

# Contractualizing collaboration



Service Integration (SI) has huge advantages over traditional approaches to governing outsourcing agreements. However, it necessitates a different kind of contract between client and service providers from those associated with either the use of prime contractors or individual client-managed contracts. What SI needs instead is a series of individual contracts that are consistent with an overall commercial framework. This framework must lay down the “rules of the club” that client and providers will abide by; it must also enhance transparency and eliminate ambiguity about the parties’ responsibilities. There are challenges in setting up the framework, but an experienced Service Integrator can play a vital enabling role.



People matter, results count.

## The case for Service Integration

In other papers<sup>1</sup> we have made the case for a radically new, and highly collaborative, style of outsourcing, enabled by a Service Integrator and characterized by mature relationships between the stakeholders. A major driver for Service Integration is the need to re-empower the CIO to support the business and add value as cloud service adoption accelerates. It's a way to deliver new services in a controlled and secure manner, and to cut costs – or at least make sure expenditure is justified in terms of business objectives.

Here we discuss the importance of underpinning the Service Integration approach with the right kind of commercial arrangements between client, providers and Service Integrator.

## Why Service Integration needs a different kind of commercial framework

Today's typical outsourcing contract does not foster the style and level of collaboration that Service Integration needs. The type of contract associated with the traditional structure of prime contractor and sub-contractor puts the prime contractor in charge; they control how things happen. Client-managed contracts have difficulties of their own: they usually result in silos of activity with disparate contract terms.

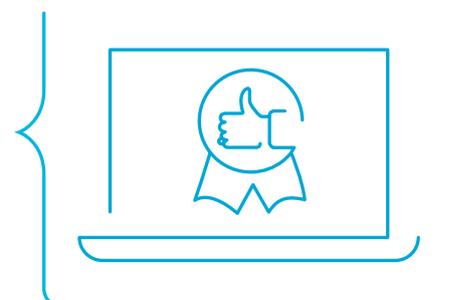
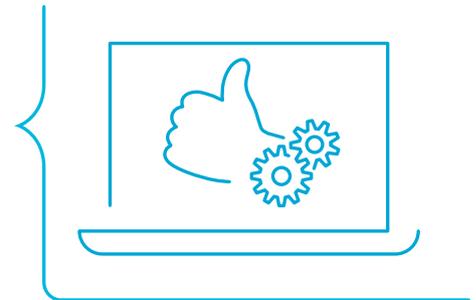
Neither of these arrangements suits the needs of Service Integration which, we believe, needs a commercial framework with the following characteristics:

- Relationships need to be on an equal footing; instead of a prime contractor who controls the providers, there will be a SI who coordinates them. All parties, including the client, need to understand their interdependencies.
- All of the providers should have a direct relationship with the client (this contrasts with a prime contractor arrangement where the relationships are all via the prime).
- The SI, client, and ecosystem of providers all be bound together for “the greater good”, providing end-to-end services to the business.

## Principles for setting up the commercial framework

In order to achieve these characteristics, there are two key principles to follow.

**“Rules of the club”.** Everyone must sign up to the same rules – that is, they must give “informed consent” to becoming part of the ecosystem. The commercial framework should define the policies, processes and procedures that govern how things are done, and the Operating Level Agreements (OLAs) to which providers must observe. All of these must reinforce the right behaviors, i.e. collaborative problem-solving and adult interactions rather than unilateral action and old-fashioned parent-child confrontations<sup>2</sup>. The rules must also eliminate any ambiguity about how the parties interface with one another, and reinforce the idea that collaboration is mutually beneficial.



**Transparency.** There must be transparency between the parties – not in terms of commercial arrangements but in terms of the remit and rules – and ambiguity must be eliminated. The SI must be able to report on the performance of the ecosystem as a whole.

In addition, the framework must clearly define which tower provider is accountable for what, without making anyone feel threatened. The framework also needs to be designed to encourage and facilitate change on the part of service providers – particularly a change towards a more adult or collaborative approach to dealing with problems.

Individual contracts need to be created and managed within this commercial framework. When this happens, there can be true Service Integration. The result should look rather like an orchestra with the SI as conductor.

## Challenges in defining and operating the commercial framework



### A more active role for the client

The client in a Service Integration scenario needs to play a leading role in defining and setting up the commercial framework/contract that binds all the parties together. This is somewhat contrary to the familiar experience with a traditional prime contractor which involves few players.

The client will also need to think about some contractual fundamentals. For example, it needs to decide whether to put in place legally binding operating agreements between tower providers and SI, and between the various tower providers themselves, or to rely on an agreement that's not legally binding (and doesn't limit liability).

Again, the client needs to get more involved with these details than it would in a traditional arrangement with a clear division of responsibilities between client and prime contractor. For Service Integration, client and SI must work together to make sure that the service meets the needs of the business and helps it meet its KPIs.

Operational issues are owned by the SI, but it has no interest in barring or controlling communication between the client and individual service providers. Instead, the SI is there to ensure that this communication happens in the right way.



### Deciding how to transition to Service Integration

Another challenge is to make the transition from the current situation to the Service Integration scenario. This can happen in various ways. One of clients<sup>3</sup> was able to procure all its contracts at the same time in a complete overhaul of IT provisioning and introduce Service Integration across the board, but this is relatively rare.

It is more usual to have to fold existing contracts into the Service Integration arrangement, which means that the client needs to persuade existing providers to start adhering to the rules of the club. The more successful this process is, the more effective the results of Service Integration will be.

The rules can be written into each contract as it is re-let, but for more rapid progress the client may want to find ways to motivate current providers to make the changes that enable Service Integration – that is, to accept variations to existing contracts. But this will only work if providers are willing to change their behavior, observing the “etiquette” of Service Integration and honoring the rules, as opposed to simply doffing their caps to them.



### Adjusting mindsets

When moving to Service Integration, clients and providers both need to adjust their thinking to accommodate the shorter relationships that fit into a plug-and-play approach to outsourcing.

For providers, in particular, there is an element of fear here because they don't yet see the potential advantages for them in working this way. Clients can help by encouraging providers to see common rules and elimination of ambiguity as protecting their interests – everyone is playing the same game and the relationships are clear. Providers will also be reassured if there is a sound commercial model, clearly articulated.

This aspect of Service Integration should get easier. More astute providers are realizing that terms are getting shorter and relationships are changing as a result of cloud and other market developments. They recognize the potential opportunities for those who become expert players in this marketplace<sup>4</sup>.

Clients need to alter their attitudes too. They need to realize that getting a service at the lowest possible price isn't necessarily the best outcome – supplier flexibility is central to Service Integration, and it comes at a cost.

Both clients and providers need to give up the traditional view of where value sits. Providers can be profitable by conducting large numbers of short-term deals rather than a few long-term ones; clients can do better by paying more for a service that can be switched on and off as required.

## The SI's role in creating and operating the framework



### Setting up the agreement

The right SI can make an invaluable contribution to the design of the commercial framework and rule book contributing its knowledge based on first-hand practical experience of what does and doesn't work operationally.

However, the SI should have little or no involvement in the individual contract negotiations as such involvement would make service providers uneasy, as they will feel they are giving sensitive information to a potential competitor.

For that reason, the client should make it clear that the SI's role is solely limited to ensuring that the proposed new service will fit into and aligned with the ecosystem – and this needs to be its genuine position.

Having said that, Capgemini has developed the concept of “Integration Sessions” as a tool to be used to increase the level of mutual understanding of each party’s involvement in any given process.

To be convincing about this, the SI must be able to demonstrate true independence between itself and other parts of its organization; this will also reassure the client of its independence. Not every potential SI can do this: the SI needs to be regarded by the other providers as an organization that will behave ethically.



### Educating the parties

The SI can also educate the parties, sharing its experience and know-how, for example about the governance models that drive the right behavior, requirements for transparency, and tools and processes to support all that. This can’t be done with a process manual and toolset – it’s a skilled change management job.

Once again, providers may resist attempts to educate them if they are suspicious of the SI, so it’s important to choose a respected industry player as SI.



### Advising the client

In addition to helping to define and operate the commercial framework, the SI has an important advisory role to play. It can help the client to get the best of what’s available in a rapidly changing market – one that offers much more choice about what to get from whom than was available in the past.

Areas where an experienced SI can usefully advise include:

- Using low-cost commodity services that don’t require the client to invest in assets: cloud, pay as you go, switch on/switch off, and so on.
- Where the client doesn’t want to use the commodity approach, finding the best providers, who can provide the right services in as flexible a manner as possible.
- Making longer-term provider relationships work for everyone, fostering the idea of change where necessary.
- Designing the optimum mix of commodity and custom services and combining them to meet the business’s need for service.
- Sourcing services not provided by the current ecosystem and folding these additional services into the existing service platform that the SI is managing.
- Facilitating change – largely a question of getting the rules of the club right (including the rules that govern what “goodbye” looks like) to facilitate a plug-and-play approach to service providers.



## Promoting fair play

Once the agreement is up and running, the SI's major role is continuously to solicit the parties' views and opinions, and encourage the right actions, in such a way as to give best value to the client without disadvantaging the provider.

A SI is highly motivated to do this because it has "skin in the game", with some accountability for service performance. Its main tool is the commercial framework, along with the rules of the club. The framework can be used to encourage the right behaviors, and to anticipate any issues and correct them before they become problematic; the rules of the club define ecosystem etiquette.

To do this, the SI must have a thorough understanding of the agreements with each provider, and of that provider's responsibilities, so that it can monitor, and help to improve, performance.

## Conclusion

Service Integration should be a win-win-win, with providers working together for the good of their common client rather than pointing fingers at one another. But the difficulty of pinning down some of the issues underlines the point that Service Integration is for consenting adults<sup>5</sup>. It is a radically different way of doing outsourcing, and the parties all need to be committed to it. This applies not just to new providers but also to existing ones, who must be willing to accept contractual change and alter their behavior.

A strong commercial framework brings transparency and clarity about rules and eliminates ambiguity. Without such a framework, it would be impossible to achieve Service Integration. The most that would be possible would be service management, and any performance improvements would be only marginal.

For organizations attracted to the idea of Service Integration, the first step is therefore to recruit people, or find advisors, with the experience necessary to create a sound commercial framework.



- 
1. Service Integration: A blueprint for regaining control of a complex IT vendor landscape; Improving the Client-Supplier Relationship in Outsourcing Relationships; Service Integration-as-a-Service
  2. See Improving the Client-Supplier Relationship in Outsourcing Relationships
  3. Service Integration: A blueprint for regaining control of a complex IT vendor landscape, page 13
  4. MIT CDB and Capgemini Consulting, The Digital Advantage - How Digital Leaders Outperform their Peers in Every Industry, 2012
  5. See Improving the Client-Supplier Relationship in Outsourcing Relationships



For further information please contact:  
[infra.global@capgemini.com](mailto:infra.global@capgemini.com)



## About Capgemini

---

With more than 130,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2013 global revenues of EUR 10.1 billion.

Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us at

[www.capgemini.com](http://www.capgemini.com)