evolution. It was found that during each phase of a relationship the confluence of the eight factors establishes an equilibrium that characterises the RQ that is apparent to all relationship participants. This equilibrium is reinforced by structural factors, which generally manifest themselves in the attitudes of relationship leaders and/or the rigid enforcement of contractual terms. Shifting to a new phase requires a disruption of this equilibrium, which was found to be typically executed through a change in leadership and/or the negotiation of new contractual parameters. These can also be interpreted in terms of how the expectations and experiences that influence value perceptions are established and assessed.

When considered holistically, the phases through which these relationships progressed were found to have significant similarities across cases. The pattern that is

represented in the theoretical framework (Figure 26) provides a reference point which contributes to our understanding of how BPO relationships are likely to evolve, and the factors that influence this evolution. Although exceptions to this pattern are inevitable given the unique characteristics of each BPO relationship, this framework still contributes to understanding by providing a lens through which any such variations may be considered and better understood.

9.1.2. Value Perceptions: Subjective, disjointed, and open to influence

As outlined in earlier chapters, typical conceptualisations of value in the literature focus on *benefits* and particularly how these compare to *sacrifices* made in return for these benefits (Bowman & Ambrosini, 2000; Grönroos, 2011; Monroe, 1991; Ravald & Gronroos, 1996; Sánchez-Fernández & Iniesta-Bonillo, 2007; Woodruff, 1997). However, influenced by the conceptualizations of services quality by Parasuraman et al. (1985) and subsequent contributions by the same authors (Zeithaml et al., 1990; Zeithaml et al., 1993), the analysis in this study concluded that it is more effective to understand value in this context by considering it as a comparison of *experiences* relative to *expectations*. This perspective further emphasises the subjective and individual nature of value perceptions. Expectations can be variable as they are driven by interpretations of promises, needs, alternatives, prior experiences, and situational factors. Experiences can have dimensions that relate to services delivered, financial outcomes, and relationship perceptions. All of these factors combine to underscore the subjectivity of value perceptions in this context.

An additional complication arises when we consider the timing of value assessments in on-going relationships such as these. The analysis of the data in the previous chapter confirms that individual assessments of the value resulting from the relationship can take account of prior experiences, current perceptions, and future anticipations. A key finding is that value delivery may be uneven and disjointed, but that this may still be acceptable to the parties when they are prepared to take a long-term perspective. For example, in the Xerox case a senior supplier informant explained that in the early phases the contract was significantly loss-making to IBM, but financially advantageous to Xerox. This was deemed acceptable given the strategic importance of the contract and IBM's ability to absorb these losses in anticipation of future profitability over the full life of the arrangement. This deepens

our understanding of the impacts of value assessments. It explains that although a win-win is important, there may be periods of win-lose or even lose-lose which need not threaten the sustainability of the relationship as long as there is optimism that these are transitory periods which will be compensated for by more positive experiences in the future, or in the past.

Therefore, value in this context should not be understood as being absolute, but rather as being ‘in the eye of the beholder’. Associated with the subjectivity and disjointedness of value assessments is the fact that actors’ assessments of value may be influenced by other actors. If value is derived from expectations and experiences, assessments of value can be influenced through expectation management and the positive portrayal of experiences. The central role of relationship leaders in moulding such perceptions is discussed as part of the next conclusion that contributes to our understanding of these relationships.

9.1.3. Relationship Leaders: Mediators of value, alignment and cultural distance

The literature review that informed this project identified a number of studies which concluded that the most effective outsourcing relationships were those that achieved a win-win between the client and supplier (Kern & Willcocks, 2001c; Kern et al., 2006; Saxena & Bharadwaj, 2009). The findings of this study are consistent with this conclusion. That is, in the Virgin Media and Xerox cases the client and supplier are both very satisfied with the outcomes now being achieved and therefore both describe the relationships as successful. In contrast, in the Southwest One case it is clear that the two councils (SCC and TDBC) and IBM are dissatisfied with their respective outcomes and are looking forward to the dissolution of the relationship at the end of its term. Therefore the conclusion that a win-win is critical to the health of the relationship is clear, but this study adds additional depth to this conclusion by providing insights into *who* makes the judgment on the extent to which a win has been achieved. This question is particularly important given the complexity of value judgments as outlined in the previous section and the need for these to be consolidated into some form of consensus at an organisational level.

In their book ‘*Nine Keys to World-Class Business Process Outsourcing*’ Lacity and Willcocks (2015) emphasise the importance of assigning effective leaders from both parties as the first ‘key’ to ensuring an effective BPO arrangement. They

propose the attributes that these leaders should exhibit. These include the proposal that the two relationship leaders should each have ‘clout’ within their respective organisations in order to sustain support for the agreement and to ensure that it receives an appropriate level of investment. The findings of this study endorse this proposal. The manifestation of the client requirements through the perspectives of their relationship leader is vividly evidenced in the Virgin Media case where the new MD of Customer Services brought a revised interpretation of what the arrangement was required to deliver following the merger and re-branding of the company. In the Southwest One case, the executive who initially held the role of CEO of the JV emphasised that when the deal was originally won, he held significant influence within IBM and could use this to overcome sources of resistance. However, when the JV experienced significant operational difficulties his influence was diminished and he could no longer control the perspective adopted by stakeholders in the parent firm.

Therefore, it may be concluded that in achieving alignment between the client and supplier, the respective leaders play a key role in interpreting objectives on behalf of their organisations and in assessing whether the actions of the partner organisation are aligned with these objectives. Associated with this is the role that these leaders play in influencing their organisations to remain aligned with the mutual objectives that are embedded in the arrangement. This requires them to use their influence (or *clout*). However maintaining this influence requires political manoeuvring combined with management of the value perceptions of internal stakeholders, through both their expectations and experiences.

It is notable that informants in each of the cases made unsolicited references to the importance of cultural alignment between the partners. For Virgin Media, a supplier informant highlighted the difficulties in achieving an effective working relationship because “*you can’t think of two brands that are further apart than Virgin Media and IBM.*” In the Xerox case a number of informants commented on the benefits that arose from the similarities in cultures between these two US multinationals. This contrasts with the Southwest One case where the cultural distance between a US corporation such as IBM and local government authorities was recognised as a significant challenge to maintaining a collaborative relationship (Southwest One Client: “*there is a huge cultural gap between how IBM work, and how the private sector works ... We are all talking English but we don’t have a*

[expletive removed] clue about what each other means.”) It is possible that the importance of culture is exaggerated in these cases as they all involve IBM which has a strong corporate culture given its long history. Even if this has resulted in some extremes as studied here, it still contributes to improved understanding by highlighting the importance of considering cultural affinity or distance when studying these relationships.

Schein (2010, 2015) discusses how cultural comparisons have national dimensions (between countries), organisational dimensions (between companies), and occupational dimensions (between professions). In a BPO context, each of these dimensions may present challenges, as services are frequently delivered from remote locations, between companies from different industry sectors, and between actors who have different professional backgrounds. Bridging the cultural distance challenges that can emerge across all of these dimensions presents risk to these arrangements. The evidence from this study helps us to understand that those tasked with leading the relationship from both sides have a key role to play in shielding and mediating such cultural barriers. An insightful example of this arises in the Southwest One case where client informants commented that it was only when the initial CEO of the JV had been replaced that they realised the extent of the cultural distance between the organisations. While he was in the role he was successful in shielding the client from the complexities and politics within IBM (Southwest One Client: *“it only became obvious after he left that there are different pipes within IBM, and [JV CEO] had masked that very well. We did not have to worry about what was behind him.”*) Therefore the role of leadership in mediating cultural distance is an important conclusion that can be derived from the data generated in this study.

9.1.4. Inter- and intra-organisational adaptation and learning

The analysis completed in this study deepens understanding of how firms adapt and learn as they navigate through long-term outsourcing relationships. The data confirms that the organisations involved in each of these cases developed commonly-held attitudes to the client-supplier relationships, influenced by past experiences (Virgin Media Supplier: *“It took us probably collectively six to nine months to get the teams to trust each other, because they had been fighting and had been sparring partners for so long”*; Xerox Client: *“We had an institutional memory*

of the way we used to do it in the past”; Southwest One Supplier: “*too much institutional memory of distrust.*”) However, some of the organisations were more effective than others in constructively learning from past experiences, and creating new organisational memories and attitudes. For example, Xerox and Virgin Media were evidently quite successful in overcoming early challenges and creating more productive climates for their respective relationships with IBM. This contrasts with the Southwest One case where the public sector authorities and IBM struggled to leave behind the legacy of their initial difficulties, and to find improved ways of working together. We can look to the literature on organisational learning to frame the improvements to our understanding that these contrasting examples provide into why some alliances are more successful than others in developing and benefitting from inter- and intra-firm organisational learning.

Fiol and Lyles (1985, p.803) define organisational learning as “the process of improving actions through better knowledge and understanding.” They describe how organisations develop associations, cognitive systems, and memories, which are commonly interpreted and shared by its members. These authors also distinguish between *Learning*, which involves “the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions”, and *Adaptation*, which is “the ability to make incremental adjustments as a result of environmental changes, goal structure changes, or other changes.” (p.811) Simon (1969) posits that as well as providing a basis for shared insights, organisational learning is reflected in structural elements and action outcomes that may be observed in an organisation. Meyer (1982) argues that organizational learning requires the flexibility to continuously adjust such mechanistic structures, as “formalized and complex structures retard learning” (p.533). Fiol and Lyles (1985) conclude that the creation and manipulation of the tension between constancy and change provides the optimal climate for organisational learning.

The study undertaken by Mani and Barua (2015) is particularly relevant to this discussion as it investigates how organisational learning impacts the value co-creation propensity of an outsourcing engagement. They propose that there are two types of learning that are relevant in this context: (1) *Procedural* learning, which reflects the client’s general level of competency in managing inter-firm relationships, and (2) *Relational* learning, which is driven by the client’s prior association and on-going

experience with a given outsourcing services provider. In their research findings they caution firms without prior experience in managing inter-firm alliances (i.e. low levels of *Procedural* learning), that complex outsourcing will present them with a significant value risk. Even for the outsourcing of simple tasks, they found that prior working relationships with the chosen vendor (*Relational* learning) is important, and that arms-length relationships may prove ineffective, particularly for large contracts.

The findings from this present study confirm and complement these perspectives in the extant literature on organisational learning. The organisational competence of Xerox in managing inter-firm alliances (*Procedural* learning) was clearly a significant asset, contrasting with that of the Southwest One clients who had limited experience of partnering with a large multinational. Xerox and Virgin Media were also more successful over time in developing a mature and mutually-beneficial relationship with IBM (*Relational* learning), than were the Southwest One partners whose early relational investments were thwarted by significant systems failures and the erosion of political support for the venture. Xerox in particular had the added advantage of a cultural affinity with IBM and a track-record of prior experience on joint projects between the two firms in other parts of their businesses. Significantly, Xerox and Virgin Media were also more flexible in relation to the structures that underpinned the relationship – specifically in relation to negotiation of new contractual terms and the appointment of new leaders when required. Working with IBM, they productively managed the tension between the constancy of existing contractual obligations and the need for change. The Xerox case provides the better example of *Learning*, as evidenced (for example) by the proactive change in leadership on both sides when tensions threatened to become dysfunctional. The Virgin Media case can be better classified as *Adaptation*, as particularly in the early phases the changes implemented were more reactive in nature. In the case of Southwest One, it is apparent that the ability to learn was inhibited by the complexity of the alliance, the involvement of multiple partners, regulatory restrictions in making “in-flight” changes to public sector contracts, and the relative immaturity of the clients in managing inter-firm relationships.

Therefore, although organisational learning was not a specific focus of this research, the findings contribute to addressing the deficit that Mani and Barua (2015) highlight in our understanding of the relation between learning and value creation in

an outsourcing context. Specifically, it helps us to understand how successful firms operationalise learning by making thoughtful structural adjustments which contribute to the evolution of RQ. In the cases studied, this learning was typically institutionalised through changes in contract structures and/or relationship leadership. These revised structures that underpinned this organisational learning improved the competency of successful partners in managing the relationship (intra-firm), and also the joint competency of both partners in working together to achieve mutually-beneficial outcomes (inter-firm). Although this research has provided new understanding, it also highlights opportunities for further research into this dimension of the evolution of outsourcing relationships, as will be discussed later in this chapter in the section on avenues for future study.

9.2. Conclusions contributing to Theory

This research focused particularly on IORs, and how these relationships are influenced by value-seeking motivations. Therefore in the following two sub-sections contributions to inter-organisational relational theory, and to theories exploring value, are considered respectively. As ZoT theory was influential in the development of the theoretical framework of relationship progression that is outlined in the previous chapter, contributions to the further development of this theory are also proposed in a third sub-section.

These theoretical contributions address calls in the literature for more research that assists in the development of endogenous theories for BPO (Busi & McIvor, 2008; Lacity et al., 2011b; Mahnke et al., 2005). The analysis of insights provided by the informants who supported this project confirms that BPO relationships provide a rich context for theory exploration, refinement, and development. The project can therefore also be seen as a response to the call made by Lacity et al. (2010, p.415) for researchers of outsourcing to "seek to inform reference discipline theory as much as we seek to be informed."

9.2.1. Extensions to Relational theory for BPO relationship progression

An early contribution of this research project was the publication of Lyons and Brennan (2014). The conclusion of this paper identified a deficit in the extent to which the extant literature provides theoretical explanation of the evolution of

outsourcing relationships. Although authors offer a number of lifecycle frameworks to describe the major phases in outsourcing (from strategy formulation through to relationship dissolution), these were found to lack any depth of insight into how these relationships develop during the extended period of time when the service is operational.

Existing relational theories (e.g. RBV, RAT, RET, RGT) are insufficient in addressing this deficit as they tend to focus on traditional buyer-seller relationships and do not address continuing services-oriented IORs such as those on which BPO arrangements are founded. As outsourcing involves a contractual commitment before the relationship has the opportunity to mature, BPO relationships do not follow the generally-accepted pattern of progression for buyer-seller relationships - from *Awareness* to *Exploration* to *Expansion* to *Commitment* to *Dissolution* - as is assumed in established traditions such as RET (Dwyer et al., 1987). The premise of that theory is that if the potential to deepen the relationship to the mutual advantage of the parties no longer exists, then it may not progress to a later phase or it may dissolve. However, the cases studied here confirmed that this premise does not apply in a BPO context where structural bonds restrict the ability of either party to prematurely terminate the agreement if it is found to be unsatisfactory.

Therefore the pattern and drivers of relationship evolution that are reflected in the theoretical framework developed in the previous chapter complement RET by describing how IORs develop in a BPO context where the relationship is long-term, mutually-dependent, and contractually binding. The framework embeds the concepts of experience and heterogeneous expectations to describe how perspectives on value evolve, and how this influences relationship evolution. The phases that are identified in the framework are distinguished by different degrees of RQ. These are classified to indicate the overall mood of the relationship at that time (*Ambition*, *Antagonism*, etc). This differs from the nature of phases described by Dwyer et al. (1987) which emphasise the developmental objective of each phase (*Awareness*, *Exploration*, etc) rather than the health of the relationship. This focus on RQ in the framework is an important distinction, as the studies identified in the literature review indicate that the quality of the relationship has a direct impact on the outputs that are achieved. This emphasis therefore represents a new dimension to inter-organisational relational theory as it relates to relationship progression.

Other perspectives on relationship development in different contexts can also be referenced to provide additional affirmation of the framework developed through this study. For example, when considering how teams evolve, Tuckman (1965) and Tuckman and Jensen (1977) propose that small groups progress through stages of *Forming, Storming, Norming, Performing, and Adjourning*. These general stages appear to resonate with the phases of BPO relationship progression identified in this study (*Ambition, Antagonism, Acceptance, Adaptation/Annulment*). This is perhaps because BPO arrangements are frequently managed by small groups of people representing the supplier and client organisations who cooperate to achieve certain objectives. However, the sequence proposed by Tuckman does not recognise alternative paths as reflected in the findings of this present study. Also, the transitions from each phase to the next that are described in the framework developed here specifically consider a BPO context where the parties have private and common organisational objectives. Nevertheless, these perspectives may be regarded as complementary in their recognition that relationships ebb and flow as tensions emerge and are resolved.

The broader literature on IORs also provides some affirmation for the framework through its recognition that the parties may go through an initial period of mutual support before tensions emerge. Levinthal and Fichman (1988) found evidence of a *Honeymoon* period in B2B relationships, which subsequently leads to tensions that endanger the sustainability of the relationship. If these hazards are overcome, they argue that the relationship then has improved prospects of surviving for the long-term. Fichman and Levinthal (1991) hypothesise that in both social and organisational relationships the duration of the honeymoon period is a function of the magnitude of investments in relationship-specific assets. They argue that this initial period is typically followed by a more volatile *Adolescent* period where the risks of relationship dissolution increase. Ring and Van de Ven (1994) support this view and also emphasise the importance of social forces in ensuring relationship sustainability to overcome these pressures. The framework developed here is consistent with this perspective, and it also proposes how the B2B relationship develops further beyond these initial *Honeymoon* and *Adolescent* phases. The cases investigated confirm that if a relationship can successfully surmount the difficult second phase, and adjust in response to the lessons-learned, it has a greater chance of survival and optimisation.

The new theoretical perspectives developed in the preceding chapter therefore complement and enhance existing theories of IOR and cross-organisational team development. Although developed for a BPO context they are likely to have value in other inter-organisational context that involve long-term, mutually-dependent, and contractually-binding relationships.

9.2.2. Extensions to Value theory for B2B relationships

Traditional conceptualisations of value tend to focus on the exchange of goods, rather than services (Coutelle-Brillet et al., 2014; Vargo & Lusch, 2004). Because the exchanges considered are generally transactional in nature they provide a more precise focus for considering benefits and sacrifices when assessing value. In the cases studied here, the parties typically carried out regular formal assessments of the outputs of the BPO arrangements relative to their respective business cases and operational targets. These can be interpreted as intermittent reviews of benefits relative to sacrifices. However, this study indicates that on a day-to-day basis, practitioners adopt a more emotional view of value in terms of experiences relative to expectations. This involves more dynamic judgments about value, which reflect the subjective characteristics of services quality and the volatility of the business environments in which services are delivered.

It is therefore important to reconcile this perspective of experiences-expectations with that of benefits-sacrifices as is more commonly adopted when conceptualising value in the literature. It is somewhat intuitive to equate benefits (or the lack thereof) with experiences, although anticipation of future benefits will also influence expectations. Sacrifices may also be considered in terms of tangible experiences (e.g. payment of price), or less tangible expectations (e.g. as effected through the transfer of responsibilities to a third party). Therefore the conceptualisation of value in terms of expectations and experiences is not in conflict with the alternative of considering it in terms of benefits and sacrifices, although they represent alternative perspectives.

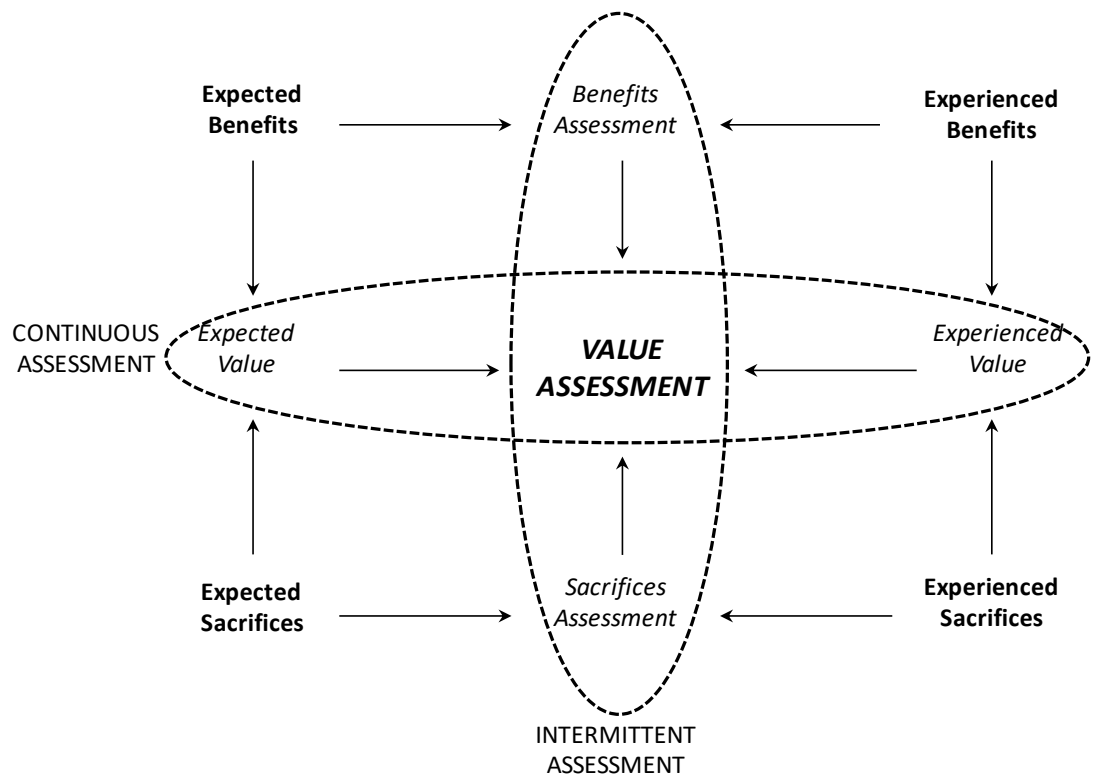


Figure 27: Rationalising Benefits-Sacrifices and Expectations-Experiences

Figure 27 proposes how these perspectives may be reconciled into a more integrated understanding of how value is assessed. It represents benefits-sacrifices perspectives as intermittent and systemic, considering point-in-time judgments of the aggregated outputs from the BPO relationship to date. Expectations-experiences perspectives are more continuous and cater more effectively for the intangible and emotional factors that contribute to ongoing value assessments. Benefits-sacrifices perspectives are therefore more prominent at a firm-level, whereas the expectations-experiences dimension is more influential on individuals. This is not intended to imply that individual actors do not consider benefits and sacrifices, as they clearly do when partaking in systemic firm-level evaluations. Equally, expectations and experiences are influenced by anticipation and perceptions of benefits and sacrifices by individual actors. Figure 27 embeds these connections by showing, for example, that expectations are a function of expected benefits and expected sacrifices. On the other dimension, benefits are assessed by considering those that were expected and those that were experienced. Therefore these are separate, but connected angles of evaluation that co-exist within multi-level and multi-dimensional assessments of value. However, the data from the cases studied here indicates that at a firm-level, the expectations-experiences dimension is ultimately more influential on assessments of

value. This is because the outputs of intermittent reviews of benefits relative to sacrifices are assessed by individual actors who agree firm-level positions on whether these are satisfactory. These judgments are influenced by their individual emotional dispositions towards the relationship, which are a function of their individual assessment of experiences relative to expectations.

Therefore the introduction of the experiences-expectations dimension enhances our understanding of value and complements existing theoretical perspectives. When considered in conjunction with the theoretical framework of relationship progression that is developed in the previous chapter, this positions value as being comprised of heterogeneous factors with temporal characteristics. This contrasts with traditional conceptualisations which have attempted to translate value into purely economic terms. The perspective developed here also addresses the criticism by some authors (Coff, 2010; Sánchez-Fernández & Iniesta-Bonillo, 2007) of theoretical traditions that portray value purely from a transactional perspective. It encourages us to consider value as a more dynamic concept, influenced by the evolving nature of expectations and experiences as assessed subjectively by individuals and the constituencies of stakeholders of which they are members.

Although the above theoretical discussion considers the implications for relational and value theories separately, it is clear from the analysis earlier in this chapter that these two phenomena are mutually supportive. Indeed, studies assessing the quality of IORs have shown that sustainable relationships are characterized by high levels of mutual satisfaction (with the value delivered) and trust (Mao et al., 2008; Vieira et al., 2008; Walter, Ritter, & Gemünden, 2001). Poor satisfaction with the value being delivered can influence behaviors and attitudes within the relationship as the parties seek to improve their position. This implies that just as good relationships lead to good value (or satisfaction), good value also leads to good and sustainable relationships. This linkage between the quality of the relationship and the value that it generates suggests that it should be viewed as a virtuous- or vicious-circle, where the relationship quality and resulting value augment or aggravate each other. Therefore a deeper theoretical understanding of value should not treat it as an isolated output in itself, but rather should be seen as being reciprocal to the relationships through which it is generated.

9.2.3. Contribution to Zone of Tolerance Theory

The core ZoT concept of heterogeneous expectations - ranging from adequate to desired levels - proved helpful in explaining how perspectives on value are fluid and varied over the lifetimes of BPO arrangements. The premise that future expectations are influenced by past experiences also offered a promising perspective given the processual focus of this research project. These concepts contributed to the development of the theoretical framework of relationship progression in the previous chapter. The framework highlights how the zone may expand and contract over time in response to contextual changes. However, this raises the additional question of whether the literature offers more general guidance on the forces that govern this expansion and contraction. Potentially, this could present an avenue for uncovering additional theoretical insights into relationship evolution.

Unfortunately, further review of the literature exploring ZoT proved unsatisfying in its identification of additional theoretical insights that resonate with the evidence from this study. Specifically, analysis of additional contributions exposed inconsistencies between extant studies, and frictions with the evidence from this present study. These issues highlight the need and the opportunities to develop additional theoretical insights that build on the foundational principles of ZoT theory, but which more accurately reflect this context. This section begins by reviewing the inconsistencies and frictions found in the extant literature. This assists understanding of how the characteristics of the services contexts on which these studies are based differ from those exhibited in BPO settings. This enables the identification of fundamental concepts of ZoT theory that remain relevant, and also establishes a foundation for the development in the latter part of this section of a new conceptual perspective that is more applicable to the BPO context.

9.2.4. Reflections on ZoT theory

It should first be acknowledged that extant ZoT research to date is primarily focused on consumer-oriented services such as banking, insurance, equipment repair etc. Therefore it does not consider highly-integrated B2B services such as those delivered in a BPO context. Nevertheless, it develops some interesting ideas that may guide the development of a ZoT framework that is more appropriate in a BPO setting. For example, the nature of the relationship between experience and expectations has

been the focus of many of these studies. Johnston (1995) proposes that customers who are negatively disposed to a service based on previously disappointing experiences will have higher expectations of adequacy in future (i.e. it takes more to impress them if they have been disappointed in the past). He also hypothesises that positive and negative experiences are somewhat compensatory, but it will take a number of positive experiences to compensate for a negative one. Gwynne et al. (2000) investigate the hypothesis that negative experiences lead to higher expectations, but they also find a number of studies indicating that customers who have positive experiences will also have raised expectations in the future (i.e. good experiences create a precedent which leads to even higher expectations). Stodnick and Marley (2013) highlight a number of similar studies exploring the relationship between experiences and expectations, and find that these have yielded mixed results. They conclude that the inconsistency in results across prior studies is caused because these studies do not have longitudinal dimensions, even though temporality is central to the concept of ZoT. They executed a study to address this deficit, and found that the link between service performance and the level of customer satisfaction that this earns is not linear. Rather, it is discontinuous, confirming that customers will accept heterogeneity of performance within the ZoT, but that it can take a number of positive experiences to compensate for a prior negative experience. However, they acknowledge that their study is limited and can only be regarded as a first step in understanding how patterns of satisfaction evolve.

This focus in the literature on the linkages between experiences and expectations can be viewed as endeavours to explore the temporal dimensions of ZoT theory. As suggested by Stodnick and Marley (2013), the inconsistency in results may be because very few of these studies adopted longitudinal methods. However an additional deficit is that by focusing only on the relationship between experiences and expectations these studies de-emphasise all of the other determinants that contribute to the formation and evolution of expectations. As is shown in APPENDIX F, Ziethaml et al. (1993) recognised that other factors such as personal needs, explicit service promises, and situational factors also influence what customers expect. The evidence from this present study supports this view and shows that while experience with the quality of the service is important, it is just one of the factors that influence the dynamic nature of expectations. This suggests that the relative importance of these

factors will vary by context and potentially distort the degree to which previous experiences influence what is expected in the future. The evidence from this study also emphasises that in an on-going services delivery context the determinants of expectations all have temporal characteristics (i.e. needs evolve, promises are revisited, situational factors change). An alternative ZoT conceptualisation that is more appropriate to the BPO context must therefore recognise that experience is only one of the influences on expectations, and it should incorporate the dynamic nature of all determinants of expectations over time.

9.2.5. Contribution to the development of ZoT theory

Although some of the concepts that underpin extant ZoT theory proved very useful to the development of the theoretical framework as described in Chapter 8, the theory as currently formulated for a B2C services context does not transfer seamlessly to the B2B setting studied here. The data from this present study is drawn-upon in this section to inform the development of an alternative to the ZoT framework proposed by Ziethaml et al. (1993). This approach to developing theoretical contributions that emerge from observed phenomena is consistent with abductive reasoning, which is particularly suited to qualitative research (Coughlan, Draaijer, Godsell, & Boer, 2016; Locke, 2011). Klag and Langley (2013, p.151) describe abduction as “a reasoning process in which ongoing observations lead to some kind of surprise or ‘genuine doubt’, generating a search for alternative explanations and the production of conjectures about how the puzzling observations might be explained.”

If we are to develop an alternative framework that is more applicable to BPO settings this should incorporate an additional dimension to reflect the dynamic and temporal characteristics that proved so prominent in the cases investigated here. For ease of presentation this requires higher-order headings under which these determinants may be categorised. The following aggregate categories of determinants of expectations are proposed (note that the equivalent categories from the framework from Ziethaml et al. (1993) as reproduced in APPENDIX F are shown in parentheses and italics):

- **Promises** (equivalent to *Explicit Service Promises*, *Implicit Service Promises*, and *Word-of-Mouth*): Expectations are influenced by all explicit promises made,

promises implied in branding or pricing, and those derived through word-of-mouth and reputation.

- **Experiences** (equivalent to *Past Experience*): This includes all prior experiences with the service or the service provider.
- **Dependencies** (equivalent to *Transitory Service Intensifiers, Self-perceived Service Role, and Situational Factors*): This includes all factors that may constrain the seamless delivery of the service, such as unforeseen events, emergencies, temporary service issues, dependencies on customer support.
- **Comparators** (equivalent to *Perceived Service Alternatives*): This includes perspectives on all alternatives to the current service delivery, such as alternative service providers or the provision of the service from within the customer organisation.
- **Needs** (equivalent to *Enduring Service Intensifiers, and Personal Needs*): This includes all requirements of the customer, including personal needs, philosophies on how services should be delivered, and needs that are inherited from stakeholders.

We should assume that all of these aggregated determinants of expectations will have dynamic dimensions that may change over time. However, when considered together they still do not fully capture an additional temporal dimension that emerged strongly in the cases studied in this research project. Many informants indicated that they were prepared to be patient, particularly in the early stages of service delivery. However, this patience had limits and there came a point when expectations changed because customers concluded that service providers had been afforded sufficient time to resolve service issues or manage dependencies. A corollary to this is the implication that, with the passage of time, customers expect competence to develop and service performance to improve. Therefore, *time* itself influences how expectations form and evolve in this context. To recognise this, the following additional determinant of expectations is proposed:

- **Forbearance**: This reflects how the passage of time will determine levels of patience and competence, and therefore influence expectations.

Ziethaml et al. (1993) found that in the services contexts that they studied customers weigh-up a number of determinants to form a presumption about the level of service that they are likely receive. Referred to as *Predicted Service*, this presumption will be positioned somewhere between what they consider *Adequate* and *Desired*. They conclude that satisfaction levels are ultimately determined by the extent to which actual service perceptions compare to this preconceived expectation. As experiences veer towards and beyond *Adequate* or *Desired* levels, satisfaction will reduce or increase respectively. That is, *Predicted Service* is an additional level of gradation between *Adequate* and *Desired* levels. Degrees of satisfaction are determined by how experiences compare to these reference points. For example, if experiences are above *Predicted* levels but less than *Desired*, the customer will not be as satisfied as they would be if experience is also better than *Desired*. Similarly, if expectations are below what had been *Predicted* but above *Adequate*, the customer will be disappointed, but not as dissatisfied as they would be if it is also below *Adequate*.

This present research project did not find evidence that in a BPO context satisfaction levels are derived with reference to recollections of such preconceived predictions. The cases indicate that in such a continuing service context, expectation-forming is a much more dynamic phenomenon. Customers continuously assess in real-time the level of service that it was reasonable to expect given all of the factors that are at play. This involves retrospective assessments of promises, needs, dependencies, previous experiences etc. Levels of satisfaction are influenced by these continuous assessments of what it *was reasonable to expect* when retrospectively considering the climate in which the service was delivered and their prior expectations. If service experiences are greater than what the customer judges it was reasonable to expect, satisfaction increases. If it is below, it decreases. This leads to the conclusion that in this context, levels of satisfaction are determined with reference to derived expectations which may be described as follows:

Post-Rationalised Expectation: This reflects continuous assessments of what customers conclude that it was reasonable to expect. It is based on their perceptions of the climate in which the service was delivered, balanced against their assessment of what level of service is adequate and what is desired.

Figure 28 proposes an alternative ZoT framework that recognises the heterogeneous and dynamic nature of expectations in the BPO cases that were the focus of this research. Although it is influenced by prior ZoT contributions, it also reflects differences that were notable in this context. For example, the framework proposed by Ziethaml et al. (1993) indicates that *Needs* (i.e. *Enduring Service Intensifiers, Personal Needs*) only influence what is *Desired*. This research found that *Needs* are also fundamental to what is considered *Adequate*. They also propose that *Comparators* (e.g. *Perceived Service Alternatives*) only influence *Adequate* service levels. Informants in the cases studied here implied that such *Comparators* also influence what may be *Desired* from the incumbent service provider. Therefore Ziethaml et al. (1993) found that expectations of adequacy and desirability are influenced by separate and distinct determinants. However the evidence from the cases studied here found it is reasonable to assume that each of the determinants may influence both *Adequate* and *Desired* expectations contemporaneously. For example, if basic needs are not being met, expectations of what is adequate may reduce, but expectations of desired levels are also likely to be revisited and deflated.

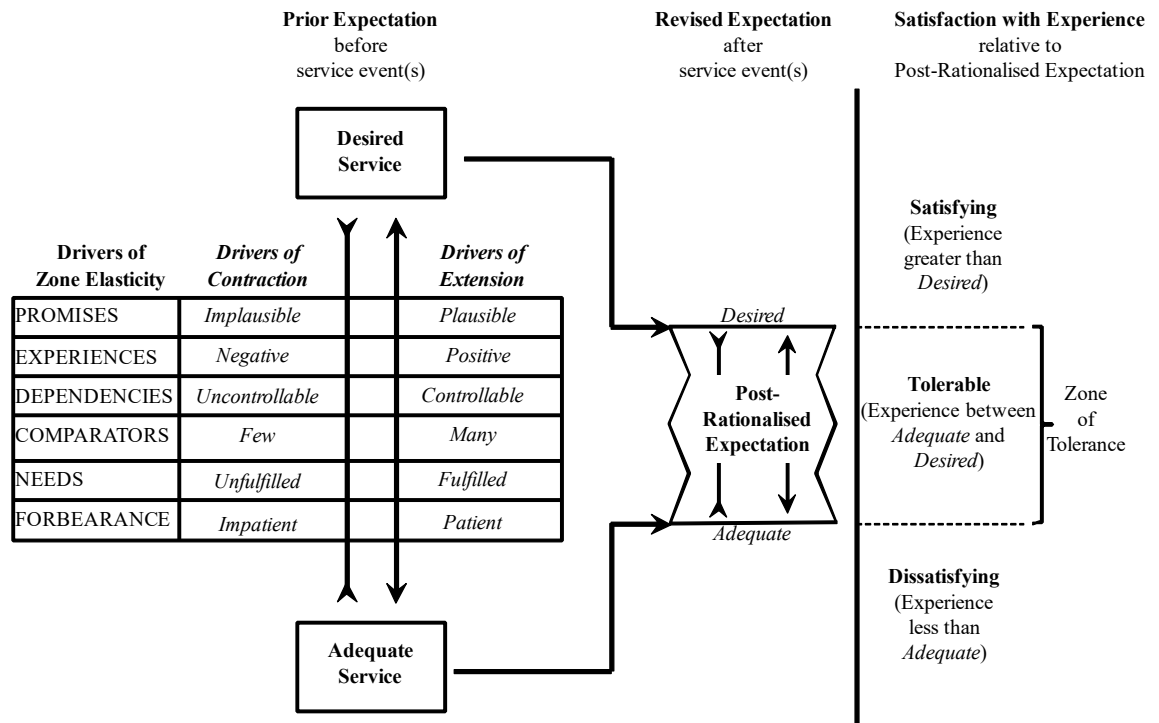


Figure 28: Zone of Tolerance determining satisfaction with BPO services

The framework presented in Figure 28 reflects a further difference in emphasis from prior contributions derived from different services contexts. In the consumer-

oriented services context, Ziethaml et al. (1993) found that *Adequate* levels are more subject to oscillation, and that changes in *Desired* levels are more muted and incremental. The opposite is apparent in the framework of relationship progression developed in the previous chapter, whereby changes to *Adequate* levels are incremental and *Desired* levels are more volatile. However the more important theoretical considerations reflected in Figure 28 are related to the distance between *Adequate* and *Desired* levels, the factors that cause expansion and contraction of the zone, and the elasticity of this gap. This framework proposes that the distance between *Adequate* and *Desired* levels will reduce when *Promises* are implausible, *Experiences* are negative, *Dependencies* are uncontrollable, *Comparators* are few in number, *Needs* remain unfulfilled, and *Forbearance* is characterised by impatience. When these determinants veer towards the opposite ends of their spectrums the distance between *Adequate* and *Desired* levels expands.

Dynamism and temporality is reflected in this framework when one considers that actor perspectives on *Desired* and *Adequate* levels of expectation change over time. As the services relationship progresses the drivers that influence these perspectives are likely to compete with, and counter-balance each other. For example, as *Experiences* develop, these become a more reliable reference point when forming expectations, than any *Promises* made prior to commencement of services. The cases studied in this research project confirm that expectations do not remain static, and also that actors do not assess their levels of satisfaction based solely on the expectations that were formed prior to the delivery of services events. *Post-Rationalised Expectations* are continually revised as actors retrospectively assess what it was reasonable to expect as adequate and desirable, taking into account unanticipated challenges that were experienced, and/or more favourable environmental conditions than were previously anticipated. While such revised expectations remain heterogeneous (between what actors retrospectively consider could have been achieved, and what would represent an adequate result acknowledging the prevailing circumstances), the extent of the gap between these boundaries is also dynamic and based on constant reconsideration. This is represented in the framework by illustrating *Post-Rationalised Expectation* as being subject to concertina-effects, as the gap between its *Desired* and *Adequate* components continuously oscillates.

These dynamic characteristics that are reflected in this revised ZoT framework may be considered as complimentary to the theoretical framework of relationship progression presented in Figure 26. That framework shows how the breadth of the ZoT changes over time, and how experiences relative to the upper and lower limits of the ZoT at any time influence attitudes to value, and the RQ of a particular phase. The revised ZoT framework developed above provides further explanation on how the ZoT boundaries are formed and dynamically revised, and how these are compared to realised service experiences to determine whether the level of satisfaction of the client at any point in time will be tolerable, satisfying, or dissatisfying.

In summary, the foundational principles of ZoT theory proved useful in considering how BPO relationships evolve over time as participants assess service effectiveness and its value contribution. However, development of the theory to date has not considered services contexts with characteristics such as those exhibited in BPO. Therefore some of its more detailed assumptions do not sit well in this context. The absence of a temporal dimension in the framework proposed by Ziethaml et al. (1993) was found particularly limiting when attempts are made to apply this to a BPO context. The alternative framework developed above may be regarded as a complementary path in the extension of ZoT theory. This path considers services settings that emphasise continuing, value-oriented, and mutually dependent relationships. It offers a simplification of the determinants of expectations, and integrates the criteria for satisfaction assessment within a single framework. It is therefore offered as a contribution to the further development of the theory, by applying it in a new context, developing some extensions, and proposing new ways of considering its existing concepts.

9.3. Conclusions contributing to Practice

In the three cases that were researched here a range of positive and negative outcomes were experienced by both clients and suppliers. In some cases the outcomes varied substantially between different phases (e.g. in Virgin Media between the *Misalignment* and *Partnership* phases). In other cases, the quality of the outcomes was perceived differently by different client stakeholders at the same time (e.g. in Southwest One between ASP and the two councils). The analysis of these widely

varying experiences can be drawn-upon to provide guidance to practitioners on how best to secure the optimum outcomes from their BPO relationships.

By contrasting the successful and unsuccessful outcomes that were highlighted by informants, it is not the intent to be judgmental here on the skills of those who were tasked with steering these outsourcing relationships. It is acknowledged that in some instances the challenges posed by changes in the wider business environment made it extremely difficult to sustain a collaborative working relationship between the client and supplier. However, we can derive conclusions on best practices by considering how the parties responded to, or pre-empted these challenges. The following sub-sections propose such conclusions.

9.3.1. Sustainable relationships require a balance of continuity and re-invention

In each of the cases, informants commented on the benefits that resulted from ensuring that there was continuity in the involvement of key actors for extended periods over the lifetime of the relationship. The importance of ensuring some continuity between the sales phase and the initial operational phases was particularly emphasised (Southwest One Client: “*Skills in sales are very different to skills in delivery. But it was also good that there were some people who had been involved in the sharp end of sales were also involved with the delivery.*”) Maintaining the involvement of influential individuals allowed trust and social relationships to develop, and it increased the understanding that each party had of the priorities and culture of their partner organisation (Southwest One Client: “*somebody who had been in the room and who we had eyeballed about some tricky stuff was still there, and that was really important.*”)

However, it is also very clear that behaviour and attitudes can become ingrained and intransigent, and that this may inhibit the sustainability of the relationship. This emphasises the importance of implementing a governance process that enables an oversight by the respective parent organisations to predict or react to such issues before they become dysfunctional. This point is of course particularly important in relation to the ‘Leadership Pair’ (Lacity & Willcocks, 2015), but informants in these cases also referred to the need to monitor relationships between key actors in the broader leadership teams on both sides. This is not only a question of bringing in new managers when appropriate, but it is also critical that these new

actors have a sense of ownership and responsibility for the relationship, even if it must change (Virgin Media Client: *“the biggest thing that organisations need to watch out for is that the person that is going to run this needs to buy-in.”*)

Therefore, this study highlighted that it is very important to implement a governance structure that allows senior stakeholder executives in both organisations to remain abreast of the status of the relationship, even if they are not involved on a day-to-day basis. This will allow them to maintain awareness of where leadership changes may be needed and to liaise with their peers in the partner organisation to plan such changes if required. Such an approach was implemented very effectively in the Xerox case when it was agreed that new leaders were required on both sides to move the relationship forward (Xerox Supplier: *“Somebody is not at fault here, you need to represent it as both, as otherwise it looks like someone wins and someone loses. So I moved [supplier leader] and he moved [client leader] about two months later.”*)

This study also confirms that long-term BPO relationships will go through phases that are characterised by differences in RQ. The theoretical framework of relationship progression developed in the previous chapter provides a template describing how this development typically evolves. Given the variances in context that are common in these arrangements, some cases will prove to be exceptions to the trends represented in the framework. Nevertheless, practitioners can benefit by using the framework as a reference point to assist them in assessing the status of their relationship, and appreciating when changes are needed to help it to progress. The evidence from these cases indicates that proactive changes to leaders and contracts can prove very effective in rejuvenating the relationship by changing its climate and effectiveness. Equally if an incumbent leader loses influence with their peers in the partner, or within their own organisation, changes should be considered in order to maintain the effectiveness of the relationship. Monitoring the need to maintain continuity, or to implement change, should therefore remain a constant concern for senior relationship leaders on both sides.

9.3.2. Relationship management and contract management require equal attention

The most effective relationship phases were those where the contract was seen as a support to the relationship between the parties, rather than a set of rules that

directed its operation. Many informants emphasised the importance of distinguishing between the management of the contract and the management of the relationship. This is not to undermine the importance of checking that contractual obligations are fulfilled. These are open to scrutiny in a public sector context, and even in private sector engagements they may be subject to internal audit checks. Therefore the actors need to protect themselves by ensuring that there is adequate management of contractual requirements. However, a key learning from the cases studied here is that this contractual management needs to be executed in concert with the management of the relationship in order to maintain flexibility and mutual support (Southwest One Supplier: *“The relationship management function got passed to the contract management people and that was a mistake. I would say that you mix these at your peril.”*)

The Xerox case provides an interesting example of how contractual controls and relational considerations were balanced. A number of the informants in this case referred to the severe penalty regime that the client could invoke in the event of underperformance by the supplier. This was a reserved-power by the client and one that they could use, or threaten to use, in order to influence supplier behaviour. Decisions not to apply financial penalties, or to postpone their application for a time in order to give the supplier time to improve, were perceived as positive contributions to the climate of the relationship. Client leaders recognised that they could have invoked penalties for specific areas of underperformance, but this needed to be managed with sensitivity to the broader relationship (Xerox Client: *“if you penalise one side too hard and it hurts the overall contract, the good performance on the other side is going to come down as well.”*)

The lesson from this for practitioners is that these relationships will benefit if the governance process includes dimensions that manage both the contractual, and the relational aspects (ideally at multiple tiers of management). This should not be interpreted as an argument for diluting contractual controls or the power to cause pain in the event of underperformance or opportunism. Such controls are important, but the governance process and contractual obligations should allow for flexibility in how and when they are used, with due consideration to impacts on the broader relationship.

9.3.3. Mutual value realisation is the lifeblood of the relationship

The importance of win-win outcomes to successful BPO arrangements is emphasised in the literature and confirmed in the cases studied here. Practitioners will benefit from remaining conscious of the need for both partners to remain confident that they will realise value. A deeper understanding of the sources of this value and how it is perceived will also help them to understand how to sustain the relationship.

This study shows that sources of value may include tangible and intangible elements that are influenced by a) the management of expectations and b) perceptions about experiences. Relationship leaders play a central role in interpreting these expectations and experiences and in representing them to, and on behalf of their respective organisations. In the cases studied here, satisfactory service delivery at an affordable cost represented the core of the value expectations of the clients. The supplier generally sought profitability and the prospect of revenue growth. The cases confirm that if either party is dissatisfied with the long-term value dividend from the relationship then they are likely to react in a way that has a knock-on impact on their partner. Therefore the short-term gain that results from one-sided value appropriation or opportunism may have longer-term negative impacts. This does not mean that value realisation must be constant and equitable at every stage in the evolution of the relationship. Both parties may be willing to tolerate fallow periods as long as they maintain confidence that the situation will improve. Such confidence is developed through aligned goals, mutually-supportive leadership, visible relational commitment, warranted trust, and a common ethos of partnership.

A corollary of this win-win objective is that when both parties are convinced that on-going value can be realised, the relationship can sustain in spite of significant changes in the external environment within which it operates. The structural bonds enforced through contracts and reflected in prohibitive switching costs undoubtedly contributed to the long lifetimes of each of these cases. These were particularly influential during periods when the relationships were experiencing difficulties as they prevented either party from prematurely exiting the agreements. Therefore, these structural restrictions were a source of strength to the parties, but also at times a source of frustration. In some cases they appear to have encouraged dysfunctional behaviour from one or other of the parties, who pushed boundaries of acceptable

behaviour while safe in the knowledge that their partner could not simply walk-away. A number of the informants used the analogies of marriage and divorce to describe how they were bound together (Southwest One Supplier: “*we would all carry on in a horrendous marriage of convenience*”, Southwest One Client: “*a contractual relationship over that sort of period is like a marriage. You have to work at it*“, Southwest One Supplier: “*it is like a divorce. They would rather bloody our nose than get the benefit.*”)

The outputs of this research can therefore be referenced to remind practitioners of the importance of ensuring that both partners maintain confidence that they will realise a sufficient level of value. Of course this is difficult given the reality that motives are primarily selfish in nature, and also the fact that the value expectations and results achieved by one partner may not be visible to the other. However, if at the outset a partner suspects that the other will not be able to derive value under the conditions proposed in a contract, then they should strongly reconsider entering the agreement. If value expectations are not realised or if they change, then the parties should remain open to renegotiating the agreement in mid-flight. However, a challenge with that option as highlighted by one of the informants is that parent firms are typically only prepared to invest resources in contract creation when there is a prospect of achieving a new ‘prize’. For adjustments that are considered more minor it is difficult to secure the required contracting resources, and the level of flexibility that can be negotiated when a new agreement is being reached may not be achievable. The Southwest One case highlights a particular difficulty that arises in public sector agreements. In these cases changes to contract terms, or flexibility in interpreting the terms, may be considered as a breach of rigid public procurement rules which raise the risk of challenges from oversight bodies or unsuccessful competitors. The Xerox case may again be regarded as a best-practice example of how a client and supplier were flexible in negotiating an enhancement to an existing contract. This responded to new requirements by ensuring that both parties could benefit from their achievement via a ‘gainshare’ agreement. In this instance the anticipated benefits were sufficiently significant to justify the investments of contracting resources and flexibility from both partners. The value that both sides realised as a result of this gave new impetus to the agreement and serves as a lesson to other practitioners on

how value sustains a relationship, which can in turn be a source of additional value creation.

9.4. Reflections on the conclusions

The analysis of the cases found a significant degree of consistency between them, both in the factors that determined the quality of the relationship at any time, and the progression from one relationship phase to the next. This is somewhat unexpected given that the methodology was designed to select a variety of outsourcing relationships in anticipation that they may display differences in their progression. The cases were selected with reference to the spectrum from *transactional* to *strategic* to *transformational*. This categorisation is proposed as a vehicle for providing insights into how “these partnerships vary in the way they are conceived and implemented.” (Kedia & Lahiri, 2007, p.22) These authors propose that relationships at one end of this spectrum will be *arms-length* and require limited involvement with the supplier, whereas those at the other end require an *intense* level of involvement. Similarly, Sanders et al. (2007) propose that outsourcing relationships can vary between the many non-strategic transactions that simply requiring *monitoring*, to those fewer more strategic relationships that require *management*. One might expect that cases at different points in this spectrum may evolve differently based on their levels of intensity, but this was not apparent in the cases that were investigated here.

A potential explanation could be that the development of the relationship follows a similar pattern irrespective of the type of partnership that is implemented. However, we must also consider the possibility that the three cases investigated here do not represent the broad range of outsourcing relationships that was anticipated. Regarding this latter possibility, the evidence from the cases confirms that they represent a wide variety of outsourcing relationship contexts, including:

- a single supplier servicing multiple clients (Southwest One),
- a single client commissioning multiple suppliers (Virgin Media),
- the delivery of single service-types (call centre in Virgin Media) and multiple services (call centre and financial services in Xerox, a full range of back-office services in Southwest One), and

- public sector (Southwest One) and private sector (Virgin Media, Xerox) contracting environments.

Therefore, we can be satisfied that a variety of contexts were studied. However, given the centrality of this categorisation from *transactional* to *transformational* to the research design, it is worthwhile to reconfirm where these cases were positioned based on the deeper understanding that the case analysis enabled. This will help us to assess whether relationships of different types do indeed evolve differently, or if there is some other phenomenon at play.

When the cases were selected Virgin Media was categorised as being towards the *transactional* end of the spectrum, particularly in the initial stage given the relatively low strategic importance that the client (trading then as NTL UK) appeared to afford to customer service. This perspective changed following the merger and rebranding of the company, when the scope and scale of the contract was increased and when the quality of service was considered to be a more *strategic* requirement. It is interesting to note that in more recent years Virgin Media has invested more heavily in the maintenance of the relationship with IBM. This is despite the fact that they have also engaged other outsourcing suppliers so that services are now delivered by a portfolio of providers who operate standardised processes on behalf of the client. This appears contrary to the underlying assumption that the adoption of multiple parallel contracts with similar suppliers indicates that the services covered are less strategic and can be executed through *arms-length* contacts. That is, in the Virgin Media case the commissioning of more suppliers has been undertaken while promoting deeper relationships with each of them in a very successful manner.

In contrast, the Southwest One case was positioned by all clients and by the supplier as having *transformational* objectives which were executed through an alliance as embodied in the JV company. Yet, when the relationship became troubled it was reported that the clients (particularly SCC) adopted a very transactional and contractual management approach. In this case IBM/SWO is the only provider of the in-scope services to the three clients. In spite of this, the company no longer appears to have the intensity of relationship that one might expect, and that was evident in the early stages of the contract. This may be because the criticality of the tasks has reduced following some de-scoping of the contract. However informant inputs suggest

that more significant factors in this erosion in the relationship are the legacy of previous conflicts, and the conclusion that it now has limited prospects of realising incremental value. On reflection, we may even question whether Southwest One was truly constructed as an alliance that embedded mutual responsibility and joint ownership by the clients and supplier. The fact that the JV company was 75% owned, and fully underwritten by IBM, suggests that it may have been a JV in name-only, and this was exposed when problems emerged and the spirit of partnership evaporated.

Therefore, although the Virgin Media relationship started at the *transactional* end of the spectrum, and Southwest One at the *transformational* end, they both changed over their long lifetimes. It could be argued that in each of these cases they moved towards the mid-point. This point is important because scholars emphasise that a benefit of considering the type of partnership that is required is that this guides the design of appropriate governance processes (Cullen et al., 2009; Nam, Rajagopalan, Rao, & Chaudhury, 1996; Vitasek & Manrodt, 2012). However this study shows that the nature of the partnership can evolve significantly through different levels of relationship quality and intensity. Therefore contractual stipulations on governance processes should be sufficiently flexible to cope with evolutions in this intensity as needs change and the relationship evolves. This is particularly relevant to contracts with extended durations.

In summary, adopting the categories of partnerships proposed by Kedia and Lahiri (2007) proved to be effective in ensuring that this research project investigated a significant variety of BPO cases. However, these categories were not found to be material to how the relationships evolved. This is partially because these particular cases tended to migrate towards the centre of the spectrum. Irrespective of their starting-point, each of these cases was a sizable contract covering some significant business functions. They were sufficiently critical to cause both parties to engage vigorously (either positively or negatively) with the relationship. As these engagements involve individual agendas and personal interactions it is plausible that they will follow a pattern in resolving tensions and finding compromises. As they seek new sources of value, or as they recognise that previously anticipated value is unattainable, the depth of the relationship will adjust. From this perspective it is therefore perhaps less surprising that the evolution of the relationships followed a similar pattern.

9.5. Reflections on the methodology

The methodology that was selected proved effective in soliciting very insightful input from informants. Of course there were some minor variances in the depth of input received from different informants. This appeared to be due to their ability to recall events or their skills in interpreting and describing situations. The use of Event History Calendars when required proved effective in triggering informant recollection of sequences of events without overly influencing the perspectives that they offered on how the relationship progressed through these events. In general, the level of detail provided by informants was very high. It was particularly encouraging to find that there was a significant level of consistency between informants, and it was notable that client and supplier informants provided very similar perspectives on the quality of the relationship at particular points in time. It also appeared that informants who were no longer employed by the client or supplier were particularly frank and informative in their input. This is not to suggest that incumbent employees provided any misleading input, but some occasionally appeared to be more cautious in their comments.

The narrative style that was encouraged in the interviews proved effective in allowing informants to highlight the factors that they felt most important. My historical involvement in the sector and my prior knowledge of the business environments of the cases enabled the effective use of interview time as it reduced the need for informants to explain contexts and terminology. My prior working relationships with many of the informants encouraged openness as levels of trust were high. The field activities therefore had *insider* undertones (Evered & Louis, 1981) and it was found that this contributed to understanding and informant openness.

An unanticipated advantage of promoting the narrative style in interviews was in the richness of expression that it encouraged. Many of the comments resulting from the interviews are presented in this thesis verbatim as the tone of the descriptions and language offers an increased profundity. This aids our interpretation of relatively subjective concepts such as relationship quality and value. Use of expletives, sarcasm, and humour, are all captured in the narrative transcripts and provided an important context for interpreting informant input.

As anticipated, a challenge with a qualitative approach such as this is that it produced a large volume of data. Associated with this is the challenge of analysing this data and ensuring that its interpretation was as disciplined and consistent as possible. A potential disadvantage of my historical involvement with the cases was that it increased the risk of preconceptions when coding and analysing the narrative data. This risk was mitigated by recording all interviews and by the verbatim transcription of these recordings for upload into the QDA tool for coding. By transcribing them personally, I was forced to concentrate on what was being said and this discouraged preconceived interpretations. The coding process was iterative and statistics were maintained to confirm that the degree of coding was consistent across transcripts. As all of the coding was completed by one individual this also aided consistency.

Despite the controls that were implemented it must still be acknowledged that the coding and analysis of the data, and the drawing of conclusions, required some subjective assessments. To validate these assessments the option of sharing results with selected informants was considered. However, this option was not pursued based on the advice of Miles (1979) that the feeding back of summary results can prove problematic, particularly where the research involved interviews rather than surveys. His experience was that people objected to findings and were inclined to rewrite history. He found that such feeding back can make people feel vulnerable, and inevitably causes them to speculate on the identities of informants who may have contributed to certain conclusions. Recognising the commercial sensitivity of these environments and the assurances on confidentiality that had been provided to informants, it was decided that sharing results in this way could be interpreted as a breach of trust and this was therefore to be avoided.

9.6. Avenues for further study

Although this thesis contributes to understanding, theory, and practice in the areas of relationship development and value in a BPO context, it also highlights opportunities for further study. Three such avenues are proposed here, relating to a) the outsourcing context, b) inter-organisational relationship development, and c) value.

9.6.1. Research opportunities relating to outsourcing

As is discussed in the previous section, the cases that were studied here were all vibrant relationships which were sometimes positive and sometimes negative. This vibrancy reflects the importance of the services delivered through these contracts to the clients. It also highlights the volatility of profitability and revenue growth for the supplier. Even if the relationships were poor at times, they remained important to the parties.

The importance of managing the relationship may be inherent in BPO relationships because by definition, the services involve the operation of business processes that are integral to the client's business. The relative immaturity of the segment also presents financial challenges for suppliers. It is therefore possible that more transactional relationships are less likely to be observed in a BPO context, particularly at this stage in the maturity of the sector. This suggests an opportunity to investigate relationship evolution in a more established and transactional outsourcing context (e.g. cleaning services, security services, logistics outsourcing). The findings from such research will also have future implications for BPO given the prediction that some services will evolve over time to become more standardised and commoditised (Davenport, 2005; Kakabadse & Kakabadse, 2000; Ordanini & Pasini, 2008; Ramkumar & Cooper, 2004). A focus on an alternative outsourcing context that displays more transactional characteristics will therefore provide insights that will enhance our understanding of BPO relationship development as this sector continues to mature. A similar methodology to the one adopted here would be appropriate for this subsequent research and would facilitate comparisons between outsourcing contexts.

Although this present study focused on the progression of outsourcing relationships, it also draws attention to how suppliers develop capabilities over time to promote the effective and efficient delivery of the services that are the focus of these relationships. Each of the cases studied highlights the difficulties experienced by the supplier in stabilising services to a level where they meet client expectations, while they also endeavoured to achieve their own internal cost and revenue objectives. Scholars researching goods manufacturing contexts have contributed to developments in Competitive Progression Theory (CPT), which explains how production firms

develop capabilities by making choices on the sequence in which they focus on quality, delivery, reliability, and cost (Rosenzweig & Roth, 2004). This may involve strategic tradeoffs in priorities, or efforts to develop multiple capabilities simultaneously. The evidence from this study is that, similar to goods manufacturing companies, outsourcing services providers constantly strive to find an acceptable balance between cost and service quality. While it may appear from these cases that the supplier (IBM) adopted a simultaneous focus on quality of services and cost, it is not clear whether this was a deliberate strategy, or a reaction to the changes in the prevailing business climate. As the data here relates to a single supplier, it does not provide insights into wider practices in the sector. There has been little academic focus on how outsourcing services suppliers develop capabilities to satisfy clients and to remain competitive. For example, searches of the ABI Inform, Business Source Complete, and JSTOR data bases found no academic papers that focus on CPT in a services outsourcing context. This therefore represents an opportunity for further study which would complement the outputs of this research, by providing deeper insights into how suppliers develop capabilities which contribute to strong client relationships while remaining supportive of their own commercial objectives.

9.6.2. Research opportunities relating to IOR development

The analysis of the cases studied here concluded that they follow major phases of evolution. It should however be acknowledged that this study involved a small number of cases and therefore additional research is needed in order to confirm that it has broader applicability. A wider empirical study in an outsourcing context would also be beneficial, through more targeted interviews and/or surveys. The outputs of this supplementary research would be relevant to relational theory development, and particularly to how this applies in a B2B context where up-front commitments are made to an IOR before it has time to progress through the stages of buyer-seller relationship development as proposed by Dwyer et al. (1987).

9.6.3. Research opportunities relating to value

The focus on value in this research project led to the theoretical contribution on value that is outlined earlier in this chapter. However, as value is such a significant topic it will benefit from on-going academic focus. Specifically, this study shows that multiple constituencies make value assessments in both the client and supplier

organisations. However, further insights are required into how these personal or functional perspectives are merged into an organisational perspective. This study highlighted the central role that the leaders of the relationships on both sides play in influencing this assessment by managing expectations and experiences. This involves a careful balance of exerting influence, but also maintaining this level of influence by remaining vigilant in securing organisational support. Relational Governance Theory (RGT) provides some theoretical insights into how such organisational positions are derived, but the results of this research indicate that it is worthwhile to focus particularly on the role of relationship leaders in influencing how this aspect of governance operates, both within and between firms.

As discussed in section 9.1.4 on page 267, there also exists an important opportunity to further explore how organisational learning contributes to value creation as inter-organisational relationships develop. Building on the conclusions from this research project, and studies specifically focusing on organisational learning in an outsourcing context (e.g. Koo, Lee, Heng, & Park, 2017; Mani & Barua, 2015), further research should investigate how organisational learning develops in relationships with different levels of depth (arms-length to highly-integrated), and how this contributes to value creation across these different relationship-types. Inter-firm governance mechanisms that achieve the optimum balance between required levels of control, and the structural flexibility required to encourage organisational learning (Meyer, 1982) also merit further research and analysis.

9.7. Limitations

It is also important in this concluding section to repeat the limitations that were inherent in this project:

It focused on a single application of outsourcing (BPO) which has particular characteristics (e.g. highly integrated with clients' business processes). These characteristics must be considered when seeking to generalise findings.

In order to uncover deep insights it investigated a limited number of cases. This limitation was mediated by ensuring that the cases represented a variety of clients and services.

All of these cases involved a single supplier (IBM). This helped in negotiating access and meant that the collection and analysis of the data could benefit from the researchers broader contextual knowledge of the cases. Focusing on one supplier also reduced the possibility that differences in relationship behaviours could be due to different organisational cultures. Having said this, the influence of IBM's BPO management approach in these cases should not be overstated. They each involved different clients, operating in different sectors, who each exerted their individual complexions on the relationships. It is also worth noting that for the call centre elements of the services for Virgin Media and Xerox the supplier changed when IBM sold this business unit to Concentrix. In the case of Southwest One a number of IBM business units were involved and their contrasting cultures and behaviours were noted by the clients. Therefore the influence of IBM on these cases, although important, was somewhat diluted.

A further potential limitation was the historical personal involvement of the researcher in the cases. Although this delivered a number of advantages, it required a constant sensitivity to the need to challenge preconceptions. A number of other mitigations were implemented in recognition of this risk (e.g. statistical analysis of coding levels, iterative coding process, assessment of similarities and differences between cases).

9.8. Summary

This chapter has summarised the conclusions that are drawn from this research project under the three headings in which it sought to make contributions. The project aimed to explore the dynamics of BPO relationships and particularly how the search for value influences the development of these relationships. The data confirms that BPO relationships progress through phases which vary in terms of the relationship quality, as manifested in a number of climatic factors and the value contributed to the business as a result of the relationship. This responds to the calls that were identified in the literature review for contributions that explore relationships and value in an outsourcing context, and particularly those that contribute to theory. As well as offering contributions to understanding and to practice, this study has developed complementary theoretical frameworks which elucidate how these relationships progress through phases (Figure 26: Theoretical framework of relationship

progression), and how the expectations and experiences dynamically influence levels of satisfaction with the value being realised (Figure 28: Zone of Tolerance determining satisfaction with BPO services). The proposal on how the experience-expectation dimension is balanced against the benefit-sacrifice view on value (Figure 27: Rationalising Benefits-Sacrifices and Expectations-Experiences) offers an additional complementary theoretical perspective. Together, these contributions provide answers to the research question: *How does the search for value by each of the parties to a Business Process Outsourcing arrangement influence the development of the relationship?*

Therefore, although opportunities for further study in this area are identified, the project was effective in exploring these dimensions and advancing understanding, theory, and practical learning points. This was only possible because of the depth of insights offered by the 38 informants who were ideally placed to provide detailed perspectives on how each relationship was perceived from both the client and supplier perspectives. I am particularly grateful to them for their openness and generosity with their time in supporting this research project.

APPENDICIES
AND
REFERENCES

APPENDIX A: Glossary of Acronyms

A:

ASP	Avon and Somerset Police
AgT	Agency Theory

B:

BPO	Business Process Outsourcing
B2B	Business to business
B2C	Business to consumer

C

CAGR	Compound Annual Growth Rate
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E:

EHC	Event History Calendar
ESO	Engineering Services Outsourcing

I:

IAOP	International Association of Outsourcing Professionals: A global association with a membership of over 100,000 professionals and corporations involved in outsourcing.
IBM	The International Business Machines corporation
IOR	Inter-Organisational Relationship
ISG	The Information Services Group: Market analysts offering insights into outsourcing and other forms of global services.
ITO	Information Technology Outsourcing

J

JV	Joint Venture
----	---------------

K:

KPO Knowledge Process Outsourcing

L:

LSO Legal Services Outsourcing

N:

NTL National Transcommunications Ltd

R:

RAT Resource-Advantage Theory

RBT Resource-Based Theory (or the Resource-Based View)

RET Relational Exchange Theory

RGT Relational Governance Theory

RQ Relationship Quality

S:

SAP Systems, Applications, and Products in Data Processing. This is a technology product that is one of the leading Enterprise Resource Planning tools available in the market.

SCC Somerset County Council

SCT Social Capital Theory

SCM Supply Chain Management

S-DL Service-Dominant Logic

SET Social Exchange Theory

SLA Service Level Agreement: The performance criteria that the supplier is contractually obliged to achieve for the service being outsourced.

SSC Service Supply Chain

SSON The Shared Services & Outsourcing Network. An association offering insights into shared services and outsourcing.

SWO Southwest One Ltd

T:

TCE Transaction Cost Economics theory

TDBC Taunton Deane Borough Council

V:

VM Virgin Media

Z

ZoT Zone of Tolerance. Reflects the concept that customer expectations of service quality fall within a range between what is desired, and what is considered adequate (Ziethaml et al., 1993).

3:

3PL Third Party Logistics outsourcing: The outsourcing of logistics functions such as product distribution and delivery.

APPENDIX B: Definitions

The literature contributes many alternative definitions of key terms that are used throughout this dissertation. To avoid confusion, the following is a list of the definitions that have been chosen to explicate these terms when they are used in the body of the document. Where it is felt that a combination of definitions provides a more comprehensive description of the phenomenon, all relevant definitions are references and these should be regarded as complementary.

A:

Adequate Service (in Zone of Tolerance theory): The level of service the customer will accept – the minimum tolerable expectation (Ziethaml et al., 1993).

B:

Business Process: A set of logically related tasks performed to achieve a defined business outcome (Davenport & Short, 1990).

Business Process Outsourcing: The sourcing of business processes through external third parties (Lacity et al., 2011a), who own, administer, and manage it according to a defined set of metrics (Click & Duening, 2005).

C:

Conceptual Framework: A plane of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009)

D:

Desired Service (in Zone of Tolerance Theory): The level of service the customer hopes to receive. A blend of what the customer believes “can be” and “should be.” (Ziethaml et al., 1993)

E:

Engineering Services Outsourcing: Outsourcing of engineering-related activities ranging from the basic scanning and digitizing of engineering drawings to the outsourcing of new product development, value-engineering and engineering consulting (adapted from ISG, 2014b).

G:

Gainshare: An element of a contractual agreement that specifies how the incremental value resulting from superior performance by the supplier is to be shared between the parties.

Governance: The institutional matrix within which transactions are negotiated and executed (Williamson, 1979). Governance provides direction about the division of decision-making power and control of the [entity], the structure of the [entity], the relationships with customers and whether the control and management is centralized, decentralized or federated. (adapted from Joha & Janssen, 2014). Governance is the means by which order is achieved, thereby mitigating conflict and realising mutual gains (Williamson, 2001).

I:

Information Technology Outsourcing: An ongoing, long term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive IT activities, processes, or services with the understanding that the benefits attained by each firm are at least in part dependant on the other (Goles & Chin, 2005).

International Outsourcing of Services: see Offshoring.

Inter-organisational Network: A social system in which the joint activities of at least three independent legal entities are reflexively coordinated on a repeated basis, in order that joint benefits may accrue to all the parties concerned (Müller-Seitz, 2012).

Inter-organisational Relationship: Ongoing relationships between two firms involving a commitment over an extended time period and a mutual sharing of information and the risks and rewards of the relationship (Ellram & Hendrick, 1995).

J:

Joint Venture: A relationship that involves some form of equity or ownership (Cooper & Gardner, 1993).

K:

Knowledge Process Outsourcing: The outsourcing of business, market and/or industry research (Lacity et al., 2008).

L:

Legal Services Outsourcing: The practice of procuring legal services from an external provider (Lacity et al., 2014).

O:

Offshoring: International Outsourcing of Services[Offshoring]refers to handing over of service functions (that were done in-house) by firms to providers (i.e., vendors) located in a (or several) foreign country(ies) where the former does not have ownership, authority or direct control (Kedia & Lahiri, 2007, p.23)

Outsourcing: An ongoing, long term linkage between an outsourcing vendor and customer arising from a contractual agreement to provide one or more comprehensive activities, processes, or services, with the understanding that the benefits attained by each firm are at least in part dependant on each other (adapted from the definition of ITO by Goles & Chin, 2005, p.49).

P:

Partnership: A relationship that attempts to build interdependence, enhance co-ordination, improve market position focus (by broadening or deepening), or to achieve other shared goals (Cooper & Gardner, 1993).

Perceived Service Quality (in Zone of Tolerance Theory): The degree and direction of dependency between customers' perceptions and desires (Ziethaml et al., 1993).

Process : A sequence of individual and collective events, actions, and activities unfolding over time in context (Pettigrew, 1997).

R:

Relationship: The state of being connected or related; the mutual dealings, connections, or feelings that exist between two parties, countries, people, etc (Collins Dictionary of English Language, 1986).

Relationship Climate: The level of cooperative attitudes and sentiments. The overall atmosphere of the relationship (Duffy, 2008).

Relationship Intensity: Reflects the strength and amount of inter-firm transactions and can be considered on a spectrum between arms-length and closely-tied engagements (Kim &

Choi, 2015).

Relationship Quality: “the degree to which both parties in a relationship are engaged in an active, long-term working relationship and operationalise the construct using indicators of trust, adaptation, communication and co-operation.” (Fynes et al., 2008, p.58)

S:

Service Level Agreement: “An SLA [Service Level Agreement] is a formal written agreement, often developed jointly by SR [Service Recipient] and SP [Service Provider] , that specifies products or services to be provided at a certain level in an outsourcing arrangement.” (Goo & Huang, 2008, p.218)

Service Supply Chain: “Supply chain management [in Professional Services] is the management of information, processes, capacity, service performance and funds from the earliest supplier to the ultimate customer.” (Ellram et al., 2004, p.25)

Shared Services: An accountable semi-autonomous unit within an (inter)organisational entity, used to bundle activities and provide specific pre-defined services to the operational units within that (inter)organisational entity, on the basis of agreed conditions (Joha & Janssen, 2014).

Strategic Alliance: A contractual relationship formed between two independent entities ... to achieve specific objectives and benefits (Cooper & Gardner, 1993).

T:

Theory: A set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena (Kerlinger, 1986).

Trust: The willingness to become vulnerable to another whose behaviour is not under one’s control (Edelenbos & Eshuis, 2012).

V:

Value: The relationship between what one benefits and what one sacrifices. Value for customers that they, after having been assisted by the provision of resources or interactive processes, are or feel better off than before (Grönroos, 2011).

APPENDIX C: Research Overview - Sent to prospective participants

The services sector continues to evolve each year and new forms of services partnerships between clients and providers continue to emerge. These arrangements can range from relatively simple and transactional outsourcing arrangements, to highly integrated and complex collaborations that are central to organisation transformation strategies. The on-going proliferation of such services engagements indicates that both clients and service providers continue to believe that these can deliver new sources of value that justify the effort required and risks involved.

In spite of the popularity and growth of these services partnerships, there are many reports of failures. Although a number of academic studies have shown that achieving a constructive inter-organisational relationship between the client and provider is critical to the delivery of their respective business objectives, the challenge of achieving an effective relationship remains elusive in many cases. The importance of achieving an effective relationship is well accepted, but there are very few in-depth studies that provide insights into how these relationships evolve and develop over time as each partner seeks to achieve their business objectives through collaboration with their partner organisation.

This research project aims to address this deficit by analysing the findings that emerge from in-depth discussions with industry practitioners who have been involved in a number of long-term services-based relationships. It is planned to study a range of such relationships, representing different degrees of integration and partnership between the organisations involved. The research is being completed as part of a PhD programme under the supervision of the School of Business, Trinity College Dublin. There is no commercial agenda associated with this research and it is not funded by any third party. The objective is to contribute to academic understanding and to develop insights that may also be of relevance to practitioners.

The discussions with practitioners that will inform this research will be conversational and informal in nature. However, the interviewer will be guided by a high-level agenda. The specific areas of discussion will include (a) your role within the relationship, (b) the business context that led to the establishment of the services relationship and whether this context changed over time, (c) the development of the relationship between the client and service provider and the influences on this

development, and (d) the benefits that were anticipated and how these expectations evolved.

Unless you have an objection, the conversation will be recorded to ensure that results can subsequently be documented accurately. The comments of individual candidates will be treated confidentially and there will be no sharing of information with other interviewees or any others. Individual interviewee names will not be recorded in any documentation and only their roles relative to this relationship will be recorded. If the results of this study are published later in an academic journal the names of the organisations concerned will not be revealed. Your cooperation with this study is greatly appreciated.

APPENDIX D: Interview Guidelines

The structure and questions below should be regarded only as a rough guide. In the interviews there may be some iteration between the sections if this helps the interviewee tell the story in their own words. The questions are designed to ensure that all topics are covered and to keep the discussion going if it stalls. It may not be necessary to use all of these questions in an interview.

Time allowances are given as guidelines to ensure that all areas of interest can be covered in the time allowed. These are designed to ensure that the interview can be completed in one hour if needed. This period is relatively short, but it may be all that can be negotiated with some participants. In general, a longer period will be requested (90-120 min).

1. Introductions (*5 min*)
 - a. Ice-breaking discussion.
 - b. Do you have any questions about the Information Sheet?
2. Role (*5 min*)
 - a. Over what period were you involved with this outsourcing relationship?
 - b. What was your role and responsibilities during this time?
 - c. Who did you work with in the other party?
3. Context (*10 min*)
 - a. What were the major influences on your organisation at the start of this arrangement?
 - b. What was your impression of the other organisation at the start of the arrangement?
 - c. Did you and your organisation have previous experience of a relationship like this?
 - d. How would you describe the relationship between the organisations at the start?
 - e. How would you describe your relationship with your direct counterparts in the other party?
4. Relationship development (*20 min*)
 - a. Did these influences change over time, and if so, how?
 - b. Can you describe how the relationship progressed?

- c. If it changed, what were the causes?
 - d. What was the effect of this change?
 - e. Did any external factors have an influence?
5. Value (15 min)
- a. Can you list the benefits that your organisation was seeking to gain from the relationship when it was initiated?
 - b. From a personal and professional perspective were you seeking any other benefits?
 - c. What benefits were sought by the other organisation?
 - d. How did your needs and expectations change over the course of the relationship?
 - e. What caused these changes?
 - f. Did the needs of the other organisation change and if so how?
 - g. To what extent were the benefits achieved?
 - h. How were the benefits shared?
 - i. Were you satisfied with the outcomes?
6. Wrap-up (5 min)
- a. Are there any other facets of this relationship that we have not discussed?

APPENDIX E: Explanatory Effects Matrices

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Table 25: Index of Exploratory Effects Matrices

This appendix contains a set of tables that analyse the linkages between dependent and independent variables for each case. For each independent variable in

each case, sample comments from informants that describe the existence of this variable are presented. Based on these comments the associated dependent variables are identified.

This approach is influenced by the recommendation of Miles and Huberman (1994) that an *Explanatory Effects Matrix* can be useful as a “first-cut exploration, beginning to trace back – and forward – emerging threads of causality.” (p. 148) As part of the cross-case analysis in Chapter 7, the dependencies that were noted through this analysis are considered in order to enable a discussion on the commonalities and differences that were identified in the relationships between independent and dependent variables for each case. The tables in the remainder of this appendix provide a set of such Explanatory Effects Matrices, and are as listed in Table 25. The dependencies that are identified in these tables are summarised in a matrix presented in the latter part of this appendix (Table 50 on page 338). This matrix shows the cases in which the dependency was identified, and highlights those instances where there appear to be variances between cases. These variances are then discussed and resolved in order to derive a generally-applicable conclusion on the relationship between the factors that comprise a relationship phase.

Note that in these tables, comments from client representatives are preceded by a “C”, and comments from supplier representatives are preceded by an “S.” In some cases it is apparent that an independent variable relating to one partner is dependent on a variable associated with the other partner. For example, *Inter-partner Alignment* is dependent on the *Value* delivered to the client and the supplier. In such cases, when the variable refers to the client or supplier’s own organisation, it is identified as being “Endogenous.” When a dependent variable refers to the other organisation, this is preceded by the word “Partner.” It is also notable from the analysis of comments describing client and supplier perceptions of value, that these are influenced by actual *Experiences* and evolving *Expectations*. Sample comments that show these influences on statements relating to value are therefore categorised under these headings.

Sample Comments	Independent Variables
<p>C: <i>“The account management was superb. When we talked terminology we were talking the same language”</i></p> <p>C: <i>“it was a healthy growing up for us as a team seeing that IBM knew their stuff better than we did”</i></p> <p>C (commenting on supplier lack of flexibility): <i>“IBM didn’t feel that they were going to have to change to be a chameleon to the company that there were dealing with”</i></p> <p>C: <i>“people I was working with [from IBM] understood what we were trying to do, and really helped us to get there”</i></p> <p>C: <i>“my firm belief is that every single one of those [IBM] people wanted to do a great job. Everybody from management down wanted to do it right.”</i></p> <p>S: <i>“They were looking for us to do the right thing for the customer irrespective of KPIs, the contract, commercial values”</i></p> <p>S: <i>“[customer executive]liked IBM because he knew that when we did hit problems we threw the kitchen sink at it”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>C: <i>“they could also identify a lot of those things that our Sales teams weren’t doing, our Care teams weren’t doing, who were putting a lot of pressure on the guys in India who were doing the best they could</i></p> <p>C: <i>“It is very easy to become completely financial over an outsource relationship, rather than thinking about the people in the Delivery. And sometimes you have to be bold enough to go bold enough to go back to the company, and say we are paying peanuts this is what is going to happen.”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>C: <i>“The operational layer got better”</i></p> <p>C: <i>“India had its merits but also had its demerits”</i></p> <p>C: <i>“we did not suffer financially, but reputationally and brand wise we held ourselves back for a while”</i></p> <p>C: <i>“In operational terms [IBM] raised the bar about how an operative works”</i></p> <p>C: <i>“we saw that the problem was to switch off the demand I don’t think [IBM] got on to that as quickly as they should have”</i></p> <p>C: <i>“It clearly wasn’t right, the [customer satisfaction] feedback that we were getting ... was that things were badly wrong”</i></p> <p>C: <i>“everything went up on the scale. Second time calls were vastly diminished. Compensation payments were vastly diminished”</i></p>	<p>Experiences</p>
<p>C (speaking about changes to business requirements): <i>“a lot of things... were going to be very difficult to achieve under the deal that had just been forged with IBM”</i></p> <p>C: <i>“going into that merger knowing that we would eventually be Virgin, the covenant [sic] around service and brand, not just banking and financial covenant [sic], was even more important, but it felt like I had been dealt a hand where the company was structured a deal, very front loaded on cost as well, meant that that overtook the whole cultural brand thing, which just made the job impossible”</i></p> <p>C: <i>“that made it twice as hard to reach the targets that had been imposed on us”</i></p>	<p>Expectations</p>

Table 26: Virgin Media Case – Independent variables influencing Client Value

Sample Comments	Independent Variables
<p>S: <i>“They put the handbrake on before we realised there was a handbrake. That put us under financial pressure which for the team in IBM was challenging”</i></p> <p>S: <i>“we had good relationships, great delivery, good price points and we were able to grow”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>S: <i>“What I have learned is that if I see a fundamental risk in what we are going to deliver I will let them know up-front even though it means that I know we will get a lot of heat for that period of time, it has ended up being the right approach”</i></p> <p>S (speaking about contract growth that has been achieved): <i>“my view is that it came about because we were able to play the game that they wanted”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>S: <i>“we went down in revenue but were better in profitability”</i></p> <p>S: <i>“It was a profitable account”</i></p> <p>S: <i>“I think that in 2009 it was from the BPO side the fastest growing and most profitable, the best contract we had”</i></p> <p>S: <i>“I don’t think we ever realised or expected it to be as bad as it was ... we were not hitting the numbers so that was problematic ... we were over budget, we were over heads, we were providing service for free, we were answering minutes that we were not being paid for”</i></p> <p>S: <i>“that hurt us a lot because that work had a lot of profit in it and I think the client knew that”</i></p>	<p>Experiences</p>
<p>C: <i>“IBM was then under massive pressure to deliver for itself to get the return that it had promised itself, which was a bit in conflict with how we had to operate”</i></p> <p>C: <i>“the pressure internally that IBM felt on to deliver made all of that difficult and made everybody else’s lives difficult”</i></p> <p>C: <i>“from the perspective of future business and growth they felt that they needed to make this work”</i></p> <p>S: <i>“IBM was looking for the most lucrative deal and it was all about how much profit they could make”</i></p> <p>S: <i>“We were under massive internal pressure to get the profitability right while at the same time the customer was kicking the living daylight out of us because of poor service”</i></p> <p>S: <i>“It was really about making money. You need to hit your numbers, you need to be profitable, you need to get this debt in, you need to be process compliant”</i></p> <p>S: <i>“Obviously once they merge they had the potential to grow as a client and that was positive as more volume could come to us. And actually there were a lot of little benefits in it but they were never really quantified, they were really secondary benefits that were a consequence of it”</i></p> <p>S (speaking about the decision to transfer UK work back to Virgin Media): <i>“I was told to stall the UK as long as we could after 4Q to make sure our in year revenues did not dip”</i></p>	<p>Expectations</p>

Table 27: Virgin Media Case - Independent variables influencing Supplier Value

Sample Comments	Independent Variables
<p>C: <i>“with IBM there was something of a savyness about our situation”</i></p> <p>C: <i>“I did not feel that [IBM] did anything but enhance us”</i></p> <p>C: <i>“when you engage an outsourcer the first thing that they have to understand and get their head around is the culture and the brand that they have to portray through their interactions with the customer”</i></p> <p>C: <i>“a lot of things that were going to be very difficult to achieve under the deal that had just been forged with IBM, unless I could get IBM to really be like we wanted them to be”</i></p> <p>C: <i>“there was much of what was in our brand covenant [sic] that just did not exist in the IBM governance and measurement framework, which just goes to show that we had two completely misaligned objectives”</i></p> <p>S: <i>“we had a huge misalignment between what the customer wanted, what was sold and bought, and what was expected”</i></p>	[Endogenous] Value
<p>C: <i>“So we drove into a need to fix the call centre and for example stop broadband customers ringing in at all, whereas [IBM was] into - we need 150 seats or it does not make money”</i></p> <p>C: <i>“IBM was then under massive pressure to deliver for itself to get the return that it had promised itself, which was a bit in conflict with how we had to operate at the service level to make those changes from where NTL was”</i></p> <p>C: <i>“[IBM] seemed happy with volumes the way they were. So over time we were not fixing the core of the issue”</i></p> <p>S: <i>“my reflection on all of outsourcing is that if you have common objectives, if there is a reward that is shared between the two of you, are much more likely to get the right outcomes”</i></p> <p>S: <i>“You have two different frustrations on two fundamentally different things. You have one saying we need to improve our losses, the other saying that they needed more service”</i></p> <p>S: <i>“the feeling of identity that the [IBM] delivery guys should have with the client that they are delivering for”</i></p> <p>S: <i>“We were under massive internal pressure to get the profitability right while at the same time the customer was kicking the living daylight out of us because of poor service.”</i></p>	[Partner] Value
<p>C: <i>“It felt to me that there was an identity crisis in the [IBM] BPO unit where your fundamental DNA was to fill call centres whereas businesses needed to avoid call centres”</i></p> <p>C: <i>“success means that you have alignment from the boardroom down to the front line, and unless those objectives are aligned all the way through it will always be a difficult and turbulent time”</i></p> <p>S: <i>“Telewest did not like NTL and by default they did not like IBM”</i></p> <p>S: <i>“you need to be on the same train going in the same direction, and the challenge is sometimes getting everybody on board”</i></p>	Intra-partner Alignment

Table 28: Virgin Media Case - Independent variables influencing Inter-partner Alignment

Sample Comments	Independent Variables
<p>C: “[internal stakeholders] did not really understand what it was all about. ...it only became politically because people wanted another badge on the deal because they had friends in other places”</p> <p>C: “there was a constant mine is better than yours battle”</p> <p>C: “NTL were ordered to put the same model in that Telewest had... but it was done superficially because it was not done with the understanding of delivering better service, it was done from an organisational point of view, and the relationship that NTL had with its outsourcers was completely the opposite [to Telewest]”</p> <p>S: “you had NTL who were low cost, not very focussed or good at customer service, and then you had Telewest who were totally focused on customer service at any cost, which was clearly far too high”</p> <p>S: “So I think even if the senior guys are fully bought in, then trying to get all of the different layers lined up is a bit like herding cats sometimes”</p> <p>S: “the Sales and Account Management teams understood it and had more of an affinity for it. The Delivery and Financial part of IBM didn’t give two hoots”</p> <p>S: “the powers that be that made the decision just walked away and said we have done a good job for both companies without giving time for grieving for the team that then had to execute”</p> <p>S: “more than half of your time was spent fighting internally”</p>	<p>[Endogenous] Value</p>
<p>C: “Everyone has to buy-in to it”</p> <p>C (commenting on the need to secure internal stakeholder support to resolve issues): “I would have to go to [client executive management], and [IBM Account Director] would have to go up[to supplier executive management] to get hers fixed”</p> <p>C: “It was very much [MD of Customer Services]’s strong character driving these things through”</p> <p>S: “[Client MD of Customer Services] changed his team to achieve what he wanted to achieve”</p> <p>S: “Would it change if [MD of Customer Services] left? I don’t think so. I think he has now built that team below him ... his whole management team all sing from the same hymn sheet”</p> <p>S: “it has been very much driven by [MD of Customer Services]. He is an absolute control freak, and his execs in Virgin Media do not even attempt to come into his area and try to influence how he runs his teams”</p> <p>S: “as you stay in that job or longer you learn how to manage the people up stream much better”</p>	<p>[Endogenous] Leadership Support</p>

Table 29: Virgin Media Case - Independent variables influencing Intra-partner Alignment

Sample Comments	Independent Variables
<p>C: <i>“it felt like I had been dealt a hand where the company had structured a deal - very front loaded on cost as well- [which] meant that that overtook the whole cultural brand thing, which just made the job impossible for me”</i></p> <p>C: <i>“that was my level of frustration, I could not even select what was going out and what wasn’t”</i></p> <p>C: <i>“[The] biggest thing that organisations need to watch out for is that the person that is going to run this needs to buy-in”</i></p> <p>C: <i>“Because he was never in favour of it he was able to point the finger at IBM”</i></p> <p>C: <i>“he made his whole team understand that the success of that group was whether outsourcing worked”</i></p> <p>S: <i>“So, people like [client manager] were very anti that happening and therefore put roadblocks in the way that should not have existed if the company were bought into doing this”</i></p> <p>S: <i>“He never really wanted to do the deal, certainly not the deal with IBM. Whilst I think he understood that it was the right thing financially for the business, I don’t think he believed that IBM was the right partner to deliver the service to the Telewest aspiration. So he was from day 1 ... not the most supportive of the deal”</i></p> <p>S (speaking about the attitude often demonstrated by unsupportive client executives): <i>“it was better when I ran it myself”</i></p>	<p>[Endogenous] Value</p>
<p>C: <i>“I think we kept a lot of continuity, particularly in the first 3 years of a 5 year deal. The [IBM] sponsor of the commercial deal did not run away...We had the continuity of account management [from IBM]”</i></p> <p>C: <i>“the people I was working with [in IBM] understood what we were trying to do, and really helped us to get there”</i></p> <p>S: <i>“he came from a very different mindset and a very different customer-focused mindset from the airline industry than our friends in cable TV. And he definitely brought positive change to the relationship”</i></p> <p>S: <i>“I think there was change but I think it was because the people changed”</i></p> <p>S: <i>“He was a breath of fresh air ... It was not about whether you could kick the [expletive removed] out of the suppliers. Which was a fundamental shift and probably the most mature approach to outsourcing that I ever saw”</i></p>	<p>[Partner] Leadership Support</p>

Table 30: Virgin Media Case - Independent variables influencing Leadership Support

Sample Comments	Independent Variables
<p>C: <i>“So before [new products] got launched we got people thinking about how can the teams actually deliver on this, which was a new thing for them because in the past it was - it is your problem, you are Director of Contact Centres, that is not our issue”</i></p> <p>C: <i>“I said to [MD of Customer Services] ... everybody, every Director should go and spend some time out there and see how committed these people are... and he took that on board”</i></p> <p>S: <i>“You get different layers in an organisation that pay lip-service to the corporate strategy”</i></p>	Intra-partner Alignment
<p>C: <i>“the biggest thing that organisations need to watch out for is that the person that is going to run this needs to buy-in”</i></p> <p>C: <i>“I think Virgin Media never really invested properly in it”</i></p> <p>C: <i>“In the early days I think [MD of Customer Services] was doing everything he could to not make it a success”</i></p> <p>S: <i>“the powers that be that made the decision just walked away and said we have done a good job for both companies without giving time for grieving for the team that then had to execute”</i></p> <p>S (quoting the client): <i>“if this [relationship] fails then I fail”</i></p> <p>S: <i>“So, taking them out, showing them India, because India shows well - the enthusiasm, the commitment to the brand”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“We felt [IBM was] respectful of our internal audience ... [They] kept talent by developing where you could develop and recycling where you had to... The account management was superb”</i></p> <p>C: <i>“I feel like [IBM was] more inherently passionate about this contract than a lot of other outsourcers I have seen”</i></p> <p>S: <i>“We had away days ,working sessions among staff, and I agreed with [MD of Customer Services] early on that we would identify areas where it worked well and we would deal with areas where it did not work well and we would move people from both sides because they were not following the new ethos”</i></p>	[Partner] Leadership Support
<p>C (commenting on the quality of management invested by the supplier): <i>“it felt good and top of the pyramid”</i></p> <p>C: <i>“there was an erosion and a self-fulfilling prophecy, so you don’t put your best guys on the deal, and they don’t give you confidence that you will get a renewal, so it is chicken and egg”</i></p> <p>C: <i>“[IBM] had capabilities of dual run etc which we knew were common sense, which we had seen as cost, but [IBM] saw it as investment in success”</i></p> <p>S: <i>“they now run a thing called a People Partner Forum where they actually bring all three suppliers into one of their offices for a week and we look at specific support areas”</i></p> <p>S: <i>“what I saw as a big difference between how engaged people were with the supplier relationship at that stage was very different to what I had experienced in the previous NTL days”</i></p>	[Partner] Relational Commitment

Table 31: Virgin Media Case - Independent variables influencing Relational Commitment

Sample Comments	Independent Variables
<p>C: <i>“What they sold they delivered on”</i></p> <p>C: <i>“it was a healthy growing up for us as a team seeing that [IBM] guys knew their stuff better than we did”</i></p> <p>S: <i>“All that stuff was being done and actually we were in a position where we were trusted by the client, we had good relationships, great delivery, good price points and we were able to grow”</i></p> <p>S: <i>“if you can create an environment where the client trusts you and find out what is the issue. Are you getting beaten by your bosses and we are contributing to those beatings. What can I do to help?”</i></p> <p>S: <i>“We had to focus a lot on making sure people understood what we were achieving and really being able to prove that the service we were offering was acceptable, and then as it grew better”</i></p>	[Endogenous] Value
<p>S: <i>“I don’t think in a corporate world people trust people lightly. And the feeling was from an IBM standpoint that VM very quickly forgot what we did for them in 2006 and spent all of its time trying to get out of it. That mistrust was there. And from the Virgin side all IBM is interested in is profit”</i></p>	Inter-partner Alignment
<p>C: <i>“The new management team did not have the same trust and confidence levels because they did not understand the paradigm like we did”</i></p> <p>C (speaking about visit to India): <i>“I think the first visit, they probably thought that nothing would happen, but the fact that things were happening while I was out there and I was getting fixes, and I got the training teams out there, ... they felt that they were part of the team”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“In my relationship with all of them was very open, frank and honest. They could tell me exactly how they felt and I listened and took that on board and where I could help I did”</i></p> <p>S: <i>“we need to build the relationships at a personal level and just be open and transparent”</i></p> <p>S: <i>“if you are relatively straight in how you do business then people do trust you and know you are not trying to pull the wool over their eyes”</i></p> <p>S: <i>“that trusting relationship and partnership approach that has been taken over the last 2-3 years with them. The first year we were classic IBM - trying to be a bit cagey about giving out the real story if we had performance issues”</i></p> <p>S: <i>“Both parties needed to be a bit more open, and not see it as a battle on every single day”</i></p>	[Endogenous] Relational Commitment
<p>S: <i>“we had to do what we were told even if we knew that what they were putting together did not make sense”</i></p> <p>S: <i>“[client executive] was known for throwing her weight about more than anything else, and it goes back to what I said earlier about NTL and IBM were the poor relations, and she showed a disrespect”</i></p>	[Partner] Trust

Table 32: Virgin Media Case - Independent variables influencing Trust

Sample Comments	Independent Variables
<p>C: <i>“it is down to a group of people wanting it to happen. And you can end up blaming anyone for anything – whether it is in-house or out – but ... together you can make it right”</i></p> <p>S: <i>“at the end of the day there was a bit of give and take and that is the secret to all of the success- win-win and not win-lose”</i></p>	Inter-partner Alignment
<p>C: <i>“if you believe in what you are doing and you are passionate enough, and you work with those people and understand what the difficulties are, together you can do it”</i></p> <p>C: <i>“He very much involved in all of these teams, and that is whether they were in-house or out”</i></p> <p>S (speaking about MD of Customer Services): <i>“He definitely brought positive change to the relationship... he was less interested in the past and the contract, more interested in what he needed this relationship with IBM to do for his customers”</i></p> <p>S: <i>“He acknowledged that his team needed to stop going into meetings with [IBM] carrying baseball bats and his acknowledgement was that that relationship was not working, it was combative”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“I think in a lot of organisations, it is very easy to have a bit of a blame culture”</i></p> <p>S: <i>“By that stage we were partners. We were at the table, we were involved in strategy discussions, we were asked our opinions and how we could achieve things”</i></p> <p>S: <i>“And the client probably out-contract managed us and we tried to out-contract management them back - and you know where that goes”</i></p> <p>S: <i>“I don’t think that there was a particular desire for it to succeed, in the sense that there was a partnership...there was certainly was not any sense of shared or joint ownership or responsibility in those early days”</i></p>	[Endogenous] Relational Commitment
<p>S: <i>“So it was far more that the contract was a vehicle to help us achieve what we needed to be achieved rather than a thick document to be beaten about the head with”</i></p> <p>S: <i>“A heavy reliance on what the contract says rather than what we need to achieve. An us and them culture”</i></p> <p>S: <i>“It was very much, you need to deliver what I want and I don’t really want much of an argument about it even if you have something reasonable to say”</i></p>	[Endogenous] Trust
<p>C: <i>“Even now they talk about them not being suppliers, they are partners ... but really, how many of those are real partners, because as soon as the [expletive] hits the fan the outsourcer is the first to be blamed”</i></p> <p>S: <i>“they try and work through it with you to come up with answers that work for both parties”</i></p> <p>S: <i>“if the company treats you as simply a supplier, and not as a partner to deliver what they need to deliver, I think that’s where it starts going horribly wrong”</i></p>	[Partner] Partnership Ethos

Table 33: Virgin Media Case - Independent variables influencing Partnership Ethos

Sample Comments	Independent Variables
<p>C: <i>“we were losing money ...we needed to change how we worked with customers and we needed a supplier who could change with us”</i></p> <p>C: <i>“[The] relationship is enabling a lot of the business with new activities being born and new business to be offered [to IBM]”</i></p> <p>C: <i>“IBM have come forward with some great ideas over the years ... they know more about our business in certain areas than we do”</i></p> <p>C: <i>“it is about the supplier understanding those things and moving the business to adapt to them”</i></p> <p>C: <i>“we needed to go back to IBM and say that we needed to do cost cutting. And IBM played ball, even though they could have said “no, it’s in the contract””</i></p> <p>S: <i>“it was Xerox or IBM gaining at different times”</i></p> <p>S: <i>By the same token there was a history of IBM not providing adequate resource in order to provide the service – the service was impacted”</i></p> <p>S: <i>“we were making huge money on gainshare at the time”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>C: <i>“Our role has changed ... we put a lot of effort into coaching the [supplier] team leaders and managers ... it has been an investment that has paid us well”</i></p> <p>S: <i>“it is about doing what you have signed up to deliver, and when you are in amongst it seeing what else you can do to grow their business or whatever and get a chance for a win-win”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>C: <i>“There was a problem with the performance and at the same time we had just launched the eSAP system and there were technical challenges with that which did not help anyone”</i></p> <p>C: <i>“It hurt us and it hurt IBM as well in terms of the volumes that we expected over that period of time”</i></p> <p>C: <i>“so the cost per machine in field under management has gone from \$1 to \$0.33”</i></p> <p>C: <i>“we have got significant year-on-year improvements and we never thought we would get to the levels we are today”</i></p> <p>C: <i>“IBM have delivered most of the time and that’s as good as it gets in our business”</i></p> <p>S: <i>“it was a pretty poor service”</i></p> <p>S: <i>“It was a brilliant deal for them. They got less cost in the first 18 months than they expected”</i></p>	<p>Experiences</p>
<p>C (referring to business challenges that require a higher value contribution from the outsourcing contract): <i>“If your revenue is not good enough it is not good enough. It is very hard to reduce the cost in line with that”</i></p> <p>S: <i>“Xerox had just one agenda which was how much can we reduce the price by”</i></p> <p>S: <i>“they did not have an issue in paying us nice lump sums on gainshare but they were finding it far more difficult to justify that same level of payment internally if they were missing their operational targets”</i></p> <p>S: <i>“Xerox wanted us to bring innovation ideas to the table”</i></p>	<p>Expectations</p>

Table 34: Xerox Case - Independent variables influencing Client Value

Sample Comments	Independent Variables
<p>C: <i>“it was good business for us and good for IBM/Concentrix to continue”</i></p> <p>C: <i>“We have driven a process where both companies were really happy in the way it has been built”</i></p> <p>S: <i>“it was Xerox or IBM gaining at different times”</i></p> <p>S: <i>“we were making huge money on gainshare at the time”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>S: <i>“it is about doing what you have signed up to deliver, and when you are in amongst it seeing what else you can do to grow their business or whatever and get a chance for a win-win”</i></p> <p>S: <i>“the only chance was to build the relationship and get to a point where we can come up with some things that can actually generate some revenue”</i></p> <p>S: <i>“It is my job to keep everyone [in the Client organisation] happy regardless of what is happening back at the ranch [in the Supplier organisation]. But ultimately it will become commercial”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>S: <i>“one instance in that quarter was where particular work that was done but where IBM had not been paid and it added to the very high loss that was unacceptable to IBM”</i></p> <p>S: <i>“when I came on board it was a troubled contract”</i></p> <p>S: <i>“we went through the extreme of moving to a contract which is delivering probably the healthiest GP in the portfolio”</i></p> <p>S: <i>“from an IBM perspective Xerox was always a good flagship account for prospects”</i></p> <p>S: <i>“at the back end of the year we incurred significant penalties”</i></p> <p>S: <i>“Before that things were pretty positive, we felt we could push on”</i></p> <p>S: <i>“It was a tough deal early on and the reason was because of [concessions made in order to win the contract]”</i></p> <p>S: <i>“within a year I think we had got ourselves back on track and things started to improve from there”</i></p> <p>S: <i>“We got to a decent situation from a financial perspective. It was a lot of hard work”</i></p>	<p>Experiences</p>
<p>C: <i>“It hurt us and it hurt IBM as well in terms of the volumes that we expected over that period of time”</i></p> <p>S: <i>“we were unable to deliver the headcount savings in line with the original business case projections”</i></p> <p>S: <i>“The margin was pretty small. ... and the question was how could we make some money”</i></p> <p>S: <i>“the intent was to recover the year and try to break-even”</i></p> <p>S: <i>“within IBM it was a troubled contract. Constant reviews with worldwide and stuff like that to try and improve things”</i></p> <p>S: <i>“we were never going to get close to the business case”</i></p>	<p>Expectations</p>

Table 35: Xerox Case - Independent variables influencing Supplier Value

Sample Comments	Independent Variables
<p>C: <i>“there is a very strong affinity, and sometimes people wonder, do they work for IBM or Xerox”</i></p> <p>C: <i>“[gainshare] has given us dividends in terms of stronger targets that are more aligned to the targets that we have”</i></p> <p>C: <i>“I don’t think all of the IBM people all of the time were aligned with our goals”</i></p> <p>C: <i>“we had an institutional memory of the way we used to do it in the past and that became a benchmark to how we expected IBM to do it”</i></p> <p>C: <i>“[the need to demonstrate financial control] became a bit of a mantra and IBM helped us because they understood it”</i></p> <p>S: <i>“over the course of probably 18-24 months we actually aligned ourselves from a gainshare perspective directly to Xerox’s operational targets and that was really important to them”</i></p> <p>S: <i>“[prior to the gainshare negotiation] we had a set of SLAs that were not aligned to Xerox’s operational targets”</i></p>	[Endogenous] Value
<p>C: <i>“IBM wants to maximise profit, we want to minimise cost, which is kind of an opposite. But from a relationship point of view it has worked very well and has served both parties well over the years”</i></p> <p>C: <i>“There was always an awareness that you wanted IBM to be making money out of the contract”</i></p> <p>C: <i>“you needed IBM to be happy because if they are not happy it won’t work”</i></p>	[Partner] Value
<p>C: <i>“we can look at IBM and Xerox policies, they are both big American companies, not too different, and that probably helps us”</i></p> <p>C: <i>“we were similar corporations and we were very much of the same mindset”</i></p> <p>C: <i>“I did care very dearly and was very disappointed that [IBM] Sofia had been [identified by some in Xerox] to be the problem, because I knew deep down that this was not the case”</i></p> <p>C: <i>“there was always a reasonably close relationships between IBM and Xerox in other parts of the business ... and this would have certainly helped [the perception that it was a good deal]”</i></p>	Intra-partner Alignment

Table 36: Xerox Case - Independent variables influencing Inter-partner Alignment

Sample Comments	Independent Variables
<p>C: “we had some challenges against our business case but if we could show that it was results driven we would not get asked the questions”</p> <p>C (speaking about different contracts with IBM Germany and IBM Europe): “It was like two different suppliers talking to each other. We did not have any synergies created there”</p> <p>C: “within the fiefdoms [country business units] they were knocking it down”</p> <p>C: “When they said Dublin was not delivering, it used to infuriate me because you became parochial, and that was particularly from the UK”</p> <p>C: “We always used to say that we were loved by our grandparents – the USA - and hated by our parents in London. That was the context and there was always an element of how they were never absolutely keen in the UK on the Ireland things”</p> <p>S: “[when business results are satisfactory] you are left alone quite a lot”</p> <p>S: “The internal pressure was less and less as the financials improved”</p> <p>S: “if you are a troubled contract, you have this review, that review”</p>	<p>[Endogenous] Value</p>
<p>S: “It is my job to keep everyone [in the client] happy regardless of what is happening back at the ranch [in IBM]”</p> <p>S: “there were definitely mixed messages because we had [Account Management executive name removed] and then you had [Services Delivery executive name removed] and people in the US who were Delivery, and definitely their ideas were not the same”</p> <p>S: “once we got out of that troubled contract status...I felt that [Account Director] was allowed to run it and there wasn't a huge outside influence”</p> <p>S: “better to call it out and say that we have a problem and this is what we are trying to do”</p> <p>S: “that alleviates the pressure a bit from an internal perspective when they know you are doing everything you can and you are not leaving any stone unturned”</p>	<p>[Endogenous] Leadership Support</p>

Table 37: Xerox Case - Independent variables influencing Intra-partner Alignment

Sample Comments	Independent Variables
<p>C (speaking about leadership objectives): <i>“the key thing I was trying to do was to get to a point of stability on all of the functional areas that we have got. So it was more about making sure that operationally we were delivering consistency and predictable results”</i></p> <p>C: <i>“I came at it from the perspective that we had to make it a success”</i></p> <p>C [speaking about Xerox contract leader]: <i>“his energy levels...totally committed to the business”</i></p> <p>S: <i>“his focus on [business objectives] kept us focused as well”</i></p>	<p>[Endogenous] Value</p>
<p>C (speaking about what is required to make new initiatives successful): <i>“a common agreement [between client and supplier] that we can give it a go”</i></p> <p>C: (speaking about relationship with Supplier leaders): <i>“That [management-level relationship with IBM] has been very important”</i></p> <p>C: <i>“when new management came in, on both sides, the relationship develops again, and maybe in a slightly different way”</i></p> <p>C: <i>“When [new IBM contract leader] came along it seemed that we had the focus and the gravitas of the contract, instead of electrons going around all over the place”</i></p> <p>C: <i>“[IBM executive leader for the contract] really set out the stall in terms of how this thing was going to be run and we used him when we had problems”</i></p> <p>C (speaking about the relationship between client and supplier contract leaders): <i>“just a very difficult way of working which put the situation where [Xerox leader] was no longer able to work directly with that individual”</i></p> <p>C (speaking about the relationship between client and supplier contract leaders): <i>“it was down to two individuals, both of which were very strong characters, that was probably part of it”</i></p> <p>C: <i>“I have to say that the fact that it ran well was because you had someone like [Xerox executives] who were very much in it, and from the IBM point of view you had Irish guys who we could talk to and do business in a certain way”</i></p> <p>S: <i>“on both sides we tried to keep the continuity with the solutions team, and that I think was a very strong thing because it meant that we could carry the relationship from solution into delivery and carry on building the relationship that we had”</i></p> <p>S (speaking about the break-down in the working relationship between the respective contract leaders): <i>“once that was resolved, then I always felt that it was a lightening on both sides and we started to move forwards on a more proactive and productive way”</i></p> <p>S: <i>“the key thing about a deal is that you have to have two people operating at the same level who have mirrored objectives”</i></p> <p>S: <i>“The stability of the Xerox team and their knowledge was very helpful to us in terms of developing the relationship and ironing out the issues”</i></p>	<p>[Partner] Leadership Support</p>

Table 38: Xerox Case - Independent variables influencing Leadership Support

Sample Comments	Independent Variables
<p>C: “[country unit managers] were coming regularly to the site, investing in the relationship”</p> <p>C: “[Xerox] arranged a visit of the Controller and the Chief Accountant, and the Purchasing Manager from Germany to Sofia, and that improved the relationship immensely between Sofia and Germany”</p> <p>C: “And [Xerox] France visit Sofia once a quarter... We got the Purchasing Manager from the UK to visit Bangalore and again that helped to build a relationship and understanding”</p>	Intra-partner Alignment
<p>C: “when I go to the [IBM] centres I get a brief before I go to understand who has done well, and then I go and seek out that person and congratulate them - I personalise it”</p> <p>C: “it is not that you sign up for 5 years and walk away from it... you are very much in it”</p> <p>S: “I put more effort into managing that communication flow better...putting in a bit more structure, regular communication and conversations, and demonstrating to Xerox that there was someone there who could talk to them in their language and knew roughly what they were talking about”</p> <p>S: “I think it is [successful] because we have made the time. We have made [Xerox executive] feel important. We have listened to, and encouraged him to share his goals and strategy with us, so we can then suggest how we might be able to help”</p> <p>S: “we put in what we needed, and some new structures”</p>	[Endogenous] Leadership Support
<p>C: “[IBM executive] made a tremendous effort to really work and build on the relationship”</p> <p>C: “every time issues would come up the only answer [from IBM leader] was defensive and pushing back by bringing arguments that were nowhere near the discussion we were having to muddy the water”</p>	[Partner] Leadership Support
<p>C: “we had to work together, and that was both of us investing time making sure that where there were problems they got resolved”</p> <p>S: “[The client sent] those people out to India to help with the training where we had heavy attrition in certain processes”</p> <p>S: “...too many clients only come out when there is a problem. Here we have a client that was coming out proactively to review, so I think that has been a benefit”</p> <p>S: “Xerox asked for that ‘Ways of Working’ workshop where we all had to tootle over to Dublin, which demonstrated that the relationship was not working”</p> <p>S: “if there is something that is not going very well, he will tell us, and if we are having issues ... we can tell him as well. And generally I feel that he will take notice and try to do something to help us out”</p>	[Partner] Relational Commitment

Table 39: Xerox Case - Independent variables influencing Relational Commitment

Sample Comments	Independent Variables
<p>C: <i>“I think we have trust, but if there is a win-win in this, can we communicate it and minimise the risk... If we were to say to IBM, we want you to give us the business back and put it into our centres, we would nearly give them that business and trust them to do it”</i></p> <p>C: <i>“it is from openness and honesty because over the years we have built up trust ... we trust you [IBM] with our business. We know you get results - that’s not a problem. The next stage is that we trust you to tell us what we need to do with our business, and if you tell us something that we believe will work, we trust you to implement it”</i></p> <p>C: <i>“Yes I trusted him, but it was not only based on trust it was based on a recognition that this [current] way of working did not get us better results”</i></p> <p>C: <i>“there was a lot of respect for each other. The most important thing was that the results were very good over the time”</i></p> <p>S: <i>“[achieving service delivery objectives] demonstrates to the client that you are in control and you know what you are doing”</i></p> <p>S: <i>“As we had got 30 days you then had time to cool things off and build trust”</i></p> <p>S: <i>“we needed to fix things and we needed to build their trust”</i></p> <p>S: <i>“There were still issues there and the longer the relationship was in place it started to generate mistrust and concern because of all of the other things going on around it”</i></p>	[Endogenous] Value
<p>C: <i>“[Xerox Vice President of Shared Services] was trusting, and so was [IBM Account Director]. [Xerox Vice President of Customer Services] gave that tone down”</i></p> <p>C: <i>“I was never at the [executive meetings between Xerox and IBM at the] next level up ... but you get the feedback that there was a good relationship, a fairly frank relationship that would have developed a lot over the years”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“I would have to say that at no one time did you feel that stuff was being hidden from you by IBM”</i></p> <p>S: <i>“sometimes perhaps they were trying to pull the wool a bit, and maybe that is me being a bit of a cynic”</i></p> <p>C: <i>“[IBM counterpart said] that I do not want you to be in the middle of my operation to that level. I do not want your managers calling me every time I am failing”</i></p>	[Partner] Trust

Table 40: Xerox Case - Independent variables influencing Trust

Sample Comments	Independent Variables
<p>S (speaking about unsatisfactory business results): <i>“I guess that put a lot of pressure on everyone within IBM and it probably put pressure on the relationship”</i></p> <p>S: <i>“There was a bit of a strain in the relationship when things [operational performance] went pear-shaped”</i></p> <p>S: <i>“the relationship was poor, targets were not being achieved... So it was a pretty poor service”</i></p> <p>S: <i>“I think that naturally there is a shift [in expectations] and that starts to sour a relationship a little bit if it is not properly put in context”</i></p>	[Endogenous] Value
<p>C: <i>“sitting on one side you have big penalties due and making sure the other side is performing ... if you penalise one side too hard and it hurts the overall contract, [as] the good performance on the other side is going to come down as well”</i></p> <p>C: <i>“it became evident that the best thing we could do was ... look to this as being a long-term relationship and work together to hit the SLAs, drive the cost where we can, and make sure that neither side is too financially exposed”</i></p> <p>S: <i>“The client relationship was rock bottom. There was not a shared interest. It was Xerox or IBM gaining at different times”</i></p> <p>S: <i>“[Xerox relationship leader] had an attitude that it should work for both parties, and that was a strong contribution”</i></p>	Inter-partner Alignment
<p>C: <i>“[Xerox Vice President of Shared Services said] this is the contract but this is the relationship, how do we work on the relationship”</i></p> <p>C: <i>“[IBM executive] did not manage the relationship at all properly, he was very offensive and had an approach to communication that was putting people in the wrong position straight away”</i></p> <p>S: <i>“[IBM relationship leader] was a very strong character. And that in itself led to some conflicts with [Xerox relationship leader] going forward”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“we worked through a relationship model where we are very open and honest with each other”</i></p> <p>S: <i>“at that [senior] level the communication was very good, and that characteristic carried on all the way through the project engagement”</i></p>	[Endogenous] Relational Commitment
<p>C: <i>“from a relationship point of view there seemed to be a bit more of an ‘us and them’ attitude [from Xerox]”</i></p>	[Endogenous] Trust
<p>C: <i>“a very positive working relationship. It is professional, there are also personal aspects, we have some fun together when we meet them”</i></p> <p>C: <i>“the day [IBM counterpart] accepted that we needed to change [a staff member who was perceived to be difficult to work with] and move on to other people we started to make huge progress”</i></p>	[Partner] Partnership Ethos

Table 41: Xerox Case - Independent variables influencing Partnership Ethos

Sample Comments	Independent Variables
<p>C: <i>“Clearly the partnership in some respect is delivering some good things”</i></p> <p>C: <i>“We were after the expertise that IBM would bring and the fact that they were a world class organisation and we could tap into this expertise, and I think that’s what we thought we were getting”</i></p> <p>C: <i>“I have to say I was surprised about how unengaged SWO were about being proactive... that was quite disappointing”</i></p> <p>S: <i>“so we were not delivering against their expectations and everything got a bit fractious”</i></p> <p>S: <i>“it was just a very very tense, factious, fraught sort of relationship ... we were one as bad as each other ... and it was very difficult even though the numbers and KPI performances were pretty good”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>C: <i>“We are not trying to beat down on the contractor but to make it a win-win. But I don’t feel that we get the win-win the other way”</i></p> <p>C: <i>“I am a great believer in win-win”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>C (from SCC Audit Report): <i>“There were many other benefits provided by SWO in the first few years of the contract related to other improvements in the network and associated applications but this was overshadowed by the SAP technology issue”</i></p> <p>C: <i>“they [ASC] are getting what they want and they are happy”</i></p> <p>C: <i>“that has been tarnished a bit because of SAP”</i></p> <p>C: <i>“Overall I have got to say that it has not worked”</i></p> <p>C: <i>“don’t get me wrong there have been some pretty big benefits in some areas”</i></p> <p>S: <i>“we could show all that [achievement of service performance targets]but it was all masked by the grim reality of them not being able to pay the window cleaner because the [expletive] SAP system was bust”</i></p> <p>S: <i>“If you ask ASC now if they are happy with what SWO has delivered, they will say Yes. There have been a number of successes”</i></p> <p>S: <i>“the net to the council was massively positive in their favour, but they have forgotten all about that”</i></p>	<p>Experiences</p>
<p>C: <i>“Looking back with the benefit of hindsight and reality now I do wonder whether we were a bit dazzled by some of the things that end up not being contractual ... the sizzle rather than the sausage”</i></p> <p>C: <i>“overall I think in terms of what all of the partners were hoping for it to become it has not delivered”</i></p> <p>C: <i>“some were achieved at a much lower level and not in the way that was envisaged”</i></p> <p>C: <i>“over time ... the expectation of services reduces”</i></p> <p>C: <i>“all around the organisation there was a huge gap between what was promised and what was given”</i></p> <p>S: <i>“what was sold and the timeframe was never going to be achieved”</i></p> <p>S: <i>“SWO might not be delivering what certain clients want now, but it is what was agreed and negotiated previously”</i></p> <p>S: <i>“it’s around ICT where they feel that they were sold something that was going to be world class and it has not been delivered to them”</i></p>	<p>Expectations</p>

Table 42: Southwest One Case - Independent variables influencing Client Value

Sample Comments	Independent Variables
<p>C: <i>“We got the impression that there were financial issues that were starting to cause different behaviours in IBM”</i></p> <p>C: <i>“the problems around SAP started to significantly sour the relationship from the authorities perspective”</i></p> <p>S: <i>“it was just a very very tense, factious, fraught sort of relationship ... we were one as bad as each other ... and it was very difficult even though the numbers and KPI performances were pretty good”</i></p> <p>S: <i>“the intent was that we settle down and people may be bruised and they may not have got what they wanted but let’s march on and see where we can take it”</i></p>	<p>[Partner] Partnership Ethos</p>
<p>C: <i>“certainly in 2010 it became apparent to us that IBM were getting very frustrated about the amount of money that was being sent and were effectively saying that this contract in this format does not work for us and you have to change it”</i></p> <p>S: <i>“So therefore IBM’s attitude – which to be fair we could have got 2-3 years of goodwill of almost anything to try to make it work – had reached a point of - no more.. this is now contractual”</i></p>	<p>[Endogenous] Partnership Ethos</p>
<p>C: <i>“So my perception is that from the IBM perspective in particular it is about minimising the loss”</i></p> <p>C: <i>“No new customers meant lack of interest from [IBM] America”</i></p> <p>C: <i>“The minute you start paying money you can get lots of other things out of IBM because they can see that you are in it for mutual benefit”</i></p> <p>S: <i>“neither side got the best out of it”</i></p> <p>S: <i>“You get to the end of the job and we are losing \$18m”</i></p> <p>S: <i>“First of all we did not get the growth.... no new announcements ...then we had the massive cost overruns and the failure of the SAP implementation”</i></p> <p>S: <i>“IBM got themselves into a 10 year deal that they could not get out of for a whole lot of reasons and they were basically funding the team and trying to salvage here and there in the face of problems”</i></p> <p>S: <i>“The contract has never made money [laughs]... not a bean.... quite the opposite... we are running like crazy just to try and stand still”</i></p>	<p>Experiences</p>
<p>S: <i>“we were never going to become strategic...even worse in IBM ... so we were going to be this dreadful thing without bringing new business each month”</i></p> <p>S (referring to instructions from IBM): <i>“Stop it bleeding money. Try to hold the relationship together, but if you put it in priority the priority would have been commercial, and the solving of any relationship issues were in order to solve the commercial relationship rather than the other way around”</i></p>	<p>Expectations</p>

Table 43: Southwest One Case - Independent variables influencing Supplier Value

Sample Comments	Independent Variables
<p>C: <i>“In many ways the model worked as staff felt both loyalty to their ‘home’ employer, keeping the public service ethos”</i></p> <p>C: <i>“the secondment model was seen as a pillar to try and get the culture to be one where we were all in this together”</i></p> <p>C: <i>“The relationship with a stakeholder who was not from our sector was quite useful because they had a slightly different perspective”</i></p> <p>C: <i>“SWO really getting under the covers of our business, really understanding it”</i></p> <p>C: <i>“For us it was a breath of fresh air... we were public sector, they were very private sector, brought lots of great and novel ideas to the table”</i></p> <p>C: <i>“the authorities always said ‘we don’t want the comfy cardigan fit’, we want you to come along and shake us up and really scrutinise what we do”</i></p> <p>C: <i>“There is clearly an interlocking and difference between the public sector ethos and the private sector”</i></p> <p>S: <i>“we were just not meeting their expectations, whether these expectations were right or wrong”</i></p>	[Endogenous] Value
<p>C: <i>“What has become clear over time is that any such partnership depends upon having similar incentives and an understanding of each partners’ requirements”</i></p> <p>C: <i>“it was based on the shared vision that this would grow and grow”</i></p> <p>C: <i>“when you do spend money with them you do get more attention, it gets warmer and they get more helpful”</i></p> <p>C: <i>“IBM, big global player - its main interest is bottom-line ... We are poles apart”</i></p> <p>C: <i>“[IBM executive] pitched up in his chauffeur driven Bentley to lay down the law to the three democratically elected leaders. Well, not really the way to do it. It is two completely different cultures”</i></p> <p>S: <i>“understanding their mindset, where they were coming from and what they were trying to achieve”</i></p> <p>S: <i>“they [client] are then saying that they want a further reduction of 12.5%, but we don’t want any changes in quality or standards ... how is that going to work then?”</i></p> <p>S: <i>“There is a collision of worlds [with] a top and bottom line focused private sector organisation which is interested in new sales, it’s top line, impressing its shareholders”</i></p> <p>S: <i>“I question how much IBM prepared itself for this by really understanding what local authorities are like”</i></p>	[Partner] Value
<p>S: <i>“[Headquarters executives had] no emotional connection to the contract, no interest in the service other than the numbers”</i></p> <p>S: <i>“the IBMers were in a difficult situation [due to pressure from internal stakeholders], unable to explain [to the client] why they were behaving as they did”</i></p> <p>S: <i>“the [client representative] that we were dealing with does not own the fiefdoms so he could not make anything move on his side”</i></p>	Intra-partner Alignment

Table 44: Southwest One Case - Independent variables influencing Inter-partner Alignment

Sample Comments	Independent Variables
<p>C: “[The relationship between the three clients] was forged closer when we were at the bidding stage and we understood each others’ requirements”</p> <p>C: “in local authority-land we are used to political leadership changing ... you would not have expected this to be something that philosophically that they would have a problem with”</p> <p>C: “the provider also had to manage different services for different clients. This level of complexity was perhaps too ambitious for all parties”</p> <p>C: “it has no longer got the political air cover – they all want different things”</p> <p>C: “it seemed that IBM was as much in conflict with itself [about what it wanted]”</p> <p>C: “if people were making money that may not have been much of an issue”</p> <p>S: “We had constructed a thing without a real mutual dependency ... two bits of IBM with stove pipes ... because of that it was actually in each others’ interests to not help the other part of IBM”</p> <p>S: “The gaps were exposed in the relationship within IBM. You saw the stacks”</p> <p>S: “The council has fiefdoms ... loads of them all protecting their own position ... crazy”</p> <p>S: “every time you build in an extra partner, you multiply the risk factor of things not working for everybody disproportionately”</p>	<p>[Endogenous] Value</p>
<p>C: “I don’t think [the change of political leadership] was a big factor actually because we were really careful to make sure that we consulted and we gained full engagement with all political parties”</p> <p>C: “the alignment between the three strategic leaders was really strong and I think there was a good working relationship”</p> <p>C: “We never thought we would see this internal wiring of IBM”</p> <p>C: “it only became obvious after [initial SWO CEO] left that there are different pipes within IBM. [He] had masked that very well”</p> <p>C: “[Three authorities] were also ‘clienting’ [i.e .managing] the contract in different ways”</p> <p>S: “we had management lined up quite strongly with us”</p> <p>S: “What has been interesting about this [is] ... the influence of certain individuals... the impact that personalities, attitudes and behaviours can have on where this goes”</p> <p>S: “At the outset it was [CEOs of the three authorities] who were very joined-up together and had a vision for what it would be”</p> <p>S: “[client contract leaders] were not resistant to the change themselves but they were very conscious that their organisations were likely to be resistant”</p>	<p>[Endogenous] Leadership Support</p>

Table 45: Southwest One Case - Independent variables influencing Intra-partner Alignment

Sample Comments	Independent Variables
<p>C: <i>“She had a very different view than [previous CEO]. She was very bottom line focused. Very businesslike”</i></p> <p>C (speaking about motivation to continue): <i>“It was the commitment to the original vision ... that we had and our partners didn’t”</i></p> <p>C: <i>“Not only had we had our skin in the game but we would also see that if we hung in there we could stabilise it and get some of the benefits”</i></p> <p>C: <i>“[Motivated by] wanting to prove them [detractors] wrong”</i></p> <p>C: <i>“[New SWO CEO] clearly had a brief to sort things out”</i></p> <p>C: <i>“All of a sudden then all of the focus was on financials ... All of the new people dancing to the new political tune”</i></p> <p>C: <i>“getting someone new in at the top meant that they were really re-thinking, were the objectives still the same, were they still as committed and passionate ...would it still be a success”</i></p> <p>C: <i>“the chief constable was involved in the [contract] selection and did not want his baby to be soured by his force”</i></p> <p>C: <i>“if your lords and masters ... have taken a particular view, then as a team of officers ... you are duty-bound to dance to that tune”</i></p> <p>C: <i>“the people who came in were operating under a much tighter rein from the mother-ship [IBM] and with distinctly different priorities”</i></p> <p>C: <i>“[New leaders] Probably all wanting to make a name for themselves and impress their organisation”</i></p> <p>C: <i>“[IBM] wanted to move [the SWO CEO] out because ... he had gone a bit native. Probably he was doing too much representing our interests, and not IBM’s”</i></p> <p>S: <i>“very senior managers are distracted by other things and because [after de-scoping] it is a smaller business”</i></p> <p>S (speaking about ability to influence internal organisation): <i>“my star was at the top of its ascendancy when we won that job”</i></p>	<p>[Endogenous] Value</p>
<p>C: <i>“it is more about the executive leadership and how they are standing aligned to the other partner”</i></p> <p>C (arguing for team-building across partners): <i>“over the four partners you have a small band of people who effectively run a mammoth of a thing”</i></p> <p>C (on supplier leadership replacements): <i>“coming in and ... telling us that you have to pay more or accept less. Well, that would not wash”</i></p> <p>C: <i>“some of the partners saying that they wanted to replace the key players [in SWO]”</i></p> <p>S: <i>“It’s all about relationship ... between the senior leaders of both organisations”</i></p> <p>S: <i>“[When leaders change] you are then starting again and you have no shared history. People coming in new are having to build those relationships from scratch”</i></p>	<p>[Partner] Leadership Support</p>

Table 46: Southwest One Case - Independent variables influencing Leadership Support

Sample Comments	Independent Variables
<p>C: <i>“If you have something that is losing that amount of money it becomes a problem rather than something you want to invest more in”</i></p> <p>C: <i>“as a loss-making entity, that destroys the appetite for investment”</i></p> <p>S: <i>“[IBM stakeholders] may not have wanted to invest any more ... because it has been poisoned”</i></p>	[Endogenous] Value
<p>C: <i>“we probably should have put far more effort ... how do we get all of us who were supposed to be managing this thing on either side working together really well as a team”</i></p>	Intra-partner Alignment
<p>C: <i>“even if you think you know what you are getting, you need to get involved so that you really know. Put the right level of seniority of resource in there”</i></p> <p>C: <i>“too much attention was paid [by management] to contractual mechanisms and too little to the maintenance of a positive relationship”</i></p> <p>C: <i>“[Original sponsors] no longer here as the strong advocates changed the dialog ... nobody here that was wedded to the concept”</i></p> <p>C: <i>“a contractual relationship over that sort of period is like a marriage. You have to work at it”</i></p> <p>S: <i>“there was conscious effort to establish relationships with those who I had not worked with before”</i></p> <p>S: <i>“I have that personal investment in it”</i></p> <p>S: <i>“we worked our way through that in order to prove that we were the partner that they had originally wanted to work with”</i></p> <p>S: <i>“we had to clear a lot of the debris away, and we probably could have proved that most of the snagging list was not real, if we wanted to have another fight”</i></p>	[Endogenous] Leadership Support
<p>C: <i>“[SWO CEO] gave the impression of really valuing that relationship”</i></p> <p>C: <i>“[Current SWO CEO] gets the importance of relationship management more than [predecessor]”</i></p>	[Partner] Leadership Support
<p>C: <i>“they were not investing and we were in this slightly vicious spiral”</i></p> <p>C: <i>“IBM put the wrong people in charge”</i></p> <p>C: <i>“they seem to be acting a bit more litigiously again and less trying to make things work”</i></p> <p>S: <i>“if resources were needed from their end, ... they were willing to bring people to the party to help”</i></p> <p>S: <i>“[Client was] threatening to charge us for people who they would bring in to help”</i></p> <p>S: <i>“So we had legal control but there was an emotional control and commitment from their side”</i></p> <p>S: <i>“you have to work at it, and it gets wearing at times when it feels like it is one way”</i></p>	[Partner] Relational Commitment

Table 47: Southwest One Case - Independent variables influencing Relational Commitment

Sample Comments	Independent Variables
<p>C: “[IBM executive] had been there done that and we could trust him to get on with it”</p> <p>C: “You do what you say you do. You don’t promise something and then not deliver it ... that’s fatal”</p> <p>C: “It’s about trust, it’s about evidence. We are an evidence based organisation... prove that it is good value for money”</p> <p>C: “[New SWO CEO] was good to his word. He did a few bits. And from that point, for us here the relationship changed”</p> <p>C: “huge disappointment personally because I expected so much more”</p> <p>C: “[SAP implementation] rocked confidence”</p> <p>C: “[because of unfulfilled commitments] we have lost the trust and to an extent the respect...it is just difficult to get it back”</p> <p>C: “our expectations are suddenly being reduced from what we thought we were signing up to”</p> <p>C: “[SWO CEO] has demonstrated much better that he can bring some change to bear”</p> <p>S: “the transition was smooth and that allowed us to get some credibility”</p> <p>S: “How do you go about that [rebuilding trust]? Only by delivering. Doing what you said you would do consistently”</p> <p>S: “you ended up with people who are longer tenured, in positions of good responsibility ... that perhaps allowed the relationships to develop at an operational level”</p> <p>S: “build up credibility by delivering small things”</p> <p>S: “it was rocky after the SAP implementation, but it sort of recovered, then it broke down again”</p> <p>S: “a vague air of “that’s not what we bought” mistrust and disappointment”</p> <p>S: “too much institutional memory of distrust”</p>	[Endogenous] Value
<p>S: “an overtly abrasive style ...almost the immediate answer was a shouted NO, rather than a listen and a try to understand where the client was coming from, and just a general veneer of mistrust”</p>	[Endogenous] Leadership Support
<p>C: “[Supplier employees who] built confidence that [they] now knew enough about our business ... then disappeared [eroding trust]”</p> <p>C: “There was a good working relationship. There was trust”</p> <p>C: “[Collaboration] was disintegrating and we had a lack of sharing and lack of trust”</p> <p>S: “there seems to be quite a bit of trust, and there seems to be joint working on things, and being open and interested”</p>	[Endogenous] Relational Commitment
<p>C: “it gradually got worse and worse and ended up in swearing matches [between executives from both sides] and all sorts, with a complete lack of respect [for each other] in the end”</p> <p>C: “I think we respected each others’ positions and we worked around that”</p>	[Partner] Trust

Table 48: Southwest One Case - Independent variables influencing Trust

Sample Comments	Independent Variables
<p>C: <i>"[It was a good partnership because we had] an understanding of not what it says in the contract, but an understanding of what each partner was trying to achieve"</i></p> <p>C: <i>"there was a real enthusiasm between all of the parties that we were creating something unique and that it was exciting"</i></p> <p>C: <i>"the value you are after always is that very synergistic relationship where the supplier can make a profit"</i></p> <p>S: <i>" they understand that you need your partner to succeed and to succeed they need to make a bit of money"</i></p> <p>S: <i>" we won some they won some, but that's the case in most commercial relationships"</i></p> <p>S: <i>"they will dig their heels in and sometimes their expectations are unreasonable"</i></p>	Inter-partner Alignment
<p>C: <i>"[SWO CEO] is probably the acceptable face of business. The velvet glove on the iron fist"</i></p> <p>C: <i>"[Client leader] wanted SWO by the neck because it was not doing what he wanted ... anymore"</i></p> <p>S: <i>"[New SWO CEO] came in with objectives to achieve certain things at their peril and the way it was done had no cognisance of the relationship impacts"</i></p>	[Endogenous] Leadership Support
<p>C: <i>"You have to have give and take. You have to express your feelings"</i></p> <p>C: <i>"the contract is constrained and it is not flexible ... it does sour the relationship"</i></p> <p>C: <i>"a learning point that too much attention was paid to these [complex] contractual mechanisms rather than ensuring the relationship ... was positive"</i></p> <p>S: <i>"therefore IBM's attitude – which to be fair we could have got 2-3 years of goodwill ... to try to make it work – had reached a point of "no more.. this is now contractual"</i></p> <p>S: <i>"I see the contract as a subset because if you do not get the relationship right the contract will not work, but the relationship cannot work without the contract"</i></p> <p>S: <i>"you felt it was a more political situation rather than a realistic engagement"</i></p>	[Endogenous] Relational Commitment
<p>C: <i>"we in the police were a bit starry-eyed about IBM"</i></p> <p>C: <i>"if I was in IBM I would be a bit scared of opening up that conversation [about renegotiating the contract] in case they grabbed it [and took advantage]"</i></p>	[Endogenous] Trust
<p>C: <i>"We rather resented the barrow-boy tactics of saying - do this, or else"</i></p> <p>S: <i>"I always felt the police wanted to get results and help you get there"</i></p> <p>S: <i>"They would look for a way that was to the best advantage for them and that would not necessarily penalise us"</i></p> <p>S: <i>"Sometimes you are getting push-back on something and you are thinking - why is that going on, what is happening here?"</i></p>	[Partner] Partnership Ethos

Table 49: Southwest One Case - Independent variables influencing Partnership Ethos

		DEPENDENT VARIABLES							
		Client Value	Supplier Value	Inter-partner Alignment	Intra-partner Alignment	Leader-ship Support	Relational Commitment	Trust	Partnership Ethos
I N D E P E N D E N T V A R I A B L E S	[Endogenous] Value			VM Xerox SWO	VM Xerox SWO	VM Xerox SWO	VM Xerox SWO	VM Xerox SWO	Xerox
	[Partner] Value			VM Xerox SWO					
	Inter-partner Alignment							VM	VM Xerox SWO
	Intra-partner Alignment			VM Xerox SWO			VM Xerox SWO		
	[Endogenous] Leadership Support				VM Xerox SWO		VM Xerox SWO	VM Xerox SWO	VM Xerox SWO
	[Endogenous] Relational Commitment							VM SWO	VM Xerox SWO
	[Endogenous] Trust								VM Xerox SWO
	[Endogenous] Partnership Ethos	VM Xerox SWO	VM Xerox SWO						
	[Partner] Leadership Support					VM Xerox SWO	VM Xerox SWO		
	[Partner] Relational Commitment						VM Xerox SWO		
	[Partner] Trust							VM Xerox SWO	
	[Partner] Partnership Ethos	VM Xerox SWO	VM Xerox SWO						VM Xerox SWO
	Experiences	VM Xerox SWO	VM Xerox SWO						
	Expectations	VM Xerox SWO	VM Xerox SWO						

Table 50: Matrix of dependent and independent variables across cases

The relationships between variables that are derived in the preceding tables are summarised in the matrix presented in Table 50. The columns in the table represent the eight dependent variables that were analysed. The rows represent the independent variable relationships that were identified. Where a dependency has been identified as evidenced by the sample comments in the *Exploratory Effects Matrices*, the intersecting cell identifies the case in which this relationship was apparent i.e. Virgin Media (VM), Xerox, or Southwest One (SWO).

The table shows that there is a strong level of consistency in the relationships between independent and dependent variables that were found across the three cases. As indicated by the shaded cells, there are just four instances where a dependency was not observed across all three cases. This does not necessarily imply that the relationship between variables did not exist in this case. It merely indicates that the relationship was not apparent from the comments made by informants during the interviews. Nevertheless, in light of the working principle number 5 as proposed by Miles and Huberman (1994) these inconsistencies should be regarded as “surprises” and considered in some more detail to assess whether they are a source of additional insights. The variances that are identified therefore in the shaded cells in Table 50 therefore require exploration as follows:

***Relational Commitment* found to be dependent on [Endogenous] Value only in the Southwest One case.**

A relationship was found between these variables in the Southwest One case because a number of informants made the point that IBM resisted further investment in the SWO joint venture when financial losses increased and when it became obvious that there was no prospect of this initiative leading to additional local government business as had been the strategic intent (refer to Table 47). A similar relationship was not observed in the other cases, presumably because it was correctly envisaged that these contracts would eventually deliver value, and so the question of whether to maintain investment in the relationship never arose. Therefore, although this relationship was not observed in all cases it is plausible to conclude that it is a valid and pervasive relationship.

***Partnership Ethos* found to be dependent on [Endogenous] Value only in the Xerox case.**

This relationship was observed in the Xerox case through comments made by informants indicating that partnership suffered when either side felt that they were not getting a fair share of the value from the relationship (refer to Table 41). Even if this relationship was not as apparent from the other cases, it is intuitive that perceptions of unfairness about how value is shared may erode partnership working. Therefore it is reasonable to conclude that the relationship between these variables has broader applicability than this case.

Trust found to be dependent on Inter-partner Alignment only in the Virgin Media case.

The relationship between these variables is derived in Table 32. It is based on informant comments indicating that trust was eroded when both parties felt that the other was pursuing a selfish agenda and was not committed to mutually beneficial objectives. This is consistent with discussions on trust in the literature, which conclude that inter-organisational trust is re-enforced when one party calculates that it is also in the selfish interest of the other to fulfil their obligations (Adler, 2001; Huang & Wilkinson, 2013; Palmatier, Houston, Dant, & Grewal, 2013; Zaheer & Venkatraman, 1995). As the relationship between these variables is intuitive and supported by the literature it is concluded that it has broader applicability than this single case, even if specific comments were not made in this regard for the other cases.

Trust found to be dependent on Relational Commitment only in the Virgin Media and Southwest One cases.

This relationship is derived in Table 32 for the Virgin Media case and Table 48 for the Southwest One case. It reflects comments from informants that investments of time and effort in the relationship, particularly at a personal level, significantly increased levels of trust between the parties. Although this was not specifically referenced as a factor in the Xerox case, it was clear from other comments that from the outset there was a high degree of trust between the parties. This was assisted by cultural affinity between the organisations. It was reinforced through consistent service delivery, and investments in a multi-tiered governance process which both parties found effective in dealing with issues. Therefore, the informants did not appear to find it necessary to explicitly reference *Relational Commitment* in their

comments as this was implicit. The dependency between *Trust* and *Relational Commitment* can therefore be considered robust even if it did not emerge strongly from the Xerox data. This is also consistent with conclusions in the literature that trust is re-enforced through repeated exchanges (Miranda & Kavan, 2005; Zaheer & Venkatraman, 1995).

Therefore these four relationships are considered pervasive even though they are not evident from the data collected in all cases. Chapter 7 assesses all of these inter-dependencies and derives a generic and simplified framework to illustrate how the factors that influence the relationship quality of a phase are related to each other.

APPENDIX F: Zone of Tolerance determinants

Figure 29 reproduces the framework developed by Zeithaml et al. (1993) to outline the components of the Zone of Tolerance.

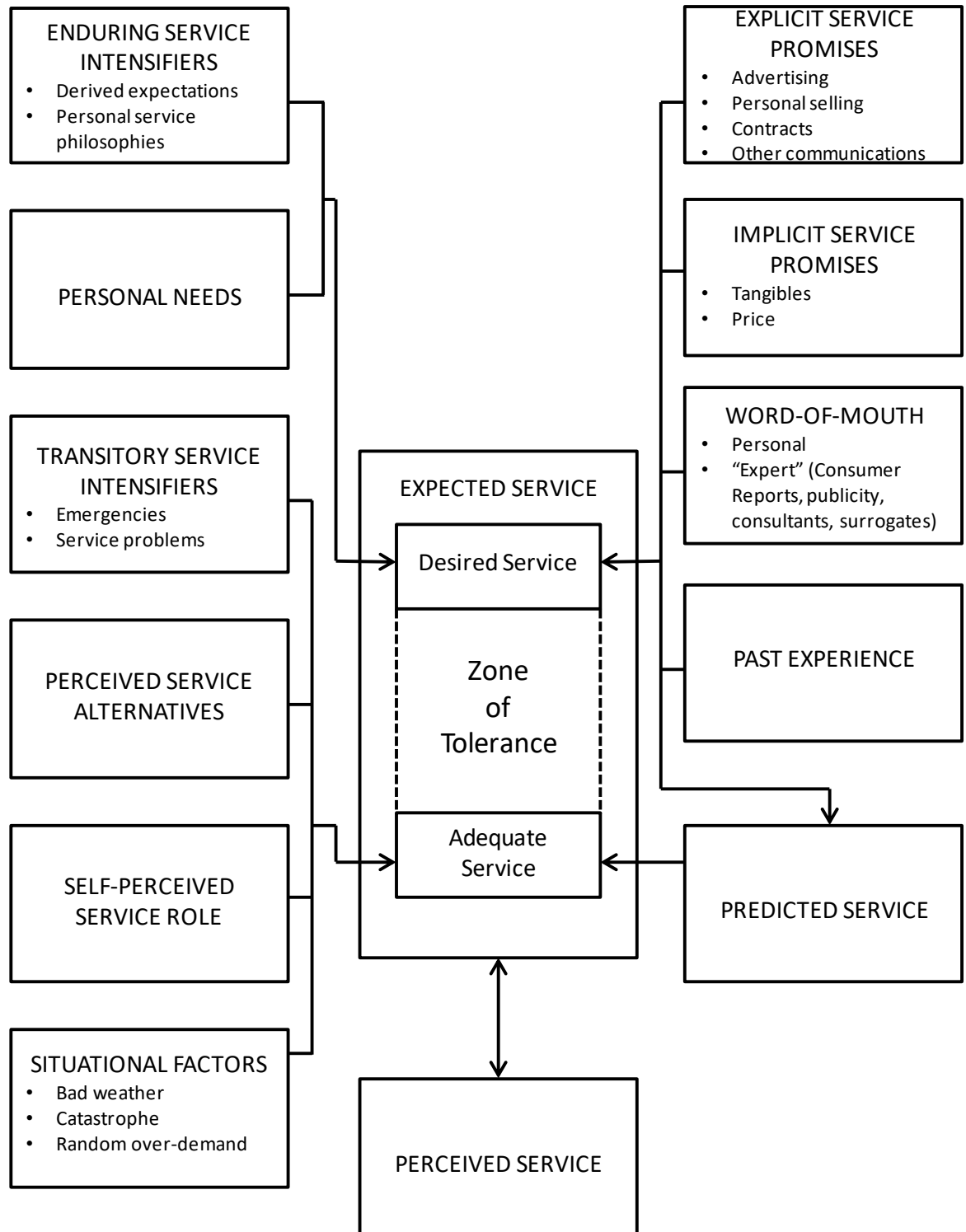


Figure 29: The nature and determinants of customer expectations of service (reproduced from Zeithaml et al., 1993)

APPENDIX G: Summary of outsourcing research gaps

Figure 1 on page 26 presents a categorisation of the research gaps that are identified in the 10 reviews of the services outsourcing literature that provided an initial gateway for this study. The categories that are described in this figure are discussed below:

1. **Client-Supplier Relationships (10 gaps):** A number of authors highlight the paucity of studies into outsourcing relationships and make general calls for more research in this area (Alsudairi & Dwivedi, 2010; Dibbern et al., 2004; Lacity & Willcocks, 2009a). Others are more specific in calling for research into how the management of relationships can be made more effective in achieving operational outcomes (Busi & McIvor, 2008). At a more operational level, Sargent (2006) calls for more research into relationship management issues associated with managing offshore providers, and Lacity et al. (2011a) suggest research into the capabilities that should be retained and developed by clients in order to more effectively manage their outsource partners. The challenges associated with sustaining the early enthusiasm for the outsource relationship over the extended period of the arrangement is deemed by Lacity et al. (2008) to warrant particular research attention.
2. **Value (9 gaps):** The research opportunities in the area of value creation include calls for a better understanding of how value can more effectively be created by choosing the optimum activities to outsource (Banerjee & Williams, 2009), and how suppliers can deliver more innovation and value to clients (Lacity et al., 2010; Lacity et al., 2011a). The need for a better understanding of value capture is reflected in calls for more in-depth studies of outsourcing outcomes and success factors (Busi & McIvor, 2008; Dibbern et al., 2004; Lacity et al., 2010). Research opportunities relating to the appropriation of value are also recommended. Specifically, these include calls for research into how clients can integrate the value co-created with suppliers, and how pricing models can be developed to more effectively encourage such co-creation by ensuring that the dividends will be shared (Lacity et al., 2011a; Lacity et al., 2008).
3. **Theory development and enhancement (8 gaps):** There are general calls for research to determine how existing theoretical traditions can be applied to outsourcing settings in order to derive more insights into their operation and

evolution (Busi & McIvor, 2008; Lacity et al., 2010). It is argued that particularly helpful insights could be derived if findings based on the application of alternative theoretical traditions were compared and contrasted (Mahnke et al., 2005).

Ultimately, research should be aimed at developing endogenous theories of services outsourcing (Lacity et al., 2010; Lacity et al., 2011a). It is suggested by Lacity et al. (2010, p.415) that outsourcing arrangements provide a practical setting within which IORs can be studied so that researchers contributing to the development of theory applicable to outsourcing should "seek to inform reference discipline theory as much as we seek to be informed."

4. **Service delivery options (6 gaps):** The relative merits of alternative offshore delivery locations (and particularly alternatives to India) are deemed to be worthy of particular research attention (Lacity et al., 2010; Lacity et al., 2011a). It is also recommended that there are opportunities to research the role that can be played by alternative onshore location options such as rural locations, and the use of different sources of skills such as home-workers (Lacity et al., 2009). Other authors recommend research into how operational issues such as supply chain and organisation-structure design should be addressed when outsourcing forms a major element of the operational approach chosen by firms (Alsudairi & Dwivedi, 2010). There are also calls for research into how services can be designed to take account of such issues, and to investigate how firms can adjust operational procedures such as business improvement, change management, and knowledge management, when remotely located outsource partners are an integral part of the operation (Busi & McIvor, 2008).
5. **Service offerings (5 gaps):** The implications of bundling ITO and BPO offerings together is identified as an important area of study (Lacity et al., 2009; Lacity et al., 2010; Lacity et al., 2011a). These contributions also call for research into the implications of new technologies such as cloud computing on outsourced service offerings. Busi and McIvor (2008) call for research into how service offerings should align with disaggregated business processes.
6. **Environmental factors (5 gaps):** A number of authors highlight a need for research into the impact of environmental factors on outsourcing decisions and operations (Alsudairi & Dwivedi, 2010; Busi & McIvor, 2008; Lacity et al., 2010; Lacity et al., 2011a). The factors identified include competition, public perception, regulations, socio-economic issues, political issues, and corporate

environmental and social responsibility policies of client organisations. Busi and McIvor (2008) also call for research into the impact that outsourcing has on the environment in which it operates, and particularly the implications of outsourcing and offshoring on jobs mobility.

7. **Client risks (5 gaps):** Busi and McIvor (2008) highlight the general risks associated with performance measurement and relationship management in outsourcing arrangements and call for more research to investigate how these challenges can be overcome. Lacity et al. (2010) call for research into a number of further areas that present risk to clients. These include risks relating to the erosion over time of capabilities and knowledge within the client's organisation because they no longer have operational responsibility for the service. Associated with this is the risk to the client of compromising their intellectual property as knowledge relating to their processes is transferred to a supplier organisation. They also suggest that practitioners would benefit from research to investigate the risks associated with emerging outsourcing models, such as the outsourcing of portfolios of services to a single supplier.
8. **Supplier perspectives (4 gaps):** Dibbern et al. (2004) found that the vast majority of research outputs related to client considerations and they called for more research to consider supplier perspectives and requirements. Although Lacity et al. (2010) found that this gap had been somewhat addressed in the intervening period, they still found that only 24% of articles considered supplier perspectives and they called for more research to address this deficit. The requirement is further elaborated by Lacity and Willcocks (2009a) who call for more research into supplier strategies, their capabilities, and the changing nature of the supplier marketplace. Lacity et al. (2011a) suggest that such research should focus particularly on the BPO segment.
9. **Decision making (4 gaps):** Lacity et al. (2010) make a general call for more research into strategic sourcing decision making, particularly for ITO. Mahnke et al. (2005) call for outsourcing and vendor selection decisions to be researched from multiple theoretical perspectives.
10. **Variations and comparisons (4 gaps):** It is argued by a number of authors that useful insights will be derived if research outputs from different outsourcing settings are compared. The alternative settings of interest include different locations and cultures (Lacity et al., 2010), different market conditions (Mahnke et

al., 2005), and different types of outsourcing arrangements with different mixes of onshore/offshore service delivery and different combinations of services (Dibbern et al., 2004; Lacity et al., 2009).

11. **Evolution of outsourcing arrangements (2 gaps):** Dibbern et al. (2004) highlight the need for research into how outsourcing arrangements change over time. In a more recent review of the literature as part of this present research project, Lyons and Brennan (2014) found that this requirement had not been satisfactorily addressed in the intervening period and this paper identifies a specific deficit in research into how client-supplier relationships develop over the term of an outsourcing arrangement.
12. **Commercial considerations (2 gaps):** Mahnke et al. (2005) call for research into contract design, and Busi and McIvor (2008) highlight a need for research into how commercial constructs such as Service Level Agreements (SLA) and contract terms and conditions impact on outsourcing relationships.
13. **Standards (1 gap):** Lacity et al. (2009) note the emerging trend into standardised service offerings and certification processes to verify that practitioners have achieved predetermined levels of expertise in outsourcing. They call for research to assess the impact of such standardisation.

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