

MASTER

Relationship management in outsourcing relationships

Swanenberg, Caroline

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Relationship management

In outsourcing relationships



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Master's thesis

**NIET
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Relationship management

In outsourcing relationships

Eindhoven University of Technology
Faculty of Technology Management
Department of Industrial Engineering and Management Science

Student Caroline Swanenberg

Primary supervisor TU/e Dr. J. D. van der Bij
Department of Organisation Science

Secondary supervisor TU/e Dr. J. Y. F. Wynstra
Department of Business Economics and Marketing

Company Unilever Research and Development
Olivier van Noortlaan 120
3133 AT Vlaardingen

Company supervisor Dr. ir. A. Pos

Abstract

The project, described in this report, investigated outsourcing relationships within Unilever. This investigation showed that some outsourcing relationships are not delivering optimal results. Analysis of three cases showed that these three relationships do not have the suitable degree of involvement. This issue is addressed by developing roadmaps for determining and developing relationships.

Executive Summary

This is the report of a research study with Unilever Research in Vlaardingen. The assignment is executed within the Knowledge Management Group.

Objective

The objective of this research study is:

Study outsourcing relationships and look at positive and negative aspects of relationship management. Examine how (new) outsourcing relationships should be shaped to become a relationship delivering according to expectations. Develop (parts of) a tailor-made framework that guides relationship management across company boundaries.

Methodology

The Regulative Cycle of Van Aken, Berends and Van der Bij [Aken, 2002] is used for the research methodology. Figure ES.1 shows the steps of this methodology.

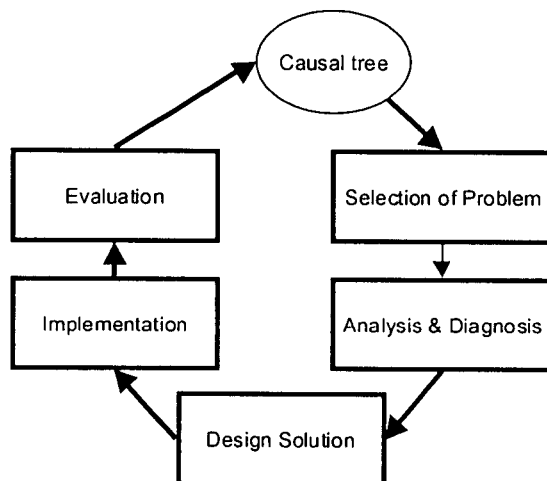


Figure ES.1: Regulative Cycle

The first step of the research study is Selection of Problem, in this step orientating interview led to the given research assignment. In the second step, Analysis and Diagnosis, literature and three cases were investigated to come to a diagnosis. During the investigation of the cases twelve Unilever employees with different functions within Unilever (ranging from co-packing manager to the managing director sourcing), were interviewed. The last step of this research project was the design phase. In this phase the insights of the analysis and diagnosis are used to determine how outsourcing relationships need to be shaped in order to solve (a part of) the problems identified.

Key issues from cases

In chapter 4, three outsourcing cases are investigated. These historical cases showed problems concerning relationships management in outsourcing relationships.

1. The first case is the Project X. (The names of the company and the product are changed for confidentiality reasons.) During this project, the production of dry mix was outsourced. This product was produced in-house before. The production was not according to expectations due to a lot of reasons like to large scale of the project, not the optimal partner selected, extremely tight timeline and not enough sharing of knowledge. Key issues on relationship management were:

- The knowledge was not shared sufficiently often because the Unilever company was not aware of (potential) problems. This was caused by the fact that

- the Unilever company was not aware of its own capacities.
- Unilever was mostly interested in output (the quality of the finished product).
2. In the second case John West, the fishing and packing of fish was outsourced. The problems started when a consumer died because of contaminated fish. Due to problems with the equipment, this fish was contaminated. The problems with the cans originated in the fact that the employees did not have a good understanding of the equipment. Key issues on relationship management were:
 - Insufficient monitoring of the outsourced process.
 - Needed knowledge was not shared sufficiently often.
 3. The last case was Cups of Coffee Creamer. In this case the production and the packing of the coffee creamer was outsourced. The problem of contaminated coffee creamer came up when substitution ingredients were used, which were not according to specification. Key issues on relationship management were:
 - Not enough communication on the implications of replacing raw material.
 - No clarity about responsibilities.
 - No good monitoring of the process.

For analysing the cases the Kraljic matrix is used [Kraljic 1983]. This matrix identifies four different relationships increasing in degree of involvement. The degree of involvement is not appropriate in all the cases. This also means that the ideal relationships are different from the actual relationships.

It is better to use the information about the importance of the product and about the complexity of the supplier market, to determine the suitable relationship for the specific situation. The cases did not show any structure in building the relationships. It would be better to build the relationships in order to achieve pre set goals.

Design

In this design phase, the third and fourth steps of the outsourcing process are shaped. These steps are shown in figure ES.2.

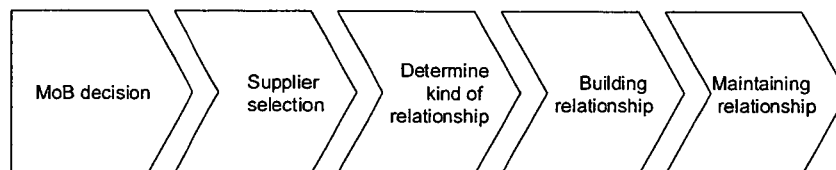


Figure ES.2: Outsourcing process.¹

Determine kind of relationship is divided in three steps:

1. Determine influencing aspects: In order to determine the appropriate relationship it is important to make clear what the aspects are which influence the relationship.
2. Determine questions: When the influencing aspects are clear, it is important to formulate specific questions around these aspects.
3. Discuss decision tree: In order to finally determine the proper relationship a decision tree can be used. This decision tree visualises the decision-making process.
KMG can facilitate this process of decision-making.

Building strategic relationships can also be divided in three steps. Only the building of strategic relationships will be explored because relationship management is most

¹ This figure is a part of figure 2.4. The whole figure is shown on page 11 of the report.

interesting in these relationships and the added value of KMG can be high in building strategic relationships.

1. Develop shared vision: This step aims to develop agreement between both parties. These agreements should include the expectations about performance, definitions about equity and efficiency.
2. Common language and knowledge gaps: In this step the expectations of the first step need to be specified. First both parties need to develop common language, to be able to understand and discuss the knowledge each party will bring in.
3. Determine way of working: In this step both parties need to agree upon a structure for co-ordination and communication. This is necessary to structure the communication between the different parties and to develop the common understanding of the tasks at hand.

KMG can help in this step by organising the workshop to develop the shared vision. Not only the workshop in itself, but also the preparation and structuring of the workshop can be done by KMG. Another useful workshop is the Knowledge Mapping Workshop. This is one of KMG's standard workshops. During this workshop first common language will be developed and then a Knowledge Market Exercise can be used to identify knowledge gaps. In the last part of this step KMG can help by structuring the decision making on the way of working. One of KMG's products is building and maintaining Communities of Practice. The knowledge on this area can, when adjusted, also be applied to outsourcing relationships.

Conclusions and recommendations

Concluding can be said that outsourcing relationships can be improved by paying attention the relationship management aspect. KMG can be a big help in this area by using their expertise in supporting the outsourcing teams in the different steps.

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