Opportunity Statement

Investigate the key reasons for outsourcing failures in operations management related to the service provider and client relationship and suggest a model for improving performance that stresses the relationship aspect.
Nash’s Game Theory

When two or more players are involved in a competitive (non-cooperative) situation, with all things being equal, one is going to win and one is going to lose. However, if they agree to collaborate and work together for a shared (cooperative) gain, both can likely win.

Outsourcing Selection Criteria

“Why did you choose your current main outsourcing provider?”

- Partnership/cultural fit: 72%
- Price: 56%
- Technical skills: 50%
- Quality of service: 33%
- Professionalism: 33%
- Adaptiveness and flexibility: 33%
- Innovativeness: 22%
- Customer references: 22%
- Other: 17%

Base: 18 European buyers of IT outsourcing (multiple responses accepted).

From The IT Outsourcing Satisfaction Paradox, Forrester, December 2005
The Sourcing Relationship

Detailed case research into major IT outsourcing arrangements has found the relationship dimension between the client and its suppliers to be a critical but complex set of issues to manage.

Source: Kern and Willcocks, 2001

Some (Bad) Current Outsourcing Trends

- As smaller organizations move to outsourcing to reduce costs, lack of sourcing and contract negotiations experience often lead to poor business outcomes from outsourcing.
- Post-contract sourcing advice is often minimal.
- Transparency to outsourced operations is often lacking, as vendor management functions are overloaded.
- Outsourcing vendor sales and delivery are sometimes not aligned, leading to unrealistic expectations that can not be met.

Source: Forrester, 2006
**Balance Needed**

One in five IT outsourcing deals are doomed to failure because they favor the client at the expense of the vendor from the outset.

Source: Leslie Willcocks, London School of Economics, 2006

---

**In Search of Client Service Excellence**

- Basic technology metrics alone do not drive the right behavior or results
- Rigid contracts have been proven not to meet business needs
- Clients want to look beyond technology to the business drivers for IT
- IT is not the client

Source: Forrester, 2005
Outsourcing Hierarchy of Needs

The evolution of client relationships follows a hierarchy of needs: Until the basics are right, you have not earned the right to move up the pyramid of satisfaction.

Preparation for Collaboration

- Articulate the specific objectives of outsourcing
- Lay expectations on the table
- Be ready to address conflicts
- Find mutual benefit

Source: Harris & Parker, 2005
Two Models for Improving Relationship Management

The eSourcing Capability Models from Carnegie Mellon University’s ITSqc are designed to share a set of sourcing best practices that benefit both clients and service providers.

eSourcing Capability Model for Service Providers

- Knowledge Management
- People Management
- Relationship Management
- Performance Management
- Technology Management
- Threat Management
- Contracting
- Service Design & Deployment
- Service Delivery
- Service Transfer

Source: ITSqc, 2006
**eSourcing Capability Model for Clients**

**eSCM-CL**

- Sourcing Strategy Mgmt.
- Governance Management
- **Relationship Management**
- Value Management
- Org. Change Management
- People Management
- Knowledge Management
- Technology Management
- Threat Management
- Sourcing Opportunity Analysis
- Sourcing Approach
- Sourcing Planning
- Service Provider Evaluation
- Sourcing Agreements
- Service Transfer
- Sourced Services Management
- Sourcing Completion

**Capability Areas**

**Mapping the eSCM Models to the Hierarchy of Needs**

**Clients**

- Focus on value relationships through innovation (4)
- Develop collaborative relationships (4)
- Achieve a cultural fit (3)
- Manage internal relationships (3)
- Manage service provider relationships (3)
- Manage issues and resolutions (2)
- Manage interactions with service providers (2)

(number in parenthesis indicates eSCM capability level)

**Service Providers**

- Proactively identify value creation opportunities (4)
- Manage supplier and partner relationships (3)
- Manage client relationships (3)
- Achieve a cultural fit (3)
- Analyze and use client & stakeholder information (3)
- Manage the performance of suppliers and partners (2)
- Select suppliers and partners (2)
- Manage interactions with clients (2)
**Recommendations (1)**

- Establish clear rules of engagement, governance and transparency (program status, issues, and risks) between parties
- Then focus on mutually establishing fair measures of performance for service providers that tie to the business objectives of the client; make exceptional performance financially rewarding
- Develop a community of trust by participating in mutually beneficial collaborations that advance value creation for the client and also provide a fair return for the service provider

**Recommendations (2)**

- Align cultures – your common attitude to people, processes, performance, values, outlook, and expectations of each other.
- Commit the resources you’ll need to build and actively manage your sourcing relationships
- Measure performance as quantitatively as possible to supplement the trust you’ve built with your service providers
- Tie performance to profitability (and penalties)
Summary

- Consider the value of the client & service provider relationship as pivotal to the success of the sourcing initiative
- Look at the Carnegie Mellon University IT Services Qualification Center eSourcing Capability Models to enhance client & service provider relationships

Thank You!

Questions?
References