



The 'Outside-in' Theory

Recognising the impact of relationships on extended but integrated supply and outsourcing arrangements.

By **David E Hawkins**

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(Recognising the impact of relationships on integrated supply and outsourcing arrangements)

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Aim

To open the debate regarding the implications for extended supply chain models and integration of third parties into core delivery solutions, where traditional contracting models have been based on historical internal models of management.

Background:

The role of supply management has significantly changed as organisations become more interdependent on suppliers and contractors to provide products and services to meet the demands of their business operations and objectives. The benefits of global supply must be effectively managed to ensure these are not outweighed by the vulnerability of extended supply networks. The last two decades of the 20th century saw major changes in the business world, perhaps more so than ever before: pressures on costs, diminishing traditional markets, the explosion in information technology all adding complex influences on the potential success of business strategies, with perhaps the most crucial of all being the dramatic growth in globalisation. These trends continue into the 21st century and will likely remain key factors for the future.

The supply management is the communications channel into the outside supply and service market where a two-way dialogue with external providers and suppliers can produce real cost benefits. However, simply focusing on costs savings localised to the supplier has a very limited return and can introduce high risk if not considered in an holistic manner. Traditional thinking of relying on the contracting function as simply a process of squeezing down the price and transfer risk needs to change when considering the implications of widely dispersed supply networks made up of independent organisations.

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.

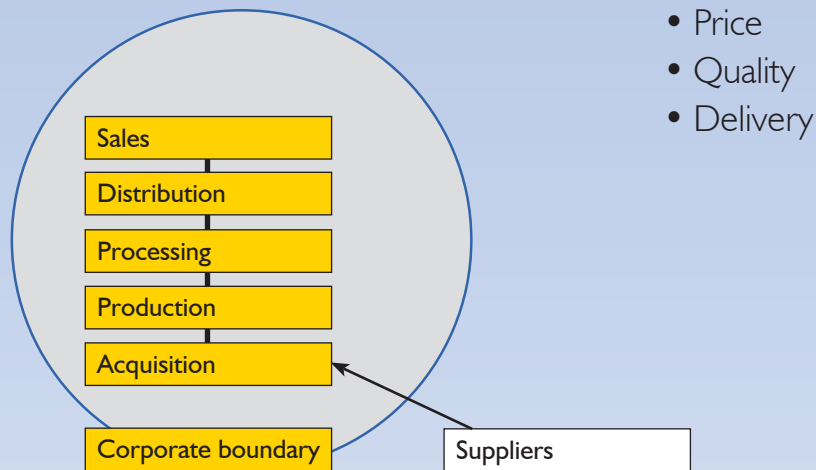
Given this dilemma prompted consideration as to the nature of how organisations look at themselves and the market place as whole and how this may affect the way the impact of relationships are perceived. Many traditional organisations have developed under a command and control structure that looked from 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.

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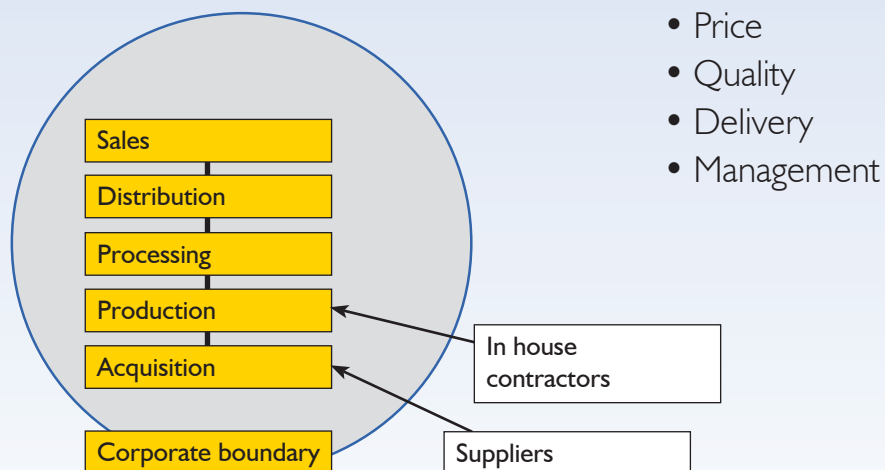
The **'Outside-in' Theory** then poses the question that when we assess the importance and value of relationships should we be evaluating from another perspective. If organisations looked at their operations from the perspective of outside in then the realisation is that perhaps managing relationships 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.

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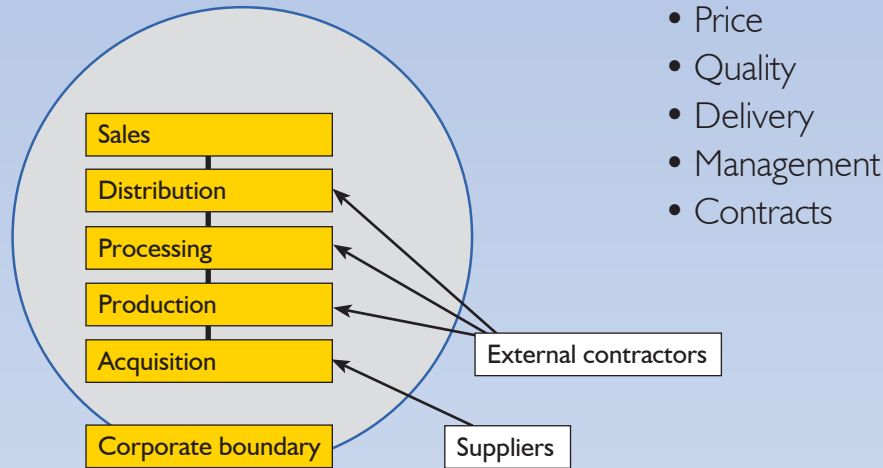
In a traditional tried and tested operating model for supply chains and perhaps the basis of most organisational approaches the structure has been developed around manufacturing concepts. As such we view the market place from a perspective of how it fits with our operations. In this context we acquire 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.

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The model becomes slightly more complex when decisions are made to have certain 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.

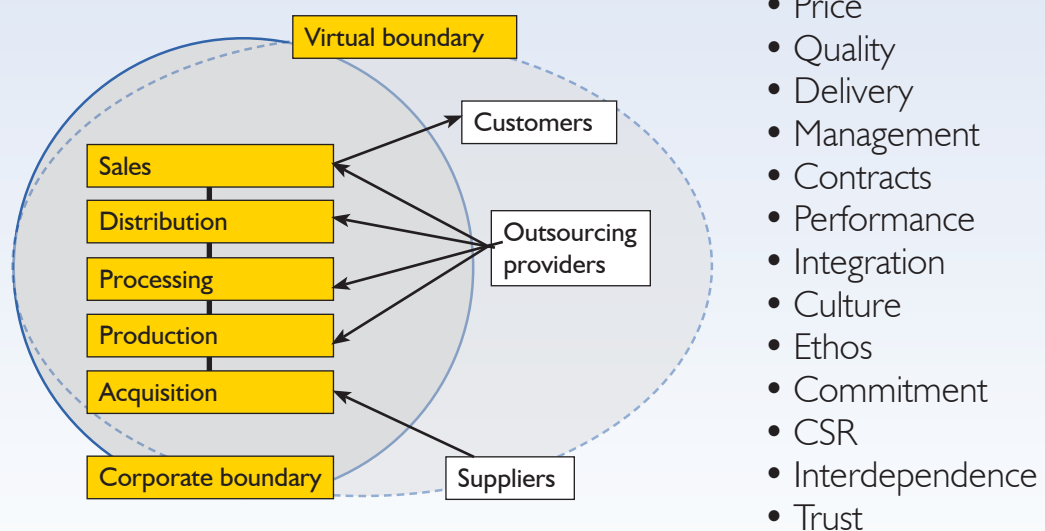
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As we look for greater efficiency and strive to focus on our core capabilities whilst reducing costly internal infrastructures the move is then to consider external contractors to undertake all or part of the processing and often distribution. The 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.

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The fourth and perhaps most vulnerable stage is where organisations seek to reduce cost by outsourcing swaths of operational or process activity. These external providers in essence become an integral part of the overall delivery model but remain completely independent companies. Some may take over existing personnel through staff transfer programmes (such as TUPE) 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-contained 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.

Conclusion

As the world is changing and alternative business models such as alliances, outsourcing, and strategic partnerships become more established tools as part of business operations, there is an increased emphasis on managing effective relationships internally and externally. The aim of this paper is to raise awareness in these issues and cultivating the development of a collaborative approach that goes beyond the traditional reliance on contracts to meet the strategic challenges of tomorrow.

To enable this sea change of thinking, organisations need to take a step back and look at their activities to recognise the point to which they have evolved and the degree of risk that has, most likely by default and good intent, built up across their operations. The following questions will help to highlight potential areas to be addressed:

- **Board recognition:** Is extended supply chain vulnerability recognised at board level?
- **Executive responsible:** Is there a senior executive with responsibility for resilience/continuity?
- **Resilience management:** Is there a focal point and strategy for business continuity and resilience?
- **Communication:** How is resilience and business continuity communicated?
- **Information systems:** Do the systems we use provide a suitable base for interaction?
- **Continuity management:** Is there a continuity planning process which includes supplier impacts?

- **Incident management:** Is there an incident management team?
- **Impact analysis process:** Has an impact analysis been conducted and is it reviewed and updated?
- **Risk management:** Does supply chain risk management incorporate resilience issues?
- **Supplier selection:** Are selections based on holistic evaluation recognising resilience?
- **Supplier development:** Does procurement evaluate and monitor business continuity?
- **Collaborative working:** Does the organisation have a culture of collaboration with partners?

Considering these elements will start to support the embedding of key principles into operating practice, ensuring that business resilience and performance becomes a factor of “business as usual” rather than being a function that only receives attention when incidents occur. It is unlikely that any organisation, large or small, has not considered the implications of business continuity. In fact, it is probable that their insurance cover mandates a degree of attention to critical aspects of the operation. However, this is frequently focused on loss of business during abnormal events e.g. fire or flood. It may occasionally encompass significant partnerships or high-profile supply relationships, but too often it is seen as a compliance issue in terms of financial obligations.

As the trend increases towards alternative business models, so the role of supply management becomes more complex and exponentially riskier, the focus for decision making requires high level support. There is no doubt that once these resilience issues are recognised, so the development and implementation at lower levels within the organisations will face, at times, conflicts in strategy and execution, requiring more active executive support and expansion of risk management thinking together with a better understanding of how key players are aligned to provide jointly owned performance.



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David is the founder of Midas Projects and architect of the CRAFT programme and relationship management methodology which was the foundation of the world's first national standard for collaborative business relationships BS 11000, published in 2010. He subsequently became Chairman of the International Standards committee that migrated the British standard to an international standard in 2017 ISO 44001.

David had an extensive career in projects and procurement within the construction industry. For over 40 years he has been associated with the development and implementation of major projects in many parts of the world, which has provided an insight into the many organisational and cultural challenges that projects can generate. Over the past decade he has been an active promoter of partnering concepts and the development of extended enterprises through the building of alliances. As a strategic thinker he has deployed these approaches to support manufacturing to outsourcing programmes, capitalising on the opportunities within project operations to exploit global sourcing. Building on these experiences he has helped a number of major organisations to implement change management programmes in different industrial arenas including chemical processing, oil and gas, power generation, and mining and minerals processing.

As an accomplished author, facilitator and trainer he is committed to sharing his experience and ideas to help organisations harness the power of collaboration.

In 2009 he was acknowledged as one of the world's top 100 thought leaders on CSR. He has been a regular contributor to professional magazines, published a wide range of papers on the subject of collaborative working and as an established author he has several publications to his credit including :

'Sun Tzu and the Project Battleground: Creating Project Strategy using the Art of War' (published 2004)

'The Bending Moment: Energising corporate strategy' (published 2005)

'Corporate Social Responsibility; Balancing Tomorrow's sustainability with Today's profitability' (published 2006)

'Raising the Standard for Collaboration - Harnessing the Benefits of BS 11000' (published 2013)

'Raising the Standard for International Collaboration' (Published 2017)

'The Next Evolution in Collaboration' (published 2022)

'The Next generation in Leadership' (published 2022)

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