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Five Good Practices in Managing Client Relationships

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Abstract

This paper reviews the literature on client relationship management, and analyzes practices in a sample of public audit institutions (US Government Accountability Office, United Kingdom National Audit Office and the Canadian Office of the Auditor General) and international development organizations (World Bank, United Kingdom DFID, Canadian CIDA). It identifies five good practices for relationship management in such organizations. (1) Develop a clear understanding of the relationships to be managed, viewing them as an important topic for Board consideration and executive management. (2) Have a clear, effective strategy for managing each important relationship, within a general framework for managing all client/partner relationships. (3) Assign clear responsibility, authority, and accountability to a specific person for managing each relationship. (4) Build trust as a cornerstone of the relationship, and use this to deliver hard messages when necessary; keep close to key clients, share knowledge, work collaboratively, and manage the client's expectations of the relationship. (5) Invest in relationships, assessing their health regularly, minimizing structural conflicts, understanding third party influences, and managing transitions proactively.

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EXECUTIVE SUMMARY

The purpose of this paper is to identify and discuss good practices in relationship management as an input to the Evaluation of IMF Interactions with Member Countries. It notes five good practices. The study is based on a literature review supplemented by interviews with knowledgeable persons.

The sample of organizations included the three international development organizations (World Bank, United Kingdom DFID, Canadian CIDA) and three national audit institutions (US Government Accountability Office, United Kingdom National Audit Office and the Canadian Office of the Auditor General).

Issues

Before discussing five good practices observed in relationship management, the report notes some issues that typically shaped discussion of relationship management in these two contexts - public audit institutions and in international development organizations. In public audit institutions the central issues have been:

- How can the auditors maintain independence while at the same time maintaining good relations with the audited organization?
- To what degree should public organizations be allowed to choose their auditors and how does the possibility of auditee choice affect their relationship with the auditor?

Among the international development institutions in our sample the central issues of relationship management have been:

- To what extent should the institution organize itself around country programs headed by a generalist country director (thereby emphasizing country knowledge, strategy and relationships) or, alternatively, to what extent should it emphasize technical expertise?
- To what extent should the institution decentralize, locating its activities, staff, and resources in member/partner countries?

Some lessons

1. There is an important distinction to be made between good practices for client interactions at the mission/team level; and higher-level organizational and structural mechanisms to facilitate relationship management.
2. The degree of client choice implicit in the relationship will influence relationship management.

3. There are lessons to be learned from different kinds of organization models and experiences, including
 - (a) Client focused (account management) models vs. project or transaction focused models.
 - (b) Embedded (decentralized) organization models vs. non-embedded (centralized) models of interaction with client organizations.
4. An important part of each organization model (in respect to client relationship management) is the conceptualization of the role of the “key operative”¹ (account manager, mission leader, country program manager, etc.)
5. Client relationship management is influenced by the interaction between organization structures, key operative roles, and incentives.

Five Good Practices

In summary, the five good practices in relationship management exemplified by the sample of organizations in this study are:

Good Practice 1: Develop a clear understanding of the relationships to be managed

The organization thinks about its client relationships and discusses them as an important topic for Board consideration and executive management. Over time the organization conceptualizes and defines the nature of its relationship(s) with its client/partner organizations; and segments them to facilitate their systematic management.

Good Practice 2: Have a clear and effective strategy for managing each important relationship

The organization has a strategy for managing each relationship, within a general framework for managing all its client/partner relationships. The organization avoids fragmentation and ad hoc management of individual tasks and transactions and seeks coherence in its relationship with each important client.

Good Practice 3: Assign clear responsibility, authority and accountability for managing the relationship

The organization assigns responsibility, authority and accountability for each relationship to a specific person, ensures that he or she has the necessary relationship management

¹ See J.Q. Wilson (1991)

skills in addition to any necessary technical skills, and it provides incentives that are commensurate with the importance of the relationship.

Good Practice 4: Involve the client/partner (trust, alignment, ownership)

The organization builds trust as a cornerstone of its relationship with clients and partners; and uses the trust relationship to deliver hard messages when necessary. The organization keeps close to key clients, shares knowledge, works collaboratively and manages the client/partner's expectations of the relationship.

Good Practice 5: Invest in the relationship

The organization is active in building its relationships in a systematic way, including assessing its client relationships regularly. It cleans up the context of the relationship to avoid or minimize conflicts. That is, it distinguishes between peripheral and core activities and doesn't let the peripheral compromise the core. (It acts according to its priorities.) It makes an effort to understand and manage third party influences on its relationships with client/partner organizations. It is proactive in managing relationship transitions.

I. INTRODUCTION

A. Purpose of This Paper

1. This working paper was prepared in conjunction with an evaluation by the Independent Evaluation Office of the interactions of the International Monetary Fund (IMF) with its member countries. The purpose of this paper is to identify good practices of some other organizations in managing their relationships with clients and partners.

B. Scope and Methodology

2. This paper is based mainly on a review of the literature (Internet and the Bank/Fund joint library), and interviews with knowledgeable persons. The author has at various times consulted to all of the organizations considered in this paper. The organizations studied did not officially participate in the study. All information used in the study is in the public domain.

3. This paper draws examples from two types of organizations that have some similarities with the IMF in that they are either service or regulatory organizations.

- Development institutions (one multilateral development bank, and two bilateral development agencies);² and
- Public audit institutions (Canada, the United States and Great Britain).³

As well, in identifying the five good practices, the paper draws to some extent on the literature of relationship management by private business organizations. (See Appendix 2.)⁴

² Case set 1: Canadian International Development Agency (CIDA), the World Bank and the British Department for International Development (DFID).

³ Case set 2: Three national audit offices: Government Accountability Office (United States), National Audit Office (Britain), and the Office of the Auditor General (Canada).

⁴ There are several areas in the business literature that are relevant, including: (1) Client relationship management (CRM), which is concerned with computer-enhanced management of information about the client organization(s), and with managing information about contacts between the service provider and the client organization. (2) Business strategy (especially for service providers such as consultancies and technical services companies); (3) Change management (the role of relationship management in facilitating advice and change). (4) Key (strategic) account management (the marketing function where there are a small number of major clients and therefore a small number of major account relationships).

II. ISSUES

4. Before discussing the five good practices observed in relationship management, the report notes four issues that have shaped discussion of relationship management among public audit institutions and among international development organizations.

A. Issues in Relationship Management by Development Institutions

5. The World Bank, Canadian CIDA and United Kingdom DFID are all “country focused” (that is, they are organized around country knowledge and strategy, and program relationships). In contrast, earlier forms of the same institutions were more technically focused (that is, focused on projects and transactions). The transition from one mode of operations to the other raised some interesting issues that are relevant to relationship management. The main two were:

Issue 1: The role of the country program director

6. All three organizations have tried to balance the generalist skills needed to lead the “country strategy” approach, with a continuing need for technical expertise. They have been matrix organizations with a dominant country-program dimension, but with a strong technical dimension as well. The technical dimension has sometimes been organized in networks of technical staff. These organizations were founded with a focus on technically-skilled “key operatives,”⁵ such as engineers, agronomists or economists. Over time, as the emphasis of development organizations shifted to policy and institution building, the key operatives became generalists (country directors, country program directors, or country coordinators) and technical skills assumed a supporting role.

Issue 2: Decentralization

7. As these development organizations changed from focusing mainly on projects to focusing mainly on country strategy and programming, they have tended to decentralize as well. Decentralization was often justified partly as a measure to improve relationships with country authorities. An important objective of decentralization was to be closer to country partners, although there were other objectives as well. The World Bank, for example, long had overseas “resident missions,” designed to facilitate the work of visiting staff missions and to help manage operational issues associated with Bank-supported programs. But these gave way to “country offices” under decentralization, with greater focus on the policy dialogue with country officials and interactions with partners in the donor community and civil society.

⁵ For the classic account of the role of the ‘key operative’ in organization culture see James Q. Wilson (1991). *Bureaucracy: What government agencies do and why they do it*. Basic Books.

B. Relationship Management Issues—Public Audit Institutions

8. The relationship management practices of three audit institutions were examined, the National Accounting Office (United Kingdom), the General Accountability Office (U.S.) and the Office of the Auditor General (Canada).⁶ Relationship management by these institutions is interesting in a number of ways. For one thing, they have three-way relationships to manage. That is, the national legislature is a primary client in addition to the department or agency that is audited. This trilateral situation creates a different dynamic from the essentially bilateral relationship between a development agency and its member/client governments.

9. There are two general issues that have preoccupied public audit institutions in regard to their relationships with auditees.

Issue 1: Independence of the auditors

10. The audit profession is concerned with issues of audit independence and whether independence might be compromised by a close relationship with the audited organization (and if so how to prevent loss of independence while maintain good relations with auditees). They were influenced by private sector scandals during the late 1990s and early 2000s, where auditors failed to maintain their independence (for instance the Enron/Arthur Andersen case). The fear of loss of independence is based on two things. First, there is a risk that providing non-audit services to the audited organization (management consulting services or technical assistance) might confuse accountabilities. This has several dimensions.⁷ On the one hand, private audit companies have often provided non-audit services to clients, partly on the basis of privileged knowledge of the

⁶ Selected references: Clark, D. (2008) *Building Relationships – Key to Audit Success*. www.suite101.com Ghosh, A. and Moon, D. (2003) *Auditor Tenure and Perceptions of Audit Quality*. Office of Economic Analysis, The Securities and Exchange Commission Working Paper. <http://ssrn.com/abstract=385880> or DOI: 10.2139/ssrn.385880 Teoh, S.H. (1992) *Auditor independence, dismissal threats, and the market reaction to auditor switches*. Journal of Accounting Research. Spring. 1-23. US Government Accountability Office, GAO. (2004) *Agency Protocols. Agency Executive Liaisons*. GAO-05-35G. The GAO Agency Protocols say that at least annually where GAO has a substantial ongoing audit presence a GAO senior executive and or leader responsible for GAO work will meet with an agency-designated senior executive to discuss matters of mutual interest. (Section: Communications with the Audited Agency).

⁷ Selected references: Clark, D. (2008) *Building Relationships – Key to Audit Success*. www.suite101.com Ghosh, A. and Moon, D. (2003) *Auditor Tenure and Perceptions of Audit Quality*. Office of Economic Analysis, The Securities and Exchange Commission Working Paper. <http://ssrn.com/abstract=385880> or DOI: 10.2139/ssrn.385880 Teoh, S.H. (1992) *Auditor independence, dismissal threats, and the market reaction to auditor switches*. Journal of Accounting Research. Spring. 1-23. US Government Accountability Office, GAO. (2004) *Agency Protocols. Agency Executive Liaisons*. GAO-05-35G. The GAO Agency Protocols say that at least annually where GAO has a substantial ongoing audit presence a GAO senior executive and or leader responsible for GAO work will meet with an agency-designated senior executive to discuss matters of mutual interest. (Section: Communications with the Audited Agency).

client organization gained as the auditor. This offers efficiencies to the client, along with increased risk. The auditor also runs a risk. In some circumstances the auditor might find itself auditing its own work (or the work of a closely-related cross-owned organization), or the results of advice that it has provided. It becomes difficult to tell where the boundaries are when strategic advice that affects all aspects of the organization has been provided by the auditor/consultant previous to the audit. There has been some interesting research on the interactions between auditor tenure (a relationship concept) and audit quality. See Ghosh and Moon (2003) and Whisenant (2003), for example.

11. Second, there is another type of risk, in close relationships. The auditors might hesitate to tell hard truths to the audited institution if that might harm the long-term (profitable) relationship (Teoh, 1992).

12. Third, in a close audit relationship it may be difficult to keep the organization-to-organization relationship separate from the client's relationship with individual auditors. This exposes all parties to risks of inappropriate considerations, such as potential employment of the individual auditor by the client in some other capacity, perhaps after retirement.

Issue 2: Clients' choice of auditors

13. Public audit institutions manage relationships in a quasi-regulatory environment. However different legal regimes allow different degrees of client choice about whether to submit to oversight by the particular audit institutions or not. For example, the Canadian Office of the Auditor General is responsible for mandatory audits of government departments and agencies (no choice), and, as well, offers discretionary audits and "special examinations" to Crown Corporations (full choice as long as the auditee is willing to pay for alternative auditors).⁸

III. GOOD PRACTICES IN CLIENT RELATIONSHIP MANAGEMENT

14. This research has identified five "good practices" of relationship management among the organizations examined.

A. Good Practice 1: Develop a Clear Understanding of Each (Type of) Relationship

15. The organization should think about its client relationships and discuss them as an important topic for Board consideration and executive management. Over time the organization should conceptualize and define the nature of its relationship(s) with its

⁸ A Crown Corporation may use the audit services of the Office of the Auditor General free, or it may contract and pay for another auditor.

client/partner organizations and should segment them to facilitate their systematic management.

16. It seems a simple point that organizations should think about their main relationships and try to understand them in depth. However, as obvious as it seems, the literature indicates that many do not. At least they do not do so regularly and systematically. They tend to pay attention to relationships during crises, but to transactions during business as usual.

17. There are some models in the literature that provide conceptual frameworks for thinking about organizational relationships as something that is at least partly, additional to transactions management. For example, Butler (2004)⁹ describes four dimensions of relational work that are additional to technical competence, although in professional services organizations technical competence is a prerequisite for the credibility required for leadership. Ertel and Gordon (2007) provide tools for mapping relationships.¹⁰

18. Kelly (1997)¹¹ explores the implications for relationships of the rise of networks of all kinds both in the knowledge disciplines and in the economy in general. She argues for new paradigms of relationship management that don't treat one-on-one relationships as primary. Hall and Johnson (2009) state that over-standardization of processes should be generally avoided because relationship management is "judgment-based work."¹²

19. Cialdini (2001)¹³ argues that relationship management is the art of influence. Nix (2007) examines why relationships between organizations break down and draws lessons

⁹ Butler, T. et al (2004). 'The Four Dimensions of Relational Work.' *Harvard Business Review*. June. Butler et al discuss four dimensions of relational work (1) influence; (2) interpersonal facilitation; (3) relational creativity; and (4) team leadership. They note that scoring high in one area of relationship management can, in some cases, create a conflict with one of the other areas. The authors' advice is that relationship management should be rewarded if it is to get the attention it deserves from senior managers.

¹⁰ Ertel, D. and M. Gordon (2007) "The Point of the Deal: How to Negotiate when Yes is Not Enough." *Harvard Business School Press*. Ertel says: "(there are) a variety of tools for mapping relationships from the fairly simple to the highly complex. Some are more conceptual and can be sketched on the back of a napkin, whereas others use extensive data from corporate information systems." (p.171)

¹¹ Kelly, K. (1997) *Twelve Principles of the Network Economy*. *Wired*. (Thinking of relationships as one-to-one is too limiting. Key relationships are likely to be networked.)

¹² Hall, J.M. and M.E. Johnson, (2009) 'When Should a Process be Art, not Science?' in *Harvard Business Review*, March 2009. Hall and Johnson discuss the problems with over-standardization of processes (transactions) to the neglect of "judgment-based work" (relationships). They identify the latter with "artistic processes" as distinct from "scientific processes". They argue that "art" is needed in changeable environments, whereas scientific process management calls for "blindly" reducing variability. Authors also recommend steps for managing both artistic and scientific processes, once it is determined which ones should be artistic in nature.

¹³ Cialdini, R. (2001) *Influence – Science and Practice*. Allyn and Bacon.

from experience.¹⁴ There is a fairly extensive “how-to” literature. The work of Roger Fisher of the Harvard Negotiation Project, and his colleagues, is among the most useful. Fisher (1988).¹⁵ Not all are proselytizers for a relationship-based approach. David Maister, an organizational and marketing consultant to management consulting firms, has a balanced view. (Maister, 2005).¹⁶

20. The audit organizations in our sample are subject to strong professional norms, generally expressed through professional associations that have standards of conduct, but also expressed through international agreements on accepted standards. Both the Office of the Auditor General and the UK National Audit Office, for example, exercise a great deal of control over what they will or will not audit. They also make a distinction between formal audits and “review engagements” that are subject to less formal standards. The US Government Accountability Office is more responsive to its Congressional clients and more likely to give that client considerable latitude in setting the issues to be addressed.

21. The bilateral international development agencies are also introspective about relationships with “client” (host, partner) countries. For example, DFID is a signatory to the Paris Declaration on Aid Effectiveness (2005).¹⁷ The five principles of that Declaration are largely about defining the nature of the relationship between donors and recipient countries.¹⁸ Much of the current debate about “program based” approach to

¹⁴ Nix, N. et al (2007) “The Hand that Feeds You,” *Wall Street Journal/MIT Sloan*, October 26. Nix discusses why collaborations between organizations and their suppliers fail, lessons are applicable to client relations. Four are as follows: (a) Successful collaboration requires willingness to engage (openly share information & expertise, make joint decisions and resolve conflicts that arise together...). (b) It is necessary to build a collaborative environment (ensure that organization has the right mix of skills, knowledge and processes in place to make most of collaboration). Three elements: (1) make sure organization from top to bottom is focused on managing collaboration well; (2) put steps in place that ensure that collaboration goes smoothly and monitor progress as well as learn how to improve when collaboration is finished; (3) Learn from the client (collaborator) and retain what is learned; learn from other sources relevant to the relationship as well. (c) The organization should develop relationship expertise as well as technical expertise.

¹⁵ Fisher, R. and S. Brown (1988) *Getting Together: Building Relationships as We Negotiate*. Houghton Mifflin.

¹⁶ Maister, D. (2005). *Do You Really Want Relationships?* pp. 1-8; www.davidmaister.com¹⁶ Maister examines the differences between having a transactional view of organization-client situation or a relationship view, and the advantages and disadvantages of each (see especially the table on p. 4).

¹⁷ The Paris Declaration on Aid Effectiveness was adopted on 2 March 2005 at the OECD’s Development Assistance Committee (DAC) meeting and commits adhering donors and developing countries to improving the distribution and management of aid aimed at increasing its effectiveness.

¹⁸ The Paris Declaration contains five key principles that target donors and partner countries in order to improve the effectiveness of aid, including: partner country ownership of development implementation; donor alignment with partner country development strategies; harmonization of donor development

(continued...)

bilateral development aid is a debate about the basis of relationships between international agencies and host governments.

22. In the economics literature, principal-agent theory has a great deal to say about the inherent nature of two-party and multi-party relationships, and the typical problems that arise. (Hawkins, 2006)¹⁹ (Stiglitz, 1987).²⁰

23. One aspect of understanding inter-organization relationships is having a viable taxonomy. Each service or regulatory organization needs a clear understanding of how its role and relationship varies vis-à-vis different types of client/partner organizations, depending on the characteristics of the client/partner and its situation. (For example, some organizations distinguish between “hands-on clients,” “hands-off clients,” clients in crisis and clients not in crisis, or “sophisticated clients and unsophisticated clients.”)

24. The World Bank’s approach recognizes that the development challenges that countries face evolve. It provides different menus of products and services for countries at different stages of development—whether middle-income country (MIC) or low-income country (LIC). The particular set of Bank-supported products and services is determined in the context of the Country Assistance Strategy (CAS) process.

25. Understanding relationships requires, first, that the organization has a clear vision of itself. That vision implies certain roles vis-à-vis client and partner organizations. (Example: the World Bank Group’s IFC asked itself whether it intended to be a “lender of last resort” or “the partner of choice.” Similar introspection by the IMF might raise the same possibilities and add “crisis manager,” “knowledge broker/surveillance monitor” and “economic regulator” to the list of possible self-concepts (visions).

26. Vision and self-understanding are not easy to come by. Most organizations carry a complex legacy of history and accretions of ad hoc stakeholder relationships that make clarity difficult. As well, the task of gaining insight is more challenging because the state of the art of organization design continues to evolve, especially in regard to professional services organizations. (Bryan, 2005)²¹ Concepts such as knowledge and talent marketplaces, networks and organizations of self-directed professionals are relatively new.

approaches and activities; managing for better results through national development strategies and performance frameworks; mutual accountability between partners and donors.

¹⁹ Hawkins, J., David Blaine, Daniel Nielson, and Tommy Tiernan, 2006. *Delegation and Agency in International Organizations*. Cambridge University Press.

²⁰ Stiglitz, Joseph E. (1987). "Principal and agent, *The New Palgrave: A Dictionary of Economics*, v. 3, pp. 966–71.

27. Some of the literature of good practices of regulatory agencies has suggested ways in which the relationship between the regulator and regulated organizations can be effectively managed. Some factors discussed include continuity, accessibility, realism and balance.²²

B. Good Practice 2: Formulate a Clear Relationship Strategy

28. The organization should have a strategy for managing each relationship, within a general framework for managing client/partner relationships. The organization should avoid fragmentation of tasks and seeks coherence in its relationship with each client.

29. All of the organizations in our sample have a medium-to-long-term plan for working with each major client. The bilateral development agencies, for instance, DFID and CIDA,²³ have country programming strategies that typically span four years. The program strategy is negotiated with the host government (more directly in the case of DFID than CIDA) and it typically sets out priorities and principles that will guide the work of the development agency in this country.

30. The World Bank's CAS—sometimes termed the “Country Partnership Strategy” (CPS)—also sets out a multi-year program of support, replete with indicators for measuring progress, and is an important instrument of relationship management. Increasingly the development of the CAS/CPS involves other donors, as well as the World Bank and the country authorities.

31. The British and Canadian audit institutions (NAO, GAO) tend to be somewhat more concrete in their mid-term strategies and plans. That is, their five-year audit plans tend to be specific about the areas, systems and practices that will be audited over the coming period. They have three criteria for selecting priorities—risk, materiality, and

²¹ Bryan, L. and Joyce, C. (2005). **The 21st Century Organization**. *McKinsey Quarterly*. Number 3.

²² For example: Australia, (2009) *Good practice Regulation*, www.finance.gov.au under Office of Good practices Regulation. Some of the techniques of building good relationships that are suggested by the Australian Good practices citations include: Use tools to improve the efficiency and effectiveness of the regulatory relationship that include impact analysis; broad-based consultation (with the regulated but also with other stakeholders); ensure a clear understanding and acceptance of responsibility and accountability (who/what is accountable to whom/what and under what conditions). And Commonwealth of Australia (2007) *Good practice Regulation Handbook*, Canberra City: Australian Government. On consultation: Effective consultation as fundamental (pp. 4–5); Good practice consultation requirements (pp. 39–45); Good practice regulation requirements (impact analysis, compliance cost analysis, regulation impact statements...; pp. 15ff). Good practices in consultation: (1) continuity; (2) targeting appropriate stakeholders; (3) consult widely; (4) have appropriate, realistic timelines for process; (5) accessibility – i.e., use consultation methods appropriate to stakeholder; (6) transparency re process, consultation objectives, etc.; (7) balance consistency with flexibility.

²³ CIDA calls its strategy a Country Development Programming Framework (CDPF).

significance. This is somewhat in contrast to the development organizations, which tend to focus mainly on significance.

32. The audit concepts of risk and materiality have been well established in the profession and a certain kind of risk analysis methodology is advanced. This tends to color the relationship with the auditee somewhat because the auditee almost always feels that its input into the decision what to audit is too little. In the case of the U.S. Government Accountability Office this is probably even truer because the GAO is highly responsive to short-term requests from Congress for studies and reviews.

33. The literature makes several points about the formulation of a clear partnership relationship strategy:

- The organization should take a long view of its client/partner relationships. The relationship strategy should articulate the long-term objectives of the relationship with the client/partner organization.
- The organization should have several levels of strategy. First, a substantive client/partner (country) strategy and, within it, a strategy for managing the on-going relationship, and, within that, a communications strategy. However the organization should balance its multi-level contacts with the client or partner organization with a clear single point of contact for most purposes.
- The organization should define the relationship management role. (Separate job/task descriptions even if one person does both relationship management and task management.) The competent relationship manager should have the skills and training to foster each relationship in a thoughtful and planned way rather than ad hoc. Strategy should have continuity independent of individual managers.
- Senior management encourages understanding throughout the organization of what relationship management involves and why it is important (the fact that it affects the prospects for successful task/mission management).

C. Good Practice 3: Establish Clear Responsibility, Authority and Accountability for Managing the Relationship

34. The organization assigns responsibility, authority and accountability for each relationship to a specific person, and provides incentives commensurate with the importance of the relationship.

35. The British and Canadian public audit organizations have a long-standing tradition of having an “audit principal” take responsibility for the relationship with each client organization. This is similar to the way private audit firms organize themselves, where a partner will typically have a high level of responsibility and authority in relation

to a particular client. However the tenure of the principals in the public audit organizations tends to be longer than in the private sector, about five years and not infrequently as much as seven years. The U.S. Government Accountability Office, because it handles more ad hoc requests from Congress, for quick and specialized studies places less emphasis on the “audit principal” function and tends to organize around project task managers.

36. In addition all of the audit organizations have made internal arrangements to have executive managers support a set of audit principals. They operate like senior partners and tend to be highly focused on the health of the long-term relationship with the audited organization rather than the immediate audit. Their contact with the audited entity might be relatively infrequent, except in crises, but will be regular and carefully organized. In essence they handle aspects of auditee relationships where audit principals (which are more like World Bank country directors than IMF mission leaders) need help. Often this is only a matter of relating to the most senior executives in the audited organizations, something an ordinary audit principal will do relatively infrequently. These relationships are well described in “what to expect for an audit” publications in both the U.K. and Canada.²⁴

37. The international development agencies all have someone who is clearly in charge of the country relationship. That person (the country director, country program manager, or country coordinator) has different powers from one organization to another, especially different degree of budget control, but these are matters of degree. The picture is one of clear focus of responsibility and authority on one person. DFID is, perhaps, the most advanced in this regard. The country director has a high degree of delegated authority and is fully responsible for implementation of the country program within the framework of the country strategy. The emphasis is on results rather than on administrative controls, and the incentives of the country manager are reasonably well aligned with his or her responsibilities and authorities. CIDA’s country program managers have a similar role but less authority. They are not generally decentralized, so they tend to share responsibilities with a “head of aid” at the Canadian embassy in the developing country. Also, they have limited discretion in committing funds and limited signing authority for the disbursement of funds. In this they are less advanced than DFID (and also less advanced than several of the other European development agencies. For example, the DANIDA country director is a decentralized position with substantial local signing authority – normally 50 million Danish Kroner (about 12 million dollars) The World Bank country director is responsible for developing the Bank’s program in the context of the CAS/CPS, and for mobilizing staff resources across the Bank, but is not the budget holder in many cases.

²⁴ Canada, Office of the Auditor General (2009) *What to Expect – An Auditee’s Guide to the Performance Audit Process*. www.oag-bvg.gc.ca

38. The literature makes several points about the role of a designated relationship manager:

- The organization should keep the responsibility and accountability for relationship management reasonably stable. (Although in quasi-regulatory relationships there may be a trade off with ‘going native.’)²⁵
- There should be incentives that reward good relationship management as well as good task management.
- Tendencies to risk aversion, in the context of client relationships, need active management, to protect the ability to deliver hard messages when necessary without suffering a career penalty.

D. Good Practice 4: Involve the Client or Partner (Promote Trust, Alignment, and Client Ownership of the Relationship)

39. The organization should build trust as a cornerstone of its relationships with clients and partners; and should use those trust relationships to deliver hard messages when necessary. The organization should keep close to clients, share knowledge, work collaboratively and manage the client/partner’s expectations of the relationship.

40. In both public audit institutions and international development agencies trust is the cornerstone of the relationship with clients. All pursue trust-building activities in addition to technical tasks. Some aspects of trust building include:

- Being available. (visibility, accessibility, familiarity)
- Reliability. (predictability, consistency)
- Ethics (trustworthiness)
- Sustainability (a long term view, no rash risks)
- Disinterested (having the client’s best interests at heart)

41. Clark (2008) provides a perspective that bridges both private and public sectors. He says: “...perhaps the most important aspect of developing successful (audit) relationships is providing value. Many auditors fail at relationship building because their

²⁵ There is sometimes a risk of having audit directors/country managers “go native” that has to be managed in a quasi-regulatory context. There are some examples of good relationship management at a distance, that avoid this potential problem, that are worth exploring – for example, OECD, BIS, WTO, EBRD and the Commonwealth Secretariat.

sole focus in on what information they can obtain versus what information they can provide.”²⁶

42. World Bank (2005) *Organizational Effectiveness Task Force* strikes a cautionary note in this regard: “... staff spend a much smaller percentage of their time on knowledge sharing and professional development and learning than staff of comparable professional services firms. Indeed, while there is some knowledge creation in the regions, there is virtually no sharing across regions.”²⁷

43. In the audit context, one important way of involving the client is for the auditors to rely on internal audit work when possible, that is to say reasonably often. For example, all three audit organizations examined rely extensively on internal audit findings; since GAO/NAO/OAG frequently judge that the professional standards of the internal work are sufficiently rigorous to be dependable.

44. International development agencies are less likely to rely on the member countries own analysis of needs, opportunities and constraints. To some degree this derives from the institution’s desire to provide intellectual leadership. The World Bank has, in particular, occasionally emphasized the concept of the “knowledge bank;” both the bilateral agencies also see themselves providing knowledge products that are useful to the client in addition to guiding the work of the agency. However it is also true that client countries are seldom substantively involved in decisions about the study agenda of development agencies and harmonization among donors is not far advanced in this regard.

45. These two types of organization face different challenges in maintaining the trust of their clients. The national audit organizations may have the easier task because they can plausibly present themselves as disinterested, focused only on the public good. The closer they are to a politicized legislature, the more challenging this is.

46. It is a complex matter. One might think that the Government Accountability Office, being most directly responsive to the legislature, would have the greatest challenge in avoiding the taint of political partisanship. This may be so. However the Canadian and British parliamentary political systems generally produce governments that are relatively monolithic and politically disciplined. The ordinary backbencher will very seldom have anything to do with the national audit office unless he or she serves on a

²⁶ Clark (2009) says” “Good relationships facilitate the flow of information. Information is the auditor’s life blood. A good relationship begins with common ground. For an auditor to build a successful relationship, he or she should know as much as possible about the client... Sincere appreciation for the client and the client’s accomplishments ... begins the relationship process. Once the relationship has begun the auditor must take responsibility for its success.”

²⁷ World Bank (2005) *Organizational Effectiveness Task Force*. Section 3.6, p. 26

specialized committee. The U.S. Government Accountability Office operates in a system where power is more distributed, which may enable it to avoid been seen as the instrument of one political administration.

47. Not too much should be made of this. The key point is that national auditors strive, generally successfully, to present themselves as disinterested champions of the public interest.

48. The international development agencies are also at risk of being seen as untrustworthy because they represent the interests of either their national governments (in the cases of Canadian CIDA and British DFID); or a set of powerful allied governments with what some see as imperial tendencies (in the case of the World Bank). These organizations cope with the challenge of maintaining trust in various ways. The Canadians, for example, rely on a long-established reputation as “honest brokers” between the disadvantaged and the powerful; and the British have good-will relationships with many countries of the British Commonwealth, for example, based on many years, sometimes hundreds of years, of close interaction.

49. The literature suggests various ways to involve the client or partner in order to promote trust, alignment, and client ownership of the relationship.

- The organization should recognize and manage the culture-specific aspects of a particular client/partner relationship. [In specific instances, relevant “cultural” differences might include differences in values, differences in customary authority/advisory relationships, differences in politics and governance, etc.)
- The organization should employ key operators who are skilled in promoting change when change by the client/partner is an important aspect of a particular relationship. That is, the key staff should be able to give advice within a strong relationship that maximizes the probability that it will be accepted and implemented.
- The organization should educate the client about its operations. Various instruments may help, including a website, newsletters/briefs, briefings, etc.) There has to be a certain number and frequency of interactions to build and maintain a relationship. The competent organization makes it easy for the client/partner to understand it and to understand what to expect from the relationship. Conversely the organization seeks to understand the client’s view of the relationship and of relationship management in general.

E. Good Practice 5: The Organization Should Invest in Maintaining Relationships

50. The organization should invest in its relationships by, for example, assessing the health of its relationships regularly, minimizing structural conflicts, understanding third

party influences and managing transitions in the relationship. It should find opportunities to strengthen and celebrate the relationship.

51. There are many ways that the organization can invest in maintaining its relationships.

Investment 1: The organization assesses its client relationships regularly

52. The international development organizations all have evaluation units that may, periodically, examine the organizations relationship management. In 1998, for instance, the World Bank OED (now IEG) undertook a retrospective study of the Bank's use of Country Assistance Strategies. CIDA and DFID evaluation units have both undertaken studies of decentralization and commented on the benefits of decentralization in regard to relationship management.

53. The national audit organizations do not have similar evaluation units that might be instruments of self-examination. However Parliamentary Committees provide direct oversight²⁸ and, as well, the audit organizations have a strong tradition of peer review. For example, the Canadian Office of the Auditor General invited and underwent a comprehensive peer review by an international panel in 2003. The performance auditing practices of the Office were reviewed by a team of peers, led by the National Audit Office of the United Kingdom (the auditing agency of the Government of the United Kingdom), and which also included representatives from France, Norway and the Netherlands. The peer review included consultations with the clients of the Office, both the legislature and the audited departments and agencies.

54. The U.S. Government Accountability Office (GAO) has declared that one of its strategic objectives is "to improve client and customer satisfaction and stakeholder relationships."²⁹ It intends to do that by strengthening communications with the client, measuring client satisfaction and acting on client feedback,³⁰ and "modernize the ...

²⁸ In the case of performance audits, the reports of the Auditor General of Canada go through an extensive review process in parliamentary committees. Central here is the Public Accounts Committee and the Committee on the Environment and Sustainable Development. When relevant, other parliamentary committees will also review reports of the Office. It is these committees, and not the Office of the Auditor General, that make recommendations for government action. Typically though, the committee will base its recommendations in large part on the Office's report.

²⁹ GAO Strategic Plan, 2007-2012, GAO-07-ISP, p. 149, Strategic Objective 4.1.

³⁰ GAO op cit: "continue to meet with the client community to obtain feedback; and ... determine how we can increase the response rate to our client feedback survey so we can ensure that we are responsive to client needs" (p. 150)

profession in the public and private sectors, both domestically and internationally, to leverage our resources and better meet the challenges of the 21st century.”³¹

55. The literature makes several points about regular evaluation of client relationships, including the following.

- The organization should have systems and practices to ensure that each important relationship is monitored, with regular (annual?) formal reporting by the relationship manager of the status of the relationship.
- There should be both the expertise and the will to develop metrics by which to monitor its relationships.
- The organization should commission periodically an independent evaluation of its relationships against standard criteria.
- The client/partners should be involved in evaluating the relationship and the relationship strategy.
- The organization should interpret feedback in context. Both advisory and regulatory agencies are likely to get some negative feedback from clients. This has to be interpreted in context. Can the results of the measurement of the performance metrics be improved by feasible and reasonable actions without compromising the independence of the organization?

Investment 2: The organization cleans up the context of the relationship to avoid or minimize conflicts (distinguishes between peripheral and core activities and acts according to priorities)

56. The national audit organizations do not provide advice outside an audit context. Nor do they provide technical assistance of any kind to the audited entities. They do not assist the audited entity to implement its management action plan in response to audit recommendations. Their priority is independence and objectivity.

57. The international development agencies, in contrast, are closely involved in implementation of the development projects they support. Although, the borrower executes World Bank-supported projects, for example, the Bank exercises on-going due diligence through “supervision” and other activities. Also, once disbursements are completed, the Bank team prepares an implementation completion report, including commentary by the borrower, which is then subject to review and possible audit by the

³¹ GAO, op. cit., “... leverage our resources through other accountability organizations that support oversight ..and engage in collaborative work.” (p. 153)

Independent Evaluation Group. This same approach—involving completion reporting and subsequent IEG evaluation—is also applied to the CAS/CPS.,

58. The literature suggests several ways in which conflict between peripheral and core responsibilities can be avoided, as follows:

- The organization should simplify and rationalize conflicting roles (non-core services may improve knowledge of the client but impair independence of the service and regulatory organization)
- Minor irritants should be removed. The organization should have a dispute resolution mechanism that is agreeable to the client.
- The organization should accept residual/structural tensions in quasi-regulatory contexts. The (quasi-regulatory) relationship is not a popularity contest. The organization does not over-react to frictions that are inherent in the advisory and/or regulatory roles.

Investment 3: The organization understands and manages third party influences on its relationships with client/partner organizations

59. Audit organizations are protected in some ways that international development organizations are not. For example, the British and Canadian Auditors General have a fixed tenure. It would be very difficult for the legislature to remove an Auditor General early except in extraordinary circumstances.

60. International development organizations, in contrast, have no special protections. They have to work with and cope with a wide range of stakeholders whose views and actions can impinge on the health of the primary relationships with funding legislatures and recipient governments.

61. Some relevant points include the following:

- The organization should recognize that third parties might have competing interests that affect its relationship (in the case of the IMF, important third parties might include the World Bank, bilateral agencies, rating agencies, other lenders, and non-government agencies).
- The organization should recognize complementary (non-competing, synergistic) interests of third parties that might be harnessed to support the relationship with the client/partner.

Investment 4: The organization actively manages relationship transitions

62. The more detached the organization is, and the more impersonal and technical are its interactions with clients, the less it needs to be concerned about managing relationship transitions. In other cases, two types of relationship transition are potentially important: (1) a transition in the nature of the relationship itself, as when, for example, a country moves from a very low income status to an emerging or middle income status, roughly when it moves from IDA-eligible to IDA-ineligible; and (2) when the relationship manager changes.

63. Organizations have two options. Either turnover needs to be minimized (with the risk that the organization-to-organization relationship becomes too personalized); or, alternatively, transitions need to be managed (with over-laps between tenures of country directors and other key staff and institutionalized systems and practices to ensure that relationship knowledge and goodwill are kept as continuous as possible.).

64. Transitions might include:

- The organization changes (or its relationship manager changes)
- The client's situation changes
- The client changes internally (govt. changes, for example.)

In summary, if there is a key relationship manager then succession planning is important.

APPENDIX 1. RELATIONSHIP MANAGEMENT IN THE WORLD BANK:

HISTORICAL PERSPECTIVE

Comparisons between the IMF and the World Bank, in regard to their management of relationships with member countries, are potentially useful although they always need to be qualified in some important respects. The IMF and the World Bank Group have different purposes. Nevertheless the challenges posed by their relationships with member countries are in some instances similar, especially perhaps in less economically developed states.

Despite certain similarities in their situations, their approach to relationship management has diverged. This divergence was apparent fairly early in their history, perhaps as early as the first reorganization of the World Bank in 1952.

“...There was a quiet explosion of project work and project emphasis in the World Bank between 1949 and 1960... Good project work became a proud specialty of the Bank... In 1952 the Bank undertook its first major reorganization. There were several motivations ... pro-decentralization pressures were building... There was a perceived need for the Bank to give more weight and focus to borrowing countries as units for Bank decision making.” Kapur, D. and J. Lewis. (1997). *The World Bank. Its First Half Century*. Washington, D.C., Brookings Institution Press.

Certainly by the Presidency of Mr. Robert McNamara (1968–81) the World Bank was taking a different approach to organizing its relationships with member countries. It is difficult to identify a single point where the divergence from the IMF gathered momentum, but perhaps Mr. McNamara’s abolition of the ad hoc collaborative “country working party” in favor a more hierarchical approach, with a country director clearly in charge, was an important turning point.

“Early on McNamara abolished the ‘country working party’ ... the informal arrangement that facilitated communications and coordination among the staff representing different departments but sharing responsibilities relating to a particular country... McNamara believed in clearly identified responsibility and accountability and, accordingly, in a hierarchical structure. The 1972 reorganization adhered to this management concept. The new formal structure was based on lengthy analysis and planning by McKinsey and Co, the leading management consulting firm in the United States at the time.” Kapur, D. and J. Lewis. (1997). *The World Bank. Its First Half Century*. Washington, D.C., Brookings Institution Press.

The World Bank and the IMF³²

There is some literature³³ on the history and structures of the World Bank and the International Monetary Fund separately, but relatively little that compares them. One of the few that does is a Brookings Occasional Paper (1994) by Jacques Polak.³⁴

Polak argued that certain objective conditions of the work of each organization have led to different organizational cultures, including their chosen scope of work (how broadly economic and social issues are addressed), and their different time horizons (short-term vs. longer-term policy orientation).

“The separate pursuit by the two institutions of these different tasks has over time led to widely divergent practices in their relations with member countries.”³⁵

³² Selected references: Kapur, D., J. Lewis, and R. Webb (1997) *The World Bank. Its First Half Century*. Washington, D.C., Brookings Institution Press. Kraske, J. (1996) *Bankers with a Mission: The Presidents of the World Bank, 1946-91*. Joint library HG3881.5 .w57 B367 Mason, E., and R. Asher (1973) *The World Bank Since Bretton Woods*. Washington, D.C., Brookings Institution. Mistry, P. (1995) *Multilateral Development Banks: An Assessment of their Financial Structures, Policies and Practices*. The Hague: FONDAD. Polak, J. (1994) *The World Bank and the IMF: A Changing Relationship*. Brookings Institute: Washington. (Especially Chapter 18: “The Bank’s Institutional Identity: Governance, Internal Management and External Relations.”)

³³ Selected references: Kapur, D., J. Lewis, and R. Webb (1997) *The World Bank. Its First Half Century*. Washington, D.C., Brookings Institution Press. Kraske, J. (1996) *Bankers with a Mission: The Presidents of the World Bank, 1946-91*. Joint library HG3881.5 .w57 B367 Mason, E., and R. Asher (1973) *The World Bank Since Bretton Woods*. Washington, D.C., Brookings Institution. Mistry, P. (1995) *Multilateral Development Banks: An Assessment of their Financial Structures, Policies and Practices*. The Hague: FONDAD. Polak, J. (1994) *The World Bank and the IMF: A Changing Relationship*. Brookings Institute: Washington. Especially Chapter 18: “The Bank’s Institutional Identity: Governance, Internal Management and External Relations.”

³⁴ Polak, J. (1994) *The World Bank and the IMF: A Changing Relationship*. Brookings Institute: Washington.

³⁵ Ibid, p. 23 ff. The text continues: “These differences can perhaps best be illustrated by a comparison of Bank and Fund operational missions... As a result of the Fund’s practice of holding, normally annually, intensive consultations with all its member countries and other contacts, its staff is generally quite familiar with the financial situation in the country that makes a preliminary request for a standby arrangement... the mission is in a position to negotiate a letter of intent on behalf of the Fund’s management. It then takes a few weeks (in urgent cases a long weekend) to prepare the mission report to the executive board. Board approval within three or four weeks after submission of the report is then a practical certainty... (in contrast) the Bank ...generally cannot send out a mission with a well-defined mandate on how to solve the country’s problems. ... (first) an appraisal mission visits the country with the task of exploring options... The process of negotiation with the country starts only after the appraisal mission has reached agreement with the authorities on the broad design of a program... this two-step process of reaching agreement with the country (is) unavoidable (but) ... has several drawbacks... it takes more time... While the Fund is geared to respond quickly to requests for financial assistance and negotiates agreements within months or even weeks, the Bank usually requires a lead time of up to a year or more to put a structural adjustment
(continued...)

However there is room for disagreement about the extent to which organizational differences between the two institutions have been created by inherent differences in their missions, or, on the contrary, are the result mainly of historical adventitiousness.

The World Bank's management of member relationships

From the World Bank perspective, the key topics that relate most closely to relationship management are the role of the Country Director, the role of the Country Assistance Strategy, and the rationale for decentralization. The occasions when these topics were most likely to be broached were the major reorganizations of the World Bank in 1952,³⁶ 1972 (McKinsey Co.³⁷), 1987 (Cresap, McCormick, and Paget; and Booz Allen Hamilton, and Monitor)³⁸ and 1997 (an internal reorganization focused on decentralization and supported by a *Cost Effectiveness Review*.)

To some degree the reorganizations addressed conceptual and structural topics, and to some degree the reorganizations focused on the responsibilities of particular senior executive managers of the Bank, on the allocation of responsibilities and authorities among certain persons (vice presidents and senior vice presidents or managing directors).³⁹ Of course the former remains more relevant than the latter.

loan in place. The Bank considers this time well spent if it has the intended effect of ensuring better policy management in the future as a result of governments taking deep remedial action." p. 24.

³⁶ "...There was a quiet explosion of project work and project emphasis in the World Bank between 1949 and 1960...Good project work became a proud specialty of the Bank... In 1952 the Bank undertook its first major reorganization. There were several motivations .. pro-decentralization pressures were building... There was a perceived need for the Bank to give more weight and focus to borrowing countries as units for Bank decision making." Kapur, D. and J. Lewis (1997) *The World Bank. Its First Half Century*. Washington, D.C., Brookings Institution Press.

³⁷ "Early on McNamara abolished the 'country working party' .. the informal arrangement that facilitated communications and coordination among the staff representing different departments but sharing responsibilities relating to a particular country... McNamara believed in clearly identified responsibility and accountability and, accordingly, in a hierarchical structure. The 1972 reorganization adhered to this management concept. The new formal structure was based on lengthy analysis and planning by McKinsey and Co, the leading management consulting firm in the United States at the time."

³⁸ This reorganization was a troubled one, from a staff perspective, partly because it entailed a significant down-sizing of the Bank, with about 400 professional staff given severance packages, and the rest reassigned. "Particularly stressful was the process by which employees were reassigned. Instead of grafting the reorganized structure into the existing organization, the new Bank was created from the top down. In effect, everyone had to consider himself without a job unless and until chosen for reassignment." Nevertheless there were doubts that the reorganization changed anything fundamental about the Bank or how it operated in respect to its country members." Kraske, op. cit.

³⁹ Ibid, "The exercise (1987) felt like a great game of musical chairs; while it was going on in the middle months of 1987, it destroyed morale and devastated the institution's work program" p. 1201.

Over a long period of time there has been a debate in the Bank about the relative importance of technical expertise and country expertise. One school of thought was transactions-oriented (projects and technical skills being primary) and another was relationships-oriented (generalist skills, clear authorities and country strategy being primary). This may reflect an inherent tension in the Bank that calls for balance rather than definitive resolution.

In the 1990s, the balance tipped towards country relationships as the key dimension, although the technical “networks” in the Bank were an attempt to retain balance. One factor in moving away from a technically oriented Bank staff was the argument (led by Mistry⁴⁰) that it was old-fashioned and inefficient to think that the Bank could retain all of the expertise it needed among its tenured staff. The relevant disciplines were changing too rapidly. “The Bank would require on its own staff as project managers extremely knowledgeable technologists who were also adept at recruiting outside specialists. But most technical expertise would need to be hired to order.”⁴¹ However, “the contrary school within the Bank argued that ... hired hands with renewable contracts were less apt than tenured staff to display analytical independence. In the middle 1990s, the issue remained unsettled.” Nevertheless, although unresolved, the balance had clearly tipped towards country program management (and the associated relationship issues) and somewhat away from technical project management.

At the same time, in the 1990s, the decentralization debate was heating up. “The Bank was strongly hierarchical and it was headquarters centered.... (but) “What was widely speculated about by the middle 1990s was a much more radical decentralization of decision making and responsibility within the hierarchy; and, geographically, more of a shift of responsibility to the field.”⁴² “... Staff would be encouraged to put aside their elitism, to become unreservedly service-minded. More staff would be deployed to the field. They would be less overt and less abrasive in their leveraging of clients; and staff in the field would carry more weight in the Bank.”⁴³ These two streams of change tended to merge—the growth in the role of country manager and decentralization.

⁴⁰ Mistry, P. (1995) *Multilateral Development Banks: An Assessment of their Financial Structures, Policies and Practices*. The Hague: FONDAD.

⁴¹ Kapur and Lewis, op. cit., p. 1210.

⁴² Ibid, p. 2011.

⁴³ Kapur and Lewis, op. cit., p.1212.

APPENDIX 2. THE PRIVATE SECTOR LITERATURE

This bibliographical note summarizes some literature that is relevant to organizational⁴⁴ relationship management by private business corporations.⁴⁵ It covers organization-to-organization relationship management in five main areas:

- i) Client relationship management (CRM), which is essentially concerned with computer-enhanced management of information about the client organization(s), and information about contacts between the service provider and the client organization.
- ii) Relationship management during business strategy advice (especially for service providers such as consultancies and technical services companies)
- iii) Relationship management as part of change management (the role of relationship management in facilitating advice and change).
- iv) Key (strategic) account management (the marketing function where there are a small number of major clients and therefore a small number of major account relationships).
- v) Relationship management as part of conflict management.

(A) Client relationship management (CRM)

In the 1990s and the early 2000s, client/customer relationship management software and systems (CRM) was a major product of certain professional services companies, including Oracle and IBM. The idea behind the product was that client relationship management could be greatly enhanced by information systems that captured comprehensive information about the client organization and about the interactions between the service provider and the client organization. In some instances CRM was seen to be an important part of an even more ambitious system (enterprise management software) that attempted to capture comprehensive information about all aspects of the organization and enterprise. In general it seems fair to say, although some would disagree, that these efforts were failures. They suffered from an information fallacy similar to that experienced by centrally planned economies. It is simply not possible to compile all information relevant to a complex relationship in real time, raw information

⁴⁴ This note does not deal with organization-to-individual (say, business-to-consumer) relationship management.

⁴⁵ This note touches upon three literatures, each relevant in a different way to client and partner relationship management. The three are: (1) Development Institutions' Relationship Management; (2) Audit and Regulatory Institutions' Relationship Management; (2) Business-to-business Relationship Management.

does not speak for itself, and sometimes CRM was a waste of resources in a futile quest to “automate” a client relationship.⁴⁶

(B) Relationship management when the relationship is mainly advisory

There is a school of thought that business (or economic) advisors are likely to be effective only when their advice is proffered against a background of an established trust relationship. This is one of the success factors when implementation of change is discussed.⁴⁷

⁴⁶ Selected references on CRM: Buttle, F. (2005) *Customer Relationship Management: Concepts and Tools*. Elsevier (Butterworth, Heinemann). Gordon, I. (2002). *Good practices: Customer Relationship Management*. Ivey Business Journal. University of Western Ontario. Gordon provides a model to “Balance CRM Strategic Capabilities” (Diagram 1, p. 2). He points out that CRM is understood in a variety of different ways – and that there have been more failures than successes. Massey, A.P. et al (2001). *Reengineering the Customer Relationship: Leveraging Knowledge Assets at IBM*. Elsevier. Rigby, D.K. et al (2002). *Avoid the Four Perils of Client Relationship Management (CRM)*. Harvard Business Review. Rigby et al note that Good practices include: (a) Create an appropriate relationship management strategy before considering use of a CRM technology; (b) Organization must be client-focused; (c) High tech is not necessarily better. They note “A single flawed assumption: that CRM is software that manages customer relationships for you. It isn’t. Managing customer relationships is bundling customer-focused strategy and processes to boost customer loyalty and profitability. Technology simply supports that strategy. (b) Why do CRM initiatives fail so often? Their research suggests that one reason CRM backfires is that most executives simply don’t understand what they are implementing, let alone how much it costs or how long it will take. A related article is Rigby, D. K. and Dianne Ledingham, CRM Done Right, Harvard Business Review, 2004. Rigby, D.K. and D. Ledingham (2004). *CRM Done Right*. Harvard Business Review. November. Smyth, H. and S. Pryke, UCL.UK. (2008) *Mapping Relationship Connections* available at <http://www.rics.org/Knowledgezone/Researchandreports> Smyth’s paper explores the linkage between three relationships topics: the exploration of relationship strength in social networks of clients; the application of social network analysis as a research method to this area; operationalizing the research to produce practical and theoretical outputs for evaluating (implicit and explicit) relationship practices within the relationship marketing/management paradigm. The exploration builds upon the work of Q-Industries, a website and business application developer, who have linked two conceptual areas in practice: Client Relationship Management (CRM) and social network analysis (SNA). CRM software has its origins in relationship marketing. Developing an open-source CRM Platform applying principles of social network analysis for Odell, Simms & Associates, a fundraising and economic development firm, has allowed visual mapping and identification of relationships. CRM systems are typically software and hardware based and the nature of networks is opaque or unseen. The challenge in this paper is to work back from the practice and work forward from the concepts to explore how the same principles can be methodologically established in organizational management systems (socio-psychological rather than technical) for empirical investigation. Winer, R.S. (2001). *A Framework for Customer Relationship Management*. California Management Review.

⁴⁷ Maister, D. et al. (2000) *The Trusted Advisor*. New York: The Free Press. (Maister is a ‘guru’ to the management consulting profession.) Sebenius, J. (2002) *The Hidden Challenge of Cross-border Negotiations*, **Harvard Business Review**, March.⁴⁷ (Sebenius stresses the need to look deeper into cultural differences to understand the subtle but potent ways that culture shapes governance and decision-making processes. (2)Such factors include the ways people from different regions come to agreement or the processes involved in negotiations, including governance and decision-making processes (especially behaviors based on core beliefs).

(C) Relationship management as part of organizational change management

It is generally accepted that that implementation of organizational change is often unsuccessful. As Machiavelli said, nothing is as dangerous or uncertain of success as putting in place a new order of things. The question of trust-based relationships is relevant here. Modern theorists tend to see the nature of established trust relationships between organizations as an important factor in the success of advisory or regulatory actions. See Kotter (2008) for example.

Establishing trust poses different challenges when the relationship between two organizations is advisory (consultant and client) or regulatory (auditor and auditee, for example). However there may be some aspects on common as well. For example, Patterson's emphasis on critical actions and incentives (*Influencer*, 2008) applies in both cases. Similarly Kotter's distinction between leadership and management seems related to a distinction between relationship management and transactions management. (Kotter, 2001)

Selected References

Christensen, C.M., M. Marx and H.H. Stevenson, (2006). *The Tools of Cooperation and Change*, Harvard Business Review, October.⁴⁸

Ertel, D., *Getting Past Yes: Negotiating as if Implementation Mattered*, in Harvard Business Review, November, 2004.⁴⁹

⁴⁸ Notes on Christensen et al: This article is based on the idea that a primary task of organization management is to get people to work together in a systematic way (analogy of the orchestra conductor). Christensen suggests that a basic flaw in many organization change strategies is that there is insufficient thought to managers' incentives. The authors contend that the challenge for the change manager is to select the correct tool at the right time for change, based on the level of agreement for the change along two key dimensions: (a) the extent to which people agree on what they want; and (b) the degree to which people agree on which actions will lead to the desired outcome (cause and effect). An "Agreement Matrix" depicts the implications. It suggests four categories of tools to be used, based on the level of agreement on goals and ways to achieve them: leadership tools (vision, charisma, salesmanship and role modeling); power tools (threats, hiring and promotion, control systems, and coercion); cultural tools (separating incompatible cultures); and management tools (performance measurement systems, standard operating procedures, training).

⁴⁹ Ertel's paper is relevant to the idea that attention to the ongoing relationship is essential to making transactional agreements work. He suggests why agreements following negotiations often fail in implementation, and what to do to prevent this. Negotiators should have an "implementation mind-set". Elements of this mind-set include: (a) Start with end in mind; (b) Help the other party prepare before negotiations; (c) Send a single coherent message – ensure that each team responsible for implementing the agreement understands what has been agreed to, the spirit of the agreement, and the trade-offs that were made to reach agreement; and (d) manage negotiation like a business process. He provides a table comparing "deal-minded" negotiators with "implementation-minded" negotiators. See also: Fisher, R. and
(continued...)

Ford, J.D. and Laurie W.F. (2009), *Decoding Resistance to Change*, in Harvard Business Review, April.

Kotter, J.P. and L.A. Schlesinger (2008) *Choosing Strategies for Change*, Harvard Business Review August.⁵⁰ and (2008) *Our Iceberg is Melting*. Harvard Business School Press. (Kotter identifies eight steps for successful organization change.) and (2001) *What Leaders Really Do*, in Harvard Business Review, December.⁵¹

Patterson, K. et al (2008) *Influencer: The Power to Change Anything*. McGraw Hill.

(D) Relationship management defined as key (strategic) account management

The marketing literature contains some insights about business-to-business relationship management. The most pertinent literature of this type relates to key (strategic) account management, rather than to mass marketing to consumers.

Selected References

Account Management Professionals, (2009). *The Account Management Professional Standards Guide: Energizing Customer Relationships*, Santa Barbara California: Account Managers Marketplace, www.accountmanagers.com

Bendapudi, N. and R.P. Leone, (2002). *Managing Business-to-Business Customer Relationships following Key Contact Employee Turnover in a Vendor Firm*, Journal of Marketing 66(2), pps. 83–101.⁵²

Higham, R. (2006) *Good practices in Corporate Strategic Account Management: Lessons from a European Survey*. Strategic Account Management Association (SAMA)

Maister, D. (2000). *Key Account Management*. www.davidmaister.com⁵³

W. Ury, *Getting to Yes: Negotiating Agreement without Giving In*, New York, New York: Penguin Books, 1981.

⁵⁰ Kotter and Schlesinger provide a table of various methods that may be used in support of change (education, participation, facilitation, negotiation, coercion). Some are more relationship based (trust based) than others.

⁵¹ Kotter distinguishes between management and leadership. Management is about coping with complexity and it brings order and predictability. However, leadership is a broader concept, more related to vision, culture and direction setting (more relationship oriented than transaction oriented). Managers control and solve problems while leaders motivate and inspire.

⁵² Bendapudi and Leone present the results of two studies that examine what business-to-business customers value in their relationships with key contacts, what customers' concerns typically are when a favored key contact employee is no longer available to serve them, and what a supplier organization can do to alleviate these concerns and to retain employee knowledge even if they cannot retain the employee.

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(E) Relationship management as part of conflict management

The literature of conflict management offers some insights that are relevant to relationship management between organizations.

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⁵³ Maister lists clients' common concerns about the effectiveness of their relationships with outside providers of goods and services. Based on these concerns, Maister offers some conclusions: (a) it is clear that clients want providers to earn future business not to take it for granted; (b) account management is not the job of a single person; (c) clients want service providers to spot needs and opportunities, and to customize their proposed solutions to the client's needs; (d) Maister emphasizes the importance of well trained and well supervised junior key account management team members.

⁵⁴ Shi says that global account management (GAM) has become a strategic focus among most multinational companies, but there is little empirical research on what type of organizational capability fosters GAM programs. In this article, the authors synthesize selected literature on the topic, examine relevant fieldwork and case studies, and discuss findings from in-depth field interviews with leading global suppliers that have active GAM programs in place. This research clarifies constructs, develops research propositions, and provides an integrated framework that includes GAM processes and performance consequences.

⁵⁵ Wang and Davis examine the possible negative effects of a too-close relationship between the primary organization's representative and the client organization.

⁵⁶ Ghemawat labels strategy as "arbitrage" meaning the exploitation of differences. He suggests that successful organization-client relationships need to harness differences as well as similarities in provider/client cultures, circumstances, etc. Areas of difference to be harnessed: cultural; administrative (legal, institutional and political differences); geographic; economic characteristics / differences.

⁵⁷ This Toolkit discusses ways to strengthen dispute resolution that are relevant to broader relationship issues: (a) improve information available to parties; (b) obtain expert assistance where lacking in key actors; and (c) improve transparency.

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Weiss, J. and J. Hughes (2005) *Want Collaboration? Accept – and Actively Manage – Conflict*, *Harvard Business Review*, March.⁵⁹

⁵⁸ Lynch differentiates between case-by-case approaches to dispute resolution (transactions) and having an integrated conflict management system (focused on relationships). She also identifies a set of elements that should foster and sustain such a system.

⁵⁹ Weiss and Hughes state that organizations that wish to collaborate but fail to do so effectively must work on the underlying cause(s) of failure of collaboration strategies – that is, they must manage conflict effectively if they expect better collaboration. They suggest six strategies: (1) devise and implement agreed methods for resolving conflicts; (2) provide criteria for making trade-offs; (3) use escalation of conflict as an opportunity for coaching; (4) establish and enforce a requirement of joint escalation; (5) ensure that managers resolve escalated conflicts directly with their counterparts; and (6) make process for escalated conflict-resolution transparent.

APPENDIX 3. BIBLIOGRAPHY

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