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Partnering in Outsourcing Deals:

Is It a Myth or a Genuine Strategy?

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"Partnering" — besides being a mandatory buzzword — is a curious term. Nowadays, instead of taking over a company, we partner with them. We don't sell anything anymore; we partner. And now, rather than outsourcing, we create strategic partnerships. While the goal of an amicable and mutually rewarding relationship is admirable, what each party truly expects from the other in an outsourcing arrangement formed under a "partnering vision" is quite different.

The client often wants a "well-behaving provider." But what the client means by "well-behaving" is a provider that accepts nearly infinite scope creep without a commensurate increase in price, immediately reacts to the client's ad hoc needs (at no charge), and performs what the client really meant in the specification instead of what was actually written and quoted (again, at no charge) — all the while acting under a fixed-price, punitive contract. This interpretation illustrates the client's version of partnering as an environment where "the client is always right." A "master/slave" relationship appears to be the goal.

As you might expect, the provider looks at partnering a bit differently. First of all, there must be blind, rather than earned, trust. The client should not ask any uncomfortable questions and should assume the provider is right (or risk undermining trust). Under no conditions is the provider's margin to be adversely affected in any way, so anything that will cost the provider money must be charged at a profit. Moreover, partnering is about more than just the current contract; it is in everything the provider does; hence, if the client needs to procure more from the market than the scope of the current contract allows for, then this should also be procured from the provider wherever possible. The relationship is supposed to be monogamous; using another provider equates to your spouse cheating on you: it makes the client untrustworthy. After all, how many partners can one have in a marriage?

In this *Executive Update*, we'll examine two case studies where assumptions of a partnership and a lack of investment proved damaging. Plus, we offer a test you can use to see whether your outsourcing arrangements fall into a true form of partnering or are more traditional in nature.

CASE STUDY: BLIND TRUST IN OPERATION

The general manager of an international airline made an agreement with the top executive of a provider because they had worked together before and trusted each other. The deal was simple enough. The supplier would take over call center operations, its core business, so that the airline could then focus on its own core business: air transport and travel. This was to be a strategic partnership; thus, both parties believed that they needed only a brief, high-level memorandum of understanding. The contract and other specifications would be developed over time.

Years later, after both executives had left their companies, an internal audit revealed that the contract had never been developed and that the supplier had been overbilling for years. Each business unit was being charged a price per call, and, simultaneously, the centralized accounts payable section was being charged for full-cost recovery (even for such items as toilet paper at the supplier's facility). The overbilling occurred due to a lack of detailed descriptions of the services included in the "price per call" as well as the items to be charged as "reimbursable costs."

The lessons learned here, and one that knowledgeable firms know, are the following:

- A client should never first select a provider and then later attempt to agree to a deal. Design the deal up front and put that to market.

- A client should never give a provider discretion over what or how to charge and always have an active oversight function.
- Deals must be made on a commercial basis rather than based on the interpersonal trust of a few individuals that may not stick around for the duration of the deal.

THE PARTNERING TEST

Most outsourcing arrangements are actually a hybrid of partnering and traditional approaches. Table 1 outlines a quick test you can perform to see how much of one side or another that your deal might be leaning toward.

In practice, most parties attempt some sort of balance between the two extremes of the traditional arrangement (also referred to as a power-based relationship) and a partnering one. Extremes of either type is rare. Figure 1 provides you with another lens through which to view your deal, and how it might skew toward or away from partnering. However, this looks at how the parties actually behave toward one another rather than how the intent of the relationship via the contract might have been structured.

Partnering is best looked at as a style of relationship rather than a form of contract, with the behaviors in Figure 1 as the goal. Acknowledging that traditional outsourcing arrangements are really just an exchange of goods and services for money is much better for all concerned than trying to "window-dress" them as "partnering" deals. If you want a closer relationship than an arm's-length one as a means to have a good exchange, then invest in that relationship.

Most of the investment required comes after signing the contract, when true partnering behaviors are necessary to make the deal work. This investment is in addition to the normal contract management investment (oversight, operational issue resolution, variations, etc.) required in any outsourcing deal. Let's examine another case study that highlights the importance of investment.

CASE STUDY: INVESTMENT IS ONGOING

A telco made a large investment in its relationship between the evaluation and negotiation teams to achieve a more partnering style. However, this initial investment did not continue with the actual contract managers — the ones who would be operating the contract. When the client's contract managers took over, they were traditionally adversarial and stayed that way, throwing out the partnering provisions and the goodwill created. Very quickly, the contract operations became one of managing to the letter of the agreement rather than the intent.

CONCLUSION

True partnering requires three times the investment in the relationship than a "nonpartnering" deal, with the people on both sides being the key. This investment is geared toward the following:

- Ensuring strong interpersonal relationships at multiple levels in both parties
- Implementing joint problem solving and opportunity discovery techniques
- Encouraging knowledge sharing and capturing solutions
- Developing a deep understanding of both organizations' strengths and limitations as well as the political environments in which they operate

When is this investment worthwhile? When there is a high degree of uncertainty in the contract, typically due to the unpredictability of the subject matter (scope changes will be normal), unpredictability of resourcing requirements (uncertain supply sources/cost to supply), or long duration (unpredictable context, including business/markets, political/regulatory, and technological). Only a partnering-style relationship can handle significant change and not treat the contract as a zero-sum game where there is a winner and loser. The investment is, at a minimum, a hedge against being the loser and, ideally, in fostering an environment where both client and provider can win.

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Table 1 — The Partnering Test: Partnering vs. Traditional

	Partnering	Traditional Arrangement
KPIs/ Performance Measures and Effect	There are KPIs for both parties.	KPIs relate only to the provider.
	There is a balance of recourse and reward for both parties.	There is a recourse scheme related only to the provider's possible failure.
	Recourse and rewards are a balance of financial and nonfinancial (i.e., recognition).	Recourse is purely financial.
	There is a joint root-cause process required for performance shortfall with the goal to put in preventative measures.	There is a focus on faultfinding for performance shortfalls, with the goal to apportion blame (and recourse).
Contract Management	The contract managers, and other key personnel, in both parties are chosen specifically for their relationship management skills.	The contract managers, and other key personnel, are chosen based on technical skills, location, or their availability.
	There is a balance of informal and formal meetings.	Only formal meetings occur.
Dispute Management	There is an internal escalation process required prior to the involvement of a third-party intermediary (and the word "dispute" is not used; "issue" or another nonthreatening word is used instead).	Many of the contract clauses state if Plan A does not work (i.e., an agreement of some type); then Plan B is to have the parties go to dispute.
Risk Sharing	The risk framework is pragmatic, with prevention as the key.	The language of the contract is to attempt to redistribute risk to the provider (whether actually enforceable in the courts or not).
	Liability caps are calculated based on estimated risks, effect, and probability.	Liability for the provider is either unlimited or based on a "rule of thumb" (i.e., other contracts, part or all of the value of the contract).
	Possible cost overruns are identified and mitigated from the start, with an agreed-upon variation process (which includes a highly transparent quoting process).	Cost overruns are attempted to be the responsibility of the provider within the contract framework.
Gain Sharing	Cost savings initiatives are a joint process involving "reengineering" in both parties; or if the provider is to bear the overruns, it can keep cost savings in entirety.	The client owns created IP (giving the provider a license while the contract is in effect).
Intellectual Property (IP)	Created IP (IP resulting from the contract) is shared by both parties, or the provider owns the IP and gives the client a free, irrevocable, in-perpetuity license surviving the contract.	The client owns created IP (giving the provider a license while the contract is in effect).
Staff Exchanging	Employees freely moving between the parties are encouraged and job ads are posted between the parties.	There is a "no poaching" provision and compensation is required if an employee leaves one party to join another.

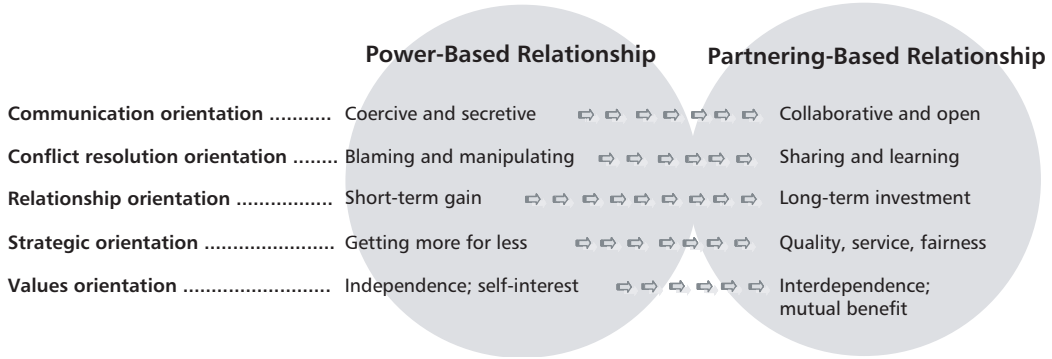

Figure 1 — Power- vs. partnering-based relationship orientations.

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Dr. Cullen is a widely published author. Her publications include *The Contract Scorecard*, *Intelligent IT Outsourcing*, *Outsourcing: Exploding the Myths*, *Contract Management Better Practice Guide*, *Best Practices in ITO*, *Lessons Learnt in Outsourcing*, *Service Provider Management*, *Outsourcing Guidelines*, and *Outsourcing: What Auditors Need to Know*, in addition to research with various universities since 1994, including the London School of Economics, University of Melbourne, Oxford University, and the University of Warwick. She has been featured in such publications as *Australian Financial Review*, *Business Review Weekly*, *Computerworld*, *Directions in Government*, *European Journal of Information Systems*, *Information Economics Journal*, *Journal of Strategic Information Systems*, *Information Technology Report*, *Insurance Directions*, *Oxford Handbook*, *MIS*, and *MISQ Executive*. Her expertise is globally recognized, and she performs peer reviews of outsourcing research for *Harvard Business Review*, *California Management Review*, and *European Conference on Information Systems*. Dr. Cullen has lectured at many universities, including the University of Seoul, the University of Melbourne, the University of Monash, the University of Swinburne, Queensland University of Technology, and the Royal Melbourne University of Technology. Dr. Cullen earned a BS in accounting from St. Cloud State University (US); she was awarded a master's of management (technology) from Melbourne Business School, and earned her PhD from the University of Melbourne. She is also a Chartered Accountant in the US. She can be reached at scullen@cutter.com.

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