

## THE HUMAN SIDE OF OUTSOURCING

IT'S NOT YOU ...

... IT'S ME

## Outsourcing relationships – the source of value



**Chris Halward**, Programmes Director, NOA Pathway, offers some practical advice on supplier relationship management in the outsourcing industry.

The professional development arm of the NOA, NOA Pathway, runs programmes for outsourcing practitioners. Over the past two years NOA Pathway has been receiving an increasing number of requests from outsourcing client organisations about supplier relationship management (SRM) training and

development. This reflects a growing recognition that outsourcing relationships must be actively and effectively managed, and that a more sophisticated approach is required to realise the potential value of the relationship and to manage the inherent risks.

Of course it is critical that the life cycle elements of strategic leadership, relationship engagement and transition and change are effectively executed. However, the long term success of the arrangement is to be found in the relationship management stage.

Without effective supplier relationship management the following may happen:

- Performance can fall below expectations and contracted requirements
- Issues regularly escalate to become disputes
- Costs spiral out of control
- Change is poorly managed
- People are unproductive, and almost certainly are not able to thrive

These are just the tip of a large iceberg of potential problems. The worst case scenario and one that is all too common, is that as a result of ineffective SRM the arrangement fails and both parties suffer as a result. A failed relationship can mean substantial financial penalties and massive consequences for anyone unlucky enough to be involved. It should not be forgotten that the human cost is considerable as those who have been involved in poor relationships will know.

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As the practice of SRM develops it is clear that there is a skill set emerging within the field of outsource supplier relationship management and a sense that there needs to be a career path for SRMs. More and more people in an SRM role are looking for qualifications that will acknowledge their transferable skills in what is a skilled and highly complex role that adds considerable value to an organisation.

NOA Pathway has outlined a set of competencies for relationship management, as part of a wider set of outsourcing competencies, which include:

- Demonstrating a broad understanding of outsourcing, particularly the complete life cycle and associated strategies
- Managing governance and stakeholder buy-in
- Resolving disputes
- Managing routine reviews in a collaborative manner
- Developing SLAs in line with business need
- Recognising the commercial imperatives of all parties
- Building innovation and flexibility
- Championing change and continuous improvement

Underpinning the competency framework is a model of approaches to relationship management. The three broad approaches are shown in the diagram below:

A typical approach is for a 'contract management' approach to be adopted. As the name suggests this focuses on the

contract terms and can be characterised by an inflexible approach where the supplier manager is intent on ensuring that the supplier delivers to the terms laid out in the contract – period. This approach may be adopted where the service delivered is highly transactional and of relatively low risk to the organisation.

A supplier approach recognises the need to consider the supplier's perspective and is characterised by a more flexible approach and one in which there may be compromise around the contracted terms in order to ensure the service is successfully delivered. This approach is more commonplace where the service has a significant strategic impact.

A relationship management approach by SRMs requires considerable skill and experience, but will bring far greater value to the relationship. It is characterised by a focus on how the relationship as a whole can work best, for the benefit of all the parties. The SRM recognises the importance of managing both the supplier's needs and that of in-house stakeholders, and invests time in being clear what those needs are and how they can best be satisfied. Those who manage at relationship level are commercially aware and are continually exploring risk and opportunity to add value into the arrangement.

### So what are the imperatives for the executives regarding Supplier Relationship Management?

- See your supplier relationship team as miners of potential value from outsourcing relationships, not as managers of the status quo.
- Recognise that Supplier Relationship Managers must be highly professional and be given the status of professionals in the business and training to match.
- Invest in the development of SRMs and encourage them to develop a holistic approach to SRM. To use a sporting analogy they need to be able to play with their heads up, so that they recognise risk and opportunity in equal measure.
- Provide an SRM career path from Team role to Manager role to Leadership role. The focus of the Team role is on task, the Manager role on process and the Leader role on policy.

As the prevalence of outsourcing arrangements continues to grow throughout the world SRM will develop as an increasingly important activity within all organisations. Those organisations that do invest on the development of its SRMs will benefit significantly, with many gaining an important competitive edge in their markets and delivering much higher levels of value to their stakeholders and shareholders.

