



Towards understanding the value of the client's aspirations and fears in complex, long-term service contracts

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Why this paper might be of interest to Alliance Partners:

The paper highlights challenges faced in translating client aspirations and fears into a complex service support contract and the potential benefits of understanding the clients' full requirements, even though they may be unaffordable or too difficult to contract. The paper asserts that stakeholders must understand their mutual requirements fully to help generate a relationship where even un-contracted service requirements are understood and respected. Without that understanding service improvement will be difficult to achieve.

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Towards Understanding the Value of the Client's Aspirations and Fears in Complex, Long-term Service Contracts

John Mills¹, Glenn Parry & Valerie Purchase

Abstract

This paper focuses on the translation of public sector client aspirations and fears into a specification of the services necessary for a complex, long-term service availability contract. The contract is complex in many senses including that many independent organisations must work together to deliver contracted service outcomes and long-term being in excess of 10 years. These factors imply the need for enterprise level management processes in addition to stakeholder centric management. The alignment between the contracted services and the client's needs are investigated and the implications of partial mis-matches are discussed. Particular issues raised are the effect on behaviours around contract operation; potentially missed opportunities to co-create value and build trust; and challenges to the achievement of enterprise-wide management processes. The research highlights the potential role of evolving and explicitly shared Client and Provider aspirations and fears as a basis for enterprise-wide management.

1.1 Introduction and Case Background

Normative first steps in taking an enterprise (Binder & Clegg, 1977) perspective of a complex availability contract are: first, to define the boundaries of the enterprise - what is included and what is not? And second, to identify the interests and value propositions of the enterprise as a whole and its constituent organisations. Research described in Chapter 2 of '*Complex Engineering Service Systems*', Concepts and Research, Ng, I et al. (Eds.), 2011, developed a visualisation of a complex support enterprise, a first step in developing a generic visualisation capable of improving understanding of the interfaces, leadership, and management challenges in complex multi-organisational contracts between Business and Public sector (Mills et al, 2009b).

The enterprise environment is inherently complex and Chapter 3 of '*Complex Engineering Service Systems*', Concepts and Research, Ng, I. et al (Eds.), 2011, has begun to systematically identify the complexity factors present. However, the focus of this paper is on the role of client and provider value aspirations and partial mis-matches between these aspirations and the realities of the contract. An unexpectedly ambiguous environment was one result for front-line industrial providers where the lead providers were surprised to find that changes to plans were frequent; sudden, unexpected additions to the contract were the norm, and working outside the contract seemed essential to satisfy the on-base client.

A military fast jet, through-life availability contract² provides the context for the study. The support front office is located in an RAF (Royal Air Force) base in the UK and is supported by

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² ATTAC (Availability Transformation: Tornado Aircraft Contracts) is a long-term, whole-aircraft availability contract where BAE Systems take prime responsibility to provide Tornado aircraft with depth support and upgrades, incentivised to achieve defined levels of available aircraft, spares and technical support at a target cost.

client, provider and third party on- and off-base organisations. This paper focuses on those organisations with an on-base (front office) presence; see Figure 1.

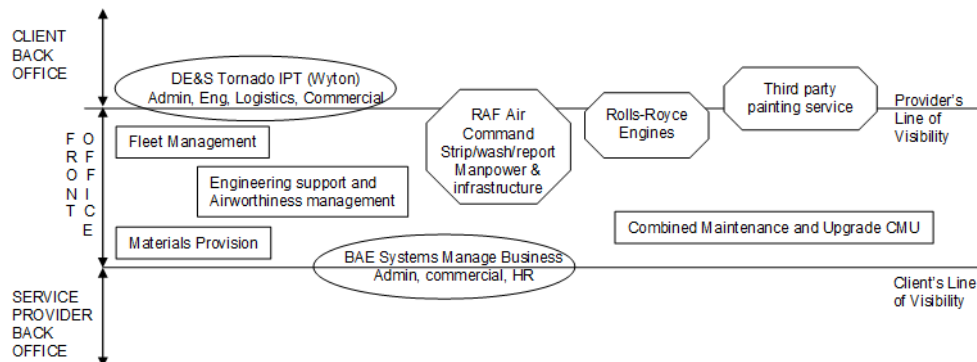


Figure 1. Enterprise Image of on-base ATTAC organisations

The principals involved in the ATTAC contract are:

- BAE Systems as the lead provider
- DE&S (Defence Equipment and Support) as the original providers of the support service and the negotiators of the contract on behalf of the ultimate client
- The MoD (Ministry of Defence) as the ultimate client
- RAF Air Command as the users of the Tornado aircraft and who direct the activities of squadrons and aircrew.

On-base, several types of organisation were found (Mills et al, 2009b):

1. *Partnered Direct Service Delivery Organisations*: They are managed by the lead provider (BAE Systems), located where the operational services are delivered and composed of BAE Systems and Air Command staff:

- Combined Maintenance and Upgrade (CMU) includes most of the main hangar activities that carry out the depth maintenance and upgrade activities resulting in aircraft with increased available flying hours.
- Fleet management provides the planning activities that translate the Forward Squadron requirements into the schedule of aircraft through CMU.
- Engineering Support and Airworthiness management resolves technical queries and safety issues.
- Materials provision plans and expedites spares and repair requirements to supply CMU and Forward squadrons

2. *Independent Direct Service Delivery Organisations*. These are organisations that are not managed by or responsible to BAE Systems, but are critical dependencies on the delivery of the service. In this case there are three such organisations:

- Rolls-Royce manages the repair and overhaul of Tornado engines via a contract between themselves and the MoD
- SERCO provides a painting service via a contract between themselves and MoD
- RAF Air Command retained management of several key areas of depth maintenance: the strip and wash process and strip report and all work connected with ejector seats

and weapons. They also manage the hangars' upkeep, power supplies and information technology infrastructure and provide technicians, engineers and management personnel to the Partnered Direct Service Delivery Organisations

3. *Specific Contract Focused Organisations*. These organisations are managed by BAE Systems or the Client and are focused solely on the focal contract. They may be located with the operational service provision, remotely, or spread between them. In this case there are two such organisations:

- The “Manage Business” organisation is controlled by BAE Systems and operates mainly on-base. It covers the commercial, administrative, and human resource needs of the contract.
- The Tornado IPT (Integrated Project Team) is controlled by the MoD via DE & S and contains staff covering administration, engineering, logistics, and commercial support for ATTAC.

Given this necessary introduction to the case context the paper proceeds as follows:

- A literature review of research in the area of outsourcing complex services and the extra issues involved with outsourcing publicly funded services to industry
- A brief description of the research methodology used
- Case analysis leading to the identification of the aspirations and motivations of Providers and Clients and a summary set of services required to deliver these aspirations
- A discussion of the issues raised
- A summary of findings and directions for future research.

1.2 Literature Review

With a clear trend toward increasing specialisation among firms (Mills et al, 2004) as they develop and concentrate upon their core competence has come an inevitable emergence of notions like “Knowledge-Sharing Network” (Dyer & Nobeoka, 2000) - sets of firms with complementary competences that collaborate to deliver products and/or services, or “Virtual Organisations” (Ahuja & Corley, 1999) - a form of extended firm suited to the delivery of products and services that are competence-based. While firms have always been a part of multiple networks, their dependence on other network members and hence their inability to fully control their output, has grown alongside or as a consequence of the narrowing scope of their competences. Thus, calls for the need to take a wider “Enterprise” or “Network” perspective have grown in parallel with the need to understand and articulate competence in terms of an individual firm’s value proposition.

The service enterprise presented here is composed of multiple independent organisations, as shown in Figure 1. The services are highly customer specific, related to the particular requirements of the product in the client’s context. Mathieu (2001b) deliberately used the term ‘client’ instead of customer to emphasise a major change in the relationship necessary when transforming from equipment to service provider. ‘Client’ implied a professional, expert, service provider capable of delivering confidential advice, attention, and support. The technical quality of the product might even become a hygiene factor in some contexts, for the client is looking for a ‘solutions provider’ (Galbraith, 2002b; Davies, 2004; Davies et al, 2007; Windahl et al, 2004). The provider charges a fixed price to provide specified services over a set period rather than charging for each service event (e.g., breakdown or upgrade). The provider takes on the risk of

equipment failure, establishing contracts that offer a set level of operational availability, often combined with a specified response time in the event of failure (Oliva & Kallenberg, 2003). The notion of *availability* enables the client to evaluate the value or worth of the provider's offer compared to their current internal and external costs of ownership. The profitability of an individual contract is largely dependent on the provider's assessment of failure risk and the combined ability of provider and client to co-produce (Ramirez, 1999) and co-create (Vargo & Lusch, 2006, 2008) improved returns from this new arrangement. The challenges to making this transition are wide in scope and time consuming to achieve for both main provider and client. In addition to responding to new sources of profit and cost (Markeset & Kumar, 2004), new capabilities are required in four domains (Windahl et al, 2004). Of these, partnering and networking skills are a particular focus here. Researchers are increasingly realising that client-provider partnering is a very limited view of the partnerships a solution provider must enter. Windahl and Lakemond (2006) emphasise the importance of partnerships within different departments in the solution provider, within the client and with other independent organisations necessary to produce the solution. Another difficulty is the need to share closely held design and/or financial data with partners and be honest about one another's performance (Foote et al, 2001). To illustrate the nature of the solution provider-client relationship, Helander & Moller (2007) assert that the solution supplier's senior management and client peers must interact over the sensitive out-sourcing of key functions and co-development and management of solutions over the long term. In other words the strategic direction of each partner must be shared. It becomes very clear that the "co-creation" of value (Vargo & Lusch, 2006, 2008) requires 'co-management' by client and provider and that developing and managing enterprise-wide management processes may be central to enterprise success.

Jost et al's (2005) study of private consortia taking over services previously provided by the UK public sector describes factors that help build successful relationships in this context. Jost et al's (2005) findings focus on three key activities at different levels of organisation – individual (assuring continuity), group (team-building) and organisation (reconciliation of objectives) – underpinned by the concept of trust (Vangen & Huxham, 2003). The study also drew attention to the uncertainty in such contracts – all eventualities cannot be predicted at the outset and activities to reconcile objectives occur repeatedly in a cycle of negotiate, commit and execute (Smith Ring & Van de Ven, 1992 & 1994). While the co-creation of value remains central in these contracts, the cultural differences between public sector and commercial constituencies may add another challenge. For example the confusion created for military partners, used to visible symbols of rank and authority, by an indistinguishable set of suited industrial managers was significant – who was in charge? This is a fascinating area but outside the scope of this paper.

The research explores challenges predominantly at the organisation level concerned with reconciliation of objectives viewed from the translation of predominantly client aspirations and fears into services required in ATTAC.

1.3 Research Methodology

Case study research is useful when the aim of research is to answer 'how' and 'why' questions (Yin, 1984). This matches our wider aim of improving understanding of how and why such complex service provision contracts actually materialise in practice, as perceived by involved (and uninvolved) actors in the provider and client. Though our overall focus was on

understanding the obstacles and enablers to effectively implementing the service provision contract, our focus in this paper is on the service enterprise management issues raised and how these might be better and more widely understood.

The particular case study was chosen for two main reasons - it was the first of its scale and complexity between the Provider and the Client. Since both parties intended to continue to let and bid for such contracts, this first attempt was an opportunity for both parties to learn. This interest in learning from experience enabled the researchers to gain greater access to partner organisations - six Client and 22 Provider interviews were conducted. In this paper we differentiate between informants from the industrial on-base providers, Air Command (the product user) and DE&S (the negotiators of the contract on behalf of the MoD). For reasons of confidentiality, detailed roles are not divulged.

Key questions for this paper concerned the client motivations to involve industry in the provision of Tornado support and the motivations of industry to accept this opportunity. What value was expected for each stakeholder and had this materialised? These questions also provoked discussion from some client constituencies on what value had been put at risk by the contract and from the provider on what value was at risk through unanticipated requirements and dependencies in the task.

All interviews were recorded and transcribed. The case study analysis presented in the paper has been rigorously validated through a series of presentations to key customer and provider contract and support functions. Written reports have also been made available for validation and feedback (Yin, 2003). A full description of the case study analysis methods are described in Chapter 2 of *'Complex Engineering Service Systems'*, Concepts and Research, Ng, I.; Parry, G.; Wild, P.; McFarlane, D.; Tasker, P. (Eds.), 2011.

1.4 Case Analysis

The analysis will examine the ATTAC case in terms of value aspirations and fears for each of the key stakeholders taken from relevant documents and case study interviews. The research findings will be presented in two sections: lead provider strategic motivation, and client motivations and requirements from the outsourcing including MoD, DE & S, and Air Command perspectives.

1.4.1 Provider Motivations and Aspirations

The provider motivation for entering this contract was based on two major factors, first the Joint Strike Fighter contract funded predominantly by the USA and UK appeared to be the last manned defence platform that would be developed for a considerable time. Defence air programmes were now much more likely to involve Unmanned Aerial Vehicles (UAVs). Second, the UK government (Defence Industrial Strategy, 2005) was, and remains keen to move toward partnering on aircraft maintenance and support, providing alternative income for Defence OEMs (Original Equipment Manufacturers) that could help maintain the capabilities necessary for upgrading manned aircraft.

BAE Systems expected to continue support for Tornado and develop support contracts for two more fast jet platforms - Harrier and the Eurofighter (Typhoon). Since opportunities for OEMs and others to partner with governments in Defence support are increasing rapidly in the UK,

USA and elsewhere, the support business was seen as an important new market for Defence OEMs. This market was expected to provide steady ongoing profits from long-term contracts.

This motivation was widely recognised by service provider and client respondents. Better procedures for delivering the contract were expected by both parties to lead to increased profits for BAE Systems and ultimately in gain share for the MoD. There were, however, tensions and a lack of trust in the commercial values that were evident at the early stages of the contract implementation. Clients were suspicious of provider motivations who may 'still see it as a game that they have to go out and win'. There were also fears that having given this type of contract to industry, this may become a monopoly and result in price increases.

There was evidence, however, that such concerns reduced with experience of contract delivery. Significantly, on-base provider respondents did not tend to discuss their commercial motivations, focusing instead on the client's motivations and how the service provider might support the achievement of these objectives. This may have been due to an awareness of potentially conflicting values or may have been evidence of reconciling objectives through adopting the client's objectives. As the first major contract of its type, BAE Systems and the UK MoD were keen for it to be a success.

1.4.2 Client Motivations, Aspirations and Fears

The Defence Industrial Strategy White Paper (2005) set out the MoD/UK government perspective on partnering with industry. It was widely accepted by all interviewees that the principal motivation for outsourcing Tornado support (and subsequently support of other Defence assets) was to reduce the cost per flying hour. The ATTAC contract offered savings of £510 million over 10 years. These savings arose from reductions in RAF and civilian-related personnel and the improvements a commercial organisation was expected to bring to the task.

From the DE&S perspective, the organisation previously tasked with Tornado support, their task became one of negotiating a reduction in the price per flying hour and helping to implement the contract.

Further reductions were also expected from a gain/share agreement within the contract - with an open book partnership, savings made in excess of target would be shared between client and provider. Particular areas such as supply chain management were seen as ripe for cost reduction.

There was thus a strong requirement that cost reduction would be ongoing. The need for a cost reduction service is clear with a lead from the lead provider. One major source of cost reduction concerns the problems that arise in the forward squadrons that are corrected without provider input. Sometimes, mis-diagnosis leads to a repair cycle costing over £30K and a result of "no fault found". Good data on these events can be difficult to obtain and the provider could justly ask that Air Command cooperate to provide an improved data service on these events.

However, reducing costs could not be achieved without other effects. The manpower reductions were felt to limit the flexibility of an organisation whose purpose called for very fast response. The old organisational arrangements were considered to be 'almost infinitely flexible' and thus could cope with 'surges and unexpected events'.

There is a strong requirement that the provider will be as flexible as possible. The importance of this aspect should not be under-estimated for the level of flexibility potentially required by a military defence client is difficult, if not impossible, to cover in a contract.

However, this requirement was fully recognised by the on-base industrial providers. They recognised their customers' concerns; that retaining flexibility was 'hugely important'; and that 'politicians will change their mind' resulting in new operational requirements and the need to change plans.

The manpower reduction had further consequences - potentially reducing the RAF's engineering knowledge and capability and implying changes in career structures. As industry assumes management of such contracts, there were concerns that there may be fewer career routes for service personnel who would be moving beyond operational duties and would have traditionally played a role within Integrated Project Teams. Such roles gave service personnel important knowledge and understanding of the system and skills sets working with industry.

Having fewer graduate engineers implied a change in career pattern to establish and maintain a new balance of scope and depth of knowledge and skills.

The Air Command perspective was not covered in depth in our interviews; however two potential losses in value from the new arrangements needed to be guarded against. The first concerned the skills of the technicians and whether they would be as well trained as before in a hangar managed by an industrial provider. In-depth skills give RAF technicians an understanding of the aircraft that can be used in the front line and the loss of such skills would be detrimental. Having fewer service technicians implied an adaptation of training procedures to maintain new net skill levels.

The second potential danger was a cultural factor. The defence customer emphasised that 'respite' from operational duties was an important factor for service personnel involved in delivering the ATTAC contract. In relation to this issue, it was important that personnel should not leave their squadron where they felt pride in their defence role, to then feel that they had been 'abandoned for a few years in a civilian organisation'. There was therefore a necessity to maintain the 'military culture' by ensuring that such personnel were not a minority in a largely civilian community.

1.4.3 Sample of Services Required to Deliver Client and Provider Aspirations and Fears

Having understood the context and the value propositions, it becomes possible to express the value propositions that have been contracted for and express them in terms of the service bundles offered (Vargo & Lusch, 2008). Table 1 summarises the operational services within the contract, those support services implicit in the contract, and un-contracted services.

We do not claim that this collection of services is comprehensive; they do however provide examples of client aspirations and fears translated into services required by the client whether they have been explicitly recorded in the contract or contracted for at any level.



Contracted Operational Services	Lead
Depth maintenance service (CMU)	BAE Systems
Fleet management service	BAE Systems
Engineering support and Airworthiness data management service	BAE Systems
Materials provision service to CMU and Forward Squadrons	BAE Systems
Support Services Implicit in the Contract	
Training service for Industrial technicians and engineers	BAE Systems
Training service for RAF technicians and engineers	Air Command
Cost reduction and improvement service	BAE Systems
Forward data provision service on faults	Air Command
Service to support and develop the hangar infrastructure	Air Command
Service to provide strip, wash, ejector seat and weapons aspects of depth maintenance	Air Command
Service to assist integration with contracts outside ATTAC e.g. Engines and Painting	Air Command
Commercial service providing open book data, quotations etc.	BAE Systems
Un-contracted Services	
Highly responsive service on all operational services	BAE Systems
Skills maintenance and development service for RAF technicians	BAE Systems
Skills maintenance and development service for RAF graduate engineers	BAE Systems
Respite provision service that maintains the RAF ethos	BAE Systems

Table 1 Samples of Contracted, Implicit and Un-contracted services

1.5 Discussion of Issues Raised

As in many other outsourcing decisions, reductions in cost for the client and the prospect of profit for the provider lie at the heart of the decision. A cost focus on the client's part invariably leads to losses in value – increased dependence on the provider, a potentially slower response to emergencies, and effects on careers in the client organisation. In this section we discuss un-contracted services and implicit services.

1.5.1 Un-Contracted Services

Flexibility and Responsiveness: On-base provider personnel are well aware of the client's requirement for fast response; indeed it is not advisable to refer to the contract when a new requirement arises, for the on-base client interprets that behaviour as lack of flexibility. The need to be highly flexible and responsive creates challenges for the service provider. It was suggested that it would be 'very rare that we would say 'No'. It was often necessary to meet the defence customers' needs and agree afterwards how this should be handled in terms of the contracted agreements. This would mean that the provider needed to rely on, for example, 'minutes of meeting for their authorisation to undertake work'. This process of meeting requirements and negotiating contractual impact afterwards relied heavily on mutual trust between provider and customer, and presented challenges for the provider.

The client's behaviour when fast response is needed is to ignore costs. They do not expect to discuss how much the new requirement may cost – they expect action, costs can be discussed later. Commercial providers try hard to avoid spending money on tasks that are barely defined and for which no formal order exists. Responsive behaviours that please the client are not always understood in the provider's back office.

Nevertheless it can be no surprise that the client has not fully³ put their flexibility and responsiveness needs in the contract since commercially, the provider would be taking huge risks and the contract price would rise substantially. The client therefore chooses to pay separately for each new requirement for fast response. The on-base providers had become reconciled to the client's need for flexibility and fast response. However, there was less acceptance of the provider's commercial requirements, with little progress on alternative co-created administration processes to handle emergencies and help on-base providers satisfy their back office managers and accountants.

Skills maintenance: The fear of loss of product capability and knowledge is likely to remain important since in forward positions, the squadrons need good current knowledge of their aircraft. They do not outsource the whole of Tornado support and remain involved in depth support for sound strategic reasons. Thus with lower numbers of RAF engineers and fewer opportunities for advancement, the development and maintenance of past levels of RAF capability will need active co-operation from industrial partners. For example, in planning actual movements into the roles necessary to equip RAF engineers for more senior roles, the RAF no longer has full control over each role; the provider's staff occupy many of these roles. Thus the two services in Table 1 that provide manpower from Provider and Client into the Partnered Direct Service organisations will need to be strongly linked. This issue, a problem for the RAF and an opportunity for the provider, is not unanimously appreciated. It may be regarded as a chore rather than a critical piece of value add for the client since the provider can feel that 'by the time we've trained them up, they're thinking of the next posting'.

The provider and client have an opportunity to co-create an improved service in this area. A review and modification of both technician and engineer training and education may enable training to be delivered more swiftly. These trained engineers and technicians benefit the provider since they are more capable of carrying out depth support; they benefit the client by enabling technicians and engineers to gain and maintain more capability than otherwise; and finally they benefit client and provider by maintaining and developing the client's technical and commercial intelligence.

Respite: The provider is implicitly required to provide a respite service that maintains an RAF ethos embedded in the partnered organisations they manage. There is already some sensitivity to this on base among BAE Systems managers in terms of what can and can't be done with RAF technicians. This is a semi-reactive stance but articulated explicitly as here, this service could provide a trigger for ideas to further improve mutual understanding and respect in provider-client relationships. This is another significant opportunity for value co-creation between client and provider.

1.5.2 Implicit Services

Most of the implicit services in Table 1 concern dependencies for the effective provision of contracted operational services. These are generally well represented in the contract and are an acknowledgement of the need for client and provider to co-operate to deliver the operational metrics specified in the contract. The cost reduction and improvement service, however, is less well described. As shown in Section 1.4.2, ongoing cost reduction is expected by the client yet the contract appears to say little of how a cost reduction service might work. Compared to the

³ The contract does address "surge" requirements using the key metrics, however many requirements for flexibility are completely new.

other implicit services, a cost reduction service can involve any of the stakeholders in the client and provider organisations and extend into the supply chain. It is therefore a key “enterprise level” service, requiring involvement, co-operation and effort to implement new processes and ways of working across multiple stakeholders. It could also reasonably generate new implicit service requirements. For example, the forward data provision service on faults; see Table 1.

In summary, un-contracted services based on client aspirations and fears provide opportunities for service improvement and value creation. If they are articulated as services that need structure, management, and review – perhaps to – they potentially promote trust in the provider by demonstrating that client requirements are understood, respected, and being actively managed. Paying attention to more complex, enterprise level implicit services may be important to:

- a) ensure that a collaborative approach is taken to complex inter-dependent tasks;
- b) jointly generate proposals for future services rather than react to client requests; and
- c) signal the need for enterprise management of complex support organisations.

1.6 Preliminary Findings, Limitations and Future Research

This section is divided into two main parts. First, a discussion on findings with respect to previous research; new findings that are particular to military availability contracts and new findings worthy of wider recognition. Second, a critique of the research methods used, discussion of the paper’s contribution and proposals for further research.

1.6.1 Discussion of Findings

This research supports Jost et al’s (2005) study on the importance of reconciling partner objectives. In this case, there was evidence to suggest that the nature of partner motivations, requirements and therefore objectives are complex and interdependent. Partners in the ATTAC contract had diverse initial objectives that were recognised but little discussed. The extent to which objectives were reconciled was not clear, management processes that spanned the enterprise were little developed, however the need for such enterprise management processes appeared to be emerging as we reported our findings jointly to providers and clients. It is clear however, that a joint overall objective for ATTAC was not explicitly articulated. In our minds this would have been concerned with supplying an aspect of the UK’s Defence capability effectively, safely and economically.

Jost et al (2005) also asserted that complex service contracts were inherently uncertain since all eventualities could not be predicted at the outset. Thus reconciliation of objectives required regular discussion and review of objectives to ensure that evolving partner requirements were understood and taken into account. This research suggests some of this evolution might be accelerated if the partners’ requirements were more explicit at the outset.

Implications from the preliminary findings from this case will be discussed in three sections:

1. Translating requirements into a contract;
2. Findings particular to complex military service out-sources; and
3. Findings worthy of wider recognition in complex service provision.

1.6.1.1 Translating Requirements into a Contract

A series of stakeholder motivations and fears have been identified, some of which are being met through the service contract while others are currently neither met, nor contracted for, in a systematic way. It is interesting to note that the contracted services in the case are services aimed at the 'product', while the un-contracted services are what Mathieu (2001b) would call services for the 'client'; for example, maintaining engineer and technician capability. Likewise only the operational support of Tornado aircraft drew attention in the development of performance indicators and targets. This suggests both client and provider quite reasonably have much to learn on the meaning of "service" in their context, as both took an enormous step from their 'product dominant' experience base and traditions in contracting for ATTAC. It is also possible that in not fully articulating their requirements in the contract, they obtained a more competitive contract price than otherwise. While the inexperienced lead service provider concentrated on tangible "product" aspects of the contract, the number of new requirements the client would need was significantly underestimated. The client must rely on provider goodwill for un-contracted services, especially in terms of avoiding steps that might oppose their long-term aspirations and needs.

The contract was created around the need for cost reduction rather than joint value creation and this will inevitably bias the nature of the partnership and slow the development of trust. Nevertheless, there is evidence that trust and mutual respect and understanding are developing in this contract, especially on base. However, the need for cost reduction and service improvement led by the main provider, though clear in the contract in terms of performance improvement metrics and a gain/share agreement, was not made explicit in terms of the duties of all partners, including the client. All partners need to be prepared to change methods, invest in training and other implementation aspects of cost reduction and service improvement if holistic enterprise improvement is to be achieved. At the time of ATTAC contract development this was an unpopular move, as far as many in the RAF were concerned, and this did not provide an environment where the duties of Air Command in cost reduction activity could be discussed. Relationships have developed and now may be the time to discuss these aspects. The economic situation of the client has significantly worsened since contract signature, thus the cost reduction aspiration of the DE&S client and, we suggest, any UK public sector service client needs diligent attention. Ongoing service improvement, however defined, is a key potential advantage of public sector out-sourcing to industry since the complementary capabilities and mindsets of industry toward cost reduction and improvement in general need to be fully exercised.

1.6.1.2 Lessons for Complex Military Support Outsourcing

The specific lessons for military outsourcing concern the strategic necessity for them to be incomplete, and the linked necessity for the industrial provider to maintain a military ethos across the service operation. Military clients must be knowledgeable about their equipment to be effective in a war zone where limited civilian expertise is available. This is particularly the case for aircraft where safety considerations vis a vis the public (as well as the military) are high. First-line maintenance of warships, tanks and other weapons cannot be outsourced to civilians in a war zone. There are large differences between the knowledge required to conduct first line maintenance; for example, in the air sector, training for both engineers and technicians

is a lengthy process and now takes place in an environment where civilian and military personnel work together.

1.6.1.3 Lessons for Other Complex Service Outsourcing

We see no reason why the following preliminary findings from the ATTAC case are not of wide interest to complex service outsourcing across the public sector. The particular lessons we would draw attention to are:

- a) The need for over-arching enterprise objectives to help reconcile individual partner objectives;
- b) Evolving requirements and their role in understanding that non-contracted, yet vital services can assist partnership development as well as providing opportunities for value co-creation; and
- c) Making explicit “implicit service requirements” that require management processes involving all partners, is a vital step toward holistic management of a complex service enterprise. ‘Service improvement’ services would appear key in this context.

1.6.2 Limitations and Further Research

This research has three key limitations; the research methods used, its client centric focus, and the normative assumptions on which the research is based.

First, the interview methodology could not achieve a comprehensive set of client aspirations and fears. This could be addressed using a framework that tested informants’ views across the documented pros and cons of service outsourcing. In defence, the original interviews were focused on gaining knowledge across the ATTAC case and the methods did much to ensure the data collected was reliable. It was then concluded that the data generated on client aspirations and fears was sufficiently interesting to explore and publish. Second, the study was clearly client-centric; we now believe the providers’ perspective to be equally important. Providers have rights, and from our observations, it appears an explicit view of client, provider and product services are required to organise and negotiate Enterprise level management and improvement as well as set the scene for contract development. We thus concur with Gummesson’s (2008) appeal for “balanced” rather than “customer centricity” in the case of complex service outsources. Third and finally, a root assumption of the research is that all partners will co-operate to make their aspirations and fears explicit and enable a reconciliation of their needs with the needs of the enterprise at large. As a result of that knowledge, service improvement at the Enterprise level can begin, as partners can more clearly view the implications of change for other partners and thus negotiate change. However, they may not wish to do that for many reasons – they lack trust in one another; they are not used to working with each other in this way; their back offices and corporate governance will not let them; clients refuse to relinquish part of their power and so on. Having seen how in this case, clients and providers discussed these issues at our validation report-backs, the benefits are clear for those supplying service and their client contacts. The road is likely to be much more challenging in their back offices. It is our belief, however, that those clients and providers who do experiment in this way are more likely to learn and thrive in complex service contexts.

Given these criticisms, what is the contribution? Research of this kind is relatively rare; it exposes aspects of the empirical reality of complex service enterprise life and that is the contribution. There is much research in the services management, supply and value chain

arena suggesting generalised advice, as yet there is little in-depth empirical data on how aspirations and fears are translated into contracts or the utility of those contracts to form a basis for enterprise management.

Further research is required to more comprehensively identify client and provider aspirations and fears and thus the operational, support and un-contracted services required from both perspectives. This should not be restricted to the lead provider, for example in ATTAC at least three “second tier” providers could be (or could have been) included. Also, much more needs to be known about the means of promoting and supporting value co-creation in public sector service out-sourcing and the conditions in which it may thrive. There may be opportunities to investigate this area in the near future if governments see service outsourcing as a significant and realistic means of implementing budget reductions.

Overall the study confirms previous advice for service providers to fully understand the value propositions of their clients and amplifies the importance of this advice when dealing with a complex public/private sector service enterprise. It illustrates how requirements can be framed in terms of the additional services required to deliver the core services. The research also suggests that un-contracted aspirations can be translated into potential additional services from both client and provider that, jointly recognised, can lead to improved mutual understanding, respect, opportunities for further value co-creation, and increased recognition of the need for enterprise level management.

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