Achieving Step-Change in Outsourcing Maturity: Toward Collaborative Innovation

Edgar A. Whitley
London School of Economics and Political Science (U.K.)

Leslie Willcocks
London School of Economics and Political Science (U.K.)

Executive Summary

This article describes the collaborative innovation practices used by outsourcing clients and their suppliers, based on insights gained from 26 organizations with a mature sourcing capability drawn from Europe, the U.S., and Asia/Pacific. We present a collaborative innovation framework comprising the four practices (Leading, Contracting, Organizing, and Performing) that these client organizations have adopted to achieve the “step-change” in outsourcing maturity that is needed to make collaborative innovation a reality. Three cases of information technology (ITO) and business process (BPO) outsourcing arrangements are described to illustrate these practices. The article concludes with lessons that emerged from our multi-year study that can be used to achieve the step-change needed to move to collaborative innovation in outsourcing.

INNOVATION AND COLLABORATIVE OUTSOURCING

There is a trend for outsourcing relationships to become increasingly managed and leveraged as strategic assets, with clients looking for business ideas, innovation, and environmental scanning from their suppliers and a much greater focus on business, not just technical, outcomes. The indicators of this can be found in recent research:

- More rigorous planning and measurement of outsourcing relationships
- More contracting based on values, behavior, and client demand
- Suppliers becoming more entrenched in their client’s business—including supporting the client’s mainline services
- Suppliers becoming a client of the client and identifying new sales opportunities.

This strategic direction sees added-value outsourcing relationships as the norm. Collaboration in a strategic sourcing context means that the supplier and client proactively work together and share the risks, in flexible, integrated ways, to achieve high performance on significant, mutually rewarding commercial goals.

Where does innovation fit into strategic collaborative outsourcing? According to Weeks and Feeny IT outsourcing “neither ensures nor negates innovation.” Instead, the outcomes are likely to depend on “certain attributes within client and supplier and in the relationship between them.” Implicit in this claim is the realization that, for many clients and suppliers, these attributes are under-emphasized and hence that a “step-change” in client organizations’ outsourcing maturity is required. Achieving this step-change means that the attitudes and behaviors of people in clients and suppliers will have to fundamentally change.

1 Carol Brown is the accepting Senior Editor for this article.
4 Ibid.
This article provides insights into how companies achieve the step-change in outsourcing maturity through practices that enable a process that we call **Collaborative Innovation**. Our findings are based on the experiences of innovative outsourcing relationships entered into by 26 organizations operating in Europe, the U.S., and Asia/Pacific selected specifically for their relative maturity in sourcing capability (see the Appendix for more details of the research, which was conducted between 2008 and 2011). We present a framework of the four practices required to achieve collaborative arrangements that foster innovation, and describe three case histories, drawn from our sample, that illustrate how these practices are being applied.

**OUTSOURCING AND INNOVATION: STILL ON THE LEARNING CURVE**

Research into outsourcing has tracked the evolution of the IT services and business services markets since its modern beginnings in 1989 with the seminal Eastman Kodak deal in the U.S. According to a meta-analysis of two decades of this research, cost reduction and the desire to focus on core capabilities are the most frequent motivations for outsourcing, and there has been strong success in achieving these objectives.5

Strategic outsourcing motivations such as commercial exploitation and innovation have been studied far less frequently.6 However, the published research on IT outsourcing (ITO) and business process outsourcing (BPO) to date indicates there has been a very patchy record when more transformative, multiple objectives have been attempted.7 Indeed, some researchers suggest that long-term BPO risks include low rates of innovation and the loss of innovation capabilities, particularly if suppliers are asked to assume some responsibility for business process innovation.8

Figure 1 depicts the four phases we have observed client organizations passing through as their management of outsourcing engagements evolves and matures. Undue optimism in the earliest phase often results in a debased form of contract management we call **Contract Administration**. In Phase 2 (Contract Management), clients tend to be able to manage the contract and focus on costs, but it is only in Phase 3 (Relationship Management) that they really begin to focus on how to leverage the supplier’s capabilities beyond the strict confines of the contract. Most outsourcing clients have learned the hard way, by making mistakes, finding out what works and what does not, across two or three generations of outsourcing. The wise ones have been “smart in their ignorance.” They have taken an incremental route into more outsourcing, learning as they go, limiting their risk exposure, building up their understanding, and retaining the capability to manage effectively the sourcing process to ensure it is aligned with their business strategy and imperatives.

By late 2008, most organizations outsourcing or contemplating outsourcing stood on a cusp of a decision—whether, in a recessionary climate, to follow a traditional cost-cutting route, with limited payoffs or make a step-change toward sustainable cost reduction together with business-focused innovation. In Figure 1, we call this step-change to Phase 4 **Collaborative Innovation**.

Note that Figure 1 shows how the general outsourcing maturity of organizations has evolved from 1989 to 2011. However, organizations tend to be much more mature in their ITO, with most currently in or approaching Phase 3 (Relationship Management), and much less mature in their BPO and offshore outsourcing, due to lack of experience and lack of transfer of learning. Where a specific organization is on the learning curve in 2011 depends on its retained capability, the number of generations of outsourcing it has gone through, and the degree of learning absorbed as well as the objectives being pursued.

Our research began by reviewing organizations that were moving, or had moved, beyond Phase 3. In particular, we focused on organizations that had made a step-change and exhibited a fundamentally different client role with new attitudes and behaviors to achieve collaborative innovation with their ITO and BPO suppliers.

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DEFINING COLLABORATIVE INNOVATION

Studies of ITO and BPO engagements over the last 15 years have regularly reported that the rhetoric of strategic relationships, partnering, and innovation are very rarely converted into practices and superior outcomes.\textsuperscript{10} It is therefore important to understand what is meant by collaboration and innovation and how outsourcing clients see the roles of suppliers and themselves in facilitating the step-change in sourcing maturity needed for a new performance agenda.

Collaboration

Collaboration is a co-operative arrangement in which two or more parties work jointly on a common enterprise toward a shared goal. In the context of business relationships, collaboration signals close partnering behaviors developed over and for the long term. These behaviors are characterized by the high trust, flexibility, risk sharing, and investment of resources and time essential if high performance on individual and shared goals is to be achieved.\textsuperscript{11}

All successful outsourcing is based on a good working relationship. But deeper, more trust-based relationships are required if external resources are to be used for more sophisticated, risk-bearing and critical services such as large-scale IT development projects, business process changes, and technology innovations. A sense of the difference is communicated by the following comments made by some of those we interviewed:

“The standard behavior in an organization is everybody does their job, they deliver it, and then somebody else goes and creates the same thing over and over again; but with collaboration comes leverage. In collaboration, you will be welcoming an advance from me to be able to find out how you did it and to share it with me. Partnering is an ongoing relationship where you are leveraging the skills that your partner has and learn from them. Leadership is key in making progress in collaboration.” (IT Development Manager, Insure 2)

\textsuperscript{9} Figure 1 has been developed from Lacity, M. C., and Rottman, J. W. Offshore Outsourcing of IT Work, Palgrave Macmillan, 2008.


\textsuperscript{11} Our definition of collaboration is consistent with strategy literature but not with earlier outsourcing literature. See also Kern, T., and Willcocks, L. P. The Relationship Advantage: Information Technologies, Sourcing and Management, Oxford University Press, 2000.
“What we need is collaboration from our suppliers. If they are competitive [pushing their own agenda], then we have a very special meeting and say this behavior is unacceptable; you have to work together.” (Director of Innovation, KPN)

In these new relationships, clients see suppliers as having an integral proactive role in collaborating to innovate:

“A proactive partner is aligned in thinking with you and comes up with new ideas and innovation. They think for me. They say we can do it like this, and it will cost you that, and we can do it with these people in this time. They make a whole business case, and I just have to say, okay, we do it, or we don’t do it. That’s being very proactive.” (Senior Contract Manager, Insure 1)

“We have established a roadmap to become world-class within shared services. But of course, when we do that, we need to have sourcing partners that are on the same roadmap and are willing and able to change and to be innovative.” (Head of Service Delivery, StatoilHydro)

Innovation

Innovation is the introduction of something new that creates value for the organization that adopts it. The literature on innovation talks of product, process, and organizational innovations—that is, new products (or services), new ways of doing things, and new ways of organizing and managing people. Innovations are also characterized as incremental (a series of small changes), radical (large, transformative change), or revolutionary (game-changing).

Weeks and Feeny offer client-focused definitions more suited to what collaborative arrangements with business and IT service companies are trying to achieve. They identify three types of innovation:

- **IT operational innovations** are technology, work, and personnel changes that do not impact firm-specific business processes. For example, IT operational innovations might include new e-mail platforms, new operating systems, remodelling of the IT infrastructure, new IT staffing arrangements, or introducing agile systems development.
- **Business process innovations** change the way the business operates in some important ways. Examples include fundamental changes to business processes and relationships with customers brought about by implementing CRM applications; IT-enabled changes in project management systems that change the basis on which parties would design, develop, and deliver big projects; and IT-based billing system innovations that create new linkages between accounting, maintenance, service fulfillment, and customer reporting.
- **Strategic innovations** significantly enhance a firm’s product or service offerings for existing target customers or enable a firm to enter new markets. An example would be to introduce technology into a casino to automate (and thus speed up) roulette games and so increase revenues from “high rollers.” Another would be technology for remote monitoring of autos to pre-empt mechanical breakdowns and to enable an auto parts distribution company to be proactive in delivering spares.

A FRAMEWORK FOR COLLABORATIVE INNOVATION

Our case studies suggest that four fundamental practices underpin effective collaborative innovation: **Leading, Contracting, Organizing,** and **Performing.** As shown in Figure 2, these four practices are cyclical.

1. **Leading** shapes and conditions the collaborative environment for Contracting, Organizing, and Performing at all levels in each of the collaborating parties. The Leading practice also changes the approach to managing risk: both parties share the responsibilities for mitigating risks and exploiting opportunities.

2. New forms of **Contracting** are required to ensure successful collaborative innovation. Such contracts specify how risks and rewards will be shared in ways that provide incentives for innovation, collaboration, and high performance to achieve common goals.

3. **Organizing** for innovation requires more co-managed governance structures and greater multifunctional team working across the collaborating organizations. Team working
now requires the ability to collaborate within a client organization, between client and supplier, and between suppliers in multi-supplier environments. Organizing for collaboration also means assigning responsibility for delivering results.

4. Leading, Contracting, and Organizing in these ways provides incentives to change existing modes of Performing and enables collective delivery of superior business outcomes. Collaborative innovation is most effective when it generates high personal, competence-based, and motivational trust amongst the parties. High trust is a key element and shaper of successful collaboration, which requires the client-supplier relationship to be open—based on learning—adaptive, flexible, and interdependent.

Leadership for Collaborative Innovation

Leadership, which is important for all forms of outsourcing, creates the environment for collaborative innovation in outsourcing engagements. In earlier IT outsourcing deals, especially the long-term “strategic alliances” signed in the 1990s, innovation was invariably cited as something the client expected and the “world-class” supplier could and would deliver. Study after study, however, has found no evidence of innovation in such deals. For example, even in what is considered a relatively successful finance and accounting outsourcing deal at a major oil company, one study reported an IT executive who said:

“We are not getting dynamic innovation, to say the least, on a continuing basis. After the initial burst of creativity, it went flat.”

One response to this problem has been to create special “innovation funds” that suppliers can bid for. However, research has found that even large innovation funds have rarely produced lasting,

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15 Examples include EDS-Xerox, IBM-Lend Lease, BAE-CSC, and UBS-Perot Systems.
important innovations.\textsuperscript{18} The same applies to many joint venture and equity share initiatives designed partly to stimulate innovation. They disappointed invariably because they were mere add-ons to mainly fee-for-service deals where, in practice, both clients and/or suppliers prioritize service and cost issues above innovation issues. Thus while these initiatives claim to espouse innovation, in practice, they tend to encourage low levels of sustainable development and performance transformation.

**Contracting for Collaborative Innovation**

A major issue in Contracting for innovation is the need to frame contracts so they provide incentives for sharing knowledge and best practice across all the parties involved. There are real dangers in contracts that lead clients to become overly reliant on their suppliers for technical and business innovation. Moreover, contracts structured around cost and service issues do not encourage the supplier to innovate. As a result, the supplier focuses both on selling extra services to increase its margins and on solving today’s pressing crises and operational problems.

A significant issue is the approach taken to risk in Contracting. Traditionally, both client and supplier look to transfer as much risk as possible to the other party. The actual distribution of risk depends on negotiating power, but if it is skewed to the detriment of one party, it can damage both the relationship and performance and can severely curtail innovation. A range of practices and behaviors can be used—for example, in cost-plus contracting—to convert performance into partnering and collaborative innovation.

Our research shows a step-change in Contracting is required if collaborative innovation is to be fostered in outsourcing deals. The greater the innovation ambition, the more this is likely to have a distinctive risk-reward component in the Contracting practice.

**Organizing for Collaborative Innovation**

Providing Leadership to shape a collaborative environment and supporting this by Contracting practices that share risks and encourage collaboration is not sufficient to make collaborative innovation a reality. Significant organizational challenges must also be addressed. Technical work requiring the application of existing specialist know-how and techniques can be outsourced relatively safely, assuming competent specialists can be hired. But as more work becomes “adaptive,”\textsuperscript{19} more stakeholders need to be engaged with defining the problem and working together on arriving at and implementing a solution. An adaptive challenge is a problem, often difficult to specify precisely, where the gap between values and aspirations on the one hand and circumstances on the other cannot be closed by the application of current technical know-how and routine behavior. Adaptive challenges require experiments, discoveries, and adjustments from many parts of an organization.

Innovation then, can be viewed as essentially a response to adaptive challenges, where problems and solutions are unclear. Meeting these challenges will require a multifunctional team working in an environment where learning is vital and innovation will usually be necessary and where a general business goal rather than precise metrics points the way forward. Organizing the required collaborative behaviors in a way that will shape the context and process by which all this can happen is essential for enabling collaborative innovation in outsourcing deals. Moreover, the more radical and business-focused the required innovation is, the more that Leadership should be provided primarily by the client.

**Performance Change for Collaborative Innovation**

Leadership, creative Contracting, and Organizing in new ways to support team working are the fundamental building blocks for the performance changes needed to undertake collaborative innovation.

The Performing practice of the collaborative innovation process is determined by the underlying cultures of client and supplier. A coercive and secretive culture, focused on short-term gain and cost reduction, can be very limiting in terms of what can be achieved by either party. Recessionary conditions, such as those prevailing during the period of our study, can put pressure on organizations to regress to this default position. But as Max Mckeown suggests, a crisis is a terrible thing to waste, and the best way to deal with a recession may be to innovate your way out of it.\textsuperscript{20} Cultural change can therefore come about as a result of a crisis, but lasting collaborative innovation draws on Leadership, Contracting, and Organizing.

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\textsuperscript{20} Mckeown, M., op. cit., 2008.
which create rising levels of trust, team-working, and hence performance.\textsuperscript{21}

Performing as trusted partners is a key component for collaborative innovation. Although studies have noted that there is no such thing as instant trust in outsourcing, it can be built over time through demonstrable performance.

The following three case studies, drawn from our research sample, illustrate how the four practices of the collaborative innovation process are being applied.

**THREE CASE STUDIES OF COLLABORATIVE INNOVATION**

The case studies illustrate how three organizations perceive and practice collaboration with their outsourcing suppliers. Although in each case, the organization was seeking to achieve all three types of innovation defined earlier—IT operational, business process, and strategic—our descriptions emphasize the pursuit of strategic innovation goals.

**KPN**

KPN provides high-quality telephone, Internet, and television services and products. It is also an all-around provider of information and communications technology (ICT) services. Based in the Netherlands, KPN serves both homes and businesses. Domestic consumers in the Netherlands purchase fixed and mobile telephony, Internet, and television services. Business customers use an entire array of innovative and reliable services that include everything from telephony, Internet, and data traffic/management to the management of ICT services. In Germany, Belgium, and elsewhere in Western Europe, KPN’s services consist mainly of mobile telephony. The company made a profit of €2.5 billion ($3.54 billion) in 2007 on annual sales of €12.6 billion.

In the 2009-10 financial year, KPN’s business in the Netherlands underwent a radical transformation. The All-IP network, which had been announced in March 2005, moved into its final phase with the implementation of a new access network. In addition, KPN decided to radically simplify its business, both at the front end in retail segments and at the back end in network operations. The significant cost reductions generated by this simplification were reinvested in revenue growth, leading to improved margins.

In 2009-10, KPN had four major outsourcing suppliers, together with over 10 smaller suppliers either on short-term contracts or brought in to supplement capability where needed. The major suppliers provided a mix of technical, development, project management, and consultancy skills.

Hans Wijns, Director of Innovation at KPN (and one of the few interviewees in our study whose title formally included responsibility for innovation), suggested that KPN had espoused a policy of recognizing the importance of innovation as a key part of its organizational strategy. For Wijns, the maturing of the global outsourcing services market had now made it possible to do very large jobs and make large, strategic innovations:

“You can’t outsource innovation. Our responsibility is for time to market, for business development, for innovation; we must have the architects. We don’t outsource our vision. But we really do believe that innovation can only be done if we use a lot of capacity outside of the company. I really believe that (as a client) we have to use the knowledge and the power from places like India.”

For KPN, innovation in outsourcing deals is related to what new opportunities and capabilities it brings to the business. For example, Wijns noted that cost cutting was not the main goal for outsourcing network operations:

“We are looking to suppliers that can help us in transformation—and not only in the existing network. It has to be a combination of cutting costs and innovation together.”

He saw KPN as being responsible for creating the strategic innovation plan for the next few years. He felt that a lot of sector-based innovation in the telecoms industry was no longer succeeding and that KPN had to find cross-sector innovation in the future. The goals for such innovation had to be very clear, and this started with board-level Leadership. As Wijns explained, the first step was the strategy to market, and the next was the architecture:

“As an example, we put the design teams from the several suppliers together in one building, and in five months together, they built the new IT solution. Designing, building, and testing their own parts are the responsibilities of each

supplier: we have the integration function and the architecture.”

KPN draws on various sources of potential innovation from its network of suppliers, and Wijins noted that this went beyond IT innovation:

“We are only the facilitator. We bring together those technologies in IT and in our network and take the products to the customers. We are not the most innovative party. We have to challenge the suppliers for innovation ... and not just on technology but on processes, products—wherever there is knowledge to be released.”

Other KPN interviewees stressed that the company wanted to collaborate and not just manage contracts. If an outsourcing client only manages the contract, it makes it much more difficult to work with several suppliers:

“Collaboration only happens if there is a higher-level goal for everyone. We put in the necessary incentives for them to put their best people on it, and they can’t succeed without the help of the other suppliers.” (Director of Innovation, KPN)

KPN’s Contracting strategy was therefore to build long-term relationships with several partners focused on quality and delivery. The company did not want to outsource everything to one party and say, “Okay, we are not involved any more.” The board wanted to be involved in Organizing KPN’s destiny, while facilitating team working with suitable suppliers in its network in a process of co-creation.

Working in this way meant quite different attitudes and behavior were needed from those exhibited and rewarded in more traditional outsourcing relationships. These components were key to the Performing practice of the collaboration innovation process, namely the delivery of a major technical innovation in KPN’s network that enabled faster and different services to be delivered to end customers.

**StatoilHydro**

StatoilHydro is an integrated oil and gas company based in Norway. It is the leading operator on the Norwegian continental shelf and is an expanding international company. It focuses on innovation in oil and gas exploration and production to recover valuable resources that were previously thought unreachable. StatoilHydro’s oil and gas portfolio ranges from development projects to mature fields. The group is the second biggest gas producer in Europe and the sixth biggest in the world. StatoilHydro trades in petroleum products, methanol, power and emission allowances, and is the world’s third largest producer and net seller of crude oil.

StatoilHydro is a mature outsourcing organization, especially in ITO, with high-value, multifunctional shared services that have been operational since 1993. Its IT is divided into two areas—infrastructure and applications. It uses sourcing to fill capacity gaps and then to move additional competence into the organization. Costs have never been the driver for sourcing as StatoilHydro’s primary focus has always been on addressing capacity issues.

StatoilHydro does not have a single ITO supplier and looks for, and expects, extra value from each supplier. It has two major suppliers and more than 10 other suppliers. One of the major suppliers has provided the IT service desk since 2003. This desk supports IT and SAP applications in all the company’s geographic locations. It is based in StatoilHydro’s premises and on its ITIL-based service management processes. The service desk is also integrated with other suppliers’ processes.

StatoilHydro has established a roadmap to become world-class in the provision of shared services. To achieve this goal, it needs to have sourcing partners that share its innovation goals, are flexible and willing to change, and are looking for ways to be innovative throughout the contract period.

Drawing on its ITO experience, StatoilHydro has developed a distinctive approach to Contracting when seeking innovation through collaboration. The approach requires suppliers to understand the company’s business needs, which requires changes in the typical supplier attitudes and behavior. Suppliers are given the flexibility to “surprise” the client rather than being tied to a strictly defined, formal relationship.

**Spring Global Mail**

Spring Global Mail (Spring) is a world leader in the provision of international business mail services. It is a joint venture company, formed in 2001 by three

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23 Information Technology Infrastructure Library, a set of concepts and practices for IT services management.
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of the world’s most dynamic and respected postal organizations: TNT in the Netherlands, Royal Mail in the United Kingdom, and Singapore Post. With its headquarters in the Netherlands (Amsterdam), Spring employs 1,100 people in 25 countries and has become the world’s largest independent cross-border mail distribution company. It uses its creativity and experience to find solutions to the most complex cross-border mail requirements. Spring’s customers include some of the world’s largest senders of cross-border mail.

Spring’s CFO, Wouter Hijzen, pointed out that, while the company has three major suppliers and many smaller ones, it itself is an outsourcing company. It takes over responsibility for all the mail operations of its customers. Clients choose Spring to operate their businesses more efficiently and cost-effectively. The company is constantly innovating in the way it offers services, including developing the remailing business, where Spring is the biggest service provider. Its role as an outsourcing service provider has provided Spring with major insights into its expectations of its own suppliers. As Hijzen told us:

“You establish trust through delivery, but when it goes wrong, you have to show Leadership. Taking responsibility is the beginning of Leadership. If you keep telling people what to do, they will never become leaders.”

Spring’s in-house finance function was outsourced in September 2008, when the company signed a nine-year contract with one supplier. Spring has also outsourced all its IT services across the world to a TNT company.

For Hijzen, innovation is nothing more than behaving and looking at things differently. It doesn’t necessarily have to concern a new product or service. The finance outsourcing deal is a case in point, as Hijzen explained:

“We have outsourced to make ourselves better; that’s the main thing that triggers innovation. We didn’t have an electronic system to approve invoices. We couldn’t afford it; it was just too expensive to build it for ourselves. But the supplier had one. We now make use of that. I don’t think it’s innovation for them, but it is for us.”

For Hijzen, trust is most important; without it there can be no innovation. Trust is built by novel forms of Organizing, which involves “letting some things go.” If you have to keep referring back to the contract, you are in dispute, and trust is lost. That’s why, in Spring’s Contracting practice, the general outline of the contract is more important than the details because Spring knows that suppliers can only make slim margins if they do not innovate. For Spring, it is not important to have innovation mentioned explicitly in the contract because Hijzen knows his suppliers will seek to innovate. The choice of suppliers and trust in them comes before the formal Contracting process. As Hijzen noted, this trust is created by a particular form of Leading:

“In Spring, we always say it’s a team. It’s not a family. You have to work together, but you don’t have to sleep together.”

Before it outsourced, Spring had achieved maximum cost-effectiveness from its back-office functions. The big reason for outsourcing was because it couldn’t make further savings. Outsourcing therefore wasn’t about cost savings or efficiency gains, but to make IT and finance better and to make the people better.

LESSONS LEARNED: MOVING TO COLLABORATIVE INNOVATION

In Figure 2, we presented the four fundamental practices of an effective collaborative innovation process: Leading, Contracting, Organizing, and Performing. The three cases described above have provided specific examples of each of these practices. Based on the experiences of these three firms, together with supporting evidence from the remaining 23 organizations we studied, we have identified four lessons that can be applied when moving to collaborative innovation.

1. **Client and Supplier Should Jointly Develop a Higher-Level Goal**

Collaborative innovation in outsourcing requires a higher-level goal that can only be achieved by joint client-supplier efforts. Defining such a goal requires a particular form of Leadership that recognizes that strategic innovations can be achieved only in situations where everyone stands to gain something. Invariably, the supplier has capabilities that need to be exploited in innovative ways for the benefit of the client.

2. **Design Contracts to Include the Sharing of Both Risks and Rewards**

Successful collaborative relationships arise when vendor contracts are designed to include the
sharing of both risks and rewards. Contracts that are too tightly specified squeeze out any chance of innovation. Contracts should therefore focus on business imperatives (the “what”) but also allow for adaptability in how these are achieved (the “how”). A particularly striking example of this was provided by one of our interviewees at StatoilHydro:

“Innovation comes from a supplier that surprises me! I always say to my people and to our suppliers ‘surprise me.’ I want them to be proactive. They do it before you ask them.” (Rune Aase, IT Senior Executive, StatoilHydro)

3. Define Co-Managed Governance Structures that Support Teams Collaborating on Adaptive Work

Collaboration requires client and supplier personnel, and personnel from different suppliers, to work together in teams on adaptive work. Co-managed governance structures are required to support such team working. When establishing teams, it is important to differentiate between technical work that can be delegated to specific suppliers and adaptive work that requires people from the client and suppliers. Adaptive work requires collaborative and open relationships between team members that value sharing and learning and are based on mutual benefit.

4. Ensure the Relationship Between Client and Suppliers is Based on Trust

Collaborative innovation can only succeed when the relationship between client and suppliers is based on and sustains trust between all the parties. There are three types of trust: personal, competence, and motivational. Personal trust is the confidence an individual has that someone else will work for the good of the relationship, based on that person’s integrity and adherence to moral norms. Competence-based trust exists when one party has confidence that the other will be able to successfully deliver their allocated tasks and responsibilities. Motivational trust is where both parties believe the rewards and penalties they experience are geared toward the achievement of joint goals—a “win-win” situation. Complete trust, involving each of these three areas, can be achieved only by adopting the four practices of the collaborative innovation process depicted in Figure 2.

CONCLUDING COMMENTS

Based on the experiences of the organizations we studied, we have developed the collaborative innovation process framework depicted in Figure 2. The four practices of this framework—Leading, Contracting, Organizing, and Performing—are qualitatively different and systematic ways that can be applied by organizations to make the step-change in their outsourcing maturity to move to Phase 4 of the outsourcing learning curve shown in Figure 1. Our research suggests that these practices are necessary to make Collaborative Innovation in outsourcing a reality.

APPENDIX: RESEARCH METHODOLOGY

We studied 26 organizations between 2008 and 2011. These organizations were selected because of their considerable outsourcing experience and sourcing management maturity. They covered a range of major industry sectors and were drawn from medium, large, and multinational corporations based in Europe, the U.S., and Asia/Pacific. As shown in the table with the profiles of the 26 organizations (see below), five were achieving only IT operational (O) innovations through new forms of collaboration. The other 21 were involved in deep collaboration that was delivering IT operational (O) and business process (P) innovations. Eight of these were also delivering strategic innovations (S).

For each organization, we interviewed at least three client and supplier stakeholders, all highly experienced outsourcing practitioners, about outsourcing models, choices, and their actual practices. Follow-up interviews were carried out in late 2010 and early 2011 to gather the latest information on innovation outcomes. In total, we conducted 86 interviews and studied numerous supporting documents supplied by the participating organizations.

Analyzing the experiences of these 26 organizations enabled us to identify common themes, practices, and principles, which we have distilled into the collaborative innovation process framework depicted in Figure 2. In the table below, the rows for the three cases presented in some detail in this article are shaded.

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### Profiles of Study Participants

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<td>O, P, S</td>
<td>CIO, Service Delivery Manager, Supplier Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Bank 2</td>
<td>Banking</td>
<td>$9.5b</td>
<td>38,000</td>
<td>4</td>
<td>O, P</td>
<td>CIO, IT Strategy Manager, Supplier Business Development Manager</td>
</tr>
<tr>
<td>Insure 1</td>
<td>Insurance</td>
<td>$44b</td>
<td>28,000</td>
<td>4</td>
<td>O, P</td>
<td>BPO Relationship Manager, Senior Contract Manager, Supplier Executive</td>
</tr>
<tr>
<td>Insure 2</td>
<td>Insurance</td>
<td>$9b</td>
<td>18,000</td>
<td>3</td>
<td>O</td>
<td>IT Development Manager, IT Operations Manager, two Supplier Executives</td>
</tr>
<tr>
<td>Insure 3</td>
<td>General insurance (market)</td>
<td>$5.4b (profit)</td>
<td>2,500+</td>
<td>2</td>
<td>O, P</td>
<td>CIO, IT Development Manager, Supplier Account Executive, Supplier Service Manager</td>
</tr>
<tr>
<td>StatoilHydro</td>
<td>Oil and energy</td>
<td>$85b</td>
<td>28,000</td>
<td>2</td>
<td>O, P, S</td>
<td>IT Senior Executive, Head of Service Delivery, IT Development Manager</td>
</tr>
<tr>
<td>Energy 1</td>
<td>Energy utility</td>
<td>$620m</td>
<td>2,000+</td>
<td>2</td>
<td>O</td>
<td>IT Director, IT Operations Manager, Supplier Executive</td>
</tr>
</tbody>
</table>

* O = IT operational innovation; P = Business process innovation, S = Strategic innovation
### Profiles of Study Participants (cont.)

<table>
<thead>
<tr>
<th>Organization</th>
<th>Sector</th>
<th>Revenue, 2010 ($US)</th>
<th>Employees, 2010</th>
<th>No. of Deals</th>
<th>Type of ITO/BPO Innovation *</th>
<th>Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy 2</td>
<td>Energy exploration</td>
<td>$15m operating loss</td>
<td>100+</td>
<td>1</td>
<td>O, P</td>
<td>IT Manager, Innovation Manager, Supplier Account Executive</td>
</tr>
<tr>
<td>Energy 3</td>
<td>Energy utility</td>
<td>$58b</td>
<td>88,000</td>
<td>3</td>
<td>O, P</td>
<td>IT Manager, General Manager, Supplier Operations Executive</td>
</tr>
<tr>
<td>Manu</td>
<td>Manufacturing</td>
<td>$10b</td>
<td>109,000</td>
<td>5</td>
<td>O</td>
<td>IT Director, Development Manager, two Supplier Executives</td>
</tr>
<tr>
<td>Distrib</td>
<td>Car components distribution</td>
<td>$650m</td>
<td>1,100</td>
<td>2</td>
<td>O, P, S</td>
<td>IT Manager, Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Leisure</td>
<td>Gambling and leisure</td>
<td>$2.1b</td>
<td>5,000+</td>
<td>1</td>
<td>O, P, S</td>
<td>IT Development Manager, IT Developer, Supplier Executive</td>
</tr>
<tr>
<td>Spring Global Mail</td>
<td>Postal services</td>
<td>$5.4b</td>
<td>1,100</td>
<td>4</td>
<td>O, P, S</td>
<td>IT Director, IT Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Mail 1</td>
<td>Postal services</td>
<td>$4.8b</td>
<td>35,500</td>
<td>4</td>
<td>O, P</td>
<td>CIO, IT Architecture Manager, Supplier Executive, Supplier Operations Manager</td>
</tr>
<tr>
<td>Water 1</td>
<td>Water utility</td>
<td>$660m</td>
<td>1,000+</td>
<td>1</td>
<td>O</td>
<td>IT Director, IT Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Water 2</td>
<td>Water utility</td>
<td>$850m</td>
<td>1,300+</td>
<td>2</td>
<td>O, P</td>
<td>CIO, IT Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Public</td>
<td>Public sector financial</td>
<td>$14.4b (total resources)</td>
<td>1,500+</td>
<td>1</td>
<td>O</td>
<td>Sourcing Director, Relationship Manager, Supplier Executive, CIO Supplier</td>
</tr>
<tr>
<td>Aviation</td>
<td>Airport authority</td>
<td>$3.7b</td>
<td>13,000</td>
<td>2</td>
<td>O, P</td>
<td>CIO, Project Director, two Supplier Executives</td>
</tr>
<tr>
<td>Health</td>
<td>Private sector healthcare</td>
<td>$1.2b</td>
<td>19,000</td>
<td>2</td>
<td>O, P</td>
<td>CIO, Operations Manager, Supplier Executive</td>
</tr>
<tr>
<td>Retail 1</td>
<td>Consumer electronics</td>
<td>$49b</td>
<td>180,000</td>
<td>1</td>
<td>O, P</td>
<td>IT Manager, HR Manager, Supplier Executive</td>
</tr>
<tr>
<td>Retail 2</td>
<td>General food consumer</td>
<td>$16b</td>
<td>101,000</td>
<td>2</td>
<td>O, P</td>
<td>CIO, IT Operations Manager, Supplier Executive</td>
</tr>
</tbody>
</table>

* O = IT operational innovation; P = Business process innovation, S = Strategic innovation
ABOUT THE AUTHORS

Edgar A. Whitley

Edgar Whitley (e.a.whitley@lse.ac.uk) is a Reader in Information Systems in the Information Systems and Innovation Group at the London School of Economics (LSE). He has a B.Sc. (Econ) and a Ph.D. in Information Systems, both from LSE. Whitley is the co-editor for the journal Information Technology & People. He is also currently involved in the EnCoRe project (www.encore-project.info) that is addressing the role of consent (and the revocation of consent) as a mechanism for providing control over the use of personal data. Together with Gus Hosein, he has recently published Global Challenges for Identity Policies (Palgrave, 2010).

Leslie Willcocks

Leslie Willcocks (willcockslp@aol.com) is Professor of Technology Work and Globalization at the London School of Economics and Political Science, where he is Director of the Outsourcing Unit. He is internationally recognized for his research and advisory work on global sourcing, organizational change, and IT strategy and implementation. He has published 33 books and over 2,000 refereed papers in journals such as Harvard Business Review, Sloan Management Review, Journal of Management Studies, Journal of Strategic Information Systems, and MIS Quarterly Executive. He has advised numerous corporations and government agencies around the world. His latest book is The Outsourcing Enterprise: From Cost Management to Collaborative Innovation (Palgrave, 2011) co-authored with Sara Cullen and Andrew Craig.