The Outsourcing Enterprise
Step-Change: Collaborating to Innovate

By Leslie Willcocks and Andrew S. Craig

The future can be glimpsed in the relatively few organisations that have matured their strategic ability to handle global sourcing. They have converted outsourcing’s weak spots – variable quality in relationships, and little innovation experienced – into opportunities and strengths.

In practice, outsourcing so far has been contract management or at best supplier management (see Figure 1). Client and supplier organisations need now to consider how to make a step-change in their ability to lead outsourcing for strategic business purpose by collaborating to innovate. The present economic recession makes this need more urgent, not less, especially if organisations are to be fit for purpose both for the downswing and the subsequent upswing. Figure 1 captures the four phases we have observed client organisations pass through in their outsourcing management evolution.

Figure 1 The Global Sourcing Learning Curve 1989-2009

We can distinguish four sorts of client behaviour through the phases:

- Contract administration or negativity
- Contract management
- Supplier management
- Collaborative innovation

DEVELOPING THE NEW PERFORMANCE AGENDA

Collaboration

In looking at Figure 1, undue optimism in the earliest stage often results in a debased form of contract management we call ‘contract administration’. In Phase 2 clients tend to get their act together on managing the contract, but it is only in Phase 3 that they really begin to focus on how to leverage the supplier beyond the contract. This process culminates in Phase 4 where close collaboration occurs.
How does being in these different phases feel to clients? They report to us the following growth path:

- **Phase 1** – Undue optimism or panic
- **Phase 2** – Learning
- **Phase 3** – Maturing relationship
- **Phase 4** – Collaborative leadership

The rest of this paper focuses on the lessons learned to get into the fourth phase. By 2009 a critical mass of organisations had reached, or were reaching for, Phase 3, at least in their management of information technology outsourcing (ITO). The shorter learning curve, really from 1999–2009, means they lag behind this in their business process and offshore outsourcing practices. All these organisations stand on a cusp of an outsourcing decision – whether to drive down a traditional cost cutting route under recessionary conditions, with limited payoffs, or to make a step-change and go for sustainable cost reduction and business-focussed innovation.

Based on research from September 2008 to February 2009, as economic downturn moved to global recession, we report the findings from studying how organisations can make this step-change towards what we call ‘collaborative innovation,’ and the practices on which it needs to be based. In the first section we show how levels of collaboration determine types of innovation and performance impacts achievable from using the external services market. Then we use Michelin as an example of an organisation that has moved to the new performance agenda.

The role of suppliers

Clients see suppliers as having an integral proactive role in collaborating to innovate, which requires new ways of working together.

One supplier perspective is by Gerben Mak, director of innovation at Logica, who sees innovation as the sum of technology, creativity and organisation. He says innovation can only succeed if suppliers are able to organise the whole process, know the pitfalls and really serve all the stakeholders in the value chain.

There’s an observable trend towards relationships becoming increasingly managed and leveraged as strategic assets. The indicators of this can be seen in our most recent research: more
rigorous relationship planning and measurement, more contracting based on values and behaviour, and, on client demand, suppliers becoming more embedded in their client’s business – including supporting the client’s mainline services, becoming a client of the client, and identifying new sales opportunities.

Collaboration sees added-value relationships as a norm, with clients looking for business ideas, innovation and environmental scanning from their suppliers, and a much greater focus on business, not just technical outcomes. Collaboration in a strategic sourcing context, then, is proactive working together and risk sharing, in flexible integrated ways, to achieve high performance on larger, mutually rewarding commercial goals.

So the challenging role for suppliers is to:

- Ensure they have the key capabilities for collaboration. This means that their planning and contracting, organisational design, governance, leadership, program management and customer development capabilities must be strong. But collaborative thinking and action must be in the DNA of all managers and delivery staff.
- Invest significantly in innovation resources and capability.
- Be very proactive with clients on how things can be done differently to joint advantage.
- Be capable of working with and across other suppliers, together with the client where there are adaptive challenges and innovation is required. As we shall see in cases like Michelin, multi-vendor environments are typical rather than unusual and this is where collaborative innovation takes place.

Types of innovation

As will emerge, collaboration is the foundation for effective innovation. But what does innovation mean to clients? What sort of innovation do they care about? For one executive, it’s realising there’s a different and better way of doing something combined with the ability to deliver. Innovation does not have to be one big thing, and it’s also subjective.

Essentially, innovation is the introduction of something new, which creates value for the organisation that adopts it. For our purposes we use client-focused definitions more suited to what is trying to be achieved in their collaborative arrangements with business and IT service companies. On this schema, there are three types of innovation:

**IT operational** – technology and IT organisational, work and personnel changes that do not impact firm-specific business processes e.g. new email platforms, new operating systems, IT infrastructure remodelling, new IT staffing arrangements. These could lead to better business use of IT, for example, introducing agile systems development at Suncorp in 2008 led to IT being in place quicker to support the business.

**Business process** – by contrast, this innovation changes the way the business operates in some important ways. For example, in insurance, two key processes are underwriting and claims. Simplifying and technologising these processes, often by outsourcing, can and has improved business performance. In his study of the BAE Systems-CSC deal, Michael Weeks found one such successful implementation – the development of a Product Data Management System for the Astute submarine programme. This helped to implement computer-aided technology into the

Figure 2. *The new performance agenda*
production process by documenting all of the parts and essential manufacturing information (weld placements, wiring diagrams etc.) used in the design and production of the final submarine. He also notes a successful vendor-supported SAP implementation at Rolls Royce, which helped the firm ride the 2000-2003 downturn more effectively through better financial management and inventory control.

**Business product and service** – these innovations enhance the firm’s product/service offerings significantly for existing target customers, or enable the firm to enter new markets. Such innovations can change a firm’s business strategy and competitive positioning. In Asia Pacific, we found Crown Casino introducing technology to automate (and thus speed up) roulette, and also to increase revenues from high rollers.

In 2009, Repco, with the aid of suppliers, operationalised remote computerised car monitoring to pre-empt mechanical breakdown and provide positive response in terms of spares and repair. They could tell when a car is due for service, which parts are needed and suggest places to go for servicing it.

Given these definitions, our research points to a new performance agenda for outsourcing practitioners to aim at over the next five years. Essentially, superior performance through innovation is now feasible in a maturing industry, but requires a step-change in objectives, relationships and behaviours. The messages of our findings are present in Figure 2, and can be summarised as:

- In outsourcing, the collaborative capabilities of all parties determine the type and degree of innovation possible. Only deep collaboration makes large business process and strategic innovations feasible.
- Without an innovation focus, outsourcing can achieve cost-cutting mostly of a one-off kind, or at best, cost efficiency – similar service at lower cost.
- Focusing on innovations in IT operations can, and does, achieve larger, sustainable cost reductions.
- The real performance impacts over time come from business process and business product/service innovations. Business process innovations create sustainable business improvements in areas much bigger than IT operations alone – a bigger target, a more impactful innovation. Business product/service innovations can, and do, support firms’ revenue and profit growth targets.
- Innovation is risky. Collaborative innovation finds ways of sharing and offsetting risk. It also galvanises behaviour towards lessening risk and achieving shared goals. It definitely supports superior performance more realistically than more traditional outsourcing relationships.

There are many examples of organisations that have successfully got on to the new performance agenda. One further detailed illustration in the next section is Michelin’s initiatives. From studying these and many other organisations, we then provide a fourfold framework for success on how to make the step-change to collaborative innovation. And as Michelin illustrates, in the future, such collaborative innovation will usually take place in a multi-vendor environment.

**MICHELIN – THE FUTURE IS ALREADY HERE …**

**Background**

Michelin is the leader in the world tyre market with a 17.2 per cent market share. The Group operates in more than 170 countries. It manufactures and sells tyres for all kinds of vehicles, publishes maps and guides and operates a number of digital services. It has 71 plants in 19 countries producing 197 million tyres and 20 million maps and guides each year. Its staff is highly qualified with over 121,000 employees, including 4,000 research engineers in Europe, the US and Asia. It has an extensive brand portfolio for all market segments. The Group’s portfolio is one of the richest and well balanced in the tyre industry with two world-class brands, Michelin and BF Goodrich, and strong regional brands and well-positioned private brands. Before being an equipment supplier for vehicle manufacturers, Michelin is primarily a player on the consumer market for passenger cars and motorcycles and on the professional consumer goods market for light and heavy utility vehicles.

**IT and outsourcing**

The Group spends 15–20 per cent less on IT than comparable companies. In 2004, Michelin’s worldwide IT function consisted of 2,200 staff. That year, the group outsourced its entire IT infrastructure and transferred 800 people to IBM. This left the company with 800 on Applications and 600 dealing with external suppliers. In 2008, IT accounted for about 1 per cent of the workforce and the IT spend was only 2-3 per cent of the total group spend.

The Group’s growth plan has been to retain Michelin as a leader of the tyres market with four business goals of increasing capacities for growth, developing new services, harmonising world wide best in class processes and reducing costs. The group looked for partners able to commit to the same goals, bringing the right skills and delivery model within a collaborative governance model. Michelin’s strategy for the Application activities has been to use external services differently, with an approach they call ‘co-management’.

Co-management involves the selection of a single global partner per functional area in order to support all the IT activities with Michelin in co-managed entities. Eight functional areas were identified (CRM, SCM, FAR, FAO, OTC, MFG, RDI, GS) and two stand-alone zones – South America and Asia. In each entity, the Michelin and supplier managers work together on a basis of trust and transparency to deliver on KPIs, achieve the entity’s ‘business case’, jointly drive change and monitor the transformation plan in a collaborative way. The co-managers are also responsible for planning resources and staffing management. Most importantly, Michelin look to suppliers to provide innovative ideas to achieve the entities’ objectives. A co-managed entity has shared client-supplier objectives with a risk-reward mechanism based on project performance, entity performance, supplier cooperation and group performance metrics. It also has common activities in the form of upstream studies, business requirements and acceptance and rollout. The supplier is responsible for applications development, maintenance and support, using offshore capacities.

Finally, co-management is characterised by top-level commitment, on both sides, to achieve Michelin objectives.
How did Michelin get there? In 2004 Michelin and Logica showed leadership by prototyping a new way of working. They undertook a major CRM project in the fleet management area. Client and supplier decided on a joint way of delivering the system. They both provided managers and staff. Effort and focus were aligned by all workers, whether Michelin or Logica, sharing common objectives and key performance indicators. The success of the project demonstrated to the rest of Michelin that co-management could work. Michelin showed leadership in its sourcing strategy by deciding on a multiple vendor, but co-managed, route forward. Michelin was clear that it wanted the sort of innovation it got from its 2004-2006 CRM project. Michelin stipulated four suppliers as the maximum with contract duration of three plus three years. The selection process began in early 2006 and transition began in July 2008. But in the process Michelin showed further leadership and collaborative intent by involving their suppliers in shaping how that would be accomplished. How should the work be divided up - by zone, by technology, by business function, or by a mix of these? These were difficult questions. Michelin signalled and gained from collaborating, receiving highly constructive advice from its four supplier groups. Finally Michelin shaped the future by deciding that R&D and Manufacturing went to Accenture-Atos, F&A went to IBM-Sopra, South America went to IBM, and HR and Asia went to Wipro. Logica was chosen for the Supply Chain Management, Corporate Finance, Customer Relationship Management and Order to Cash domains. The organisation and governance structure for the Logica piece is shown in Figure 3, representing an aligned, co-managed structure. Delivery had onshore, nearshore and offshore elements, with the plan being to move a greater percentage of service provision, development and testing offshore to Logica’s service centre in Bangalore through 2009-2010. Pascal Zammit, in 2008 Michelin’s Head of Business Solutions, neatly summed up the co-management approach by saying, “We want our suppliers to jointly create a ‘polar star’ with us.” In a wide-ranging interview he went on to say that Michelin is a highly competitive business and it looks to its suppliers to maintain its competitive edge. He saw governance as one key (see Figure 3), but also the alignment of suppliers. Michelin set the environment for collaboration and as a mature organisation regarded itself as innovative but also continually looking for new ideas. Co-management is itself, operationally, a strong example of collaborative leadership. Logica’s programme director, Pierre-Dominique Martin, gave us one example. In Figure 3 a domain such as supply chain management (SCM) is co-managed by a Michelin manager and a Logica manager. They have the same KPIs and objectives. The Logica manager will tend to focus on the fixed price delivery and maintenance work, while the Michelin co-manager will be involved more in design, policy and upstream business-focused activities. But they constantly challenge each other, in practice to innovate further, move work offshore and take the right risks. This style of collaborative working is repeated throughout -at very senior as well as at all operational levels. Operationally Michelin and Logica people work alongside each other in teams on a day-to-day basis dealing with common problems against common objectives, demonstrating how a different form of leadership and contracting leads to new ways of organising and teaming, leading to greater performance possibilities.

**Lessons**

We can draw out the following lessons:

- **Create a polar star.** Companies outsourcing need to create a common goal with their suppliers. In this context, the right metrics are important.
- **Suppliers need to understand the business first** and then be able to bring complementary skills within a collaborative governance model.

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**Figure 3. Michelin – Organisation and governance structure**

![Diagram of Michelin’s organisation and governance structure](attachment:image.png)

Source: Michelin/Logica
Co-management by entities or domains is a powerful governance model, which sets the framework for innovation.

Top-level commitment is necessary to set the environment for collaboration and innovation.

A co-managed entity needs shared client-supplier objectives with a risk-reward mechanism based on project performance, entity performance, supplier cooperation and group performance metrics.

COLLABORATIVE INNOVATION: THE FRAMEWORK FOR SUCCESS

Our case study clearly demonstrates the critical success factors that drive collaborating to innovate. From this case study and many more, we consolidated our learning into four fundamental shapers and components of effective collaborative innovation. These are Leading, Contracting, Organising and Behaving. Of these, Leadership is primary (see Figure 4) since it shapes and conditions the environment in which requisite contracting, organising and behaving can occur. The right kind of contract supports collaborating and is an incentive for the right behaviour. The right kind of organisation supports teaming amongst the parties and enables high performance. Let us look at this process in its four phases.

Phase 1 – Innovation’s open secret: leadership for collaboration

In Leadership Without Easy Answers Ronald Heifetz makes an important distinction between technical and adaptive work. Technical problems are rarely trivial but what makes them technical is that the solution, in the form of specialist know-how, techniques, and routine processes, already exists within the organisation’s (or a supplier’s) repertoire. Managers can delegate such work to specialists and monitor the outcomes.

By contrast, leadership deals with adaptive challenges. In fact, Heifetz defines leadership as shaping and mobilising adaptive work, that is, engaging people to make progress on the adaptive problems they face. He suggests five strategic principles of leadership:

- Identify the adaptive challenge
- Keep the level of distress within a tolerable range for doing adaptive work
- Focus attention on ripening issues and not on stress-reducing distractions
- Give the work back to the people, but at a rate they can stand
- Protect voices of leadership without authority

For him, the hardest and most valuable task of leadership is advancing goals and designing strategies that promote adaptive work. An adaptive challenge is a particular 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 behaviour. Adaptive challenges require experiments, discoveries and adjustments from many parts of an organisation. When is it an adaptive challenge? When peoples’ hearts and minds have to change; when all technical fixes fail; when conflict persists despite all remedial action; when a crisis arises, indicating that an adaptive challenge has been festering.

Modern outsourcing is full of adaptive challenges and work that cry out for leadership and learning strategies. Innovation itself is essentially an adaptive challenge. When one adds into the mix typical modern developments – large-scale, multiple suppliers, offshoring, the outsourcing of IT-enabled back offices like HR, procurement, finance and accounting, and transformation outsourcing, and supplier involvement in business transformation projects – it becomes very clear that, in modern outsourcing,
adaptive challenges far outweigh technical ones. Thus, leadership – the ability to shape the context for and mobilise adaptive work – becomes key.

Consider the major adaptive challenges in the 1999-2006 $US 600 million HR outsourcing deal between BP and Exult. Here, the complexity of taking over an ‘As-Is’ HR function covering 56,000 employees and, centralising and standardising the service, was greatly underestimated. Moreover, the supplier was a start-up, and the premise that its superior technical web expertise would take BP’s HR to a new level greatly underplayed the risks and adaptive challenges. Much leadership at all levels within BP and the supplier was needed over four years to put this deal on an even keel.

In our experience, leadership begins in the Boardroom with the CEO and key executives. In their study, Earl and Feeny found that the CEOs who leveraged IT the best had a vision that IT could transform their business, and demonstrated their belief by their own behaviours. This CEO transformation agenda is also what is needed to achieve innovation with outsourcing collaborators. It also needs a top management team process designed to achieve new things, the relevant CXO (whether IT, HR, procurement, finance, accounting) as a member of the top team, and a CXO tied and capable of delivering on an innovation agenda. Gooding’s work on CIO innovators applies to other CXOs. He found the major attributes being business visionary, member of the ‘inner circle’, communicator of direction, external and internal networker, purposeful change agent, holistic implementation champion and creator of agile IT.

Our case studies of collaborative innovation are saturated with leadership challenges and responses. In Michelin, we see the leadership shaping how contracts are let, and implementing the new co—management approach to facilitate risk management, behaviour change and innovation.

**Phase 2 – Contracting for collaborative innovation: making the game change**

Leadership, then, creates the environment for innovation. In earlier IT outsourcing deals, especially the long-term ‘strategic alliances’ signed in the 1990s – for example EDS-Xerox, IBM-Lend Lease, BAE-CSC, UBS-Perot Systems – innovation was cited invariably as something the customer expected, and the ‘world class’ supplier could and would deliver. In study after study we found such innovation not forthcoming. For example, even in what is considered a relatively successful finance and accounting outsourcing deal at an oil major, an IT executive reported a lack in dynamic innovation on a continuing basis saying that after the initial burst of creativity, it goes flat.

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<tr>
<th>Figure 5. The leadership challenge – technical versus adaptive work</th>
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<tr>
<td><strong>Challenge</strong></td>
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<td>Technical</td>
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<td>Adaptive</td>
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<th>Figure 6. Options for back-office innovation</th>
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<tr>
<td>High</td>
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<tr>
<td>Potential for Performance Transformation</td>
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<tr>
<td>Management Consultancy</td>
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<tr>
<td>Knowledge transfer?</td>
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<tr>
<td>Hired knowledge only?</td>
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<tr>
<td>Fee-for-Service Outsourcing</td>
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<td>Low</td>
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One response to this is to create an innovation fund for suppliers to bid for. Our experience is that even large innovation funds have rarely produced lasting, important innovations. The same applies to many joint venture and equity share initiatives designed partly to stimulate innovation. They disappoint invariably because they are mere add-ons in mainly fee-for-service deals where, in practice, both clients and/or suppliers prioritise service and cost concerns well above innovation issues. Let us pursue this matter further.

In practice, senior executives’ organisations have four main approaches available to achieving innovation, each with a distinctive knowledge objective and approach.

In Figure 7 we summarise our research findings on the suitability, benefits, and risks of each innovation option. ‘Do-It-Yourself’ scores highly on retaining control and keeping the value of transformation within the company. But to succeed, it requires both funding and appropriate skills, which may be lacking. It is also the option most likely to encounter internal resistance if senior management does not give a clear signal of its importance. An example of success is Commonwealth Bank Australia. Despite having two major outsourcing deals, between 2003-2005 it achieved a major CRM implementation largely through using internal resources, and has further extended its internal development capability since. The ‘Management Consultancy’ route brings in external energy, gives a clear signal of commitment to major change by bringing in outsiders, and reduces political resistance. The most significant risks we have seen are cost escalation, lack of sustainability and little knowledge transfer.

‘Fee-For-Service Outsourcing’ – whether ITO or BPO – can see limited, usually ‘one-off’, innovations through reforming inherited back-office management practices, streamlining business processes and fresh investment in new technology, but even where these are forthcoming, our research shows that the innovation zeal is rarely sustained. The contract is structured around cost/service issues and does not incent the supplier to innovate. There is an over-reliance on the supplier for technical and business innovation, even where this has been explicitly contracted for. This can be most dramatically observed in examples of transformation outsourcing. The problem here is when transformation is treated largely as a supplier responsibility. Transformation, as the word suggests, can rarely be merely a technical matter, and invariably involves behavioural, organisational, social and political issues. Nor is it easy to define precisely the outcomes, what work is to be carried out, by whom and how. This means transformation is about learning, experimentation and bringing many different forms of knowledge together to deal with adaptive challenges. This immediately means it requires primary leadership and learning by the client organisation. These considerations probably help to explain some of the extreme difficulties UK-based Sainsbury’s experienced with its IT and logistics transformation outsourcing programme between 2000-2005.

Phase 3 – Organising for innovation

Let us distil from this study the learning on organising and teaming. Our framework is shown in Figure 9. Technical work requiring the application of existing specialist know-how and techniques are outsourced relatively safely, assuming competent specialists are hired. The more work becomes adaptive the more leadership is required, and the more multiple stakeholders need to be engaged with defining the problem, and working together.
on arriving at and implementing a solution. The role of leadership is to maintain direction and shape the context and process by which this can happen. Moreover, the more radical and business focussed the innovation required, the more the client should take on leadership.

In practice, in-house leadership is vital to large-scale IT and back-office innovation and transformation because these inherently comprise predominantly adaptive challenges for the organisation. But, as described above, even fee-for-service outsourcing has some adaptive challenges mixed in with, and often mistaken for technical challenges. For example, tried and tested technology introduced into a new client environment impacts on existing technical and social systems and presents adaptive challenges. The specialist will need to collaborate with business users and in-house IT people to get it to work. We have found this time and again with implementing ERP and HR systems, for example.

Figure 9 makes clear that teaming across organisational boundaries and functional silos is vital for adaptive-innovative work. All our respondent organisations looking for innovation had this understanding and were actively putting it into practice. It can be clearly seen in Michelin’s co-management governance structure.

**Phase 4 – Behaviour change: key to innovation payoff**

Leadership, creative contracting and organising and teaming in new ways build the fundamental behaviour changes needed to undertake collaborative innovation. The partnering behaviours required for innovation are summarised in Figure 10.

The behaviours represented on the left side of Figure 10 are very limiting in terms of what can be achieved by either client or supplier. They are essentially tied to an adversarial game, with no ‘third corner’ to move to. Unfortunately recessionary conditions often pressure organisations 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 just well be to innovate your way out of it. Behaviour change can come about as a result of a crisis, but lasting collaborative innovation is shaped in the context of prior work on leadership, contracting and organising, which creates rising levels of trust, teaming and performance.

As Figure 10 illustrates, trust is a key component in partnering. As we have noted in other studies there is no such thing as instant trust in outsourcing. It is built over time through demonstrable performance.

Weekes and Feeny have developed a useful three-pronged model of trust that reflected the complexities of the outsourcing environment. Personal trust refers to the confidence one has that another person will work for the good of the relationship based on their integrity and adherence to moral norms. The high uncertainty associated with innovation adds another dimension to this, but one can see through all our case histories how high personal trust means that all parties will accept responsibility for risks that do not work out, rather than pointing fingers or deflecting blame. Competence-based trust exists when one party has confidence that the other will successfully deliver their allocated tasks and responsibilities. This may well include innovation. Successful completion of projects and achievement of joint goals enhances competence-based trust, while operational failures will degrade it. Motivational trust refers to where both parties believe the rewards and penalties they experience are geared towards the achievement of joint goals – a ‘win-win’ situation. As we have seen in our cases, bonus structures and risk-reward sharing mechanisms are elements used to build this type of trust in collaborative innovation efforts. Ultimately all three types of trust have to be present across all parties for success. Our evidence suggests that that is true whether the goal is IT operational, business process, or strategic innovation.

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**Figure 8. Power and partnering-based relationships**

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<thead>
<tr>
<th>TRUST</th>
<th>POWER-BASED RELATIONSHIP</th>
<th>PARTNERING-BASED RELATIONSHIP</th>
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<tr>
<td>Low</td>
<td>Coercive and secretive</td>
<td>Collaborative and open</td>
</tr>
<tr>
<td>Conflict</td>
<td>Blaming and manipulating</td>
<td>Sharing and learning</td>
</tr>
<tr>
<td>Relationship</td>
<td>Short-term gain</td>
<td>Long-term investment</td>
</tr>
<tr>
<td>Strategic</td>
<td>Getting more for less</td>
<td>Quality, service, fairness</td>
</tr>
<tr>
<td>Values</td>
<td>Independence, self interest</td>
<td>Inter-dependence, mutual benefit</td>
</tr>
<tr>
<td>Performance</td>
<td>Cost</td>
<td>Innovation</td>
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In the Michelin case it was clear that they experienced high personal, competence-based trust and motivational trust, together with superior business performance and increased innovation. Behaviour and trust appear to be fundamental but collaborative behaviours also need to be developed over time and must be demonstrated from the top and throughout the leadership spine of the company. Development is experiential and the right behaviours must be demonstrated all the time: it is about developing and embedding new behaviours in their own people and their suppliers.

Finally, organisations do not deliver collaboration and innovation, people do. The importance of the behaviour change exhibited in Figure 10 becoming part of the DNA of individual actions is captured well by one of our interviewees:

“Being a strategic partner, as a supplier, means that if I tell you to come and visit me because I’ve got a problem, you will come and visit me. I always make sure I get more of the time of both decision makers and the innovators in those supplier organisations. It’s only the people in that company that can be innovative, and innovative (as opposed to inventive) people back up words with actions.”

CONCLUSION: TOWARDS THIRD CORNER THINKING

Successful collaboration and innovation share what we call ‘third corner thinking.’ In traditional outsourcing, problems are dealt with largely as a contest between the two parties with different vested interests to protect. For example, the client wants more service at lower cost, while the supplier wants to make margins and lower the costs it bears on service delivery. Third corner thinking sees both parties finding a larger, overriding mutual objective they can aim at.

Relatedly, innovation is at its best when it overcomes some contradiction between conflicting objectives. The most successful products deliver two benefits that contradict each other — for example Linux challenges Windows because it is free and open. Such innovation attempts to reconcile the irreconcilable. Third corner thinking is unwilling to accept the compromise between two opposing characteristics, or the adversarial needs of two opposing parties.

In effect, our overall research has documented the 20 year rise to globalism of IT and business services outsourcing. The key quest for clients has been how to leverage the ever expanding services market for significant business advantage. The common denominator in the findings: we have uncovered no quick fix. Most 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,’ taking an incremental route into more and more outsourcing, learning as they go, limiting their risk exposure, building up their understanding and also their retained capability to run a sourcing regime aligned with their business strategy and imperatives. Suppliers have also faced learning curves in their attempts to differentiate their services, find new markets, and deal with new competition from potentially anywhere in the world. The 2008/9 economic recession makes their capabilities and suppliers’ abilities to leverage them even more critical.

Clients and suppliers both now need to consider carefully the role of third corner thinking and leadership for their sourcing strategies. Leadership is about shaping the context and mobilising resources to deal with the adaptive challenges organisations face. Leadership is also about transforming how things are done, and leveraging techniques and capabilities in new ways. Leadership therefore, is essentially about third corner thinking, innovation and its delivery. The present study makes clear that changing business needs, recession, the globalising and technologising of the supply of business services, and the much greater use of outsourcing, will provide challenges that will require many more organisations to make a step-change from outsourcing management to collaborative leadership – if governance, control, flexibility, innovation and superior business outcomes are to be outsourcing’s consequences.

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