

VIEWPOINT ARTICLE

Making Outsourcing Work:
**Resolving Service Delivery and
Relationship Management Issues**

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EXECUTIVE SUMMARY

Facility Management (FM) Outsourcing involves a Service Provider delivering an increasingly complex mix of services to a Client constituency. This constituency may be dispersed across a broad portfolio of locations. Ensuring success is thus a mutual commitment, and both the Client and Service Provider have reciprocal responsibilities in this regard. Acknowledgement of these mutual responsibilities is typically reflected in the development and implementation of joint relationship management or “governance” procedures.

Despite the increased sophistication of these governance procedures, serious issues, while much less prevalent, can still arise. We find that most governance procedures are strong on ensuring preventive measures, but provide minimal practical guidance on resolution should issues actually occur. There may be little documented other than the instance that there be an “escalation process” to address business concerns.

This article describes where issues arise. Consideration is given to a practical understanding of these issues, and follow-on strategies for resolution and longer-term success. While issues can occur in even the best run partnerships, effective resolution minimizes the potential for disruption and ensures a healthy business relationship.

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INTRODUCTION

Facility outsourcing deals are becoming larger and more complex. This has increased the potential for Service Providers to unlock significant value for Clients, while at the same time amplifying the challenges associated with deploying outsourcing solutions effectively. When multiple stakeholders are involved, deliberate alignment is needed to create the consistency and support required to move across the inevitable rough spots. Many articles have been written about the importance of good Client/Service Provider “governance” processes. These governance processes typically consider:

- ▶ Ensuing business alignment between the Client and the Service Provider
- ▶ Measuring and managing performance
- ▶ Operational coordination
- ▶ Financial and contract administration
- ▶ Verification of financial and contractual commitments

The advent of structured governance processes around these dimensions has helped bring consistency of approach to effective outsourcing management. We are seeing both earlier and better outcomes as a result. This viewpoint article discusses why some outsourcing relationships struggle and offers some pragmatic approaches to help effectively overcome obstacles to success.

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UNDERSTANDING THE RELATIONSHIP

“Core to resolution of this issue is recognizing that contracted service levels and local (or even portfolio wide) business requirements may not be aligned.”

There are two aspects of the outsourcing partnership that bear most of the burden in healthy partnering relationships, and it is these two areas where breakdowns are most frequently observed:

- ▶ Service Delivery
- ▶ Business Relationship Management

Both Client and Service Provider are mutually responsible for ensuring these aspects of an outsourcing partnership are effectively managed. Understanding how each contributes to the overall success of the relationship and possessing the tools to understand how and where issues will arise allows us to develop strategies to identify problems early (avoidance) and overcome them quickly (intervention/corrective action).

Service Delivery

Service delivery issues can typically be characterized by one of the following scenarios:

1. Delivered services fail to meet the Client’s business and operational requirements.
2. The perception that the delivered service falls short of the contracted service levels.
3. Lack of confidence on the part of the Client that the Service Provider will deliver service to the standard required.

Let’s take a look at each of these scenarios in more detail:

Service Delivery Falls Short Of the Client’s Business Requirements

Core to resolution of this issue is recognizing that contracted service levels and local (or even portfolio wide) business requirements may not be aligned. In this scenario, the fact that there is a shortfall in service delivery against Client requirements is not in question. The issue however may stem from one of two distinct causes. Either the contracted Service Level Agreement (SLA) is being satisfied but not meeting the underlying Client

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“Failure to meet Contracted service levels is the more straightforward of these two service delivery issues.”

business need, or the contracted service levels are not being delivered.

In the first circumstance, both parties agree that the SLA requirements were met, but the Client is indicating that the underlying business requirement was not satisfied. In a larger more complex partnership, this issue requires care to resolve. In some cases, the local perception of “need” may not be aligned with the broader goals of the organization. This can create real problems for both the Service Provider and the Client, making it difficult for either to characterize performance as completely successful.

While it may be appropriate to adjust service levels, this should only be done through a formal review process in order to ensure that Client and Service Provider business managers are aligned with the change. Resolution must include documentation of a decision to either accept service levels at a standard different from what the local site management would prefer, or an acceptance by the senior Client leadership team to contractually require a higher or different service level. This change may be specific to the site, or more broadly applied across the organization.

Modifying service levels locally or informally risks the possibility that doing so will create either an unacceptable inconsistency across the portfolio, or an escalation of costs. These impacts may not be fully appreciated by the Client’s leadership until it is too late to reverse the decision. The issue is exacerbated by the fact that local outsourced staff may be, by the nature of their positions, predisposed to aligning with the local Client base in a fashion that can create a “location-centric” view of their service mission.

Failure to meet Contracted service levels is the more straightforward of these two service delivery issues. Simply stated, this situation is characterized by both parties agreeing, based on factual evidence, that a contractually required service was not delivered in accordance with the SLA. Examples can include a missed preventative maintenance routine, or a critical asset

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“Following diagnosis, the appropriate corrective action needs to be taken followed by communication of the corrective action to all operational and business stakeholders involved.”

failure. The “fact” that there are service delivery issues is not in question – “failure” has already occurred or is currently occurring and must be resolved.

In the case where the contracted service levels were not delivered, appropriate resolution requires a root cause analysis of what has occurred in order to determine whether issues such as lack of training, improper procedures, or a technology deployment issue were responsible. Following diagnosis, the appropriate corrective action needs to be taken followed by communication of the corrective action to all operational and business stakeholders involved.

Revisions to the ongoing performance measurement / service level-reporting program may be appropriate in order to both document and verify ongoing success.

The perception that the service delivered falls short of the contracted service levels

This is a more nuanced scenario. In this case, there is a perception by a member the Client organization that the standard of service delivered does not meet the contractually agreed upon service levels. This perception may or may not be accurate and it may or may not be held by all members of the Client’s management or “governance” team. As such, it requires patience to diagnose and address, as it must be handled delicately and effectively so as not to damage the broader Client/Service Provider relationship.

A lack alignment between parties as to the issue, if there is indeed a service delivery issue at all is an indicator of a possible “perception” problem. The key to a successful resolution is to accept the fact that the perception is “legitimate,” even if there are doubts as to whether there is a shortfall in the underlying performance. Perception issues typically stem from the following:

- ▶ The party raising a concern has identified concrete service delivery issues that have not yet been observed by others in either the Client or Service Provider organization.

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- ▶ Services are being delivered to the appropriate standard, but the party raising the concern does not have an accurate understanding of the agreed-upon standard of service delivery (the Service Level Agreement).
- ▶ The party raising the issue does not have an accurate or factual perception of how services are actually being delivered.

Effective resolution of perception issues involves careful and skillful communication. Most often it begins by providing the Client with an opportunity to share concerns and provide objective evidence of service delivery failure. It is important that to the greatest extent possible the review be focused on specific facts, and not “impressions” of service delivery.

Both the Client and the service delivery team must be given an opportunity to provide factual information about how services were/are being delivered. Any and all relevant measurable data, such as work orders, e-mail closure notices or maintenance records should be collected for review and analysis. Only by avoiding the temptation to “prove” or “disprove” the Client perception of service failure, and by restricting the scope of the inquiry to factual information can an accurate understanding of the true state of service delivery be achieved.

If it is determined that the services being provided are consistent with the agreed-upon standard, resolution rests with more effective communication. The Service Provider may need to assess its team in order to ensure that they possess the appropriate communication and critical thinking skills. Too often, we find that insufficient effort in the area of communication is the root cause of Client service perception issues. Alternatively, resolution may be as straightforward as implementing a process to ensure prompt and accurate communication of work performance (i.e. e-mail notice of work completed, incremental progress reports etc.) and enhanced SLA reporting.

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“If the analysis uncovers true service delivery issues, this presents the Service Provider with an opportunity to forge a closer relationship with the Client.”

If the analysis uncovers true service delivery issues, this presents the Service Provider with an opportunity to forge a closer relationship with the Client by:

- ▶ Thanking the Client representative for identifying the issue and quickly acknowledging the gap
- ▶ Analyzing the cause(s)
- ▶ Evaluating the service delivery and communication issues
- ▶ Crafting a simple and easily monitored corrective action plan
- ▶ Using the issue as an opportunity to obtain additional feedback on performance and the overall health of the relationship

Lack of confidence on the part of the Client that the Service Provider will deliver service to the standard required

This scenario can be more challenging to deal with. It occurs when the Service Provider is either stymied from delivering services or is not given the latitude the contract implies to deliver the agreed upon services. The telltale symptoms of this scenario is when a Service Provider is subject to one or more of the following:

- ▶ Tight (operational) direction and control by the Client team
- ▶ Work being performed by third parties that were planned to be displaced by the Service Provider.
- ▶ Operational and process barriers preventing the Service Provider from launching or executing services consistent with the original contract terms and transition strategy.

While this situation can occur for a variety of reasons, in practice it typically arises when the Client’s local operational team has either not fully adopted the outsourcing decision and / or the selection of the Service Provider, or has failed to become operationally aligned with either of these decisions. A multi-faceted approach is required to address this situation.

First, the Service Provider must accept as legitimate the concerns of the local Client team, while simultaneously working to ensure that all services are delivered at the agreed-upon level and quality. The expectation that a local team can operate outside of

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“Gaps between Client perceptions of Service Provider capability and contract requirements can require high-level intervention by both organizations.”

the contractual agreement cannot be given legitimacy. Unfortunately, Clients sometimes fail to recognize and address such “out of bounds” behaviors. Successful partnerships rely on formal performance indicators to counteract some of these issues, such as comparing problem reporting and resolution between sites (incident frequency, type, time to resolve) and instituting formal escalation processes in order to more accurately understand and track problems.

Gaps between Client perceptions of Service Provider capability and contract requirements can require high-level intervention by both organizations. Once the issues are identified and a joint understanding of the relative severity is reached, a number of practical steps can be taken to address local Client concerns while allowing delivery of services at the contracted levels to move forward. These are:

- ▶ Conduct joint Client/Service Provider Scope of Work, service level and contract governance briefings and training sessions. This ensures that both teams share the same understanding of the work to be performed, along with the associated service delivery standards. It also disseminates joint expectations as to how the relationship will be managed at individual sites, and presents an opportunity to formalize escalation/notification procedures. It is important that these sessions have prior review from the Client and Service Provider’s legal support as there can be a risk of contract redefinition if care is not taken.
- ▶ Create an open opportunity for both the Client leadership and Service Provider leadership to show alignment by jointly outlining the factors that influenced the agreed-upon service levels and contract structure; stating their expectations for adherence to the terms and reviewing the governance process to clarify the problem identification, escalation and conflict resolution processes.
- ▶ Create an Operational Responsibility Matrix (ORM). In more demanding FM environments requiring a complex service mix, both the Client and the Service Provider may be unclear on the mechanisms for coordinating services across organizational lines. This can result in over-specification in some areas, while creating a lack of guidance and/or gaps in others. An ORM

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defines the mutual responsibilities of each party for coordinating the delivery of services. For example, if a Service Provider is responsible for providing facility maintenance in a production area, the ORM might describe the communication protocol with the Client's production group to ensure there are not service interruptions while maintenance is being performed.

While defining an ORM in a meaningful way can represent a significant effort, it greatly reduces both the risk and associated anxiety about potential gaps or errors in service delivery. Additionally an ORM creates an opportunity for the local Client and Service Provider teams to begin working on operational issues and gain a truer understanding of each other's concerns and capabilities. ORMs are most effectively used in tandem with documented processes and must stay consistent with the contracted scope of work. In some cases, the ORM is an attachment to the Contract document.

In our experience, trust between Clients and Service Providers is built on the confidence that comes from a history of reliable performance conducted within a framework of open communication and shared responsibility for results. The proposed steps will help both parties to establish a higher degree of confidence earlier in the relationship and help facilitate stronger performance over the longer term.

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Business Relationship Management

“Business Relationship Management” is a term that has been historically difficult for some relationship managers to define, yet remains critical to understand and manage. The concept makes the deliberate and important distinction between the personal relationships and the business relationships that intersect in the workplace.

At its essence, Business Relationship Management reflects the mutual responsibility of both parties to ensure clear communication and problem resolution with respect to issues that arise between both organizations. The key word is “mutual”. Too often Clients – especially at the site level – approach the outsourcing relationship in a one-dimensional fashion, despite the contract terms and governance rules. This manifests as a tendency to treat the Service Provider in a simplistic, “task-oriented” manner.

In many instances we find that there is emphasis on documenting whether the Service Provider is meeting their service delivery obligations through extensive performance reporting. While meaningful performance reporting is an essential Governance best practice, this excessive focus neglects the fact that these are not the only commitments existing between business partners. The Client has obligations to clearly communicate performance expectations, hear Service Provider concerns, address its own internal leadership and account management issues and give forewarning of changing business requirements.

“The concept makes the deliberate and important distinction between the personal relationships and the business relationships that intersect in the workplace.”

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The following questions, asked of each partner, can help diagnose potential Business Relationship Management issues that may eventually impede success:

Client, Service Provider Relationship Management Checklist	
Client expectation(s) for service quality, responsiveness and overall performance are clearly communicated and consistent at all times, organizational levels and site locations	✓
Service Provider makes every attempt to actively listen to and understand Client expectations	✓
Client has a good understanding of Service Provider's skills and capabilities	✓
Service Provider proactively brings innovative ideas and improvement opportunities to Client	✓
Client creates a forum for listening and is open to exploring new concepts when Service Provider brings improvement opportunities	✓
Client and Service Provider have a clear understanding of the responsibilities, authority and transition points between them when performing work	✓
Service Provider and Client collaborate fully and agree on scope, schedule and resource requirements for project work	✓
Client and Service Provider operate from a position of mutual trust and respect	✓
Meetings and electronic communications have a businesslike, respectful tone that communicates a shared service vision	✓
Service Provider demonstrates both understanding of and alignment with the current Client business strategy	✓
Client has a good understanding of current Service Provider business strategy	✓
Client's perception of service delivery is uniform across all Client sites	✓
Service Provider is creating excellent value for Client (service, cost)	✓
Client is a profitable account for Service Provider.	✓

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Communication – The Pathway to Successful Business Relationship Management

Ironically, both the Client and the Service Provider may have the same perception of an issue, but the nature of the issue – typically related to ineffective communication – prevents resolution.

In one instance, the authors were performing preliminary fact finding interviews in preparation for a more detailed diagnostic of a multi-million dollar contract. The Client repeatedly mentioned that they had asked the Service Provider for innovation, but had yet to see it delivered. When confronted with the perception, the Service Provider replied that they had invested significant time and effort in developing new approaches and formulating proposals. The Service Provider reported that the Client did not acknowledge these actions and on some occasion even neglected to attend scheduled meetings where “innovations” were presented.

Interestingly, when surveyed, both the Client and the Service Provider answered questions about innovation the same way. Both indicated that the Service Provider was bringing innovation, but that the Client did not provide a forum for either effective listening, suggestion evaluation, or decision and action. The same lack of clear business communication that caused this relationship issue also prevented its resolution. On a larger scale and over time, this creates a cycle of negative reinforcement that becomes increasingly difficult to resolve.

Communications issues are the number one cause of Service Provider/Client tension. In some cases, there is a reluctance to raise issues because it is felt they will stress or damage the “relationship” between both parties. Yet the lack of communication about business issues allows dissatisfaction, frustration and even resentment to propagate through both organizations. Effective resolution requires open communication, typically accompanied by escalation to senior management. Oftentimes the best strategy is third party facilitation; support by a relationship diagnostic that:

“Communications issues are the number one cause of Service Provider/Client tension.”

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- ▶ Identify the issues in a blameless, “fact-oriented” manner.
- ▶ Separate the issues from the individuals involved in order to create a non-threatening environment for resolution.
- ▶ Identify skills gaps in Client account/site leadership and Service Provider account management that may be contributing to the fractured business relationship.
- ▶ Identification of appropriate behavioral norms that will enable the reestablishment of a culture of mutual commitment.
- ▶ Provide a forum for identifying each party’s legitimate mutual needs and concerns.
- ▶ Identify milestones for improvement, supported by performance measures and processes that can lead to a healthier partnership.

Often the communication that occurs during these types of diagnostics and workshops alone is just the needed catalyst to launch a more effective culture of trust, communication and mutual commitment.

Principles of Effective Business Relationship Management

The principles of effective Business Relationship Management are straightforward. They involve both parties committing to operate from a position of **Consistency, Candor, Trust, Fairness** and **Flexibility**.

- ▶ **Consistency** in business relationship management means not only adhering to the agreed upon contractual requirements, but also ensuring that the established performance and behavioral norms are communicated and adhered to across both organizations
- ▶ **Candor** is not only honesty in communication, but also the courage and respect to be forthright about raising legitimate business issues in a blame-free manner
- ▶ **Trust** affords both parties the confidence to confront and manage their anxieties while allowing one another the opportunity to realize the full potential of the partnership
- ▶ **Fairness** requires that issues be raised from the basis of fact (as opposed to anecdote or hearsay), and without presumption as to the underlying blame or cause

“The principles of effective Business Relationship Management are straightforward.”

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- ▶ **Flexibility** is demonstrated by actively working to avoid embracing entrenched viewpoints and positions and an openness to exploring new approaches

When behaviors and communications between Clients and Service Providers are guided by these principles then both parties are on the path of effective partnership

CONCLUSION

While FM outsourcing success rates continue to rise, some organizations continue to struggle with implementation of this facilities management solution. In most cases, the issues are resolvable, but resolution requires careful and disciplined diagnosis in order to craft solutions which consider all potential aspects of relationship management and service delivery. Resolution must address root cause issues. Ultimately, understanding where problems between Clients and Service Providers emerge is critical to developing the ability to properly identify and address those issues before they damage the relationship.

Embracing the principles of effective Business Relationship Management offers both Clients and Service Providers the tools needed to bridge the gap between contractual expectations and the perception of service delivery. By operating from a principle of mutuality and assuming a blameless approach to problem identification and resolution, Clients and Service Providers can build stronger, more sustainable partnerships and achieve increased FM outsourcing success.

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