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Service Outsourcing and Procurement in Service Supply Chain：
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Abstract: Along with increasing servitization of business, more and more companies today are shifting from selling only products to suffering integrated and customized products and services that deliver value in use. This change reflects, on one hand, the changing strategies of suppliers and their efforts to stay competitive in the market; on the other hand, it also reflects a change in the attitude of their customers to incorporate service procurement in their business, apart from the traditional goods-approach procurement. This change requires customers to have a systematic framework to handle their relationship with suppliers, and to have a clear picture of the services they need. In this chapter, we will explore, from the perspectives of service buyers, the determining factors behind service procurement and the level of outsourcing. We will also walk through the different forms of service procurement and outsourcing.

Keywords: Service Outsourcing; Service Supply Chain; Service Buyers

1.　SERVICE PROCUREMENT AND OUTSOURCING

A typical value chain involves a combination of basic and auxiliary activities. It is often extremely difficult for companies to fulfill all basic and auxiliary activities at various stages of a value chain using only their own resources and capacity. Therefore, many companies often opt for outsourcing part of the businesses to other service providers, or to phrase it differently, procure services from third-party providers. In recent years, we have observed a growing trend of outsourcing services such as information technology, human resources, and logistics. Renowned outsourced service providers such as Hewitt Associates and Manpower Inc in the field of information technology; Flextronics and Foxconn in the field of contract manufacturing; and Sinotrans Shipping, COSCO, and UPS in the field of logistics services have brought great value to their customers. Indeed, the rise of service providers enables customers to focus on their core competencies through outsourcing non-core activities. And, as their businesses grow, service providers also benefit from better economy of scale and progress.

The definition of service outsourcing and procurement has evolved over the years. According to the business consulting firm, BearingPoint, outsourcing is an emerging service model in which companies delegate non-core businesses to external professional service providers with the support of information technology, and they utilize the knowledge and workforce of the service providers to complete tasks that were formerly conducted in-house. Outsourcing helps enterprises achieve cost reduction, increase efficiency, and improve market responsiveness by making the best out of limited resources. Li and Choi [1]viewed service outsourcing as a choice of replacing internal service functions with the use of external agents to perform one or multiple service activities; service outsourcing is different from manufacturing outsourcing. The differences between goods and service procurement are also echoed by Van Der Valk and Rozemeij er[2] . Lovelock[3] and Zeithaml and Bitner [4]further pointed out that there are four unique characteristics of services, namely, intangibility, heterogeneity, inseparability, and perishability, which make service outsourcing distinctly different from manufacturing outsourcing. The intangible nature of services makes monitoring and measuring performance before and after

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purchase a difficult task for service buyers. Therefore, service providers need to help their customers develop a reference framework in order to review service performance. The inseparability of services chiefly means that production and consumption arc simultaneous in services. Customers need to be present during service provisions and interact with the service providers. Indeed, customers are both consumers and cocreators of serviccs. In this scnse, it is often difficult to distinguish the rights and responsibilities of both parties. Ellram, Tate, and Billington[5] believed that service processes depend to a large extent on the exchange of knowledge, expertise, and capabilities of human beings (which often varies); consequently, it is difficult to produce services with consistent characteristics and quality. Lastly, the fact that services cannot be inventoried adds to the difficulties of accurate planning and forecasting.

Li and Choi[1]suggested that there are fundamental differences in the structural arrangements of service outsourcing and manufacturing.In manufacturing outsourcing, the customer is not in direct contact with suppliers. The manufacturing buyer acts as a bridge between customer and suppliers and has effective control on interactions between its supplier and customer. This relationship in a manufacturing supply chain can be represented as a linear diagram. Meanwhile, in service outsourcing, the service buyer, its customer, and supplier must interact with one another. This more complex relationship in a service supply chain can be represented as a triangular diagram (Figure 1).
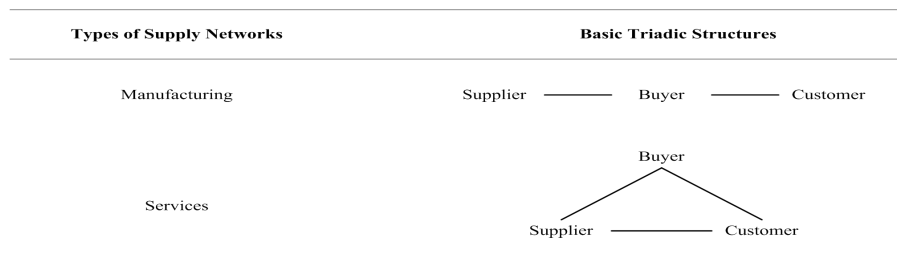
Types of Supply Networks	**Basic Triadic Structures**
Manufacturing	Supplier ——— Buyer ——— Customer
Services	Buyer / Supplier ——— Customer

Fig 1.   Comparison of supply chain triadic relationship structures in manufacturing vs. services

Because of the specific characteristics of service outsourcing, Blumenberg, Wagner, and Beimborn[6] held the view that knowledge management is particularly important in service outsourcing. Indeed, knowledge transfers, effective mechanisms for integration between service providers and its suppliers, and the creation of shared knowledge are critical in service outsourcing[7] .

2.   CIASSIFICATION OF SERVICE OUTSOURCING

Service outsourcing can be classified in different ways on the basis of the following.

2.1   Service content

Based on service content, service outsourcing includes Information Technology Outsourcing (ITO), Business Process Outsourcing (BPO, and Knowledge Process Outsourcing (KPO).ITO can be a combination of product support and professional services to deliver information technology infrastructure, application services, or both to customers. BPO means the delegation of one, or more, information technology-intensive business processes to an external service provider that in turn owns. Administers, and manages the selected process based on defined and measurable performance criteria. Examples include logistics, procurement, human resources, finance, accounting, customer relationship management, and other administrative or customer-facing business functions. KPO focuses on knowledge-intensive business processes that require significant domain expertise, analytical skills, and judgment to assist customers' decision-making.

2.2   Service location

Based on the outsourced service locations, service outsourcing can be classified into three types: onshore outsourcing, near-shore outsourcing, and offshore outsourcing.Onshore outsourcing involves obtaining services from an external service provider within the same country (e.g., a US company outsources its work to an external service provider and the service is performed in the United States). If the work is performed by a service

provider located geographically close to a company, it is called near-shore in-sourcing (e.g., a US company outsources its work to an external service provider and the service is performed in nearby countries in North America). Offshore outsourcing happens when a company has its outsourced work performed by an external party in a location far away from its country (e.g., a US company has its outsourced work performed in India, Russia, and China).

Mode of activity

Cell 1 Captive sourcing/ FDI	Cell 2 Offshoring	Foreign location
Cell 3 Domestic in-house	Cell 4 Inshoring	Domestic location

In-house   outsourcing

Location of activity (to the left of the grid)

Fig 2. Classification of service activities based on location and mode

Peng[8] also factored in geographical dimensions. Based on service location and modes (in-house or outsource), service activities can be classified into four types: off-shoring (international/foreign outsourcing), in-shoring (domestic outsourcing), captive sourcing (setting up subsidiaries abroad-the work is done in-house in a foreign location), and domestic in-house activity (Figure 2).

2.3 Types of outsourcing agreements

Millar[9] put forward four types of outsourcing agreements: (l) general outsourcing (which includes three alternatives: selective outsourcing, value-added outsourcing, and cooperative outsourcing), (2) transitional outsourcing (which involves the migration from one technological platform to another), (3) business process outsourcing (in which a third party service provider is responsible for an entire business function for the customer's organization), and (4) business benefit contracting (which involves a contractual agreement that defines the service provider's contribution to the customer in terms of specific benefits to the business and that the customer will make the payment based on the service provider's ability to deliver the benefits. Willcocks and Lacity[10], on the other hand, introduced six forms of "emerging sourcing arrangements": (l) value-added outsourcing (combining the strengths of the parties of the outsourcing arrangement to launch new products and services), (2) equity holding (one party acquires equity in the other), (3) multi-sourcing (one outsourcing contract for several service providers), (4) co-sourcing (the revenue of the outsourcing service provider is linked to the performance of the company that it serves), (5) spin-offs (the internal information system department is converted into a new company and sells its services to the market, and (6) creative contracting (includes customized clauses to satisfy specific customer requirements) .

As seen, there are various classifications for different outsourcing models. That said, the classifications do not explain in detail the driving forces behind different outsourcing decisions. There are several activities and management components in a service supply chain; customers are usually willing to outsource part of the services and conduct some of the activities in-house. We shall explore the driving forces behind service outsourcing and the extent of service outsourcing.

3. RESOURCES AND CAPABIIITY ACQUISITIONS IN SERVICE OUTSOURCING

Regardless of different service outsourcing decisions, the fundamental motivation behind a company to outsource to a service provider is to acquire the resources, capabilities, or knowledge of the latter through building long-term and stable collaborative relationships. As such, Bustinza, Molina, and Gutierrez-Gutierrez[7] (2010) believed that we can explore the reasons behind service outsourcing from resource-based, capability-based, and knowledge-based aspects of a company. Penrose's[11] widely-acknowledged The Theory of the Growth of the Firm contributed significantly to the resource-based view of a company. For the first time,

intangible assets have been incorporated into the understanding of a company. A company is understood as an administrative framework that links and coordinates the activities of numerous parties as a bundle of productive resources. Later, Barney[12] defined company resources to include assets, capabilities, organizational processes, company attributes, information, and knowledge controlled by a company in order to gain sustained competitive advantage, to improve long-term efficiency and effectiveness. The resource-based view of a company drives the developments of the resource-advantage theory[13], a competition theory which sees resources as heterogeneous across firms and is imperfectly mobile. A company's objective is to obtain superior performance through resource consolidation. The resource-advance theory suggests that the company's resources are the major determining factor of its competitive advantage and profitability. Valuable, rare, difficult-to-imitate, non-tradable, and non-substitutable resources are the necessary conditions for companies to gain a competitive advantage; meanwhile, companies must be able to avoid or neutralize threats to sustain their competitive advantage. Teece[14] suggested that apart from difficult-to-imitate resources, companies must possess the ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments-the ability he refers to as dynamic capabilities. Indeed, constantly changing markets such as new customer demand and technology advances require the company to reconfigure its asset structure and accomplish the necessary internal and external transformation in order to stay ahead of the competition. Day[15] (1994) defined capabilities as a set of a "complex bundle of skills and accumulated knowledge, exercised through organizational processes that enable companies to coordinate activities and make use of their assets." Depending on the orientation and focus of the defining process, there are three types of capabilities: inside-out (internal), outside-in (external), and spanning capabilities. Inside-out capabilities refer to a company's internal resources and capabilities, which can be observed in aspects such as manufacturing, logistics, and human resource management. Outside-in capabilities are a company's capability to sense and respond to market changes and to develop and build relationships with customers. Spanning capabilities are the capabilities of companies to integrate inside-out and outside-in capabilities, which may encompass activities such as strategy development, pricing, product development, and procurement.

As we mentioned in the earlier chapters, operand resources are resources that must be acted upon to be beneficial and are usually finite and in tangible and static forms. On the other hand, operant resources act upon other resources to create benefits such as knowledge, skills, and capabilities. Operant resources are typically dynamic and invisible, and usually require a longer period of collective effort before results can be seen. Generally speaking, if a customer hopes to acquire operand resources, its outsourcing relationship with the service providers tends to be more transaction-driven and has a stronger emphasis on service efficiency. In contrast, if a customer places a stronger emphasis on gaining operant resources, it is more likely for the customer to build a stable partnership with the service provider, and the relationship pays more attention to effectiveness. Danneels[16] further introduced a new dimension to examine the level of interactions between different resources in a service offering and classified resources into two types: composite resources and interconnected resources. Composite resources are a simple combination of two or more basic resources that are owned by different service systems, and there is little interaction among the constituent basic resources, and the combination does not bring synergy. A simple example is the bundle of warehousing, logistics, and distribution in a logistics service menu. On the other hand, interconnected resources are a dynamic combination of resources that create synergy. There is a stronger degree of interactions among the constituent resources. An example would be the bundling of customs clearance, information services, cost management, warehousing, and transportation in a logistics service menu that brings great value for customers.

Given the types of resources as well as the level of their interactions in service offering, we can classify the resources and capabilities acquired by customers in service outsourcing into four types: composite operand resources, composite operant resources, interconnected operand resources, and interconnected operant resources (Figure 3).

	Composite operant resources	Interconnected operant resources
Operant resources		
Type of resources		
Operand resources	Composite operand resources	Interconnected operand resources
	Composite resources	Interconnected resources

Level of interactions between different resources in a service offering

Fig.3 Different types of resources and capabilities acquired by customers in service outsourcing

	In-sourcing services	Vested outsourcing
Operant resources		
Type of resources		
Operand resources	Dispersed service outsourcing	Cluster service outsourcing
	Composite resources	Interconnected resources

Level of interactions between different resources in a service offering

Fig.4 Four types of service outsourcing: perspective of service buyers

4. FOUR TYPES OF SERVICE OUTSOURCING: PERSPECTIVE OF SERVICE BUYERS

Taking into consideration the different types of resources and capabilities acquired in service outsourcing, from the perspective of service buyers, there are tour types of service outsourcing: dispersed service outsourcing, cluster service outsourcing, in-sourcing service, and vested outsourcing (Figure 4).

4.1 Dispersed service outsourcing

In dispersed service outsourcing, service buyers and providers form loose relationships. Service buyers can change their service providers whenever they want. In this type of service outsourcing, service buyers mainly acquire composite operand resources, say, the outsourcing of logistics distribution and warehousing activities to third-party logistics providers. Although these activities are important to service buyers, they do not create much added value and synergy for businesses. Whether service providers can utilize their resources to offer the services efficiently at a low cost is the main concern of service buyers. In other words, in managing the outsourcing activities, service buyers focus mainly on behavior control of the service providers, that is whether the service provisions by providers can meet their standards and expectations, and that quality services are delivered in a consistent manner and at low prices.

As composts operand resources can easily be measured, management of the service outsourcing tends to be contract-centered, instead of being relationship-centered. Service buyers tend to use contracts to state in detail the service specifications and requirements. Service providers must offer their services according to contracts; effective execution forms the basis for any further cooperation.

4.2 Cluster service outsourcing

Cluster service outsourcing means that in the acquisition of basic interconnected operand resources (or sometimes part of the operant resources), service providers not only pay attention to the capability of the service providers, but also place heavy emphasis on whether the services are provided in industry clusters. Cluster service outsourcing relies on service providers in industry clusters to supply interconnected operand resources and some of the operant resources. For instance, in the outsourcing of software design, development, and project management, service buyers are more focused on whether the location of the service provision enjoys industry cluster advantages. In recent years, cluster service outsourcing has been gaining attention.

In fact, the development of industry clusters has drawn the attention of economists as well as sociologists. The United Nations Industrial Development Organization defines "clusters as agglomerations of interconnected companies and associated institutions. Firms in a cluster produce similar or related goods or services and are supported by a range of dedicated institutions located in spatial proximity, such as business associations or training and technical assistance providers." The importance of clusters has also been highlighted by Porter. Porter[17]defined clusters as "geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions in particular fields that compete but also cooperate." DeWitt, Giunipero, and Melton[18] suggested that clusters demonstrate three characteristics: physical proximity, core competencies, and relationships.

Clusters support companies in a number of ways, such as product development, production process improvement, technology, and marketing information[19]. Birkinshaw and Hood[20] empirically demonstrated that clustered companies enjoy much stronger supplier customer bonds, government support, and decision-making autonomy than non-clustered companies. Porter[17] explains how clusters affect competition in three ways: by raising the productivity of companies based in the area; by driving the direction and pace of innovation; and by stimulating the formation of new businesses within the cluster. From different studies on clusters, we can conclude that because of geographical proximity and more frequent transactions of clustered companies, clusters create an environment that fosters communication, coordination, interdependence, and trust for businesses based in the area, and this helps lower transaction costs and facilitates cooperation between upstream and downstream players. Companies in clusters benefit from network-based effects, particularly from enhanced social interactions[21]. Clusters create a more transparent environment that enables interconnected operand resources to come into full play. Unlike composite operand resources that companies can easily exercise control upon, interconnected operand resources are often complementary to one another-an open and transparent environment to allow effective and dynamic interactions of con- stouten resources are critical to create synergy, so that companies can lower system-wide transaction costs. This explains why practitioners tend to be more willing to outsource production operations to countries such as China and Mexico, but generally hold a more cautious attitude toward service outsourcing to these countries. According to a research study by Gartner, an information technology research and advisory company, 50% of all outsourcing contracts failed to meet expectations. Another study by global management consulting company PA Consulting Group suggested that only 3g% of the interviewed companies extended their outsourcing contracts; 66% of companies were dissatisfied with the outsourcing projects, of which 15% had terminated their outsourcing contracts.

Major reasons behind the reluctance in service outsourcing include failure in compliance, cultural differences and difficulty in supplier integration. In the past, off-shoring was very popular within the global outsourcing industry; the primary goal of service users was to lower costs. However, near-shoring has emerged as a growing trend since 2008. Apart from cost reduction, more and more service users prefer that their outsourced service providers be located in the same cluster, so as to achieve better synergy. The rise of Mexico as the top choice for manufacturing near-shoring of US companies is a case in point. Outsourcing to Mexico offers a number of advantages for US companies. First, the proximity to the United States-it takes between two and four hours of flight travel from various US locations to Mexico; US companies can enjoy huge cost savings working with Mexican service providers. Second, Mexico and the United States are in the same time zone. US companies can communicate easily with their Mexican service providers and grasp the latest developments in businesses. Third, compared with other countries, the American influence on Mexican culture facilitates communications between the service users and providers. Fourth, the Mexican government is highly supportive toward IT outsourcing in the country. With a series of government incentives such as Prosoft (Mexico's software industry development initiative), the number of IT companies in Mexico has climbed from 200 to 2,095. The Mexican government announced in 2011 that it would allocate bout 240 million US dollars to promote the IT industry developments in the country. It is hoped that the IT industry output will reach USD 150 billion by 2013.

Apart from using contracts to manage service providers, cluster service outsourcing tends to be more relationship-centered, that is, as mentioned by Gulati[22], the parties place more emphasis on the length and quality of cooperation and customer satisfaction and these attributes form the basis for any further cooperation. The focus on relationships can be reflected in the investments in relationship-specific assets, which refers to the spec investments made by suppliers to implement customization for their buyers[23]. Wernerfelt[24] referred to relationship-specific assets as resources developed by both service users and providers for shared use in long-term business relationships. Empirical studies by Zaheer and Venkatraman[25]proved that relationship-specific investments foster a long-term relationship between companies and help eliminate opportunistic behavior.

4.3 In-sourcing service

As opposed to outsourcing, in-sourcing is the practice of subcontracting work to another party, which is internal, and yet not a part of the organization. In The World is Flat, Friedman[26] used UPS as a primary example for in-sourcing. Toshiba computers are repaired at the UPS hub by UPS employees, on behalf of Toshiba. Indeed, the disadvantages of the outsourcing model have prompted some companies to consider in-sourcing; the disadvantages include customer dissatisfaction, threat to security and confidentiality, quality problems due to lower costs, and changes in government policy that eliminate the low cost advantage of the service providers[27]. These problems are the most prominent in service users' acquisition of intangible operant resources. Clemons and Hitt[28] brought to attention the problem of bounded contractibility, which leads to increases in transaction costs. Bounded contractibility chiefly says that it is not always easy to anticipate different issues in outsourcing as not all behavior can be measured and specified in an enforceable contract. Bounded contractibility may be due to limited foresight (the impossibility to anticipate all possible future conditions), limited observability (not all behaviors of interest are observable, or unambiguously verifiable), and cognitive limitations. In-sourcing, on the other hand, allows the service users to have better control over the value chains, internally integrate with service providers more effectively, and avoid increases in indirect or transactional costs due to external uncertainties.

The in-sourcing of the logistics operations of Nike China to LF Logistics in 2011 is a typical example of service supply chain in-sourcing. In February 2011, Nike announced the opening of its largest distribution center in Asia, the China Logistics Center in Taiwan, Jiangsu. The distribution center covers an area of 460 mus with a building area of 200,000 square meters. The center has two parts-the first part is used for receiving, storage, sorting, and delivery; the other part is used for the storage and distribution of its footwear products. I.F Logistics is responsible for the logistics operations of all Nike apparel, footwear, sports gear, and golf products in China. A driver of the cooperation with LF Logistics is that Nike considers the speed of order processing as the key to its success in China. Indeed, the company set an ambitious target of doubling its sales revenue from RMB 10 billion in 2011 to RMB 20 billion in 2015. However, the problem of lost sales due to poor order fulfillment is a dampener for many sports companies in China, including Nike. Apart from its self-operated stores, Nike also sells its footwear through some established distributors in China, such as Belle; but often, customers cannot find the Nike shoes they want in Belle stores due to poor fulfillment. As such, Nike built its distribution center in Taicang in a bid to shorten the distribution time and streamline the overall logistics operations with new technology applications.

Understanding successful modern logistics operations such as the use of warehousing management system (WMS), radio-frequency identification (RFID), voice recognition system, and so on requires a great deal of technical knowledge and management capabilities. Nike hopes to leverage on the knowledge and capabilities of an advanced third-party service provider instead of carrying out at the processes in-house. However, as logistics operations and other relevant order processing activities such as labeling are of strategic importance to the sales operations of Nike, the company wants to have better control over these activities and therefore, logistics outsourcing is not an option. Eventually, LF Logistics was chosen as exclusive service provider for Nike; LF Logistics would offer to Nike a comprehensive range of logistics and management services in the Taicang distribution center. All asset investments in the distribution center were made by Nike. The in-sourcing arrangements helped enhance its logistics performance in China; at the same time, Nike is freed from the burden of non-core logistics operations in China and can focus on product development and sales. In-sourcing service users tend to pay better attention to operand resources; therefore, apart from using contracts to manage service providers, managing in-sourcing service tends to be more relationship-centered. This can be reflected in the investments in human capital- and knowledge-driven relationship-specific assets. Besides, in-sourcing relationships are built on a high level of trust.

4.4 Vested outsourcing

Vested outsourcing is a concept introduced by Vitasck and Ledyard in the article Vested Outsourcing: A

Better Way to Outsource in Harvard Business Review in 2009. Later in August 2010, Vitasek and Ledyard discussed the concept again in the article Vested Outsourcing: Game-Changing Rules for Outsourcing in Globalization Today. Vitasek and Ledyard[29] [30] pointed out that the traditional descriptions of outsourcing have described three types of relationships: (l) transactional (where a certain distance is maintained from the service provider. with a unit price and a purchase order for each service), (2) preferred supplier (where a supplier is prequalified and there may be a long-term agreement; a blanket purchase order is used), and (3) strategic alliance (which is characterized by a high-level relationship between the buyer and service provider, with shared intelligence and operational tie-ins. Vested outsourcing, as Vitasek and Ledyard (ibid.) have claimed, is a fundamental business model paradigm shift in how a company and its outsourcing service providers conduct business. It creates a new level between the preferred supplier and strategic alliance .The heart of the vested outsourcing contract is an agreement on desired outcomes, which explicitly states the results on which both companies will base their contract. The vested outsourcing agreement defines financial rewards or penalties for exceeding or not meeting the desired outcomes. Vested outsourcing is not gain sharing. The service provider is challenged to provide brainpower and/or investments to solve the buyer's problem. Providers may also take on risks to accomplish this, in essence, putting 'skin in the game: The result is a win-win vested outsourcing partnership." Vitasek and Ledyard suggested that "vested outsourcing is more focused than a strategic alliance, and does not require as much operational infrastructure. But it takes the preferred supplier relationship to a whole new level."

Vitasek and Ledyard (ibid.) suggested that Microsoft and Intel, both well-known for their innovative cultures, are early advocates for vested outsourcing. Microsoft has successfully adopted this model for its facilities management and accounting, and was awarded for its cooperation with Accenture, in which the latter manages Microsoft's back office procure- to-pay process. However, adopting the new model is challenging for many businesses. Vitasek and Ledyard (ibid.) quoted the advice by Tim McBride, CPO, for Microsoft: "We have learned that applying a vested outsourcing philosophy requires a cultural change in how we will need to work with our suppliers. For Microsoft, this means exploring vested outsourcing one program and one supplier at a time-working to build trust with our supply base and business units that outsource to understand that there really is a   better way." Although no vested outsourcing relationships are the same, they are all based on common causes of boosting innovation, optimizing services, lowering the costs for service users, as well as enhancing the profits of service providers. Vested outsourcing is more effective than rewarding excellent services solely by giving bonuses.

The basic principle of vested outsourcing is to encourage service providers to proactively explore different means such as operations improvements, new technology, and capabilities to benefit their customers. Unlike traditional outsourcing where service providers get paid to perform a designated business activity, in a vested outsourcing relationship, service providers are paid to solve problems for their service users. This means that service providers are challenged to input intelligence or capital to solve their customers' problems, and furthermore, they have the risks transferred to themselves when promising greater value creation for their customers. In exchange, service users allow their service providers to reap bigger profit potentials than industry average to achieve ever-increasing value creation. Service users and providers develop performance-based solutions such that interests of both sides are aligned, and they are essentially vested in each others' success. Vested outsourcing is a win-win partnership. Unlike different types of outsourcing, vested outsourcing focuses its attention on interconnected operant resources. It highlights the importance of knowledge and innovation to realize mutual benefits.

Vested outsourcing calls for a change in management mindsets. Although the importance of partnership is widely recognized in traditional outsourcing, companies optimize partnerships for their own self-interests. The self-interests-come-first attitude is reflected in "What's in it for me?" (the WIIFMe mentality). Vested outsourcing, on the other hand, concerns "What's in it for we?". Vested outsourcing seeks to unlock a greater system-wide opportunity, instead of maximizing the benefits of a single side. Obviously, this requires the commitment and efforts of both sides. Service users should not think of themselves being exempt from the

outsourced activities; on the contrary, they have to communicate with their service providers on a regular and frequent basis to set new targets and manage the work. The true WIIFWE mentality is new to many companies; both service providers and users have to learn to operate under this new philosophy.

Human relationships play a crucial role in successful vested outsourcing. In a vested outsourcing relationship, both service providers and users work together upon mutual trusts, and both are responsible for achieving the outcomes. There are five major rules to build a win-win vested outsourcing relationship.

Rule l: Focus on outcomes, not transactions. Many traditional outsourcing arrangements are transaction based. Most of the time, this model uses a cost-plus or a competitively bid fixed-price-per-transaction pricing model to ensure that the service buyer get the lowest cost per transaction. This could mean that the more inefficient the business process, the more profitable the service provider. Vested outsourcing, on the other hand, is outcome-based. The service providers are paid after achieving the desired outcomes. With the interests of both sides aligned, vested outsourcing offers more efficient solutions at lower costs.

Rule 2: Service users focus on the WHAT not the HOW. In vested outsourcing relationships, service users purchase their services differently. Instead of designating how service providers should offer support to their businesses, service users specify what their goals are and shift the responsibility of determining how the services should be delivered to the service provider. The rationale behind this is that service providers outsource business activities that they are less capable of handling, and leave it to the service providers to use their expertise and decide how to get things done to yield better results.

Rule 3: Agree on clearly defined and measurable outcomes. In a vested outsourcing relationship, both service users and providers agree on clearly defined and measurable desired outcomes. Both sides should spend time together during the outsourcing process, and in particular, during contract negotiations, to establish explicit definitions for how the desired outcomes will be measured. The service provider can propose a pricing model that specifies the required level of performance at a predetermined price. Under vested outsourcing, service providers are paid for the value they deliver, instead of the activities performed.

Rule 4: Optimize pricing model incentives for cost/service trade-offs. Vested outsourcing relationship adopts a pricing model that incorporates incentives for the most optimal cost and service trade-off. When establishing the pricing model, there are two principles: (1) risk and reward for both service users and providers must be balanced and (2) it must specify that service providers will deliver solutions, not just business activities. Vested outsourcing does not guarantee higher profits for service providers, but it grants service providers the discretionary power to make strategic investments in service processes that may generate greater returns on investment.

Rule 5: Governance structure provides insight, not merely oversight. In traditional outsourcing, some service users simply outsource their activities to service providers with poorly defined requirements and often without any performance metrics or service level agreements. Some service users, on the other hand, have gone to another extreme and require service providers to be strict rule followers. Vested outsourcing relationships see service providers as real experts in the outsourced area. Therefore, the governance structure highlights the importance of good communications rather than supervision, to exchange insight.

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