

The outside in theory

By David E Hawkins

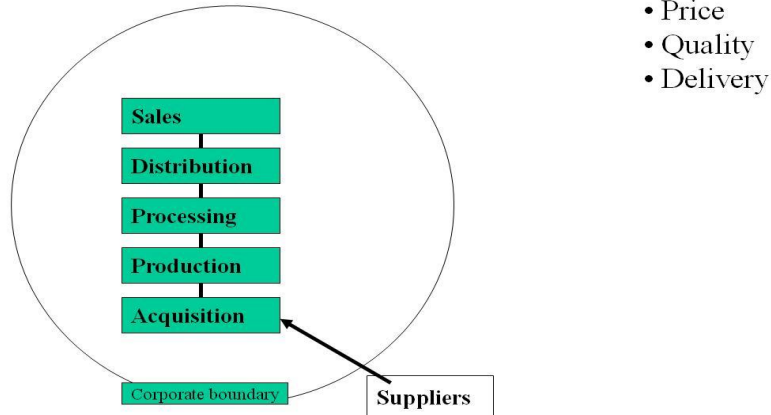
The importance of relationships in this business environment is fundamental yet each time one discusses the subject with organisations whilst there seems to be acknowledgement of the principle frequently for some organisations the issue of relationship management is low on their development programmes. This is perplexing particularly when you consider the growth of outsourcing where the interfaces between organisations are always a point of vulnerability and risk. Often the assumption is made that managing relationships is just a normal part of business life and thus low on the needs development profile.

Given this dilemma prompted consideration as to the nature of how organisations look at themselves and the market place as whole and how this may affect the way the impact of relationships are perceived. Many traditional organisations have developed under a command and control structure that looked from the inside out to the market place and controlled through arms length contracts with either customers or supplier. This approach assumed that they would operate within known rules and behaviours and in this context it is relatively easy to manage relationships and behaviours as a factor of location.

The trend towards outsourcing means that the external organisation are in reality moving inside another organisations imaginary boundaries or firewalls to become part of the overall delivery process. However their remote location means that they are not however physically absorbing the ethos or culture of the host client. In some cases they may be operating with a completely different set of conflicting values. Thus the outside is coming inside but is frequently still evaluated on the basis of traditional command and control thinking.

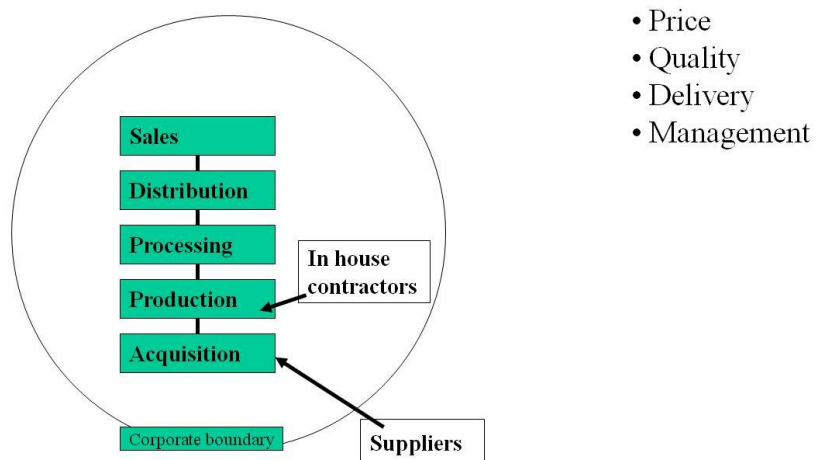
The '**Outside in Theory**' then poses the question that when we assess the importance and value of relationships should we be evaluating from another perspective. If organisations looked at their operations from the perspective of outside in then the realisation is that perhaps managing relationships is a more complex and crucial ingredient for these diverse business models. It highlights the need to bring into play a much wider range of considerations that the traditional price, quality and delivery mantra. It also brings into question whether the traditional approaches of contracting for failure can effectively be applied in this environment.

The 'Outside-In' Theory



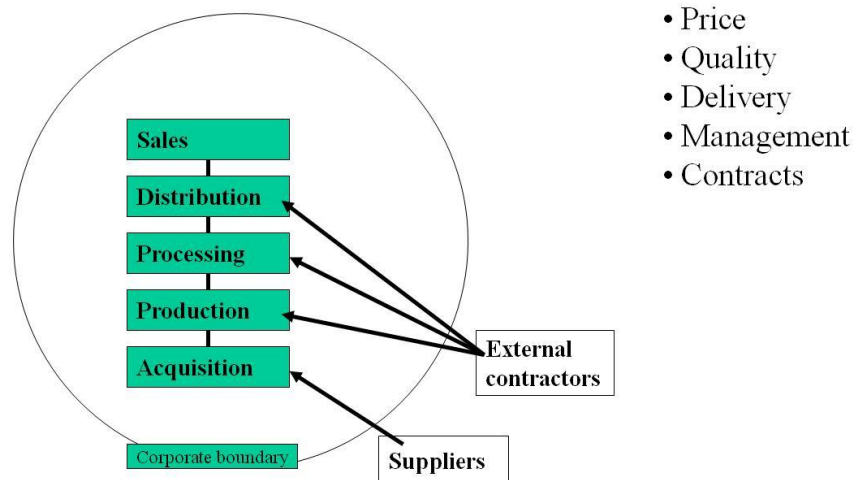
In a traditional tried and tested operating model for supply chains and perhaps the basis of most organisational approaches the structure has been developed around manufacturing concepts. As such we view the market place from a perspective of how it fits with our operations. In this context we acquire materials or components move these into a production programme where they are processed then possibly distributed to the point of sale. In this model the key elements for the supply chain is to ensure they achieve the most competitive price, the right level of quality and are available when needed. The only challenge being to orchestrate the balance between these three key drivers.

The 'Outside-In' Theory



The model becomes slightly more complex when decisions are made to have certainly elements of the processing undertaken by external specialists. This often occurs where organisations have a periodic requirement that does not justify a full time internal capability. In these cases the integration of the external capability is largely achieved through effective management at a local level. This ensures that those third party providers operate within the internal structures and governance. The external parties will often to greater or lesser extent also absorb the ethos and culture of the organisation.

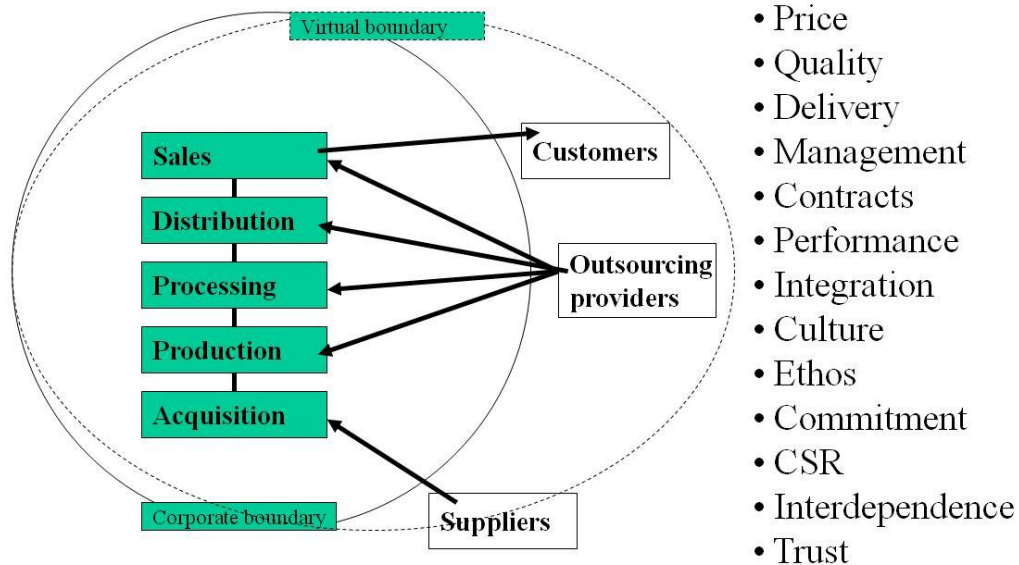
The 'Outside-In' Theory



As we look for greater efficiency and strive to focus on our core capabilities whilst reducing costly internal infrastructures the move is then to consider external contractors to undertake all or part of the processing and often distribution. The progression to this model leads to a greater emphasis on the scope and rigor of contracts. In many cases these relationships or contracts are built around the principle of contracting for failure. The aim is to transfer risk and responsibility to highest possible extent and rely on the contract to allocate liability in the event of a break down.

Clear at this point the relationship has become fragmented. On each side of the contract wall the parties are working to protect their position whilst as much as possible exploiting their relative positions in terms of performance. Whilst many organisations seek to impose their principles and values through contracts this is seldom fully effective.

The 'Outside-In' Theory



The forth and perhaps most vulnerable stage is where organisations seek to reduce cost by outsourcing swaths of operational a process activity. These external providers in essence become an integral part of the overall delivery model but are completely independent companies. Some may take over existing personnel through TUPE programmes to work at the same location whilst taking on the persona of their new employer. Others may be completely distanced from the original core business model and management process.

At this point the contract can only provide the financial and performance framework. It is unlikely to be able to influence integrated performance or softer but equally important aspects such as maintaining visions and values, Culture, ethos and commitment. There is plenty of evidence that it is the cultural and values of an organisation that really drive excellent performance not regulations and measures.

At this juncture the relationship and profile of the provider who may be now directly interfacing with customers becomes a critical factor. How they represent the organisation and perform is a direct reflection on the prime company and its reputation.

When one views the market place from the outside in it becomes clear that traditional thinking based around concepts driven from a basic self contain production environment are no longer sufficient to ensure success in a more fragmented operating model. As such the outside is coming inside the fire wall and needs to be assessed, developed

and directed with far greater focus on the ability of external providers to blend and support the organisations goals.

Collaboration, whether outsourcing internal support services, the development of external manufacturing or the creation of extended enterprise business models creates a whole new spectrum of challenges and risks. The process of integrating external organisations into a cohesive business process places increased demands on the trading relationships and those charged with managing these relationships. The increase in globalisation and the pressures from stakeholders to recognise the implications of sustainability and corporate responsibility demands careful consideration in the development of business strategies. The 'gold rush' to exploit the potential of low cost outsourcing opportunities must be tempered with a robust process that ensures a holistic approach is created that considers the wider relationship implications of this strategy.