

Managing Outsourcing Relationships

BY STEPHEN M. DENT

While my company may be buying services from your company (a transaction), how we work through the issues and come to resolutions requires a high level of people skills (relationship). In the end, for people, it all boils down to trust. Silently lurking in the back of everyone's mind is the age-old question: "Can I trust my outsourcing partner and how much?"

Here is where the human factor comes into play. Trust. It's a small word with a huge impact. When trust is high, anything is possible. When trust is low, even routine communications can become battlegrounds. And when trust has been broken, it's difficult to repair.

IMPORTANCE OF TRUST

Trust is a very human emotion and shades every interaction we have with everyone, including our outsourcing partners. If there is no trust, there is no partnership. Trust is deeply embedded in human nature.

People once instinctively understood and practiced the art of partnering — we were bound to land, to nature, to each other in a forced interdependence. Over time, as human culture progressed, we slowly forgot the basic partnering skills that enabled us to survive hostile tribes. In those early days, trust was everything because breaking the bonds of trust meant being banished and a sure death. However, from ice ages to heat waves, humans never lost their survival instinct, a deeply-rooted defense mechanism embedded in the human psyche, protecting one's self from a world filled with threat. When trust is high, people do not feel threat; when trust is low, people feel threatened. This is how people operate, plain and simple.

EVOLUTION OF BUSINESS MODELS

As we emerge from a commodity-based, post-industrial economy into one based on information and knowledge, legacy business models based on managerial structures — such as command-and-control leadership and disconnected business processes — have a profound impact on how we view the world, business and people. Twenty-first century technology has forever changed how we manage our businesses. Sadly, human beings are not given periodic system updates like software. How people react is hardwired deep in our DNA, and system updates are not so quickly available.

CULTURE FOR SUCCESSFUL OUTSOURCING

To survive in a world awashed in information, knowledge and technical complexities, we must partner. To thrive, we must become smart partners. To do this, we must overcome a legacy of business cultures that have evolved over the past couple of centuries. Businesses must rediscover the art of partnering if they are to fully engage and take advantage of strategic outsourcing.

The process of moving from "me" to "we" can't just happen at the individual level. It must occur at the organizational level. Businesses must develop a culture that encourages and rewards collaborative relationships. When super-charged competitive business cultures cannot differentiate between competing in the marketplace and competing with outsourcing partners, partnering with others becomes problematic. In

Outsourcing is arguably the most human-oriented business strategy. Value propositions can be ascertained through due diligence, lawyers can draw up watertight contracts and service quality agreements can be monitored and measured. That's the easy part. Managing the relationships of your outsourcing partner can be difficult. Why? Because businesses don't partner — people do.

fact, to be competitive, we must collaborate with others through developing trusting relationships.

In a global economy, based on information and knowledge, collaboration is critical because businesses realize they can't do it all. Information and knowledge — the raw materials in the new economy — reside everywhere. Unlike Henry Ford, who owned all the sources for production for the Model A automobile, no one business can "own" all the information or knowledge needed to be successful in our complex technological world.

Businesses now shed superfluous activities and outsource work that is not congruent with the core mission or competencies of the organization. These businesses focus on doing what they do best to be more competitive in the marketplace. However, as they outsource, they must change their relational strategies. Most outsourcing relationships end, not because of price or poor quality, but because of poor relationships between the outsourcing partners.

Typically, when an organization is extremely task focused, they often tend to not value relational characteristics such as communications, collaboration or building trust. They are strictly interested in the bottom-line. They view relational characteristics as a waste of time or energy ... and just want to get on with "business."

Switching from a competitive mind-set to a more collaborative one is complex. Task-focused organizational cultures tend to be highly competitive. This competitive dynamic in behavior often unconsciously spills over from task — or marketplace competition — into relationships, both within and between organizations. For the most part, people's competitive behavior is unconscious ... we just go about our everyday business unaware of how our business culture shapes those behaviors.

No business leader supports this at a conscious level. The problem is that people are influenced by a force larger than themselves. They yield to the overwhelming power of organizational culture. If an outsourcing venture fails, more than likely it's the culture of the organization that failed. Most outsourcing relationships are too complex, too complicated for any one individual to be the downfall. A system of behaviors can bring down even the most brilliantly constructed outsourcing venture.

While this sounds basic, most organizations do not have the systems in place to foster such a culture. We still value competitive behavior based on individual contribution, and this is the source of most outsourcing relationship problems.

CHANGING BUSINESS CULTURE

In my book, "Powerhouse Partners — a Blue Print for Building Organizational Culture for Breakaway Results" (Davies-Black / Consulting Psychologist Press, Palo Alto, CA), co-authored with James H. Kreffit, Ph.D., I lay out a plan for building an organizational culture based on partnering skills. The three steps in the plan are:

- Practice focused leadership**
- Build a partnering infrastructure**
- Develop smart partners**

In this and coming issues of "OutsourcingVenture," I will delve into each of these steps, starting with leadership.

LEADER'S ROLE

Leadership is one of the key elements in building organizational cultures that enable successful outsourcing relationships. Leaders must attain high personal mastery in the Six Partnering Attributes:

Self-disclosure and feedback**Ability to trust****Win/win orientation****Future orientation****Comfort with change and interdependence**

If they cannot role model these behaviors, they will have a difficult time convincing their team members to engage in such behaviors. People watch leaders and do what they do, not what they say.

Leaders must have a compelling vision of what the outsourcing relationship should look like. We interviewed with a client on a UK agency, which was outsourcing a large portion of a construction project. The leader of the organization, a public trust, did not believe in partnerships; yet the organization was mandated to form outsourcing partnerships to meet funding criteria. Without the visible support of the leader, we declined working with the organization, as we understood no matter how hard we tried, all the alliance-building activities in the world would be for naught. Ultimately, the project will be undermined as mixed messages from the leader are telegraphed throughout the organization.

Leaders must inspire vision in others. They must be able to articulate the benefits of the outsourcing relationship and link those benefits to the individuals within the organization. They must also align resources to the vision. Understanding that outsourcing relationships require investment — both in infrastructure and people — they must make sure an appropriate number of resources are dedicated to the success of the relationship.

Heralding the trumpet-call to action, leaders must motivate people to achieve more than possible. They accomplish this by being open to new concepts and others' ideas, rewarding collaboration, fostering interdependence between outsourcing partners, encouraging the creation of information-sharing networks, and best practices.

Finally, leaders must be accountable for achieving results. They must be tenacious, setting high expectations and communicating those expectations are achievable. They must be willing to share power and information while letting go of control. They must embolden people to take measured, strategic risks and reward them regardless of the outcome. They must build accountability into the outsourcing relationship using techniques that enable people to be accountable without fear and discourage a finger-pointing culture when the inevitable mistake occurs.

CONCLUSION

Outsourcing relationships, at their core, are human relationships. How people build trust, communication and collaborate with each other will determine their success or failure. To build successful relationships, people must overcome a survival mechanism that values "me" over "we."

To do that, they need the support of the organizational culture to help them. Since most organizational cultures are built on a foundation of individual reward structures and competitive dynamics, many organizations are not equipped to move easily into collaborative relationships. Leaders must take a key role in leading the change, if they are to become powerhouse partners and successful outsource managers.

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