

Improving the Client-Supplier Relationship in Outsourcing



Relationships are key to outsourcing success, but most client-supplier relationships today are more like the one between an old-fashioned parent and a child than between adult and adult. They tend to deteriorate over time as each setback is followed by finger-pointing, rather than by constructive steps to prevent the problem from recurring. A Service Integration approach enables healthier, adult-to-adult relationships because the Service Integrator is a key stakeholder who is motivated to work with client and ecosystem suppliers to find solutions to problems. The result is a network of relationships that continuously improve, are mutually beneficial, and support the transformation of the client's business.

Sports psychology tells us that you can be fantastic at what you do, but if you're not comfortable about your relationships with other team members, you will probably fail. The same is true of outsourcing. However technically competent the supplier is, the potential benefits of the deal won't be realized unless the right relationship exists between the parties.

Why outsourcing relationships are often unhealthy

When an outsourcing deal isn't founded on the right kind of relationship, there are tell-tale signs. An obvious one is that the client often expects to transfer all the risk to the supplier.

Another sign of a sub-optimal relationship is that at the first sign of a problem (after the "honeymoon" stage at least) the parties tend to descend into pointless attempts to apportion blame – something that is usually futile because of the complexity of today's outsourcing and the fact that the world moves on so fast. The outcome is usually that the problem gets fixed somehow but that nothing is done to find out why it arose, or to stop it from recurring.

In terms of Eric Berne's "transactional analysis"¹, clients tend to relate to suppliers in a similar way to how some (old-fashioned) parents relate to children, as manifested by a tendency to point the finger of blame. However, business relationships are always more productive if the parties relate as adult to adult. Adults work together to get to the root of a problem – regardless of who caused it – and take steps to prevent a recurrence.

This relationship problem is, we believe, at the root of the high reported rate of disillusionment with outsourcing: according to Gartner, only a third of organizations achieve more than 80% of their goals². The problem is, moreover, inherent in the way procurement is currently done, which sets both parties up for an unequal and unhealthy relationship.

And because outsourcing is now 30 years old it is quite hard to change the way things are done. Service providers have been playing the game for a long time, and in some cases there is almost an expectation of confrontation.

How Service Integration improves relationships

It isn't easy to change the rules of the game, but we have found that the Service Integration approach can do so by creating a different and healthier type of relationship.

The Service Integrator (SI) is neither an agent of the client nor a tower service provider, but sits between the two parties. The SI has "skin in the game" – it's accountable for the ecosystem's performance – and therefore it is motivated to get all the parties to interact in the right way and honor their obligations – something that psychological research suggests is key to outsourcing success³.



Restructuring the outsourcing arrangement in this way can transform the nature of the relationship. When there's a challenge, instead of the client immediately blaming the supplier for not fulfilling its promises, the SI can investigate why things have gone wrong, explain, and take steps not just to rectify the situation but to ensure (as far as possible) it doesn't happen again. The SI's position means that it can, if necessary, recommend that the client – not just the supplier – changes the way it behaves.

The presence of the SI means that outsourcing can, at last, start to fulfil the promise of continuous improvement. Indeed, the whole relationship between supplier and client should improve over time, rather than deteriorating, as happens too often at present.

As part of the drive for continuous improvement, the parties often decide to change their regime of Service Level Agreements (SLAs) in order to set objectives that will support business transformation. This is obviously more advantageous for all concerned than trying to identify who has failed to meet their obligations so that they can be punished – the emphasis of too many current SLAs.

Supporting business transformation

In place of the traditional parent-child type relationships between clients and suppliers, Service Integration creates a new set of relationships between adults – consenting ones of course! – that support the aim of business transformation.

With the SI acting as an interface between client and suppliers, the relationship naturally becomes more equal and less adversarial. Rather than being geared up to identify and penalize individual failure, the network of relationships is geared to collective success.

You may like to read our other papers explaining the practicalities of Service Integration. And if you're currently wrestling with difficult outsourcing relationships, please contact us to discuss whether this approach could help you.

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1. See Berne's 1964 classic "Games People Play", for example
 2. Da Rold, C, "Outsourcing Buying Trends and Drivers for Sourcing Strategies for 2012 and Onward", Gartner, 15 August 2012
 3. See for example Koh, Ang, and Straub: *IT Outsourcing Success: A Psychological Contract Perspective* Information Systems Research 15(4), pp. 356–373



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