

BEST PRACTICE

Chris Halward,
Programmes Director,
NOA Pathway



Relationship Management – Art and Science?

What is the single most common mistake made in outsourcing? The evidence is clear; it is ignoring the critical importance of relationship management.

The key to successful outsourcing arrangements is establishing and maintaining a healthy relationship between client and provider parties. There are few people, if any, who would disagree with this statement, and in a way that is the problem. It reminds me of the poster that you used to see in offices:

- ☑ There was an important job to be done and Everyone was sure that Someone would do it.
- ☑ Anyone could have done it, but No-one did it.
- ☑ Someone got angry about that, because he thought that it was Everyone's job.
- ☑ Everyone thought that Anyone could do it, but No-one realised that Everyone wouldn't do it.
- ☑ It ended up that Everyone was angry with Someone, because No-one did what Anyone could have done!

Either because we think relationships 'just happen naturally' or perhaps we think that making relationships work is too hard, all too often whilst we all agree that good relationships are desirable, they are left for someone else to manage. The default focus in organisations is on numbers, process and platform, and that is to be expected. The challenge is for organisations to also focus on people and in particular their relationships.

The most persuasive argument for focusing on people and relationships is this – if things are going badly, and you have no people and relationship focus the chances are you are dead in the water. If things are going badly, but you have a strong people and relationship focus, your people will pull it around and make it work – often against all of the odds.

We might argue that a focus on people and relationships is a key factor in any organisational situation. However, within the context of outsourcing, which by definition is a relationship between different parties, it must be critical. The more parties involved in the arrangement i.e. multi-sourcing, the more important the management of the relationships between client and providers, and often also between providers.

Sooner or later, poor relationships will result in outsourcing arrangements failing to meet the expectations of some, if not all, of the parties and that's a best case scenario. At worst, they not only fail to meet expectations of all of the parties, but also create huge, expensive problems for them all.

The Science of Relationship Management

Managing the relationships between what can be many teams of people, comprising of perhaps many thousands of people, who might be based all over the globe, needs some science. The NOA Life Cycle provides a basis for the science. It is not designed to be prescriptive but rather to reflect what the NOA has experienced over the years as best practice.

At the heart of successful relationship management is the joint governance model. The level of governance required will

be dependent on the strategic value of the relationship to the organisation. In simple terms the more strategically important the relationship the more investment in governance will be required. This is a key point. For some outsourcing arrangements it will not be necessary to invest significant resources in establishing a strong relationship. The nature of the arrangement may be highly transactional and robust. If it is also peripheral to the business, perhaps easy to switch to alternative suppliers than to be blunt, there is no real return in investing time and resource into the relationship.

Operational, competency and trust development processes

Relationships are easier to manage when there are efficient processes in place to manage and monitor day to day operational matters including: contract changes and amendments, service credits, SLA issues, issues and disputes and customer stakeholder feedback.

Along with operational processes, for a relationship to be successfully built, the parties will benefit from having clear processes in place to develop competencies. The parties will jointly determine the set of competencies that are required to deliver the service successfully. This will include a range of task related skills and will also include competencies that will underpin the culture that the parties agree should be developed. Developing a culture within an outsourced service delivery team is a particular challenge. Where the service delivery team is focused entirely on delivering for one particular organisation, and is somewhat remote from the rest of the service provider, the challenge is an easier one. However, where the service delivery team might be influenced by different cultural norms the challenge is one that can be difficult and it is critical that both parties are clear about, (a) the goals, (b) the measures and (c) the actions to support culture development.

At the heart of successful relationships is trust between the parties. Trust develops over time and can initially be very fragile. One particular approach that will help to nurture trust is to influence the perspectives of both parties by processes encouraging the exploration of both issues and opportunities, rather than issues alone. Applying techniques such as Appreciative Enquiry can have a significant impact on the way in which the parties view the arrangement by highlighting the positive aspects of the relationship.

Analysing business value and impact

It may be the case that performance metrics agreed by the parties do not clearly establish the on-going business value and impact of the outsourced service. To ensure that the arrangement maintains support from stakeholders, and also to identify opportunities to improve the value of the service, it is helpful to consider value and impact.

The critical question is 'How can business value and impact be improved?' This avoids outsourced services becoming 'stuck' at a point in time – typically when the contracting is done – and steadily falling behind the actual requirements the business has in order to maintain its competitiveness.

It is always possible that an arrangement can consistently achieve the targets set in the original contract schedules and yet still be considered a failure.

Managing Stakeholders

Effective stakeholder management can be a complex challenge but is of considerable importance. It is likely that their needs develop over time, as will their perceptions of their own needs and of the service that is being delivered. Clarifying these needs and perceptions on a regular basis will provide important information to the service provider regarding how they can improve the perception of their service. A significant aspect of the relationship management role will be concerned with managing the interface between the client stakeholder group and the service provider. Identifying the points at which the supplier impacts client stakeholders is of considerable value and allows both the supplier and the client's relationship managers to successfully manage these potential 'pinch' points.

The joint governance process will be a key mechanism in ensuring that all stakeholder views and experiences are captured and successfully managed.

Drive measurable Continuous Improvement and Innovation

The most successful relationship is dynamic, outward looking and aligned with the goals of the parties. Relationships that are unsuccessful tend to be static, insular and out of step with what one or more of the parties need to achieve.

For some, continuous improvement (CI) and innovation are 'optional extras' in a relationship. Difficult to define, and even more difficult to deliver. The reality is that CI and innovation should be integral to the relationship. They are a function of a successful relationship where all parties are working collaboratively, looking for win-win and to achieve the stated and often changing goals of the parties. Evidence of CI and innovation reflect the success of the relationship.

The science behind driving CI and innovation is to: (a) define what you consider to be CI and innovation (b) monitor, share and celebrate CI and innovation however it happens (c) provide vehicles and training for people to collaborate to reflect on their current practice and identify ways of developing CI and innovation.

Contract Reviews and Benchmarking

Contracts will usually have provision for key elements to be reviewed on a routine, often annual basis. Pricing is a common example where the contract will allow for the parties to review the pricing according to a certain specified procedure. This may be linked to a benchmarking exercise. Benchmarking is considered by many to be an effective and scientific way of ensuring that the contract terms, e.g. pricing, is in line with similar arrangements in the marketplace. Organisations that collect market data are usually employed to prepare independent reports that the parties are then able to use to inform their discussions. Agreeing an objective process for benchmarking can provide a sound basis for the parties to re-calibrate the arrangement in an equitable manner.

Monitoring the relationship

Given the importance of the relationship to certain outsourcing arrangements it would be surprising if the state of the relationship were not managed. It was Peter Drucker who famously said, "What gets measured, gets managed." Implicit in this statement is of course that what doesn't get measured doesn't get managed – and that is certainly true with regard to relationships.

Some arrangements will focus largely on performance metrics and pay little regard to the state of the relationship itself. The view is that what matters is whether the performance outputs are in line with those that were agreed in the contract. This is in a sense true. However, it ignores the fact that typically both parties will want to see the relationship continue, as changing sourcing strategy or supplier can often prove disruptive and costly. If the relationship is not well managed it makes the likelihood of it being long term less likely – this can sometimes be the case even if the performance outputs are acceptable.

Monitoring the relationship is best achieved by agreeing on key measures and the various data collection and analysis tools that will be required; along with the processes that need to take place to review data and take action.

The Art of Relationship Management

We have described the science of relationship management as being concerned with establishing and managing processes and structures. Putting in place governance procedures, designing

monitoring tools or benchmarking processes, amongst others that have been mentioned previously. However, it is perhaps the art of relationship management that will often have the biggest impact.

The art of relationship management is concerned with all of the people involved in making the relationship work demonstrating the necessary behaviours, consistently. We will often feel confident that we can control the science as described earlier – but we are often much less confident about controlling the 'art'. How can we ensure that everyone 'gets along'? How can we ensure that cultures don't clash horribly? How can we ensure that different personalities don't repel? How can we bridge the barriers between people who live in different national cultures? How do we ensure that creative tension doesn't become just tension?

Often outsourcing arrangements fail through a lack of successful, continuous and consistent leadership. It is leadership that sponsors the art in relationship management. Leaders are critical to relationship management. The leader will set the example through their behaviours. Leaders will provide the required clarity. Leaders will ensure the necessary resources are available for relationships to be successfully managed.

The most successful outsourcing leaders don't ignore the importance of relationship management. They place it front and centre and constantly encourage their teams and their partners to manage the relationship. They ensure that everybody manages relationship management.

