Effective Relationship Management to Outsourced Projects

In focusing on the topic of relationship management we respond to current calls in the PM academic and practitioner communities for investigations to be undertaken which seek to understand the dynamics of the complex social relationships that exist in project teams. The theoretical lens of agency theory is chosen as outsourced projects by their very nature create Principal-Agent relationships, where the Client is the Principal and the Contractor(s) the Agent. The research approach adopted for the study involves the investigation of multiple cases, where the unit of analysis for each case is a project – with the project team being made up of representatives from both Client and Contractor organisations. The cross-case analysis of the four projects shows that agency theory is useful in providing explanations for how the relationships between Clients (Principals) and Contractors (Agents) impact on project outcomes.

Introduction

The research study reported in this paper responds to the growing call in the project management (PM) community for attention to be paid to understanding the complex dynamics of the social relationships that exist in project teams. This reflects the fact that it is widely accepted that social and relational aspects of project teams have a high degree of influence on project performance and hence whether a project is perceived as successful or not. In outsourced project environments the social and relational aspects have an added layer of complexity as they create a temporary multi-organization (TMO) (Cherns & Bryant, 1984), where the project team comprises individuals that not only differ in their roles and responsibilities but also in their affiliation to different firms. In terms of the current literature on the topic of relationship management in outsourced project environments, the focus of research to date has been predominately on the Information Technology/Information Systems [IT/IS] business sector. Hence the decision in this study to focus on other sectors besides IT/IS. The main aim of the research is to explore the role of relationship management in outsourced project environments outside IT/IS. To achieve the aim, the following supportive objectives were developed: To analyse the characteristics of effective relationship management in non-IT/IS outsourced projects, through the lens of agency theory; To derive facilitating and restraining factors to effective relationship management; To propose guidelines for relationship management to outsourced projects that maximize its potential usefulness to project management. The remainder of this paper is structured as follows: firstly, we put the research study in context by providing a brief review of the literature on managing outsourced projects, followed by a short outline of how such Client and Contractor relationships can be adversely affected by the "agency problem". We then set out the research method, which includes a description of the multiple case study research design, and an explanation of the criteria used to select the cases and the methods for data collection and analysis. The next section provides

a description of the 4 cases selected for the study – 2 projects taken from construction and 2 from clinical trials. Then we present the research findings. This takes two forms: firstly, a cross-case analysis using agency theory as the theoretical lens and secondly, a force-field analysis of the factors that facilitate or inhibit effective relationship management. The final section provides a set of practical recommendation to support those seeking to establish and maintain functioning relationships between Clients and Contractors in outsourced projects and, lastly, some concluding remarks.

Literature review

Managing outsourced projects

The decision to outsource work takes place in many project-based industry sectors as a matter of course. Such projects can be complex and problematic to manage in part due to the challenges of managing the Client/Contractor. The primary focus for theoretical and conceptual developments in respect of research into outsourcing has mainly been on IT/IS projects (i.e. recent studies reported by Liu and Wang, 2014; Daneva, et al. 2013; Stankovic, et al. 2013; Devo, et al. 2012; Verner and Abdullah 2012; and Nakatsu and Iacovou, C. 2009). Therefore, a knowledge gap exists in relation to our understanding of outsourcing in non IT/IS project environments, which our research sought to close. Figure 1 below shows the outsourcing model that was used to provide a framework for the research undertaken. The framework is adapted to a project environment from Handley and Benton Jr's generic "Business Outsourcing Process Model" (BOPM) (Handley & Benton Jr., 2009). Our adaption of the BOPM shows that the process of project outsourcing involves: 1) *Strategic Evaluation* – which is the extent to which the Client to the project performs a thorough and robust evaluation of the implications of awarding a contract to undertake a piece of project work to a specific Contractor; 2)

Contractual Completeness – which is the extent to which the two parties [Client and Contractor] have a contract in place which is fit for purpose i.e. which enables the effective co-ordination of resources and allocation of risk and addresses potential inter-organisational specific risks relating to the management of the relationship between Client and Contractor; 3) *Relationship Management* – which is the degree to which the Client and Contractor maintain a mutually beneficial relationship throughout the project; *Project Performance* – which, in the original BOPM model is dependent on the other three elements and, in the case of our research, is measured using the success criterion of Client Satisfaction.

Insert Figure 1 about here

As shown in figure 1 the efficacy of contractual completeness and relationship management is influenced by the strategic evaluation that precedes them; whilst all three have an influence on project performance.

The focus of our research is on the 3rd element of the model, namely: Relationship Management. However, as will be explained in later sections, understanding the relationships and interactions between activities undertaken in 1) Strategic Evaluation and 2) Contractual Completeness with 3) Relationship Management are important in gaining a full picture of what constitutes effective relationship management in outsourced projects.

Causes of dysfunctional relationships in outsourced projects – the agency problem

The agency problem can arise in situations that involve clients and vendors from different companies. In such situations a principal-agent relationship exists, where the principal, typically through a formal contract, engages the agent to perform a service on their behalf. In doing so the principal delegated decision-making authority to the agent (Jensen and Meckling, 1976). In outsourced projects the owner (Client) organisation is the principal and the agent resides in the project (Contractor) organisation (Turner and Müller, 2004). One reason for the

presence of dysfunctionality between Client and Contractor can be the presence of problems associated with the principal/agent relationship that exists between the two parties.

Agency theory has been used to explain how the operations of outsourcing environments work in numerous contexts: i.e. franchising set-ups (Zhang et al., 2015) service triads (Van der Valk and Iwaarden, 2011); internal organisational service providers (Bhattacharya et al., 2013), Human Resources (HR) (Ruth et al., 2015) Information Systems (IS) functions (Gorla and Somers, 2014); Information Technology (IT) contracts (Chen and Anandhi, 2009); IT implementation (Taylor, 2007); hotel management (Lamminmaki, 2011); software development (Gefen et al., 2008); IT project management consultancy (Liberatore and Wenhong, 2010); contracting food and drug manufacture (Handley and Gray, 2013); transportation (Logan, 2000). Given this prior work we felt that agency theory was a useful lens through which to glean insights relating to the relationship management aspect of project outsourcing.

There are various agency problems that can arise in project environments. A high degree of conflict over the goals of the project between the Client and Contractor can lead to mistrust, concealment of information or gaming; which can ultimately lead to negative outcomes such as unnecessary costs and delays. The Contractor typically knows more than the Client about project issues, progress etc. – called information asymmetry (Eisenhardt, 1989) and so this asymmetry can fuel mistrust for the Client. The Client can feel that Contractor's decisions are not in their best interest – the adverse selection problem (Turner and Müller, 2004). The Contractor can operate in an opportunistic way i.e. acting on information that they have not shared with the Client in a way that does not benefit the Client. Acting opportunistically is assumed in agency theory, with people acting in their own self-interest - the moral hazard problem (Turner and Müller, 2004). So Contractors will act in the interest of their own company at the expense of the project and the Client.

An early focus in the agency theory literature was on the role of the contract (Melnyk, et al. 2004). Contracts were distinguished between those which were outcome-based and those behaviour-based, with fixed-priced contracts being outcome-based and fee-for-service ones being behaviour-based. Using agency theory, it is argued that the Contractor will act in the Client's best interest when outcome-based contracts are used or where the Client has enough information to verify behaviour – if those types of contracts are used. Factors that influence the choice between outcome and behaviour-based contracts include: the character of information systems used; the level of outcome uncertainty; the attitudes towards risk aversion; the level of goal conflict; the extent of task programmability; the level of outcome measurability; and the length of time that the Client and Contractor have had a relationship (Eisenhardt, 1989). The last of these factors is a rationale for developing long-term strategic partnerships, with contracts that include reward for certain desirable behaviours, such as sharing knowledge or being innovative. When such long-term relationships exist, according to agency theory, the Client and the Contractor will have learnt about each other and the degree of information available to the Client on the Contractor's behaviours will be greater than if they had a shorter term relationship. In such situations behaviour-based contracts become more attractive to Clients.

Latterly the focus of agency theory has moved beyond the contract to look at other motivating and control mechanisms that can address agency problems. For example, attention has been paid to the performance measurement systems (PMS) put in place, with the metric, rather than contract, helping the Client to manage and direct the work of the Contractor (Melnyk, et al. 2004). So in outsourced projects this would focus on the individual metrics, the sets of metrics and the PMS that is part of a project management system.

Research method

Research design

To explore the role of relationship management in outsourced projects we adopted a multi-case qualitative research design (Yin, 1994). Whilst such an approach offers only limited generalisability, the collection of rich data from multi-cases provides an opportunity to contribute significantly to knowledge and theory building (Barratt and Barratt, 2011). Case based research is also particularly appropriate in situations where there is little previous literature or prior empirical evidence about a phenomenon (Eisenhardt, 1989a) – as with the topic of relationship management to outsourced projects. Therefore, using case studies offers the prospect of developing a deep understanding of the impact of aspects of relationship management on the performance of outsourced projects. Having decided upon a case study approach the specific research method adopted for the study was particularly informed by the guidance provided by Stuart et al. (2002) on undertaking effective case research in operations management. The unit of analysis was the project. We conceptualised the project organisation as a temporary coalition made up of the Client and the Contractor(s) (Winch, 1989).

Case study selection criteria

We took two projects from the construction industry and two from clinical research as the cases. These two industries were chosen as they enabled some generalising of the findings beyond one sector. Construction and clinical research were deemed appropriate to compare as the projects typically undertaken in both sectors have relatively clear goals and well-defined methods to achieve the goals – so would be classified as Type 1 on the Goals/Methods Matrix (Turner & Cochrane, 1993). It needs to be noted at this point that whilst it is recognised that there is a substantial body of literature on criteria for classifying projects, for example by the degree of complexity, the purpose of our research is not to investigate the influence of different project typologies on the effectiveness of relationship management. Rather it is to be able to make some comparisons across sectors with a degree of validity and hence present findings

and recommendations that are not just appropriate to one industry. Though any claims of the generalisability of the findings has to be treated with the utmost caution and follow-up case studies encompassing other industry sectors, or large-scale cross-sectional surveys comprising multiple industry sectors, are needed to test their wider applicability.

The construction and clinical research industries also typically involve the outsourcing of project work to an external supplier – as was the case for each of the four projects selected for analysis – so hence a Principal/Agent relationship was present for each and the potential for agency problems occurring existed.

Two variables were used to select the four cases: 1) the level of usage of Earned Value Analysis (EVA) as part of the project management system (PMS) and 2) the level of project success. When we instigated the research we initially planned to specifically focus on the role of EVA in effective relationship management – hence its inclusion as a selection criterion. However, as we embarked on the case studies it quickly became apparent that whilst EVA had a role to play, as an example of either an effective or an ineffective set of metrics, there were lots of other factors at play besides the metrics and the PMS used. Hence, on embarking on the research the sampling frame comprised two projects which utilised EVA to monitor progress on a day-to-day basis and two which did not.

As with the topic of project classification, we did not wish to engage with or contribute to the ongoing debate on defining success criteria. This would distract from the main focus of our research which is on the relationship management of outsourced projects. Hence we followed the findings of much past research which suggests that, along with adherence to budget, schedule and specification, the level of overall satisfaction of the Client is a pre-eminent measure of success. So for the purposes of the research success was defined in terms of overall Client satisfaction. For each industry type and for one project that used EVA and one that did not, a case was selected that had both a very satisfied Client and one that did not. However, as

each case was analysed it transpired that the multi-dimensionality of project success was evident, in that those projects were the Client was satisfied also met other criteria, such as cost, time and quality, whilst those that had a dissatisfied Client failed to meet additional criteria.

Data collection

Multiple methods were used to collect data from each of the case studies, which enabled triangulation and hence enhanced reliability (Barratt, et al. 2011). To achieve a full picture of the wider macro-environment in which each project was undertaken an initial data collection phase was undertaken. This was done by referring to the project outsourcing structure in place, as represented by the BOPM shown in figure 1 earlier. As has been highlighted earlier in this paper, whilst the focus of the data collection was on the project execution phase and the relationship management element, it was deemed important to understand activities undertaken before the project started and by other groups in the Client organisations, such as contract management. Hence meetings were held with the Client representatives of each project to gain a sound understanding of 1) any strategic evaluation activities undertaken pre-contract award, 2) the nature of the contract between the Client and Contractor(s) and 3) the project management structures, systems and personnel in place [either EVA-based or non-EVA-based] prior to project execution. As well as talking to Clients, where appropriate sight was given to the researchers of non-confidential documentation detailing the processes and procedures relating to the PMSs, including the EVA approaches of the two projects that used it. In addition, desk research was undertaken to collect secondary data in the public domain relating to the Client and Contractor organisations i.e. their ownership structures, markets, products, services etc.

After gaining data of the macro-environment, data were then collected from the project during its execution. Semi-structured interviews with staff working for both Client and Contractor on

the projects, including the Client and Contractor project managers were carried out. Additional data were collected from various project documentation produced during execution.

It is worth noting at this point that two challenges related to the data collection. Firstly, the access to project documentation was sometimes limited due to the issue of financial disclosure of commercially sensitive information, especially in relation to profits and costs. In the absence of access to such documentation there was sometimes a reliance on the data collected via the interviews being an accurate representation of the performance of the project. Secondly, whilst in general the Clients and Contractors were willing to be open and honest in sharing their opinions and experiences – which was helped by the research following strict ethical guidelines guaranteeing anonymity and respecting the need for confidentiality – the research team were aware that it could be the case that interviewees might be more willing to share their experiences in the case of the projects that were perceived to be relatively more successful than those perceived to be problematic.

Being mindful of these two challenges the research team constantly reflected on the context in which the data were collected and the need, where possible, to verify any findings from additional data sources, which included, if possible, verification from both Client, Contractor(s) or, in respect of Case A – construction project 1 – the Managing Service Provider (MSP). In this respect, Case A presented a specific challenge in that direct access to the contractors to conduct interviews was not possible and the data collected from the MSP acted as a proxy for experiences of the Contractor(s).

Interviews

The semi-structured interviews with project participants covered the following areas: The project – what the project entailed, its aim, objectives, scope, constraints, organisational structure, PMS (EVA-based or non-EVA based, IT based and non-IT based, reporting

structures, communication methods, project directors/board/oversight, other staff involved), nature of the contract (outcome-based vs. behaviour-based vs. mixed), outcomes (performance [time, cost, quality] and levels of satisfaction), relationship management (between the Client and Contractor) and any other points not covered above – in the opinion of the interviewee. In terms of the relationship management of the project between the Client and the Contractor insights were sought of the influence on the effectiveness of the relationship by collecting data on the following topics, which were derived from the literature on Agency Theory: Degree of goal conflict between the Client and Contractor (low or high); Degree of opportunistic behaviour (low or high); Degree of information asymmetry (low or high); Level of trust (high or low); Level of uncertainty regarding the project outputs/outcomes (low or high); Level of information available to client to verify performance (high or low); Level of concealment of negative outcome (low or high). The number of interviews per case varied depending upon factors like the size and complexity of the project management structures and systems, but for each case the intention was to collect data from key people in the Client and Contractor organisations. Table 1 provides the details. Nineteen interviews were undertaken in total; 9 from the Client side and 10 from the Contractor. Interviews were recorded and subsequently transcribed.

Insert Table 1 about here

Data analysis

Firstly, the data were analysed in order to make sense of each case. This sense-making process would shed some light on the reasons for the different levels of project performance. It also allowed for some simple cross-case analysis to be undertaken. The framework for the analysis and the different variable classifications are shown in Table 2.

Insert Table 2 about here

A content analysis of the interview transcripts was undertaken using a phrase as the unit of analysis. For assessing the degree of goal conflict, opportunistic behaviour and asymmetry of information a count of phrases appertaining to each was made. For example, if a phrase identified a degree of goal conflict between the Client and the Contractor then it was marked as negative statement – indicating a high degree of goal conflict. Conversely, a phrase identifying an absence of such conflict was marked as a positive statement, meaning low goal conflict. A count of the total of negative and positive statements was made and from that percentages for each were calculated. Where there was a clear distinction then a high or low classification was made. If there was no such distinction it was marked as neutral. For the remaining variables: level of trust, level of information available to verify Contractor performance and level of concealment the assessment [high/low/neutral] was done based on the researchers' evaluation of all the available data [interviews, documents, secondary data].

Finally, to identify facilitating and restraining factors a force-field analysis was carried out. In 1951 Kurt Lewin introduced a method for understanding the positive forces for organisational change (facilitating forces) and the forces that are obstacles to change (restraining) (Lewin, 1951). Lewin's method was designed as a means to help managers in overcoming resistance to change. Since then the approach has been adapted in order to investigate the forces acting upon a project and to help understand where emphasis is needed to increase the likelihood of project success. An early proponent of using force-field analysis to project environments was Nicholas (1989). Nicholas's work identified forces which either facilitated success or inhibited it (i.e. facilitated failure) in relation to: 1) top management 2) project manager 3) project team 4) and the project management processes of 5) planning 6) definition 7) control 8) communication and 9) implementation. For example, in relation to 1) top management, the presence or absence of commitment, involvement or support from top management either

facilitated or inhibit project success. It is Nicholas's framework that we utilise to construct our list of the facilitating forces and the restraining ones to effective relationship management. In doing so we were also mindful of three key points made by the author in discussing the framework: The forces affecting project performance are potentially either facilitating or restraining i.e. top management support is a facilitating force when present but a restraint when absent; Not all forces are equal in magnitude; Some forces influence others and cause ripple effects; The neutralising of a force inhibiting success (facilitating failure) is a necessary but not always a sufficient condition – a strong directional pull in a positive direction may be necessary to achieve success.

To construct the force-field, a thematic analysis of the data was undertaken following the method adopted by Maaninen-Olsson & Müllern (2009), with the themes being derived from analysis of the data from the interviews with respondents, supplemented by the analysis of internal project documents and secondary data. In addition, the guidance of Yin (1994) was followed, in that a narrative with quotations from key informants, supported by the other forms of evidence was constructed.

The Case Studies

The variation between cases in terms of the sampling criteria of 1) use of EVA and 2) level of Client satisfaction is shown in Figure 2. A brief description of each case follows below.

Insert Figure 2 about here

Case A – construction project 1 – airport terminal

Case A involved the construction of a new purpose built terminal with an original estimated cost of approximately £880m. This was part of a wider programme to refurbish an existing airport terminal, which had a capital cost of approximately £2.4b. This in turn was being

undertaken as part of a long-term £11b refurbishment programme across the whole airport. The final refurbished terminal would be approximately 6 times the size of the old terminal and provide up-to-date facilities for the air traveller, including leisure and retail offerings. The Principal Contractor comprised of a joint venture between two Main Contractor organisations. For the provision of the new terminal the Principal Contractor acted as a Complex Building Integrator (CBI), who was responsible for managing tier 2 suppliers. In addition, the Client employed 4 Managed Service Providers (MSP) who provided a full client programme management service. One of these MSPs was appointed to manage the airport terminal construction project. Incentivised contracts were let on a competitive basis. The incentives included rewards for meeting KPIs developed by the Client i.e. finishing work by certain milestones. There were also discretionary payments made by the Client for certain desired behaviours, such as being innovative and enhancing safety on site. To ensure currency of the KPIs, they were reviewed and, potentially, changed by the Client every 6 months throughout the project. A centralised Client Project Management Office (PMO) was in place to which the MSP provided project information. This was part of a PM Knowledge Capture (KC) process that incorporated baseline management, monitoring and reporting. The KC process was driven by a 3 stage-month end reporting cycle involving monitoring against an agreed performance baseline, preparation of reports and analysis of variances and a performance review. This enabled performance to be measured, forecasts made, variances analysed and the baseline developed and maintained. A set of EVA-based metrics were put in place and reported via an EVA Master Report and Project Dashboards, which were key PM outputs within the overall programme.

Construction project 1 was chosen as a successful project as the Client was very satisfied with the outcome. It was completed on time and the outturn cost was perceived by the Client to offer a high level of value for money. The Client was also happy with the responses of the Principal

Contractor and tier 2 suppliers, in certain instances, in terms of meeting key challenges and risks.

Case B – construction project 2 – new water reservoir

The Client in Case B, the second construction project, was a private-sector water Utility Provider in the UK serving approximately 7 million customers. The company had a 5-year capital programme of about £5.5 billion. Projects were managed as part of Asset Performance, under the overall control of an Area Business Manager. The core project teams comprised of a PM, Design Manager, Construction Manager and Project Coordinator (PC). The PC directly reported to a PM, whist the other members of the core team worked on projects through a matrix management structure. Other team members in the matrix included: Project Controllers, Access & Acquisitions, Senior Quality Planners, Estimating Managers, Contract Formulation and Construction Design Managers. A Standard Operating Model (SOM) for project delivery, based on the Association for Project Management (APM) approach, was in place. This included Needs, Concept, Definition, Implementation and Handover/Closedown phases. Above the SOM sat a higher-level programme delivery management process. A Client Project Delivery System (PDS) included a project repository. This held information relating to standardized life cycle processes, templates and guidance notes. The PDS sought to provide a consistency of approach and the application of best practices to all projects. The project involved construction work on two reservoirs – the discontinuation of one, the construction of the replacement and associated works, such as water draining, landscaping, river re-instatement etc. The value of the contract was approximately £1.8m and the contract was awarded on a fixed price lump sum Design & Build. The contractor was selected from a list of approved suppliers and through a two stage process involving a pre-qualification from a tender list of four contractors. The Contractor selected from the four, which was local to the area, provided the cheapest tender. A range of KPIs were in place to measure performance of the Contractor, including areas like

customer [Client] service, people, Health & Safety and sustainability, with points awarded against each. The PM system included tracking against programme, contract and deliverables, shared risk register, regular formal meetings and formal reporting up to the PDS.

Construction project 2 was chosen as an unsuccessful project as the Client was unhappy with certain aspects of its management, including a lack of communication from the Contractor to the Client, and with performance against some of the KPIs.

Case C – clinical trial project 1 – investigational product for the treatment of lung cancer

Case C involved a project in the clinical trial stage of the drug development process involving a product for potentially treating lung cancer. Since the 1980's the costs of bringing new drugs to market has been soaring. In response pharmaceutical (pharma) companies are under pressure to manage clinical trials as efficiently as possible. A common strategic and tactical solution is to outsource this activity to clinical research organisations (CRO), so in a project management context the pharma acts as Client and the CRO as Contractor for the management of a clinical trial. Like many pharma companies, the Client in this case was looking to improve the efficiency of their outsourcing process. Historically they had worked with eleven different Contractors and under the new process they would reduce this to just two. The selection process and the implementation of the project, with its operational governance, took about 18 months. A Master Services Agreement (MSA) was established that included penalty and bonus clauses, with built-in discounts at the front-end of a project. They attempted to retain a degree of competitiveness by getting both Contractors to bid on all of their outsourced contracts. The Client had recently reviewed the outsourcing model and was satisfied with its current operation. There were no core metrics in the MSA. Neither was there a formal process for evaluating if contracts and projects were successful or not. After the contract was awarded the Client generated a PM responsibilities log that listed all of the activities and who is responsible for what. A Questions & Answers log was also created to formally capture the management of

issues. A schedule showing critical and non-critical activities was also created, and there were well established processes between the companies for remote communication, including a monthly status report. With these processes and documents acting as a support a fairly "light touch" PM approach was adopted by the respective Client and Contractor organisations in terms of centralised control on how the project was managed through the execution stage; with a degree of discretion being given to the Client PM in terms of how they engaged on a day-to-day basis with the Contractor.

Clinical trial project 1 was chosen as a successful project, as the Client was very satisfied with all aspects of its management and its outcomes.

Case D – clinical trial project 2 – investigational product for the treatment of haemophilia

The Client in this, the second clinical trial project, outsourced the trial of a drug for the treatment of a rare form of haemophilia. The project scope included the identification and monitoring of suitable patients, which in such trials is often not straightforward – and hence requires careful PM. Within the Client organisation was the Head of Clinical Operations – responsible for the project; the Clinical Project Leader – who had the day-to-day oversight of the project; and the Clinical Study Manager – responsible for the clinical aspects of the project. The contract was awarded after a competitive tendering process and was let on a fixed-price basis. The Client hoped this would lead to predictable costs and, through the bidding process, the price driven down. Hence the contract was awarded to the lowest bidder, a company which the Client had not worked with previously. For the Contractor, key people were: the Project Manager, finance officers responsible for invoicing and for revenue analysis/forecasting, and an Executive Director dealing with contractual issues. A Gantt chart was produced showing the schedule of work. At the start the Client decided to adopt an EVA-based approach to monitor progress and to pay the Contractor for work undertaken. A set of high level deliverables were identified and baseline costs related to the activities linked to the deliverables

allocated. EVA metrics were generated on a monthly basis. Payment was only made when a deliverable was classed as a certain percentage complete i.e. 50%. This was different to the approach the Contractor usually worked with, which involved payment for activities undertaken. This was the first time that the Client had used EVA and the Contractor also had no experience of using EVA prior to the project. Additional project reporting was done against the activities in the schedule, through a series of spreadsheets that are shared between Client and Contractor.

This case was chosen as an unsuccessful project as an eventual breakdown in the relationship between the two parties to the project mid-way through the project, which at its heart was a result of an unrealistic baseline budget being set at the start, led to the cancellation of the contract by the Client with the clinical trial not completed.

Findings

Cross-case analysis – through the lens of Agency Theory

A summary of each case profile in terms of the data analysis variables is provided in Appendix 1 and Appendix 2. Viewing the four cases through the lens of agency theory, possible reasons as to why two of the projects were perceived to be successful, whilst two were not, emerge. As shown in Appendix 1 column three, the case with the highest level of "Goal Conflict" was Case D – clinical trial 2. A high level of goal conflict was evident with references made to being involved on the project as a "battle". The root cause of this conflict was the outcome-based contract, which was unrealistic in terms of reflecting the actual costs to deliver the project. It also had no contingency budget, nor a recognition of, or process for dealing with uncertainty and risk.

The other three cases did not show such high levels of goal conflict. So from the very start of Case D the roots for agency problems to take grow were in place. As the project commenced the actions of both parties exacerbated the problems. Indeed, for Case D, a dysfunctional Principal/Agent relationship took its course, with the dysfunctionality leading to high "Opportunistic behaviour" (Column 4) and high "Information asymmetry" (Col. 5). As the Contractor failed to share information that might have alleviated some of the Client's concerns and addressed the low "Level of Trust" (Col. 6) that was building up in the Client organisation, a modus-operandi involving high "Level of concealment of negative outcomes" (Col. 8) on the part of both parties developed.

Case B – construction project 2 and Case C – clinical trial project 2 provide an interesting comparison. Client satisfaction was low in Case B and high in Case C; and, if one looks at their profiles in Appendix 1 – they are very different in terms of some of the agency-related variables shown. Goal conflict was not a distinguishing feature here, but there were marked differences in terms of "Opportunistic Behaviour" (Col. 4), "Degree of Information Asymmetry" (Col. 5), "Level of Trust" (Col. 6) "Level of information to verify Contractor performance" (Col. 7) and "Level of concealment of negative outcomes" (Col. 8).

In contrast to the example of Case D described above, Case C showed an absence of agency problems and the presence of effective relationship management. This fact is evident if one views the Case C graph in Appendix 2 – which, out of all 4 cases, has the least number of negative occurrences in the data relating to the 3 variables. Case C exhibited a high "Level of Trust" (Col. 6) and it was evident from the data that building up trust was an activity to which both the individual Client and Contractor PMs paid much attention. This build up took place over time and involved incremental steps whereby both parties delivered on promises made. This seemed to negated for the fact that there was not a high "Level of information to verify Contractor performance" against. Things went well on the project. There was no goal conflict,

so no strong desire on the Client's part to know in detail how the Contractor was performing against certain metrics. It is appropriate to ask what might have happened if the project had encountered major issues. Would the absence of a highly formalised PM execution process be a major weakness in the approach to relationship management adopted by the Client?

Unlike Case C, Case B saw trust that had built up over time lost through situations where the Client believed the Contractor had failed to communicate crucial information in a timely fashion. An example was an accident on site where the Contractor did not immediately inform the Client and hence the Client was not able to carry out their statutory duty and report the incident to the Health & Safety Executive. So the "Level of concealment of negative outcomes" (Col. 8) was high and, accompanied by a high "Degree of Opportunistic Behaviour" (Co. 4) meant that the "Level of Trust" (Col. 6) was low.

Indeed, as with Case D, agency problems both multiplied and amplified as different factors influenced other factors. Ultimately, this resulted in the Client's low level of satisfaction – caused by a non-virtuous cycle of inter-dependent factors affecting each other in increasingly negative ways. The Client's PM function was under pressure to meet the demands of their own key stakeholders, both internal and external. Hence, they needed to ensure their own KPIs were met. Part of this was having confidence that the PM processes were being carried out as defined i.e. on doing things right. To get this confidence the Client, in their opinion needed detailed information from the Contractor relating to their activities, as well as their performance. The fact that they struggled to get this level of detail and so, as they felt, could not verify Contractor performance to the extent that they would have liked led to frustration on all sides. The Client never saw themselves adequately in control of the project; whilst the Contractor perceived the Client to be more interested in being seen to be doing things right, than being interested in doing the right things. This frustration led to problems with trust, concealment of information

and negative outcomes, and fed back into the negative cycle of an increasingly dysfunctional relationship.

Facilitating and restraining factors

Figure 3 shows the force-field analysis in respect of relationship management. It is constructed from the thematic analysis of the interview transcripts from each of the four cases. The diagram shows 6 major forces that either facilitate or inhibit success (facilitate failure). In Cases A – construction project 1 and C – clinical trial project 1, which had the highest levels of Client satisfaction, all forces were largely present as facilitators of success.

Insert Figure 3 about here

The exception being force 5 – Training, in the example of Case C – though given the relatively light touch PM system adopted by the Client, arguably the need for training in the use of the systems was not great. Conversely, in Case D – clinical trial project 2, which had the lowest level of Client (and Contractor) satisfaction, there were virtually none of the forces facilitating success. Rather they were all inhibitors (and indeed strongly facilitating failure). This case illustrates the fact that one or two dominant forces, if working in a negative way, can offset a less dominant force that is working in a positive way. For example, there was effective Communication (force 3) between Client and Contractor, as to the (lack of) project progress, yet rather than using this knowledge to undertake timely corrective action, the fact that the contract was not fit for purpose due to a lack of Contractual completeness – force 1 in the diagram meant that the communications merely exacerbated the dysfunctional nature of the relationship. Case B – construction project 2, whilst not perceived to be successful, did not have the same low levels of Client satisfaction as Case D, and indeed there was evidence of some forces facilitating success i.e. Contractual completeness; though this was offset by other forces working against the project i.e. Communication and Resources.

In the next sections we briefly outline each of the 6 forces and draw from the cases to illustrate their impact on relationship management.

Contractual Completeness

Contractual completeness is about the degree to which the contract set up at the start of the project continues to be perceived by the parties involved in the relationship to be "fit for purpose". This entails an assessment of it continuing to be fair, equitable to all parties, lacking in any bias, appropriate in its incentives and being a suitable fit to the ongoing project.

To illustrate its importance one can compare its impact on Cases A and D as outlined above. Case A made changes to the contract mid-way through the project to ensure its continuing "completeness" and Case D did not. In Case A the Client project representatives recognised in a timely fashion that Contractual Completeness had become a strong inhibiting force and, indeed, was likely to lead to failure of the project – in terms of meeting the overriding objective of completing to schedule. Hence, the contract was changed. Penalties were waivered and new incentives to complete the work to revised timescales were agreed with the Contractors. The characteristics of Contractual Completeness were then present and working for the good of the project. The result was the project got back on track and completed on time. For Case D the contract was at no stage of project delivery complete and this majorly contributed to the relationship breaking down.

Stakeholder engagement

Stakeholder engagement as a topic is increasingly receiving attention in the PM literature and its importance as a force influencing the effectiveness of the Client/Contractor relationship is not surprising. What is also not surprising is that a key element of this force relates to the engagements that take place at the boundaries between the Client and Contractor organisations i.e. between the respective PMs. Case C was such an example, where the Contractor PM was

engaged early on in the process and a high level of engagement between the PMs was maintained throughout the delivery of the project. What has received less attention in the literature are what could be classed as intra-organisational engagements i.e. those that take place between departments in one of the organisations involved in the outsourced project. The importance of such intra-organisation stakeholder engagement is illustrated by Case B where there was a significant failure in terms of the engagement of a key stakeholder – the Client PM – by the department responsible for contracts and commercial management, in the selection of the Contractor at the Strategic Evaluation stage. Not being part of the selection of the contractor and indeed finding out at a much later date that the pre-vendor selection process had flagged up potential issues regarding the future capability of the contractor to deliver the project led to trust and agency issues later in the project.

Communication

Communication can take various forms and, whilst it is well-recognised that the frequency and nature of communications between the staff in the Client and Contractor organisations, either face-to-face in one-to-one situations or in groups meeting is crucial, the cases also show that other forms of communication can work perfectly well in some situations. For Case C, which had very high levels of Client satisfaction, there was open and honest Communication between two stakeholders that were at the fulcrum of the Client/Contractor relationship, namely: the Client Global Lead and the Contractor Project Manager. This very effective communication was a powerful facilitating force that helped negate those that could have inhibited success, such as the less than helpful contact with its penalty clauses and its lack of incentivisation. The open communication channels helped the build-up of trust and hence some of the negative consequences of a dysfunctional Principal/Agent relationship, such as the withholding of information and the practising of opportunistic behaviour was not evident. It is noteworthy that discussions with the Clinical Outsourcing Director revealed that projects of a similar nature,

with the same Contractor and using the same Contractual arrangements, but with a different Client Global Lead and Contractor Project Manager have not gone well. It is also noteworthy that the two PMs worked in different countries and the usual communication mediums were email and telephone. The other case in which Client satisfaction was high – Case A – also worked hard on communication, making sure everyone was aware of "one version of the truth". By way of contrast the two lower performing projects in terms of Client satisfaction (Cases B and D) had issues with communication, including selective communication of progress, problems etc.

Resources

Resources can take different forms i.e. financial, IT, material but in this context the focus is on having the right people, in terms of the numbers and their knowledge and experience, to ensure the relationship between the Client and the Contracting organisation(s) run smoothly. The importance of this force is demonstrated by the contrasting experiences of Cases A and C, where Resources was a facilitating force – and there was high Client satisfaction, and Cases B and D, where it was very much an inhibitor – and there was low Client satisfaction. Both Cases A and C benefitted from an adequate level of resources assigned to the project and also individuals with the appropriate PM knowledge and experience – and in the case of Case A complimentary programme management experience – attached to the projects. For Case A this involved developing competency frameworks and aligning recruitment and staff development to the framework. Crucially, in both cases key individuals in both Client and Contractor organisations remained in their roles throughout project delivery, which enabled effective relationships to be maintained. Conversely, both Cases B and D particularly suffered from some forced and unforced changes in key personnel. On Case B the changes took place within the Contractor, with numerous people leaving and joining the project as the company involved went through a series of upheavals due to financial difficulties. The Client PM attributed these

changes, with the attendant constant cycle of having to start a relationship from scratch with new people, as a major barrier to the development of a fully functional Client/Contractor relationship. These changes were very much forced on the project and difficult to mitigate for. On Case D though the negative impact of changes of project personnel was exacerbated by the decision of the Client, in response to problems with delivery, to request the Contractor to replace their PM. This was very much an unforced act and did not result in any appreciable improvement in project delivery.

Training

Training in this context relates to the PM systems being used by the project, which was typically developed in the Client organisation and mandated by the Client in terms of its usage. Here it needs to be noted that the level and type of training required is very much dependent on the level of formality and complexity of the PM systems in place, especially in terms of the required contribution of the staff in the Contractor organisation(s) to supply up-to-date information to enable adequate monitoring of the project to take place. The most formal and complex PM system for monitoring and controlling the project was present in the Client organisation of Case A and this was accompanied by a strong focus and high level of effort on the training of all those from the Contractor organisations involved in delivery. The outcome of the training was that all parties had a level of understanding as to the purpose and operation of the PM system – EVA based – and their own role and responsibilities. In addition, it ensured that everybody did things, in terms of providing updates i.e. timesheets and percentage completion of deliverables, in a consistent way. By doing this the Client gained assurance that they had "one version of the truth" and hence potential agency problems that might have had a detrimental effect on the relationship were mitigated for during project delivery. The timing of the training is also important, with early activity in this respect not only helping achieve the beneficial outcome detailed above but also helping to gain buy-in from project staff in terms

of fulfilling their required roles as inputters to the PM system. A contrast can be made with Case D where a formal EVA-based PM monitoring and control system was also utilised. In this example informal training on the use of the system took place once the system was up-and-running and project delivery had started, yet there was never a strong sense of buy-in or ownership to the system on the part of staff in the Contractor organisations, in part, perhaps, due to the fact that this training did not take place early enough in the life cycle.

Conclusions

The main aim of the research was to explore the role of relationship management in outsourced project environments outside IS/IT. To achieve this aim different supportive objectives were developed as outlined in the introduction.

Before we address each of these objectives there is an important point to note in respect of effective relationship management. We must not forget that relationship management is all about people; specifically, how the attitudes and behaviours of the individuals working on outsourced projects from both the Client and the Contractor organisations translate into an functioning (or non-functioning) working relationships. In all 4 cases analysed as part of the research it was clear that, whilst having processes, systems and structures in place to facilitate the management of relationships are necessary, they are not always sufficient for relationships to be well managed. This was illustrated by a comment from a senior manager in the Client organisation of Case C, to the effect that a very similar project in terms of scope, goals, objectives and activities, but different Client and Contractor PMs had not been nearly as successful as Case C in terms of its outcome.

With that caveat noted the first objective of the research was to explore the characteristics of effective relationship management in non-IT/IS outsourced projects, through the lens of agency theory. This objective was achieved by undertaking multiple cases studies of 4 projects which had varying degrees of Client satisfaction. The research findings from analysing the cases suggest that agency theory is a useful in providing explanations for how the relationships between Clients (Principals) and Contractors (Agents) impact on project outcomes, as expressed by the levels of Client satisfaction. The cases were Client satisfaction was high had either mitigated for or effectively managed various agency problems, such as goal conflict, opportunistic behaviour, information asymmetry and concealment. Conversely, the cases were Client satisfaction was low had failed to either mitigate or manage the problems and, in one case, had been completely overwhelmed by agency-related problems.

The second objective was to derive facilitating and restraining factors to effective relationship management. This was done using a force-field analysis framework comprised of forces that act to either facilitate success or inhibit it. In the worst case scenarios, they not only inhibit success but facilitate failure. The analysis of the cases resulted in the identification of 5 main forces: Contractual Completeness, Stakeholder Engagement, Communication, Resources and Training. Whilst the effectiveness of the relationship is to a large part influenced by the ability of the key people to manage it effectively, such management does not take place in a vacuum. Rather it can be facilitated by having systems in place to: ensure that there is an on-going evaluation and adaption where necessary of the fitness for purpose of the contract; enable stakeholder engagement to take place at both the inter- and the intra- levels; ensure that different mediums for communication are made available, especially technology-based where distributed teams exist; provide the right types and numbers of people and, where possible, keep key people in post throughout project delivery; put in place the necessary training on any PM systems that are used to support relationship management.

Finally the research findings leads to the following recommendations: Firstly, before project delivery takes place, those responsible for strategic oversight of PM need to ensure that the conditions are right for effective relationship management i.e. proper Strategic Evaluation has taken place and a system is in place to ensure ongoing Contractual Completeness (as per the Project Outsourcing Framework shown earlier). Secondly, the flow of information between the three different elements that impact on project performance in the framework: Strategic Evaluation, Contractual Completeness and Relationship Management should not been seen as linear, with each taking place in isolation and detached from the other elements. Rather mechanisms ought to be established to ensure there is a feedback loop from Project Performance to Strategic Evaluation so that learning from current projects takes place to the benefit of future projects and to ensure effective channels of communication exist between Contractual Completion and Relationship Management. A framework for integrated relationship management is shown in Figure 4.

Insert Figure 4 about here

Thirdly, before project delivery commences agency theory can be used as part of a diagnostic tool to assess the extent to which agency problems either exist or may arise on a project, to the detriment of the relationships, and based on this diagnostic mitigation actions ought to be taken and contingency plans put in place. Lastly, a process of regular assessment using the diagnostic tool should take place throughout project delivery – and in response to moments of stress/crisis in the relationship – which will trigger the implementation of the contingency plans and new mitigation strategies where appropriate.

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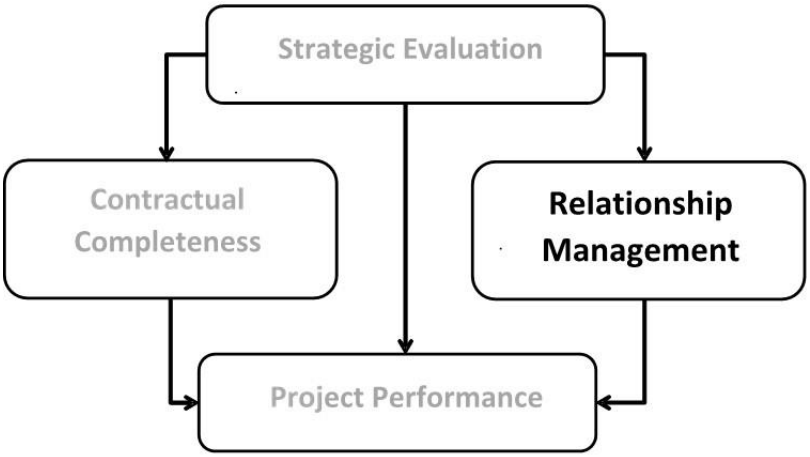


Figure 1 "Business Outsourcing Process Model" (BOPM) (Handley & Benton Jr., 2009)

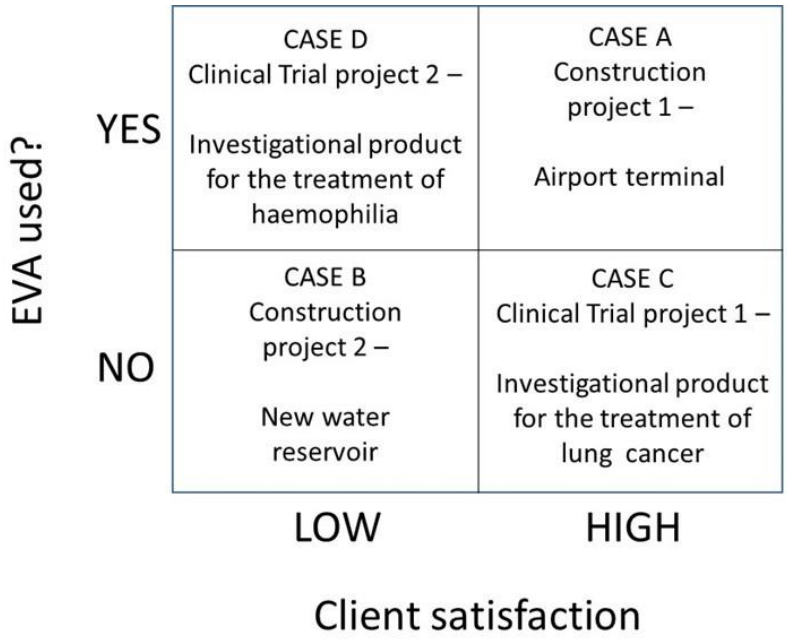


Figure 2 Sampling criteria

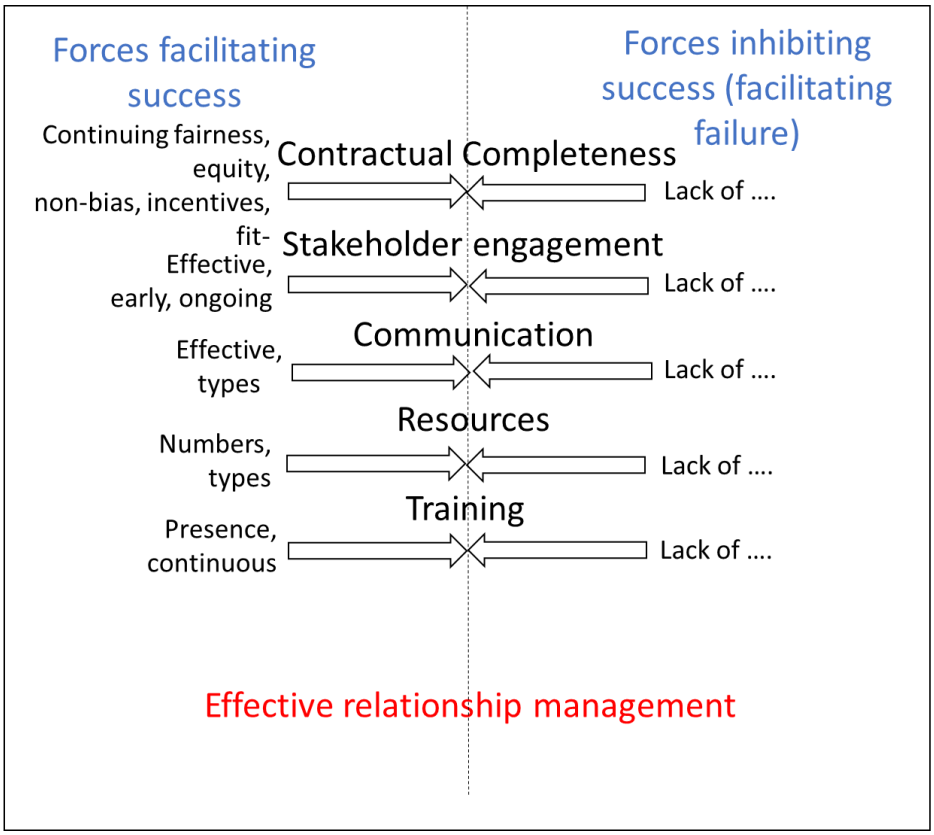


Figure 3 Force-field analysis for effective relationship management [based on the Nicholas, 1989, framework]

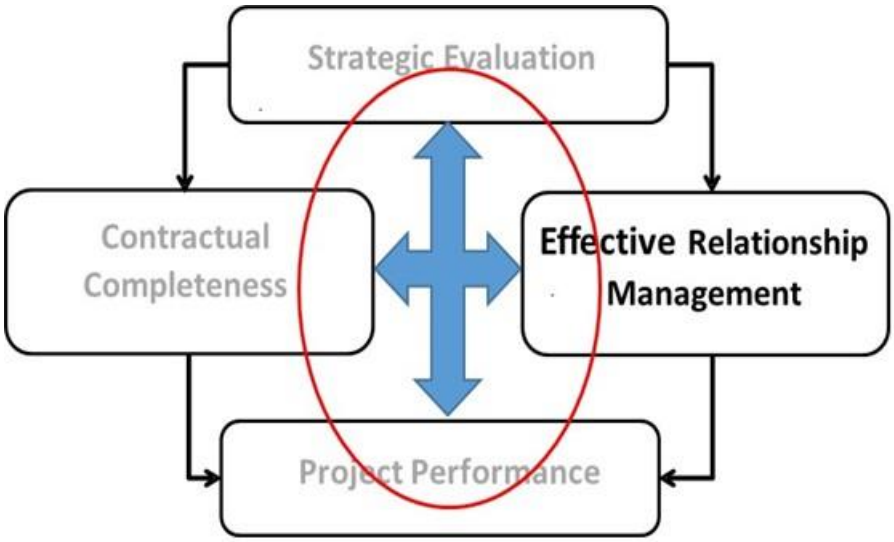


Figure 4 Framework for integrated relationship management in outsource projects

.	Client perspective	Contractor perspective	Total interviewed
Case A – construction project 1 – airport terminal	1.Programme Controls Manager 2.Project Controls Development Team Member	* 3.Head of Programme Controls - Managing Service Provider [MSP] 4.Head of MSP Team 5&6.MSP Project Controls Manager x 2	6
Case B – construction project 2 – new water reservoir	1.Project Manager 2.Contracts Manager	3.Project Manager	3
Case C – clinical trial project 1 – investigational product for the treatment of lung cancer	1.Head of Clinical Operations 2.Clinical Project Leader 3.Project Study Manager	4.Project Manager 5.Contracts Manager 6&7.Finance Officer x 2	7
Case D – clinical trial project 2 – investigational product for the treatment of haemophilia	1.Clinical Outsourcing Director 2.Global Lead	3.Project Manager	3
TOTAL	9	10	19

* The MSP acted as Client's agent, though here data were collected from them relating to the contractor perspective

Table 1 Interviewees

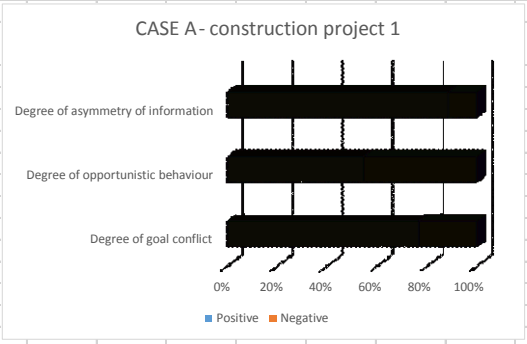
Variable	+'ve statements mean it is…	-'ve statements mean it is…
Degree of goal conflict between the Client and Contractor	Low	High
Degree of opportunistic behaviour exhibited during the project	Low	High
Degree of asymmetry of information between the Client and Contractor	Low	High
Level of trust between the Client and Contractor	High	Low
Level of uncertainty regarding the project outputs/outcomes	Low	High
Level of information available to the Client to verify the performance of the Contractor	High	Low
Level of concealment of negative outcomes	Low	High

Table 2 Data analysis template

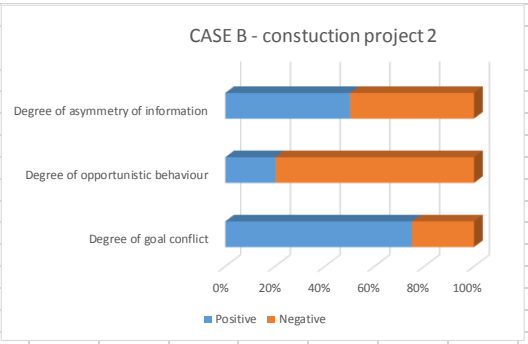
Case	(1) Level of Client satisfaction	(2) EVA used?	(3) Degree of Goal Conflict	(4) Degree of Opportunistic Behaviour	(5) Degree of Information Asymmetry	(6) Level of Trust	(7) Level of information to verify Contractor performance	(8) Level of concealment of negative outcomes
A – construction project 1 – airport terminal	High	Yes	Low	Neutral	Low	Neutral	High	Neutral
B – construction project 2 – new water reservoir	Low	No	Low	High	Neutral	Low	Low	High
C – clinical trial project 1 – investigational product for the treatment of lung cancer	High	No	Low	Low	Low	High	Neutral	Low
D – clinical trial project 2 – investigational product for the treatment of haemophilia	Low	Yes	High	High	High	Low	High	High

Appendix 1 Case profiles

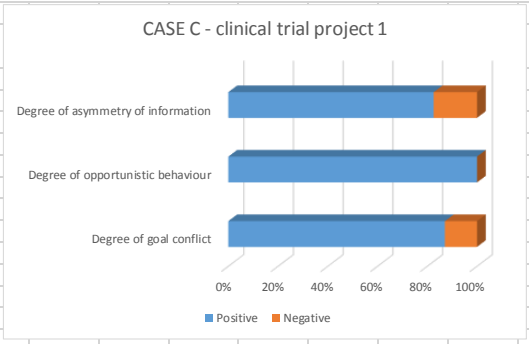
CASE A - construction project 1 - airport terminal	Statements	
	Positive	Negative
Degree of goal conflict	13	4
Degree of opportunistic behaviour	6	5
Degree of asymmetry of information	23	3



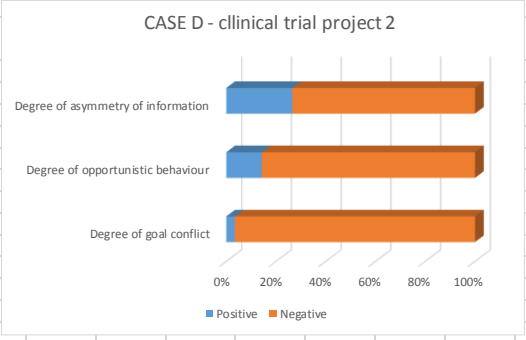
CASE B -construction project 2 - new water reservoir	Statements	
	Positive	Negative
Degree of goal conflict	6	2
Degree of opportunistic behaviour	1	4
Degree of asymmetry of information	7	7



CASE C - clinical trial project 1 - investigational product for the treatment of lung cancer	Statements	
	Positive	Negative
Degree of goal conflict	27	4
Degree of opportunistic behaviour	6	0
Degree of asymmetry of information	38	8



CASE D - clinical trial project 2 - investigational product for the treatment of haemophilia	Statements	
	Positive	Negative
Degree of goal conflict	1	28
Degree of opportunistic behaviour	3	18
Degree of asymmetry of information	13	36



Appendix 2 Degrees of Goal Conflict, Opportunistic Behaviour and Asymmetry of Information